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Assessment and Classification Practices Report

Class 4d low-income rental housing

A report submitted to the Minnesota State Legislature pursuant to Minnesota Laws 2005, First Special Session Chapter 3, Article 1, Section 37

Property Tax Division
Minnesota Department of Revenue
February 26, 2007

Per Minnesota Statute 3.197, any report to the Legislature must contain, at the beginning of the report, the cost of preparing the report, including any costs incurred by another agency or another level of government.

This report cost $15,000.

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February 26, 2007

To the members of the Legislature of the State of Minnesota:

I am pleased to present you with this report on the assessment and classification standards for class 4d low-income rental housing within the State of Minnesota undertaken by the Department of Revenue in response to Minnesota Laws 2005, first Special Session chapter 3, article 1, section 37.

This report focuses on the valuation of low-income rental housing and provides a summary of best assessment practices as well as recommendations to improve the uniformity of assessment practices.

Sincerely,

Ward Einess
Commissioner

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Legislative charge

This report was developed in accordance with Minnesota Laws 2005, First Special Session Chapter 3, Article 1, Section 37, which states in part that:

> *(a) Recognizing the importance of uniform and professional property tax assessment and classification practices, the commissioner of revenue, in consultation with appropriate stakeholder groups, shall develop and issue two reports to the chairs of the house and senate tax committees. The reports shall include an analysis of existing practices and provide recommendations, where necessary, for achieving higher quality and uniform assessments and consistency of property classifications…*
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> *(c) The second report will be issued by February 1, 2007, and will address the following property types: …*
>
> *(1) class 4d low-income rental housing property;…*

The purpose of this report is to focus on valuation approaches of low-income, rent-restricted housing and to make recommendations for best assessment practices.

Working committee

To review the current practices and problems surrounding the classification and assessment of 4d properties, the Department convened a working group of assessors and departmental experts. The working group included:

- Duane Ebbighausen, County Assessor, Beltrami County;
- Tom May, County Assessor, Hennepin County;
- Albert Whitcomb, Apartment Appraiser, Dakota County;
- Gordon Folkman, Director, Property Tax Division, Department of Revenue;
- John Hagen, Assistant Director, Property Tax Division, Department of Revenue;
- Larry Austin, Regional Representative, Property Tax Division, Department of Revenue;
- Lance Staricha, Attorney, Appeals and Legal Services Division, Department of Revenue.

The working group also met with stakeholders and legislative staff. Stakeholders included representatives from the Minnesota Coalition for Affordable Rural Housing (MNCARH), the Minnesota Housing Partnership (MHP), the Central Community Housing Trust and the Minnesota Housing Finance Agency (MHFA).

Executive summary

The primary legislative charge for this report was to focus on valuation approaches of low-income, rent-restricted housing and make recommendations for best assessment practices.

The working group reviewed the current assessment practices in Minnesota and attempted to find a national best practice for valuing low-income housing. The Department of Revenue prepared and published a Request for Proposal (RFP) seeking the services of a consultant to prepare a summary of assessment practices nationwide and to assist the working group in identifying best practices (see *Request for Proposal* in the Appendix for a copy of the project description). The Department received no responses to the original RFP and republished it with no responses. Therefore, the working group relied on informal surveys of surrounding states, a review published by the International Association of Assessing Officers and contacts with other states as suggested by the low-income property owners and managers.

The working group concluded that providing affordable, decent housing for low-income Minnesotans is a complex problem. Federal, state and local governments are committed to providing housing but the resources that governments have provided are not sufficient to serve all the people who need and qualify for housing assistance. The working group appreciates the need for owners, managers and governmental sponsors to examine every possible alternative to reduce expenses in order to free up dollars for routine maintenance and long-term improvements. The working group supports a comprehensive policy approach to address the need for affordable housing.

Valuation

Minnesota assessors value property on a fee simple basis meaning that assessors use typical appraisal techniques to arrive at an estimate of market value for each taxable property based on its highest and best use and considering the entire bundle of rights included in the full fee simple ownership interest in property. As part of this process, assessors must determine the highest and best use of the property being assessed as if vacant and as if improved.

The term “highest and best use” is a common appraisal concept used by appraisers in estimating the market value of a property. This principle of appraisal states that appraisers should value property at a value that provides the highest return to the land and improvements to the land. This use must be physically possible, financially feasible, legally permissible and maximally productive.

Stakeholders argue that the highest and best use of class 4d property is rent-restricted housing, not general rental housing. They point to the contractual agreements found in the financing documents and recorded as covenants against the title to the property. These contractual agreements limit the revenue that the property can generate. Shouldn’t these differences be recognized somewhere in the valuation process? If the property is sold, these agreements are assumed by the purchaser. It is not legally permissible, during the term of the agreement, to increase revenues above the restricted amounts. The stakeholders also suggest that a restricted income approach may be more stable over time. However, assessors argue that these agreements or covenants do not affect the highest and best use of the property. Assessors also cautioned that using a valuation method that uses actual, restricted rents and actual expenses may not result in a lower market value. In fact, in some areas of the state, for some types of property, the restricted rents exceed market rents.

At the request of the stakeholders, the working group also looked at the Iowa method for valuation which used restricted rents rather than market rents as a basis for their income approach. The working group spotted several drawbacks. First, this method is available only to low-income housing projects subject to section 42 tax credits. Section 8 and other programs are still appraised at market value using unrestricted rents. Second, new developments that have not yet established a stabilized income stream are valued using the cost approach. Third, apartments in Iowa are classed as commercial property. The working group concluded that the Iowa approach would undermine Minnesota's goal for having a uniform base for assessment and could result in higher taxes than Minnesota's current approach. For example, based on very preliminary data, low-income tax credit units in larger Iowa communities have a tax liability of $600 to $800 per unit per year. Conversely, similar properties, in Hennepin County, valued using unrestricted rents, classified as 4d with a .75 percent class rate have a tax liability between $467 and $578 per unit.

Finally, the working group reviewed materials from the International Association of Assessing Officers (IAAO) and concluded that the majority of states require assessors to use market derived data to value low-income rental properties. Some states require the use of restricted rents but also use a capitalization rate that reflects the lower interest rates on the assisted financing. Bottom line, the working group could not determine if the states that used restricted rents and a capitalization rate based on the subsidized financing produced a lower value.

Conclusion

With respect to valuation practices, the stakeholders and working group respectfully disagree. The stakeholders argue for a restricted income approach while the working group concluded that the current Minnesota practices are more conducive to creating a uniform and equitable assessment. The current practices are the same practices the assessors use for valuing all types of property so property owners understand the process better. Minnesota courts have supported the continued use of market derived data to value all income-producing properties including class 4d properties.

Minnesota law requires assessors to value property at market value, considering the highest and best use of the property and the fee simple interest in the property. In the case of 4d property, Minnesota law specifically requires assessors to value these properties using market rents, market expenses and market derived capitalization rates. The working group recommends that Minnesota assessors continue following the current legislative mandate on the valuation of low-income rental property. The group feels it is important that the valuation process be as consistent and as easy to understand as possible. If different valuation processes are in place for rent-restricted property than for market rate apartment property, it will be more difficult to compare and equalize values and more difficult to explain the valuation process to property owners and owners of similar properties that do not qualify as class 4d property.

Recommendation: The legislature should maintain the current statutory language requiring assessors to use the normal approaches to value using normal unrestricted rents when valuing 4d property.

Tax issues

Although tax issues are beyond the scope of this report, the working group recognizes that from the industry stakeholders' perspective there are two key tax issues that need to be addressed to make affordable housing an economically viable investment: (1) Rent-restricted housing needs to have a lower tax burden relative to non-restricted market rate properties; and (2) The tax, over a period of time, needs to be predictable and relatively affordable on a monthly cash-flow basis. The working group also recognizes that taxes are only one of several "cost" factors in the equation.

In 2005, the Legislature reduced the classification rate for qualifying low-income rent-restricted housing from 1.25 to .75 percent. The 4d rate is now 40 percent lower than the rate for market rate apartments and 25 percent lower than the class rate for residences owned and occupied as homesteads. The working group emphasized that it is important to remember that Minnesota has chosen to use the classification rates to control the level of taxation on 4d properties. In their view, it would not be appropriate to apply Minnesota's lower class rate on top of a restricted income approach to value. Minnesota's lower class rate is predicated on the assumption that the 4d value is derived from a market rate approach.

Stakeholders voiced concerns about the volatility of their property taxes because predictability is important to owners and managers. The working group discussed the complexity of Minnesota's tax system and all the factors that impact the actual, annual tax expense. Valuation increases or decreases, classification rates and local taxing decisions all play a role. Looking at any one of the three in isolation does not provide the entire picture.

The working group also reviewed trends in apartment market values and concluded that recent double-digit annual growth rates have been historically high due to unique economic factors in the housing market. The working group anticipates that market value growth rates for rental, multi-family housing will slow significantly and stabilize over the next several years.

Recommendation: The working group supports the continued use of applying classification rates to the current market rate approach to value as the preferred approach to providing tax benefits to these types of property. If the legislature concludes that the current tax results for class 4d property are still not sufficient and need adjustment, the adjustments should be made to the class rate, not the valuation method.

Recommendation: In addition, because the rental housing market can be cyclical, the working group also recommends that valuation trends and the tax impacts be evaluated over multiple years and not simply over a one- or two-year period. Specifically, the working group recommends that the Department of Revenue, in conjunction with the Minnesota Housing Finance Agency, should monitor and issue a biennial report providing information on the number of qualifying 4d housing units and current trends in market value and tax burdens on both market rate and 4d rental housing properties. The Policymakers can review this information and address the tax issues accordingly. The working group feels it is important to differentiate between "best approaches to valuation" from policies for addressing tax issue concerns. Tax policy options available to the legislature include, but are not limited to: continued adjustments to the property classification rate, state paid tax credits or subsidies, tax abatements, or limited market value. The pros and cons of these policy options, however, should to be discussed in context of state tax policy and not approaches to valuation.

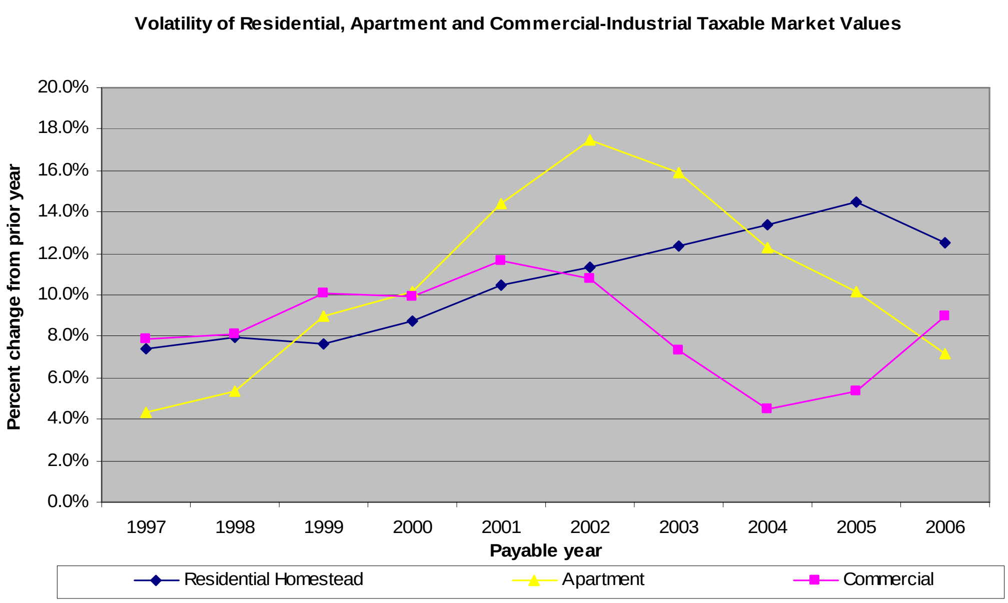
Additional recommendations

Recommendation: The legislature should consider amending Minnesota Statutes, section 273.128, especially subdivision 1, containing the qualifications for 4d properties by changing the 75 percent threshold to a lower threshold such as 25 percent. This would enable more properties to qualify for the 4d class, particularly those low-income properties in greater Minnesota financed by the Rural Housing Service. The legislature should also consider adding locally financed properties that meet the eligibility requirements of section 273.128 to the 4d class.

Recommendation: The Department of Revenue and the Minnesota Association of Assessing Officers should develop and conduct frequent classes on valuation of income producing properties and, more specifically, valuation of multi-tenant housing properties in order to promote greater consistency in assessment practices throughout the state.

Introduction/overview

In 2002, the Minnesota legislature passed major legislation resulting in the reduction of class rate disparities among different types of property. In the years following, as the new property class rates were fully phased in, the real estate market in Minnesota was heating up dramatically with most classes of property, including apartments, seeing rapid value increases. The chart below shows the annual percentage changes of values for residential, apartment and commercial-industrial properties for the years 1997 through 2006. In the past 18 months, some, but not all, of the sharp increases have leveled off. As the dust from both events (class rate changes and escalating values) begins to settle, the legislature has directed the Department of Revenue to review the assessment and classification standards for 4d low-income rental housing in Minnesota.



In addition to this legislative direction, then Commissioner of Revenue Dan Salomone received a February 28, 2006, letter from Senator Mee Moua and Representatives Morrie Lanning and Laura Brod asking for information that “may guide us in the development of a solid statewide affordable housing policy” (see *Legislative request* in the Appendix for a copy of this letter). This report contains responses to the three areas that the legislators asked the Department to explore.

Background

Low-income Minnesotans live in a variety of housing situations. Some own their own single-family homes. Some live in market rate (privately owned, non-subsidized) apartments. Some live in public housing (governmentally owned and operated). Some live in subsidized rental units (governmentally assisted). Some, unfortunately, can find no structure to call home and live "on the streets." This report looks at subsidized or governmentally-assisted rental units only. While the working group heard from proponents of equity restricted property, this report describes the issue but makes no recommendations.

Under current law, properties are entitled to the preferred 4d classification if they meet the eligibility requirements defined in Minnesota Statutes, section 273.128. Generally a low-income rental property qualifies if at least 75 percent of its units are:

1. subject to housing assistance payment contracts (section 8);
2. rent-restricted and income-restricted units of a qualified low-income housing project receiving income tax credits (section 42 projects);
3. financed by the Rural Housing Service and receive payments under the rental assistance program; or
4. subject to rent or income restrictions by terms of the financial assistance provided to the project by the federal government or the state of Minnesota.

Further, this section requires strict income limits on tenants at the time of initial occupancy. The income limits are based on median incomes as determined by the Department of Housing and Urban Development.

Owners of low-income housing developments meeting the definitional requirements of Minnesota Statutes, section 273.128 must apply for certification with the Minnesota Housing Finance Agency (MHFA) each year by March 31. If a development qualifies, the MHFA certifies to the appropriate assessor the number of units in the building that qualify.

After receiving the MHFA certification, the assessor includes the property in the annual assessment as class 4d property. If all of the units qualify, 100 percent of the property value is class 4d. If less than 100 percent of the units qualify, the assessor must split the classification. For example, if 80 percent of the units qualify, 80 percent of the value of the land and improvements is included as 4d. The remaining 20 percent of value is included in the appropriate classification (usually class 4a residential real estate containing four or more units).

In Minnesota, the classification rates determine how the tax burden is distributed among different types of property (see *Classification rates* in the Appendix for a chart showing Minnesota's current classification rates). The class rate determines the percentage of a property's value that will be used in calculating that property's share of local taxes. Properties with lower class rates contribute less to local taxes than properties with equal value but higher class rates.

The current class rate for 4d property is .75 percent while the class rate for 4a property (market rate apartments) is 1.25 percent. The 4d rate is 40 percent lower than the rate for market rate apartments and 25 percent lower than the class rate for residences owned and occupied as homesteads.

Even with this preferred class rate, owners, managers and government agencies subsidizing these class 4d properties argue that the current level of property taxes has a detrimental impact on their ability to properly manage current 4d properties and construct new housing for low-income Minnesotans.

To more thoroughly understand their issues, the working group looked at the history of taxation of low-income properties in Minnesota and then reviewed the material provided by the stakeholders. After looking at many different reports and studies, the working group agreed that planning and financing low-income housing is extremely complex. Funding is inadequate and insufficient to supply affordable housing for all who need and qualify for it. In order to stretch inadequate resources, owners and managers must examine every facet of their expenses and property taxes are the focus of their attention here.

Classification rate history

The working group found that trying to chart the class rate changes for low-income rental properties could make you dizzy! While the class rate for 4a apartments was being reduced from 3.4 percent to its current 1.25 percent in a consistent manner, the class rate for certain low-income housing developments bounced down, then up and finally down to its current .75 percent.

At the same time, the definitions of qualifying properties bounced as well. Prior to the passage of legislation for the 1998 assessment creating a 4d class for rent-restricted property, there were four property tax classifications for apartment property:

- **Class 4a** residential nonhomestead four units or more (market rate apartments);
- **Class 4c(1)** Title II or Minnesota Housing Finance Agency (MHFA) structures used for elderly housing and low- and moderate-income families. Structures only, 15 years or the original term of the loan;
- **Class 4c(2)** Housing Assistance Payment, Contract Structures under Section 8 of the U.S. Housing Act of 1937, for lower-income families, the elderly or handicapped persons; and
- **Class 4c(3)** Low-income housing receiving low-income housing credits under Section 42 of the IRS Code or housing that meets the requirements of that section. Structures only, construction or rehabilitation began after May 1, 1988, and is limited to 15 years after construction or rehabilitation.

Class rate changes from 1995 to 2006

Assessment Year 1995 to 1996		**Class Rate**
Class 4a	Structures and land	3.40%
	Certain Qualifying areas with population of 5,000 or less*	2.30%
Class 4c(1)	Structures only	2.30%
	Land	
	Three units or less	2.30%
	Four units or more	3.40%
Class 4c(2)	Structures only	2.30%
	Land	
	Units or less	2.30%
	Four units or more	3.40%
Class 4c(3)	Structures only	2.30%
	Land	
	Three units or less	2.30%
	Four units or more	3.40%

*Cities of 5,000 population or less located outside the seven county metro area and the adjacent nine county area whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population over 5,000

Assessment Year 1997		**Class Rate**
Class 4a	Structures and land	2.90%
Class 4c**	Includes Title II, MHFA, Section 8 and Section 42	
	Structures only	2.00%
	Land	
	One unit	1.90%
	Two or three units	1.20%
	Four units or more	2.90%
	Four units or more selected small cities	2.30%
Class 4c**	Neighborhood Real Estate Trust	2.00%
Class 4d	FmHA structures in cities under 10,000	1.90%
Class 4d	MnHFA or HRA low-income lease-purchase properties	1.90%

**4c and 4d transition rates for the 1998 assessment.

Assessment Year 1998		**Class Rate**
Class 4a	Structures and land	2.50%
Class 4d	Properties which qualified or could have qualified as 4d in 1998, but do not qualify for the new 4d class for 1999	
	Structures only	2.20%
Class 4d	Qualifying 4d properties – land and structures (includes single unit and qualifying portions of multi-unit buildings).	1.00%

Assessment Year 1999 to 2000		**Class Rate**
Class 4a	Structures and land	2.40%
Class 4d	Qualifying 4d properties – land and structures (including qualifying units of structures one to three units and qualifying units of structures of four or more units).	1.00%

Assessment Year 2001		**Class Rate**
Class 4a	Structures and land	1.80%
Class 4d	Qualifying 4d properties	0.90%

Assessment Year 2002		**Class Rate**
Class 4a	Structures and land	1.50%
Class 4d	Qualifying low-income properties	1.00%

Assessment Year 2003 to 2004		
Class 4a	Structures and land	1.25%
Class 4d	Eliminated	1.25%
Assessment Year 2005 to current		
Class 4a	Structures and land	1.25%
Class 4d	Reinstated	0.75%

Valuation methodology

While the classification structure changed in a dramatic fashion, the valuation process did not. The legislature has consistently provided that assessors should value low-income housing qualifying for preferential classification using normal approaches to value using normal unrestricted rents.

Generally, Minnesota is a market value state. Minnesota Statutes, section 273.11, subdivision 1, states that all property shall be valued at its market value. The term "market value" is used by Minnesota assessors to describe the probable selling price of a property on the assessment date under the following conditions (from the *Property Tax Administrators' Manual)*:

1. *The buyer and seller are typically motivated;*
2. *Both parties are well informed or well advised and each is acting in what is considered to be their own best interest;*
3. *A reasonable time is allowed for exposure in the open market;*
4. *Payment is made in cash or its equivalent;*
5. *Financing, if any, is on terms generally available in the community at the specified date and typical for the property type in its locale;*
6. *The price represents a normal consideration for the property sold unaffected by special financing amounts and/or terms, services, fees, costs or credits incurred in the transaction.*

Since most properties do not sell on the January 2 assessment date each year, assessors must determine a market value utilizing common appraisal techniques. Assessors must consider at least three approaches to valuing a property: direct sales, income and cost. The direct sales approach looks at sales of similar properties that occurred on or near the assessment date and adjusts the sales prices to accommodate differences between the properties sold and the subject property. For example, an adjustment to the sales price, either up or down, would be made if the sale property is larger or smaller than the subject or if the sale property is older or newer. If the actual sales properties are quite similar to a subject property, an assessor can infer a value for the subject property from these sales.

If the subject property is a property that produces income or is capable of producing income, the assessor considers the income approach. By looking at market rents for like properties along with market expenses, the assessor can calculate a net operating income for the subject property. By capitalizing that net operating income, an assessor can infer a value that an investor would pay for the subject property if it were offered for sale.

The cost approach looks at how much it would cost to reconstruct the subject property and then reduces the cost of reconstruction by an obsolescence factor to account for the physical and economic decline the property has sustained.

For any particular assessment, an assessor may choose not to utilize one of these approaches. For example, an income approach may not be meaningful when valuing single-family homes in a jurisdiction that has experienced an active sales market with few actual rentals of homes.

It is important to remember that Minnesota assessors are required to value over 2,500,000 parcels every January 2 and, therefore, must use mass appraisal techniques. In order to accomplish the annual valuation, counties use computer-assisted mass appraisal software that incorporates the three approaches to value and produces individual values for each parcel. Each county's results are measured through the assessment/sales ratio studies produced by the Department of Revenue.

In several instances, the estimated market values determined by the assessors are not used as the basis for tax calculations. For example, the legislature has limited the amount of value increases on residential properties that will be taxed each year. Another example is what we commonly call "green acres" property – agricultural property with a highest and best use for purposes other than agriculture. For qualifying property, taxes are calculated based on its agricultural value. In these and other instances, assessors produce an estimated market value for each property, but a value other than estimated market value is used for calculating taxes.

While these are examples of "exceptions," they do not represent "good or best" assessment practices. These legislated approaches to value have resulted in unintended consequences. Limited market values help undermine the principle of horizontal equity (i.e., similar properties should be taxed the same), and the green acre agricultural-use value has resulted in complicated and inconsistent valuation outcomes throughout the state.

We can find two exceptions involving vacant hospital properties and land enrolled in conservation programs, and in these cases, the law requires an assessor to produce an estimated market value that may not be determined using commonly accepted appraisal tools (see Minnesota Statutes, sections 273.11, subdivision 15, and 273.117).

Minnesota assessors strive to produce a fair and equitable assessment each year. The complexity of the Minnesota tax system, the diversity of property types and sheer volume of properties often strain their ability to produce consistent and equitable valuations across city, township and county lines.

As part of the review process, the working group surveyed 44 counties and one city statewide to determine how they currently value low-income rental housing property. Respondents of the survey included 20 northern Minnesota counties, 17 southern Minnesota counties, the seven metropolitan counties and the city of Minneapolis. In the survey, we asked the following questions:

How do you currently value low-income and market rate apartment property?

1. Cost Approach?
2. Income Approach?
3. Direct Sales Comparison Approach?

If using the Income Approach to value apartment property:

5. Are you using actual contract rents or market rents?
6. Are you using market derived expense rates or allowing additional expenses on low-income apartment property?

Of the 45 jurisdictions surveyed, all use a cost approach as an initial indicator of value for structures. The cost approach is a useful indicator of value for new properties or unique properties. All jurisdictions depreciated the structures to reflect age, condition and location. A market derived land value was added to come up with a total estimate of value using the cost approach.

All jurisdictions attempted to get income and expense information from owners or managers of the apartment property. Thirty-five jurisdictions (mainly in and near the metro area) were able to get enough income information to use for modeling purposes in the income approach. The other 10 jurisdictions received no information from apartment owners or managers in their counties.

Thirty-five jurisdictions had at least some apartment sales to determine market trends and give the assessor an indication of how well they were assessing apartment property. In some jurisdictions, there were numerous sales and enough data to give a good indication of value using the direct sales approach. Jurisdictions with no sales either contacted other similar counties that did have sales or relied on the cost and income approaches to value the apartment properties.

All 45 jurisdictions indicated that they use or would use market rent to value apartment property rather than contract rent. Forty jurisdictions are using a market derived expense rate, and five jurisdictions deviated from normal appraisal practices to allow an additional 5 percent on the expense rate for higher physical depreciation (wear and tear of units).

The survey seems to indicate that assessors want to use a consistent approach to valuing apartment property regardless of the specific use as market rate or low-income rental housing property. Most assessors compared data with neighboring counties to ensure the most consistent valuation basis for rental housing property. One small issue is the additional expenses allowed by some counties on low-income apartment property. To be truly consistent statewide, the basis for valuation should be market derived information with no allowances for additional depreciation or expenses.

Stakeholder issues and concerns

The concerns of the stakeholders are clear: Minnesota property taxes are too high, too volatile and negatively impact the financial structure of low-income housing properties. The stakeholders were very patient with members of the working group who were not familiar with the intricate financing mechanisms used to put low-income projects together. They provided stacks of background material to educate all members of the working group. They produced examples of financing packages. They brought in financing and legal experts to walk us through the process. They pointed to other states and asked the group to examine other taxing structures.

The stakeholders argued strongly that Minnesota's adherence to market rents, market expenses and market capitalization rates just does not make sense for valuing low-income properties, especially low-income properties that qualify for the 4d classification. Since rents are restricted based on median incomes in the area, owners and managers do not see revenues at the same levels as owners of market rate rental housing. Expenses for operating low-income properties normally will be higher than expenses for market apartments. As an example, some low-income projects are required by their financing agreements to increase their reserves each year. Owners of market rate rental housing properties do not have these same obligations as part of their financing agreements.

According to information provided by the Minnesota Housing Partnership:

> *Privately owned rent restricted property, the predominant form of affordable housing in Minnesota, is multifamily, rental property targeted to families at or below 60% of the area median income. This housing frequently allows families to spend no more than 30% of their income on housing. Rent restricted property is financed in part through public financing. In exchange for access to public financing, property owners agree to maintain rents at restricted levels for the term of the mortgage documents, and is legally binding.*
>
> *Examples of government funding associated with rent restricted projects include:*
> *--Project Based Section 8*
> *--Low Income Housing Tax Credits (LIHTC)*
> *--Rental Assistance through Rural Housing Service of USDA (515 Property)*
> *--Public funding from MHFA, a local government or HUD*
>
> *Minnesota has approximately 50,000 units of privately owned rent restricted housing and has a need for 20,000 to 30,000 additional units by 2010.*
>
> *Most residents living in rent restricted housing are low-wage workers, formerly homeless people, seniors, youth or people with physical or mental disabilities. Many of these rental properties provide supportive services such as childcare, employment services and chemical dependency counseling to residents. These services enable residents first to stabilize their lives and ultimately to improve their economic situation before moving to market rental or ownership housing.*
>
> *For real estate tax purposes, the value at which rent restricted property is assessed is based on a market model. However, since publicly subsidized housing does not follow market rules and often has higher operating costs, this method for valuation is inappropriate and threatens the long-term stability of the intended public investment in affordable housing. To determine the market value of a rent restricted property, tax assessors are supposed to consider recent sales of comparable properties and the highest and best use of the building. Despite the fact that intended, long term, highest and best use is to provide safe housing for low income earners, rent restrictions are not taken into consideration. This means that property values are set at levels disproportionate to the actual income generated by the property.*
>
> *State policy makers have made multiple attempts to resolve the mismatch between property income and tax valuation, but have not yet devised a sensible policy. Initially, lawmakers established a lower tax rate for rent restricted properties, only to reverse this policy later in favor of a uniform tax rate for all multifamily, rental property. The result of this reversal has been an unsustainable increase in taxes for rent restricted properties, which has resulted in refinancing of buildings by government agencies, depletion of operating reserves, and deferral of maintenance. Nor would a lower class rate serve rent restricted properties well, as any fixed percentage reductions in property taxes are likely to be outstripped eventually by increases in market value.*

Limited equity property

The working group was charged with looking at current assessment practices for 4d property, summarizing best assessment practices and recommending actions for improving the uniformity of assessment practices. Several stakeholders who met with the working group are involved in developing restricted equity properties where low-income Minnesotans pay less for a home or cooperative unit by agreeing to share any equity results when they sell the home or unit. Developers of these properties and ultimately the owners face challenges similar to the owners and managers of 4d properties. The property tax on an equity restricted home or unit is market based and the income of the owner is not considered in the valuation or classification process. The income and level of property tax is considered when the owner files for a property tax refund with the state.

Both 4d low-income rental properties and equity restricted properties are developed to provide affordable housing for low-income, moderate-income and handicapped individuals and families. Low-income rental housing is just that – rental housing. There is no ownership interest. The renter may qualify for a renter's credit based on the rent paid and the renter's income.

Equity restricted property allows for an ownership interest in the property. Usually the interest is in structures only with a leasehold interest in the land. When the property is sold there is a limit on the amount of equity the buyer can realize. The owner of a restricted equity property can apply for a homestead classification on the residence and may also qualify for a property tax refund based on income or based on property tax increases.

The working group concluded that equity restricted properties are sufficiently different from the 4d low-income rental housing properties in structure and, therefore, cannot be lumped together with them for this analysis. Materials submitted by the Minnesota Community Land Trust Coalition are included in the appendix of this report (see *Equity restricted properties* in the Appendix).

Analysis and recommendations

The working group focused on four questions:

- How should 4d properties be valued for property tax purposes?
- Are assessors consistently applying valuation techniques statewide?
- Is the current classification adequate?
- Is the current tax structure appropriate for 4d properties?

This report will tackle these four issues in that order.

Valuation

Analysis: Minnesota assessors value property based on the fee simple approach to value meaning that assessors use typical appraisal techniques to arrive at an estimate of market value for each taxable property based on its highest and best use and considering the entire bundle of rights included in the full fee simple ownership interest in property. As part of this process, assessors must determine the highest and best use of the property being assessed as if vacant and as if improved.

Market Value is typically defined as the most probable price in terms of money that a property should bring in a competitive and open market, under all conditions requisite to a fair sale.

The term “highest and best use” is a common appraisal concept used by appraisers in estimating the market value of a property. This principle of appraisal states that appraisers should value property at a value that provides the highest return to the land and improvements to the land. This use must be physically possible, financially feasible, legally permissible and maximally productive.

Stakeholders argue that the highest and best use of class 4d property is rent-restricted housing, not general rental housing. They point to the contractual agreements found in the financing documents and recorded as covenants against the title to the property. These contractual agreements limit the revenue that the property can generate. If the property is sold, these agreements are assumed by the purchaser. It is not legally permissible, during the term of the agreement, to increase revenues above the restricted amounts.

Assessors argue that these agreements or covenants do not affect the highest and best use of the property. Assessors point out that financing decisions do not change a property’s most productive potential use. As an example, if two identical homes are valued at $200,000 but one has a mortgage, the value of the home is not diminished. The economic value to that owner is diminished but not the home’s value in the market. If one of our two homes is mortgage free, the value of that home does not increase. The economic value of the home to that owner is greater, but its value in the market does not change. Financial decisions made by an owner do not alter a property’s highest and best use. The financing involved with low-income housing does not change the fact that the highest and best use of the property is for rental housing. Highest and best use is an economic principle, not a social or desired use.

But, the stakeholders argue, properties that meet the class 4d requirements have rents that are restricted based on the area’s median incomes and have expense structures that are significantly different from the rents and expenses of rental properties that are not restricted. Shouldn’t these differences be recognized somewhere in the valuation process? The answer is that under the current law, assessors must value 4d property as if it were a market rate apartment property.

Assessors cautioned the working group about assuming that a valuation method that looked at actual, restricted rents and actual expenses would always result in a lower market value conclusion. In fact, in some areas of the state, for some types of property, the restricted rents exceed market rents. Vacancies in 4d properties are lower than in the market rate properties. The 4d properties in some markets in Minnesota would have a higher net operating income and, therefore, a higher value conclusion using the income approach.

Stakeholders asked the working group to review Iowa’s method of assessing low-income housing because it appears to use restricted rents rather than market rents as a base for their income approach. Iowa has created an electronic worksheet that an owner or manager completes by entering all revenues and expenses to reach a net operating income. The net operating income is then capitalized using a statewide capitalization rate established by the Iowa Department of Revenue.

As the working group looked at the Iowa method, they spotted several drawbacks. First, this method is available only to low-income housing projects subject to section 42 tax credits. Section 8 and other programs are still appraised at market value using unrestricted rents. Second, new developments that have not yet established a stabilized income stream are valued using the cost approach. Third, apartments in Iowa are classed as commercial property. Based on very preliminary data, low-income tax credit units in larger communities have a tax liability of $600 to $800 per unit per year.

Hennepin County reviewed the market value and tax history of six low-income housing properties in suburban Hennepin County cities and compared these six properties to similar market rate properties in the same cities. The payable 2006 taxes for the low-income properties ranged from $467/unit to $578/unit and for the market rate apartments, the taxes ranged from $728/unit to $1,168/unit. The Hennepin County properties were all valued using unrestricted rents, classified as 4d or 4a and produced dramatically different tax results for the same year (see *Hennepin County sample EMV and tax history* in the appendix). The Hennepin County data also clearly shows the impact of the class rate changes from 2002 through 2007 on the ultimate tax bills.

Based on their review, the working group rejected an Iowa style assessment methodology. The Iowa approach could result in a higher tax than Minnesota's current approach and would definitely undermine Minnesota's goal for having a uniform base for assessment. The working group emphasized that it is important to remember that Minnesota has chosen to use the classification rates to control the level of taxation on 4d properties. In their view, it would not be appropriate to apply Minnesota's lower class rate on top of an Iowa, or any other restricted income approach to value. Minnesota's lower class rate is predicated on the assumption that the 4d value is derived from a market rate approach.

The working group and the Department of Revenue hoped to engage a consultant with national experience to assist them in examining and evaluating the assessment practices nationwide. Everyone was hoping that a clear best practice standard would emerge against which we could measure Minnesota's current practice. The Department advertised for proposals twice but with no responses so the group was left to do their own exploration. The Department surveyed the surrounding states and found only Iowa had a law requiring assessors to consider the contract, not market, rents. And the group rejected the Iowa approach.

From looking at materials from the International Association of Assessing Officers, the working group concluded that the majority of states require assessors to use market derived data to value low-income rental properties. Some states require the use of restricted rents but also use a capitalization rate that reflects the lower interest rates on the assisted financing. Bottom line, the working group could not determine if the states that used restricted rents and a capitalization rate based on the subsidized financing produced a lower value.

The working group concluded that the current Minnesota practices are more conducive to creating a more uniform and equitable assessment. The current practices are the same practices the assessors use for valuing all types of property so property owners understand the process better. Minnesota courts have supported the continued use of market derived data to value all income-producing properties including class 4d properties.

In Minnesota, current statute requires the assessor to value property at market value, considering the highest and best use of the property and the fee simple interest in the property. In the case of 4d property the legislative intent is to value these properties using market rents, market expenses and market derived capitalization rates. The working group recommends that Minnesota assessors continue following the current legislative mandate on the valuation of low-income rental property. The group feels it is important that the valuation process be as consistent and as easy to understand as possible. If different valuation processes are in place for rent-restricted property than for market rate apartment property, it will be more difficult to compare and equalize values and more difficult to explain the valuation process to property owners and owners of similar properties that do not qualify as class 4d property**.**

Recommendation: The legislature should maintain the current statutory language requiring assessors to use the normal approaches to value using normal unrestricted rents when valuing 4d property.

Consistency in appraisal practice

Analysis: In spite of stakeholder concerns, the working group is recommending that Minnesota assessors continue to value 4d properties using market models. While the working group found a great deal of consistency among assessors as it conducted its survey of 45 assessment jurisdictions, they did note that some assessors varied from the statutory mandate of valuing 4d properties solely on market data. The legislature, the Department and Minnesota assessors have a common goal of creating a fair and equitable assessment system. Stakeholders should be confident that similar properties receive similar treatment regardless of where in Minnesota the property is located. Based on the survey results, the working group cannot assure any of the interested parties that the assessment of 4d properties is fair and equitable statewide.

The working group does not want to overstate this problem. Perhaps the survey questions were not clear. Perhaps the surveyor heard the answers unclearly. Perhaps an assessor's response really meant that the appropriate data is not available so the assessor cannot use market data in all cases. However, the working group does not want to disregard what it heard as inconsistent assessment practices.

Minnesota Statutes, section 273.11, subdivision 13, provides that only assessors who have successfully completed at least two courses relating to appraising income-producing properties may value certain classes of property in Minnesota. Class 4d is not listed although it clearly is income-producing property. The working group finds that only assessors who meet the requirements in Minnesota Statutes, section 273.11, subdivision 13, should value 4d properties. Further, the working group finds that the Department of Revenue and the Minnesota Association of Assessing Officers should develop and conduct classes on income producing properties and especially focus on the valuation of multi-family housing properties including 4d properties. The working group understands that some courses are regularly offered but finds that more courses, offered more frequently and focusing on specific types of income-producing properties, such as multi-family rentals, will promote greater consistency in assessment practices throughout the state.

Recommendation: The legislature should amend Minnesota Statutes, section 273.11, subdivision 13, to include 4d property in the list of properties requiring valuation by assessors who have completed the courses relating to valuation of income-producing properties.

The Department of Revenue and the Minnesota Association of Assessing Officers should develop and conduct frequent classes on valuation of income producing properties and, more specifically, the valuation of multi-tenant housing properties.

Classification

Analysis: Class 4d property currently has a class rate of .75 percent, 40 percent lower than market rate apartments and 25 percent lower than single family homes. The class rate for 4d properties bounced around a bit before it landed at the .75 percent class rate effective for the 2005 assessment, taxes payable in 2006. Looking at the Hennepin County data (see *Hennepin County sample EMV and tax history* in the appendix), the class rate reduction has had a fairly dramatic impact, especially when contrasted with the property taxes on market rate apartments. For these six low-income properties, the property tax per unit as indicated on the Truth in Taxation notice mailed to the owners in November 2006 dropped 55 percent to 36 percent from the higher taxes in the payable 2004 or 2005 years. For five of the six comparable market rate properties, the taxes per unit also dropped due to the class rate changes made in 2001, but the changes were far less dramatic.

The working group concluded that the 2005 class rate change for 4d property is working. The sharp property tax increases have been reversed – at least for these six properties. The working group did not have statewide tax impacts but they believe the changes are comparable. The class rate change is an effective tool, even more so when the markets cooperate by flattening the sharp value increases that occurred in 2003, 2004 and 2005.

The working group remains concerned about low-income rental housing that does not meet the criteria in Minnesota Statutes, section 273.128, especially the 515 multifamily complexes in rural Minnesota and administered by the Rural Housing Services. The working group considered the data presented by Marge Alden who represented the Minnesota Coalition of Affordable Rural Housing (see *Minnesota Coalition of Affordable Rural Housing* in the appendix). For the most part, these complexes do not meet the 75 percent threshold and get no benefit from the 4d class rate. By lowering the threshold to something around 25 percent, more tax credit properties, other subsidized properties and these rural complexes will qualify. It is important to remember that only a portion of the property is classed 4d if not all the units meet the criteria, but this reduction in class rate for even a portion could have major significance to many properties.

Recommendation: The legislature should amend Minnesota Statutes, section 273.128 by lowering the 75 percent requirement to 25 percent. The legislature should also consider adding locally financed low-income housing to the 4d class.

Overall level of taxes

Analysis: This fourth area is the most difficult for the working group to tackle. It is technically outside of the scope of the legislative request, but it is at the heart of the stakeholders' concerns. Property taxes on Minnesota low-income housing developments are a major expense item that feels out of control and erodes the ability of owners and managers to properly manage their property. Other expenses are increasing as well. Energy bills, insurance premiums and personnel costs are being coupled with increasing taxes causing a negative net operating income in many cases. This then forces owners and managers to make decisions to cut regular maintenance and defer necessary upgrades. They are in this business to provide decent and affordable housing to Minnesotans who need and qualify for it, but deferring maintenance and upgrades degrades the quality of the housing units. Part of their mission is to provide services like child care and counseling to their tenants so the tenants can work and become more productive. Tenants who work themselves out of low-income housing are success stories! However, they need lots of support to make the uphill climb, and the revenues cannot support providing these services.

The working group is very sympathetic to the stakeholders' concerns, but finds that changing the valuation system is not the best approach to take. Changing the valuation system will lead to more inconsistent valuations statewide. In some areas, using restricted rents rather than market rents will result in value increases.

By moving away from a market value based assessment, the working group fears that a wide disparity of values will occur. If restricted rents are used, do assessors use market or actual vacancies? Do they use actual or market expenses? What capitalization rate should the assessor use?

The capitalization rate should be a market derived rate, but with very few sales of low-income housing state-wide, a market based rate would be difficult if not impossible to determine for these properties. If an arbitrary capitalization rate is chosen, the question then becomes, who will make that determination and how can it be defended in a court challenge? Over the past three years, there have been over 1,600 sales of apartment properties statewide. Of that total, less than 60 were low-income rent-restricted properties and only five were tax credit properties. None of the tax credit properties were deemed to be arm's length transactions which reflect true market value since most of the sales involved an assumption of an existing mortgage, had no appraisal done to establish market value and were not exposed to the market. Without market data, any capitalization rate would be arbitrary, at best.

As the working group reviewed the Hennepin County analysis (see *Hennepin County sample EMV and tax history* in the appendix) and then looked at the trend in value increases over the last five years as compiled by the Department, they concluded that the class rate change made by the legislature in 2005 probably best meets the concerns of the stakeholders. The class rate change coupled with a leveling of apartment values appears to have resulted in a reasonable tax on 4d properties. At least in Hennepin County, the taxes on the low-income units shown in the examples are around 60 percent of the taxes on the market rate units. Market rate properties are competing for some of the same tenants and to reduce the expenses for low-income properties, the property tax expenses for all other properties will increase with probable rent increases for those tenants. The working group recognizes that data from more than one county is essential to making sound decisions. In fact, good data from all regions in the state needs to be analyzed.

According to the stakeholders, the volatility of market values and the lack of predictability of tax burdens are threatening the stability of low-income housing. If the legislature accepts the recommendation of the working group to maintain the current valuation methodology, stakeholders urge the legislature to consider limiting the amount of value increase that can be added to the tax base each year, some sort of limited market value in effect.

Public policy may indicate that the current level of taxes on 4d properties is too high and too volatile, and while that is not a decision for the working group to make, the working group does urge the legislature to use the classification system, not the valuation system, to make any adjustments to the tax burden.

Recommendation: The legislature should use the classification system, not the valuation system, to make any adjustments to the overall tax burden of 4d properties. Minnesota's current approach to controlling taxes on 4d properties is based on a class rate reduction applied to values that are derived from market data. If the valuation method is changed, the arguments for a preferential class rate also change.

The Department of Revenue and the Minnesota Housing Finance Agency should monitor and issue a biennial report providing information on the number of qualifying 4d housing units and current trends in market values and tax burdens on both market rate and 4d housing properties. The working group concluded that the 2005 class rate change combined with level or declining market value increases, provide a reasonable tax burden for 4d properties. However, markets work in unpredictable ways. It is always wise to track both the market value trends and property tax increases in a systematic manner over time so when significant changes occur, data is available to assist the legislature in considering corrections.

Additional legislative requests for data

Senator Mee Moua and Representatives Morrie Lanning and Laura Brod asked the Commissioner of Revenue to provide additional information that could guide them in development of a statewide affordable housing policy (see *Legislative request* in the Appendix for a copy of this letter). The working group addressed this request as it gathered data to develop this report.

- Please provide all statutory citations in current law where there is a deviation from a fee simple approach to taxation. Explain the rationale behind each deviation and how long the provision has been in effect.
- It is our understanding that in valuing rental property, assessors look at sales of similarly situated properties. Please provide information on the number of apartment buildings that have been sold in Minnesota in the last three years and what percentage of the total of those buildings was rent restricted. Provide a geographic breakdown.
- Please provide information on the increased assessed values of rent-restricted properties since the 4d class was eliminated in 2001. What is the median increase broken down geographically?

Deviations from fee simple

The working group found four examples of situations where assessors must consider something less than the fee simple interest in a property for valuation purposes. The first is the valuation of vacant hospitals outside the metropolitan area. Minnesota Statutes, section 273.11, subdivision 15, requires the assessor to use the sales price as the market value regardless of whether or not the sales price is the value the assessor would have concluded using a highest and best use analysis and the three approaches to value.

The most common deviation from a fee simple analysis is found in Minnesota Statutes, section 273.111, cited as the Minnesota Agricultural Property Tax Law but more commonly referred to as “green acres.” The value of property qualifying as green acres shall be determined “solely with reference to its appropriate agricultural classification and value notwithstanding Minnesota Statutes, sections 272.03, subdivision 8, and 273.11.” In addition to the “green acres value,” the assessor must also determine the market value of the property. The green acres value is used for tax purposes but the market value is carried to calculate any additional taxes that accrue when green acres property is sold or no longer qualifies for green acres treatment. This provision was initially enacted in 1967.

The same treatment is afforded to outdoor recreational, open space and park lands in Minnesota Statutes, section 273.112. The assessor must determine two values but the value used for taxation is the value derived by ignoring a true highest and best use analysis. This provision was initially enacted in 1969.

Minnesota Statutes, section 273.117, provides that property subject to a conservation restriction or easement shall be entitled to reduced valuation. However, this section does not tell assessors how much to reduce value or on what basis to determine the reduction. This provision was enacted in 1981.

Sales of apartment properties

It is important to remember that an assessor considers three approaches to valuing property: a direct sales comparison, an income analysis and a cost computation. In many cases, an assessor will conclude that one or even two of the approaches are not applicable. In responding to the legislators' letter, the working group wants to emphasize that a direct sales comparison is only one tool used to make a final value determination for a property.

With that clarification, the working group looked at the reported sales for apartment buildings since 1999. Reported sales in 1999, 2000 and 2001 include an indication that the sale property is a 4d property. Sales after 2001 do not include that indication since the 4d class was phased out for assessment years 2001 and 2002 and did not exist for assessment years 2003 and 2004.

The sale breakdown for this report divides the state into three regions: "metro," "north" and "west/south" counties. The metro area includes the seven county metropolitan area and the City of Minneapolis; north counties include counties north of Anoka County and west/south counties include counties west and south of the seven county metropolitan area.

In Minnesota from 1999 to 2001, there were 1,761 sales of four or more unit rental housing properties that were qualified as good arm's length transactions. Of these sales, 51 properties had units enrolled in the 4d program, but none of the good arm's length sales involved tax credit (section 42) property. Of the 4d sales, 41 were in the metro area, eight were in the north area and two sales were in the west/south area.

The sales ratios on the properties enrolled in 4d were the same or very similar to market rate rental housing sales indicating that the 4d program had little or no effect on sale prices. However, this is a very limited sales sample, and it provides a questionable level of information about the low-income rental housing market. With no good sales of tax credit rental housing, it is not possible to determine if these programs had a positive or negative affect on sale prices or market value.

From 2002 to 2005, there were 1,832 good arm's length sales of four or more unit rental housing properties. Of the 1,832 sales, 17 sales of rental housing enrolled in the Low-Income Rental Classification (LIRC) program as deemed units. Again no good sales of tax credit property took place during this time period. The 17 sales occurred in the metro area (13 sales) and the north area (4 sales) with no good sales in the west/south area.

This current lack of good data for 4d sales and values underscores the need for further and more continuous study of this market sector. Because the working group understands the volatility of housing markets in Minnesota and the lack of solid data for the legislators to consider, the working group recommended the biennial study of 4d properties. While the current levels of taxation may look appropriate, the conditions in the next two years or four years may cause the legislature to consider changes, and the best decisions are based on good, solid market data.

Increased values of 4d properties

The legislators asked for information on the "increased assessed values of rent-restricted properties since 4d was eliminated in 2001." Unfortunately, for 2002, 2003, 2004 and 2005 the data for 4d properties is lumped into the general apartment data so the working group cannot provide specifics. But the working group has no reason to believe that the market values of 4d properties are different from the general apartment class. The chart earlier in this report shows the annual changes in values for residential, apartments and commercial-industrial property and is the best data presently available.

Conclusion

The working group reviewed the current valuation and classification of class 4d low-income rental housing properties. The group reviewed information gathered from 45 Minnesota counties, neighboring states and national assessment journals to see if they could discern a national best practice in valuing low-income rental housing financed in part by governmental sources that require strict limits on the rent paid by tenants based on the tenants' incomes.

Stakeholders shared valuable information with the working group on how the governmental financing actually operates, the difficulties in putting complete financing packages together and the immense obstacles to successfully operating properties that have restricted rents but important goals of providing social services to the tenants. With the loss of the 4d classification as a result of the 2001 legislative changes, the stakeholders showed the working group how the property tax burden on these properties increased dramatically. To meet the rising burden of property taxes, managers had to make the decision to defer current maintenance or decrease services to the tenants.

While the level of taxation is the bottom line concern of stakeholders, they are concerned that assessors value their properties the same as they value market rate properties. The stakeholders asked that other valuation techniques be considered.

The working group unanimously recommends that the current valuation methodology based on market rents and the normal approaches to value be retained. If the methodology is changed to use restricted rents, actual expenses and occupancy, it is unclear how a capitalization rate would be determined. The working group is quite certain that using restricted rents would cause value increases for 4d properties in many parts of Minnesota.

Minnesota assessors strive to provide a fair and equitable assessment each year. Using the normal assessment tools, the complexity of the property tax system, the diversity of property types and the sheer volume of properties often strain the assessors' abilities to deliver consistent and equitable assessments. Changing the valuation methodology for a small portion of apartment properties would cause inequities and inconsistencies.

Reviewing the results of the 45 county surveys, the working group did see some inconsistency in how 4d properties were treated. As a result, the working group recommends that the Department of Revenue and assessors put more emphasis on training assessors to value income producing properties, particularly rental housing.

The working group concluded that the 2005 class rate changes coupled with the leveling of market value increases for apartment properties has had the desired effect of reducing the tax burden for 4d low-income rental housing properties.

Finally, the working group recommends that the Department of Revenue and the Minnesota Housing Finance Agency should review both market rate and 4d housing at least every two years so if changes occur over time, the legislature will have the data they need to make policy changes.

Appendix

Informal Solicitation
Low Income Housing Valuation
Minnesota Department of Revenue

Project Background and Overview
The valuation of low-income housing has been the source of ongoing controversy for a number of years. The Department of Revenue, Minnesota Association of Assessing Officers, Minnesota Housing Finance Agency, Minnesota Council on Affordable Rural Housing and numerous other stakeholders all have their own opinions on how best to value low-income housing. This controversy has resulted in ongoing disagreement and conflict on some issues and agreement and harmony on others. Many of these controversies are precipitated from the earnestly held conviction by all involved that their position/opinion regarding the valuation of low-income housing is correct.

Goal
The Minnesota legislature has mandated a legislative report that will be due on March 1, 2007 for class 4d low-income rental housing property. The legislation requires that:

> *"The reports shall include an analysis of existing practices and provide recommendations, where necessary, for achieving higher quality and uniform assessments and consistency of property classifications."*

An independent authority is needed to provide an unbiased perspective to resolve this impasse.

Tasks
The contractor will:

1. Provide an understandable explanation and analysis of appropriate assessment practices for valuing low-income and equity restricted rental housing.

2. Meet with the 4d low-income rental housing working group composed of Department of Revenue staff, Legislative staff, and Minnesota assessors and identified stakeholders.

3. Compile or, if appropriate, update existing survey information on how other states value and tax low-income housing. This survey would include, but is not limited to, how other states value low-income housing i.e. fee simple or leased fee. Additionally, what, if any, property tax considerations other states give to low-income housing e.g. favorable classification rates, valuation criteria that results in reduced values, tax credits, etc.

4. Prepare a report endorsing recommended assessment practices for valuing low-income rental housing apartment properties.

5. Appear and present the finished report to the appropriate House and Senate tax committees and respond to any questions regarding information contained in the report.

6. Submit bi-weekly status reports to project and contract managers.

Responders are encouraged to propose any additional tasks or activities they believe will improve or assist in the determination of best methods of taxing low-income rental housing.

Deliverables

The Contractor will provide the following:

1. A meeting at the Minnesota Department of Revenue with the 4d low-income rental housing working group composed of Department of Revenue staff, Legislative staff, Minnesota assessors and identified stakeholders at a mutually agreeable time in February 2007.

2. A survey on how other states value and tax low-income rental housing. This survey will include but not be limited to how other states value low-income housing i.e. fee simple or lease fee. Additionally, what if any property tax considerations other states give to low-income housing e.g. favorable classification rates, valuation criteria that results in reduced values, tax credits etc. (This deliverable will be an option at the State's discretion and should be priced as such)

3. A written report, approved by the Department of Revenue, which contains an understandable explanation and analysis of appropriate assessment practices for valuing low-income and equity restricted rental housing. The report must include a synopsis of recommended assessment practices for valuing low- income housing rental apartment properties and be presented to the Minnesota Department of Revenue by March 1, 2007.

4. Testimony relating to the finished report to the appropriate House and Senate tax committees and responding to questions on the report. This is anticipated to occur sometime between late February and mid-April.

Required Skills

The proposal must specifically indicate how these minimum qualifications have been met. If DOR determines, in its sole discretion, that the proposer fails to meet all of these requirements (or that the proposer has not submitted sufficient information) then the proposal will not receive further consideration.

1. Thorough knowledge of low-income housing and low-income housing programs sufficient to summarize the various programs in existence, as well as the benefits and drawbacks of the programs.
2. Demonstrated ability to develop reports on appraisal practices.
3. Advanced appraisal/assessment designation, either a CAE (Certified Assessment Evaluator) or a MAI (member of Appraisal Institute).

Duration and Location of Assignment

The anticipated start date of the contract is on or about January 8, 2007 and continues through April 30, 2007.

Work may be performed anywhere in the United States but will require two trips to Minnesota to meet with stakeholders and to present testimony to the Legislature.

Proposal Content

The following will be considered minimum contents for the proposal. Responses to the statements below will be evaluated.

1. A transmittal letter. The letter must be in the form of a standard business letter and signed, in ink, by an individual authorized to legally enter into a contract on behalf of the vendor.
2. A statement of the objectives and goals to demonstrate the proposers understanding of the project.
3. An outline of the proposers background and experience. Be specific as to knowledge of appraisal theory, and low-income housing and low-income housing programs.
4. A detailed work plan that will identify the tasks to be accomplished.
5. Submit a minimum of two reports on appraisal practices prepared by proper.
6. Identify at least three references (government and private agencies) that may be contacted regarding projects similar to the one described herein. Be specific as to the nature of the experience. Include the company name, address, contact person, and phone number.
7. The attached Location of Service Disclosure and Certification Form (Exhibit D) must be filled in and submitted with the proposal.
8. Cost must be submitted in a separate envelope. A proposer must submit a detailed description of the costs they would charge if they are the successful contractor. A survey, Item #2 under Deliverables must be priced separately.

Other Requirements and Information

Proposers must comply with all of the terms of this solicitation, and all state and federal laws, codes and regulations.

All proposals must be received by the due date and time or they will not be considered. All proposals received on time will be considered. The DOR may waive any minor irregularities in proposals received by the submission date.

Any statement in this solicitation that contains the word "must" means compliance with the statement is mandatory and failure by the proposer to satisfy that intent will cause the proposal to be rejected.

Proposers may not restrict the rights of the State or qualify its proposal. If a proposer does so, the DOR may determine the proposal to be non-responsive and the proposal may not be considered.

This solicitation does not obligate the state to award a contract or complete the project, and the State reserves the right to cancel the solicitation if it considers it to be in the State's best interest.

All costs incurred in responding to this solicitation will be borne by the responder.

A copy of the state's contract is attached for review by the proposer. The contract reflects language that is required by statute. If any section represents critical problems for the proposer, the proposer must indicate those issues in their proposal.

The DOR has the right to audit the contractor's records to substantiate that it is complying with the contract.

Questions

Questions regarding this Request for Proposal must be submitted to the Minnesota Department of Revenue by email to the following address: dor.rfp@state.mn.us.

Other personnel are not authorized to answer questions regarding this Request for Proposal.

Questions submitted to DOR must contain the name of the person submitting the questions, their email address, name of the company and title "Low Income Housing Valuation" in the subject field of the email.

Questions must be received no later than 1:00 P.M., in St. Paul, Minnesota, on January 2, 2007 as indicated by the date and time stated in the DOR mail header.

DOR reserves the right to refrain from responding to questions submitted after 1:00 p.m., on January 2, 2007.

All of the questions along with DOR's answers will be emailed to all responders, as an addendum to this Request for Proposal, on or about **December 4, 2007**. The exact day the questions and answers will be emailed may depend on the quantity and complexity of the questions.

Submitting Proposals

All proposals must be delivered to:
Mary Ann Novotny, Contract Manager
Financial Management Division
Minnesota Department of Revenue
600 North Robert Street
St. Paul, MN 55101

All proposals are due no later than 2:00 p.m., current central time in St. Paul, Minnesota, on January 8, 2007, 2006 as indicated by a time stamp at the location above.

Late proposals will not be considered. Therefore it is suggested that a proposal be sent in such a manner that the proposal arrives on time, for example: overnight delivery, local courier, or in person.

Fax, email, and standard delivery U. S. Mail responses will not be considered, as proposals sent by standard U. S. Mail may not be received in the Contracts Unit by the due date. This is due to the large volume of mail received by DOR.

Submit one original and three copies of the proposal. Proposals must be in an envelope with the proposer's name, address, and "Low Income Housing Valuation" written on the outside. The original copy of the proposal should be so marked and must be signed, in ink, by an individual authorized to legally enter into a contract on behalf of the vendor. A cost proposal must be submitted in a separate envelope. Proposers must clearly mark the outside of the envelope "Cost Proposal" along with the firm's name. Submit one original and one copy of the cost proposal. The original copy of the cost proposal should be so marked and must be signed, in ink, by an individual authorized to legally enter into a contract on behalf of the vendor. For purposes of completing the cost proposal, the State does not make payments bases upon the passage of time; it only pays for services performed or work delivered after it is accomplished.

Prices and terms of the proposal as stated must be valid for the length of any resulting contract as specified in this solicitation.

Responders are encouraged to propose additional tasks or activities if they will improve the results of the project. These items should be separated from the required items on the cost proposal.

Evaluation of Proposals

The Department of Revenue will evaluate all proposals received by the deadline. A 100-point scale will be used to create the final evaluation. Proposals will be evaluated on "best value" as sixty percent (70%) qualifications, experience, and references and thirty (30%) percent on cost considerations.

1. A statement of the objectives and goals to show or demonstrate the proposers understanding of the nature of the project including a detailed work plan. This will count as fifteen percent (15%) of the evaluation total.

2. A description of the responder's background and experience as similar as possible as indicated in the Tasks, Deliverables, and Required skills above. This will count as twenty five (25%) of the evaluation total.

3. References. The Department of Revenue may or may not contact all three references. The references will count as twenty percent (20%) of the evaluation total.

4. The responder's cost breakout. The cost response will count as thirty percent (30%) of the evaluation total.

The State will not consider the prices submitted by a proposer to be proprietary or trade secret material.

Preference to Targeted Group and Economically Disadvantaged Business and Individuals
In accordance with Minnesota Rules, part 1230.1810, subpart B and Minnesota Rules, part 1230.1830, certified Targeted Group Businesses and individuals submitting proposals as prime contractors shall receive the equivalent of a six percent preference in the evaluation of their proposal, and certified Economically Disadvantaged Businesses and individuals submitting proposals as prime contractors shall receive the equivalent of a six percent preference in the evaluation of their proposal. For information regarding certification, contact the Materials Management Helpline at 651.296.2600, or you may reach the Helpline by e-mail at mmd.help.line@state.mn.us. For TTY/TDD communications, contact the Helpline through the Minnesota Relay Services at 1.800.627.3529.

SENATOR MEE MOUA
District 67
235 State Capitol Building
75 Dr. Martin Luther King, Jr. Blvd.
Saint Paul, MN 55155-1606
Phone: (651) 296-5285
Fax: (651) 225-7587
E-mail: sen.mee.moua@senate.mn

Senate
State of Minnesota

MAR 0 3 REC'D

February 28, 2006

Commissioner Dan Salomone
600 North Robert Street
Saint Paul, MN 55101

Dear Commissioner Salomone:

As legislators representing the metropolitan area and the northern and southern regions of Greater Minnesota, we are interested in the challenges and issues confronted by our communities in providing affordable housing. We are writing to you for information that may guide us in the development of a solid statewide affordable housing policy.

There are three specific areas of information that we seek:

1. Could you please provide us with all of the statutory citations in current laws that are examples where there is deviation from a fee simple approach to taxation. Explain the rationale behind each deviation and how long the provision has been in effect.

2. It is our understanding that in valuing rental property, assessors look at sales of similarly situated properties. Please provide information on the number of apartment buildings that have been sold in Minnesota in the last three years and what percentage of the total of those buildings was rent restricted. Provide a breakdown between the metropolitan area, the northern tier of Greater Minnesota and the southern region of the state.

3. Please provide information on the increased assessed values of rent restricted properties since 4(d) was eliminated in 2001. What is the median increase in the seven county metropolitan area, the northern tier of Greater Minnesota and the southern region of the state.

We appreciate your efforts in compiling this information and trust that it will be useful as we move forward in adopting a statewide policy for affordable housing. We also look forward to working with you and your staff on the participants and the parameters of the 4(d) study that will be completed next year.

Sincerely,

Mee Moua | Morrie Lanning | Laura Brod

Senator Mee Moua | Representative Morrie Lanning | Representative Laura Brod

Recycled Paper
10% Post-Consumer Fiber

COMMITTEES: Transportation • Tax • Health and Family Security

MINNESOTA · REVENUE

Class Rate Percentages of Real and Personal Property by Property Type
Taxes Payable 2006 and 2007

Class	Real Property Description	Payable 2006 Class Rate
1a	**Residential homestead**	
	first $500,000	1.00%
	over $500,000	1.25%
1b	**Blind/Paraplegic**	
	Veteran/Disabled homestead	
	agricultural:	
	first $32,000	0.45%
	non-agricultural:	
	first $32,000	0.45%
1c	**Commercial seasonal - recreational residential - under 250 days and includes homestead**	
	first $500,000	0.55%
	$500,000 to $2,200,000	1.00%
	over $2,200,000	1.25% *
1d	**Migrant housing (structures only)**	
	first $500,000	1.00%
	over $500,000	1.25%
2a	**Agricultural homestead**	
	House, Garage, One Acre:	
	first $500,000	1.00%
	over $500,000	1.25%
	Remainder of Farm:	
	first $600,000	0.55% **
	over $600,000	1.00% **

Class	Real Property Description	Payable 2007 Class Rate
1a	**Residential homestead**	
	first $500,000	1.00%
	over $500,000	1.25%
1b	**Blind/Paraplegic**	
	Veteran/Disabled homestead	
	agricultural:	
	first $32,000	0.45%
	non-agricultural:	
	first $32,000	0.45%
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	first $500,000	0.55%
	$500,000 to $2,200,000	1.00%
	over $2,200,000	1.25% *
1d	**Migrant housing (structures only)**	
	first $500,000	1.00%
	over $500,000	1.25%
2a	**Agricultural homestead**	
	House, Garage, One Acre:	
	first $500,000	1.00%
	over $500,000	1.25%
	Remainder of Farm:	
	first $690,000	0.55% **
	over $690,000	1.00% **

Class	Real Property Description	Payable 2006 Class Rate
2b	**Timberlands**	1.00% **
2b	**Private Airports**	1.00% **
2b	**Non-homestead agricultural land**	1.00% **
3a	**Commercial-Industrial and public utility**	
	first $150,000	1.50% *
	over $150,000	2.00% *
	Public Utility Machinery	
3a	Electric generating public utility machinery	2.00%
3a	All other public utility machinery	2.00% *
3a	**Real property owned in fee by a utility for transmission line right-of-way**	2.00% *
3b	**Employment property**	
	border city:	
	first $150,000	1.50% *
	over $150,000	2.00% *
	Rental housing	
4a	four or more units, including private for-profit hospitals	1.25%
4b(1)	Residential non-homestead one to three units that does not qualify for class 4bb	1.25%

Class	Real Property Description	Payable 2007 Class Rate
2b	**Timberlands**	1.00% **
2b	**Private Airports**	1.00% **
2b	**Non-homestead agricultural land**	1.00% **
3a	**Commercial-Industrial and public utility**	
	first $150,000	1.50% *
	over $150,000	2.00% *
	Public Utility Machinery	
3a	Electric generating public utility machinery	2.00%
3a	All other public utility machinery	2.00% *
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3b	**Employment property**	
	border city:	
	first $150,000	1.50% *
	over $150,000	2.00% *
	Rental housing	
4a	four or more units, including private for-profit hospitals	1.25%
4b(1)	Residential non-homestead one to three units that does not qualify for class 4bb	1.25%

Class	Real Property Description	Payable 2006 Class Rate
	Rental housing (continued)	
4b(2)	Unclassified manufactured homes	1.25%
4b(3)	Farm non-homestead containing more than one residence but fewer than four along with the garage and one acre	1.25%
4b(4)	Residential non-homestead not containing a structure	1.25%
4bb(1)	Residential non-homestead single unit	
	first $500,000	1.00%
	over $500,000	1.25%
4bb(2)	Single house, garage and 1st acre on ag non-homestead land	
	first $500,000	1.00%
	over $500,000	1.25%
4c(1)	**Seasonal recreational residential**	
	commercial	
	first $500,000	1.00% *
	over $500,000	1.25% *
	non-commercial	
	first $500,000	1.00% * **
	over $500,000	1.25% * **
4c(2)	**Qualifying golf courses**	1.25%
4c(3)	**Nonprofit community service oriented organization**	1.50%
4c(4)	**Post secondary student housing**	1.00% **

Class	Real Property Description	Payable 2007 Class Rate
	Rental housing (continued)	
4b(2)	Unclassified manufactured homes	1.25%
4b(3)	Farm non-homestead containing more than one residence but fewer than four along with the acre(s) and garage(s)	1.25%
4b(4)	Residential non-homestead not containing a structure	1.25%
4bb(1)	Residential non-homestead single unit	
	first $500,000	1.00%
	over $500,000	1.25%
4bb(2)	Single house, garage and 1st acre on ag non-homestead land	
	first $500,000	1.00%
	over $500,000	1.25%
4c(1)	**Seasonal residential recreational**	
	commercial	
	first $500,000	1.00% *
	over $500,000	1.25% *
	non-commercial	
	first $500,000	1.00% * **
	over $500,000	1.25% * **
4c(2)	**Qualifying golf courses**	1.25%
4c(3)	**Nonprofit community service oriented organization**	1.50%
4c(4)	**Post secondary student housing**	1.00% **

Class	Real Property Description	Payable 2006 Class Rate
4c(5)	**Manufactured home parks**	1.25%
4c(6)	**Metro non-profit recreational property**	1.25%
4c(7)	**Certain leased or privately owned non-commercial aircraft storage hangars (includes land) : on leased land**	1.50%
4c(8)	**Certain leased or privately owned non-commercial aircraft storage hangars (includes land) : on private land**	1.50%
4c(9)	**Bed and Breakfast up to 5 units**	1.25%
4d	**Qualifying low income - land and buildings**	0.75%
5(1)	**Unmined iron ore**	2.00% *
5(1)	**Low recovery iron ore**	2.00% *
5(2)	**All other property not included in any other class**	2.00%

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4c(5)	**Manufactured home parks**	1.25%
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4c(8)	**Certain leased or privately owned non-commercial aircraft storage hangars (includes land) : on private land**	1.50%
4c(9)	**Bed and Breakfast up to 5 units**	1.25%
4d	**Qualifying low income - land and buildings**	0.75%
5(1)	**Unmined iron ore**	2.00% *
5(1)	**Low recovery iron ore**	2.00% *
5(2)	**All other property not included in any other class**	2.00%

* Subject to the state general property tax.

NOTE: For purposes of the **state general property tax only**, the net tax capacity of non-commercial class 4c(1) seasonal residential recreational property has the following class rate structure:

First $76,000	0.40%
$76,000 — $500,000	1.00%
Over $500,000	1.25%

In addition to the state tax base exemptions referenced by property classification, airport property exempt from city and school district property taxes under M.S. 473.625 is exempt from the state general property tax (MSP International Airport and Holman Field in St.Paul are exempt under this provision).

** Exempt from referendum market value based taxes.

Equity restricted properties

Materials submitted by the Minnesota Community Land Trust Coalition (MCLTC).

The MCLTC and North Country Cooperative Foundation represent some 5,000 homeowners throughout the state. Community land trust and cooperative homeownership both use methods [contracts] that share the equity of properties. Homeowners voluntarily accept restricted equity when they purchase a Community Land Trust (CLT) or Coop home for these reasons:

1. Shared equity results in a smaller more affordable purchase price [a benefit to low to moderate income families.]
2. Equity retained by the CLT or Coop assures that when a property is resold the price to the subsequent homeowner remains affordable [a benefit to the community (ies) that assisted the CLT or Coop to build the unit.]

In 2002 the State provided property tax relief that reduced the average property tax. Since that time property tax increases have outpaced both property values and household incomes. This statewide problem is especially problematic for CLT and Coop homeowners in as much as they receive only a portion [in the case of a CLT, 25-50 percent, in the case of co-ops, a restricted amount based on the co-ops formula] of the appreciated value. CLT and Coop homeowners are asked to pay property tax on 100 percent of the value.

The current state tax code provides only limited relief for households that voluntarily agree to take a limited amount of the appreciation at time of sale. The current property tax code for ownership restricted properties does not recognize properties with resale restrictions designed to keep the housing units affordable for up to 99 years. The current circuit breaker formula provides only limited relief to the lowest income individuals, but does not recognize that the housing unit continues to remain affordable for up to 99 years. The issue of equity restricted homeownership models serving households typically at/or below 80 percent of the HUD income limits warrants further study and recommendations by both the legislature and the Department of Revenue.

What are these properties?

The Minnesota Community Land Trust Coalition [MCLTC] is comprised of ten CLTs located throughout the state. MCLTC represents 450 member households. The majority of CLT homes are single family units. However CLTs are also town homes and apartment style condominiums.

The North Country Cooperative Foundation represents dozens of both limited equity and market rate cooperatives throughout the state. In Minnesota there are 54 limited equity (that is, housing cooperatives where resale value is limited by formula) senior housing co-ops representing over 4,300 units of housing, and an additional eleven limited equity cooperatives for families representing 250 units of housing.

Who owns them, who live in them?

CLT homeowners purchase the lease hold improvements; the local CLT owns the land and provides a renewal and transferable 99 year lease to the homeowner.

Coop ownership is available to Minnesota families and individuals of all incomes. Many, however, are home to low and moderate income households. About 40 percent of NCDF’s housing cooperative mortgage borrowers, for example, are first time home buyers, and about 80 percent are low income themselves, and/or live in low income neighborhoods.

What are regulatory policies or restrictions?

MCLTC member land trusts are organized under IRS 501 (c) (3) regulations. MCLTC members have adopted a uniform land lease. Since the inception of MCLTC members have adopted standardized procedures in keeping with national CLT practice. Funder requirements include income levels, length of affordability period, default and repayment requirement.

Limited equity cooperatives use various methods to enforce restrictions on resale. These include lender covenants, deed restrictions, and the policy formulas set out in the cooperative's own bylaws.

What are public subsidies?

MCLTC members utilize federal [CDBG, HOME, etc.], state [MHFA CASA, CRV, etc.] and local [TIF, HIF, etc.] public funding. These resources are often enhanced by private contributions [LISC, GMHF, Metro Council, FHF, foundations, etc.] Public funding is secured through completive application processes and is conveyed with various income and program guidelines and regulations.

Subsidies are structured to fill a value gap, the difference between the cost to produce a given unit of housing and its market value and/or an affordability gap, defined as the difference between the market value and the price a low or moderate income family can afford to pay for the unit.

Coops also use public subsidies at times. These include below market financing provided by HUD's 213 mortgage program, as well as various project-based subsidies provided by municipalities, neighborhood groups, and other resources.

Minnesota Community Land Trust Coalition
Property Tax Fairness Position Paper

Attachment to
Minnesota Department of Revenue Study Comments

The Issue:

Rapidly rising property taxes are beginning to jeopardize the affordability of homes on Community Land Trust (CLT) land in the state. This is particularly true in geographic areas with significant recent property appreciation; property taxes are fast becoming an inordinately high percentage of CLT homeowner's monthly house payments. In a number of communities in the country changes in property tax assessment policy and practice help preserve the affordability of homes on CLT land. Fair taxation of CLT properties needs to occur for the benefit of both current CLT homeowners and for the long-term affordability of CLT homes.

In the CLT homeownership model leasehold improvements, i.e. the dwelling is sold to a family. The land upon which the dwelling rests is separated and retained by the CLT. The member family and the CLT enter in to a 99 year land lease. The CLT does many things, (1) it lowers the purchase price for the family (2) it assures the family that they have long-term control of their site [e.g., the property can be passed down from one generation to another] and (3) it provides support to the homeowners and assures that if/when the property is sold in the future it will remain an affordable home.

CLT homeowners voluntarily accept limited equity in exchange for the affordable purchase price of their home. The CLT in turn accepts, as part of their non-profit community purpose the responsibility of holding the land in perpetuity and assisting member homeowners during the time they live in the their home.

Within the CLT homeownership model both the member family and the CLT mutually agree to limit the future value of the property. This is done to assure that a CLT home remains affordable and available exclusively to subsequent buyers.

A mortgage offers predictable and constant principal and interest costs for CLT families. However, property tax and insurance costs can and do change over the course of the mortgage. Insurance will increase or decrease in response to market forces. Property taxes likewise are subject to factors outside the control of the homeowner. City, County and local school districts annually revise their levies. Additionally, many neighborhoods are experiencing rapid escalation in land value due to speculation, urban gentrification, and suburban expansion.

The Examples:

Here are examples of Minnesota Community Land Trust Coalition families whose homeownership is threatened by property tax increases:

- In Northeast Minnesota a family of four purchased its home in 2001. They paid $71,000. Their property tax expense in 2001 was $486. In 2006 the property tax expense has grown to $1,026 based upon an appraised value of $119,400. The Resale formula would allow the current family to sell their home for $81,020.

- A second example, again from Northeast Minnesota, shows a CLT family whose home appraises to a value of $182,000 and a 2006 Property Tax of $1,841. The Resale restrictions would allow the homeowners to sell their home for $105,600.

- In St. Paul, a CLT family whose home has an appraised value of $250,000 and a 2006 Property Tax of $2,618.00. The Resale restrictions would allow the homeowners to sell their home for $136,750.

MCLTC and the more than 450 member households they represent strongly believe that paying a fair property tax is an appropriate obligation. We believe that a fair property tax should reflect the limitations that homeowners accept within the CLT homeownership agreement. Preserving affordable homes within communities and neighborhoods helps to strengthen cities, counties and the state.

Conclusion:

Land held in trust by the members of MCLTC and the homes that sit upon that land have all been developed with the hope and promise of sustaining low and moderate income families in stable, safe, decent and affordable housing. The benefits that flow from CLT homeownership inure not only to the individual families but also to the wider community. MCLTC homes are created with financial investment from public and private sources, city, state, federal. In order to protect this investment it is imperative that CLT member families are relieved from the strain that rising property taxes are placing on their monthly budgets.

The issues represented in this position paper are shared by limited equity cooperatives represented by the North Country Cooperative Fund. Cooperative housing is another method by which to achieve sustainable and affordable homeownership. Preservation of Coop housing as a vital community resource warrants the same consideration given to community land trust members.

Hennepin County Sample EMV and Tax History for Apartments

Low-income apartment samples:

(22) Brooklyn Center - Summer Chase - 02-118-21-23-0015						
Tax	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
Credit	2007	HL	$ 9,500,000	$ 37,698	$ 100,352	$ 398.22
	2006	HL	$ 12,060,000	$ 47,857	$ 132,896	$ 527.37
	2005	A	$ 12,059,000	$ 47,853	$ 226,030	$ 896.94
	2004	A	$ 10,430,000	$ 41,389	$ 210,336	$ 834.67
Units:	2003	HL	$ 10,102,000	$ 40,087	$ 168,820	$ 669.92
252	2002	HL	$ 11,262,000	$ 44,690	$ 178,788	$ 709.48

(48) Brooklyn Park - Brooks Landing - 28-119-21-24-0017						
Tax	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
Credit	2007	HL	$ 6,368,000	$ 57,891	$ 63,101	$ 573.65
	2006	HL	$ 6,368,000	$ 57,891	$ 63,659	$ 578.72
	2005	A	$ 6,222,000	$ 56,564	$ 101,610	$ 923.73
	2004	A	$ 5,517,000	$ 50,155	$ 95,771	$ 870.65
Units:	2003	HL	$ 4,654,000	$ 42,309	$ 77,959	$ 708.72
110	2002	HL	$ 4,062,000	$ 36,927	$ 53,954	$ 490.49

(30) Hopkins - Hopkins Village - 24-117-22-43-0032						
Tax	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
Credit	2007	HL	$ 7,470,000	$ 46,398	$ 74,576	$ 463.20
	2006	HL	$ 7,474,000	$ 46,422	$ 77,856	$ 483.58
	2005	A	$ 7,012,900	$ 43,558	$ 118,011	$ 732.99
	2004	A	$ 6,376,000	$ 39,602	$ 119,639	$ 743.10
Units:	2003	HL	$ 5,927,000	$ 36,814	$ 99,655	$ 618.98
161	2002	HL	$ 5,209,000	$ 32,354	$ 80,383	$ 499.27

(20) Bloomington - 8100 Knox - 04-027-24-24-0017						
Sec.	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
8	2007	HL	$ 11,480,900	$ 54,155	$ 95,944	$ 452.57
	2006	HL	$ 11,480,900	$ 54,155	$ 99,021	$ 467.08
	2005	A	$ 11,146,500	$ 52,578	$ 161,600	$ 762.26
	2004	A	$ 10,320,800	$ 48,683	$ 157,385	$ 742.38
Units:	2003	HL	$ 9,215,000	$ 43,467	$ 113,960	$ 537.55
212	2002	HL	$ 8,191,100	$ 38,637	$ 90,825	$ 428.42

Market rate apartment samples:

(22) Brooklyn Center - Melrose Gates - 36-119-21-31-0045 & (24-0046)						
	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
	2007	A	$ 10,627,000	$ 48,972	$ 184,295	$ 849.29
	2006	A	$ 11,457,000	$ 52,797	$ 210,438	$ 969.76
	2005	A	$ 11,457,000	$ 52,797	$ 217,043	$ 1,000.20
	2004	A	$ 9,795,000	$ 45,138	$ 202,039	$ 931.06
Units:	2003	A	$ 8,941,000	$ 41,203	$ 238,622	$ 1,099.64
217	2002	A	$ 8,941,000	$ 41,203	$ 249,108	$ 1,147.96

(48) Brooklyn Park - Waterford Lanel - 32-119-21-43-0015						
	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
	2007	A	$ 7,776,000	$ 54,000	$ 123,633	$ 858.56
	2006	A	$ 7,600,000	$ 52,778	$ 125,083	$ 868.63
	2005	A	$ 7,600,000	$ 52,778	$ 128,767	$ 894.22
	2004	A	$ 7,463,000	$ 51,826	$ 139,111	$ 966.05
Units:	2003	HL&A	$ 6,712,000	$ 46,611	$ 112,933	$ 784.26
144	2002	HL&A	$ 5,781,000	$ 40,146	$ 97,206	$ 675.04

(30) Hopkins - Central Park Manor - 24-117-22-33-0011						
	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
	2007	A	$ 4,886,000	$ 44,826	$ 77,439	$ 710.45
	2006	A	$ 4,906,000	$ 45,009	$ 81,131	$ 744.32
	2005	A	$ 5,154,000	$ 47,284	$ 86,064	$ 789.58
	2004	A	$ 4,906,000	$ 45,009	$ 91,362	$ 838.18
Units:	2003	A	$ 4,664,000	$ 42,789	$ 105,071	$ 963.95
109	2002	A	$ 4,092,000	$ 37,541	$ 103,684	$ 951.23

(20) Bloomington - Essex Square Apartments - 02-027-24-23-0003						
	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
	2007	A	$ 7,854,600	$ 55,314	$ 105,234	$ 741.08
	2006	A	$ 7,480,600	$ 52,680	$ 103,408	$ 728.23
	2005	A	$ 7,480,600	$ 52,680	$ 107,364	$ 756.08
	2004	A	$ 7,480,600	$ 52,680	$ 112,888	$ 794.99
Units:	2003	HL&A	$ 6,679,100	$ 47,036	$ 105,319	$ 741.68
142	2002	HL&A	$ 5,959,300	$ 41,967	$ 103,101	$ 726.06

Hennepin County Sample EMV and Tax History for Apartments

Low-income apartment samples:

(28) Golden Valley - Calvary Cntr Apts - 32-118-21-23-0054						
Sec.	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
8	2007	HL	$ 4,258,000	$ 53,225	$ 42,855	$ 535.69
	2006	HL	$ 4,245,000	$ 53,063	$ 44,143	$ 551.79
	2005	A	$ 4,219,000	$ 52,738	$ 74,093	$ 926.16
	2004	A	$ 4,200,000	$ 52,500	$ 78,879	$ 985.99
Units:	2003	HL	$ 3,943,000	$ 49,288	$ 61,021	$ 762.76
80	2002	HL	$ 3,581,000	$ 44,763	$ 52,610	$ 657.63

(44) Robbinsdale - Robins Landing - 06-029-24-41-0001						
Sec.	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
8	2007	HL	$ 6,389,000	$ 58,082	$ 62,793	$ 570.85
	2006	HL	$ 6,073,000	$ 55,209	$ 61,156	$ 555.96
	2005	A	$ 5,721,000	$ 52,009	$ 95,384	$ 867.13
	2004	A	$ 5,384,000	$ 48,945	$ 98,674	$ 897.04
Units:	2003	HL	$ 4,479,000	$ 40,718	$ 68,488	$ 622.62
110	2002	HL	$ 3,950,000	$ 35,909	$ 57,608	$ 523.71

Market rate apartment samples:

(28) Golden Valley - Trentwood Apartments - 31-118-21-32-0006						
	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
	2007	A	$ 3,001,000	$ 55,574	$ 45,204	$ 837.11
	2006	A	$ 3,001,000	$ 55,574	$ 47,516	$ 879.93
	2005	A	$ 2,953,000	$ 54,685	$ 47,663	$ 882.65
	2004	A	$ 2,896,000	$ 53,630	$ 49,786	$ 921.96
Units:	2003	A	$ 2,535,000	$ 46,944	$ 52,835	$ 978.43
54	2002	A	$ 2,262,000	$ 41,889	$ 55,432	$ 1,026.52

(44) Robbinsdale - 4020 Lakeland Ave Apartments - 06-029-24-14-0136						
	Payable Yr	PT	EMV	EMV / Unit	TAXES	Tax / Unit
	2007	A	$ 6,203,000	$ 75,646	$ 98,458	$ 1,200.71
	2006	A	$ 5,907,000	$ 72,037	$ 95,804	$ 1,168.34
	2005	A	$ 5,256,000	$ 64,098	$ 87,630	$ 1,068.66
	2004	A	$ 3,851,000	$ 46,963	$ 70,578	$ 860.71
Units:	2003	A	$ 3,077,000	$ 37,524	$ 67,000	$ 817.07
82	2002	A	$ 2,836,000	$ 34,585	$ 76,552	$ 933.56

Minnesota Coalition of Affordable Rural Housing

Materials provided by Marge Alden

515 multifamily complexes originated with the Farmers Home Administration division of the Department of Agriculture. The administration name regulating these complexes has changed over time and is currently titled Rural Development. The USDA encouraged individuals and organizations to build apartments in rural areas for seniors and families with low to moderate income. The mortgage is amortized over 40 – 50 years with a one (1 percent) percent subsidized interest rate.

Rental assistance available to the individual tenants was assigned at construction depending on the availability. Some complexes have 100 percent rental assistance and others may have none or some variation between.

The 515 complexes historically have had the lowest rental income of all the apartment units in government programs due to the shortage of rental assistance. In comparison to tax credit properties, the 515 complex rents are about 50 percent less.

The 515 properties have not been afforded the real estate tax breaks fully in the last two programs that HUD and Tax Credit have had available. The two reasons stated are the lack of support and cooperation by Rural Development and the rental assistance being key criteria for qualification. While the Departments lack of cooperation and positive involvement with other agencies has not only impacted inclusion in helpful legislation, it has created many other difficulties for owners, managers and tenants. There is nothing owners and tenants can do to effectively change that situation. However, basing the real estate tax break on rental assistance is changeable and necessary for these complexes to remain financially viable. The complexes that do not have full rental assistance have tenants paying in some cases, 80 percent of their income to housing. To increase rents to cover higher taxes would make these low income families and fixed income seniors unable to stay in their homes. It is those units without rental assistance but still regulated by government for eligibility criteria that are most vulnerable and in need of tax relief. Any increase in real estate taxes for 515 properties has to be directly offset by rent from tenants already overburdened.

I encourage legislation be based on these complexes fully regulated by a government program and not by any percentage of rental assistance. The 515 properties all have a mortgage interest credit and that alone should make them eligible. In the past, the HUD and Tax Credit apartment complexes automatically were included. The 515 allowable rent is considered lower than a Tax Credit or HUD property and the eligibility requirements of tenant income is considerably lower than Tax Credit. The need for a real estate tax break is needed and warranted.

An increase in the qualifying percentage helps in some instances, but the 515 properties should automatically qualify based on the mortgage interest credit, government regulations, eligibility criteria, rental to low and moderate income tenants and rental income structure. Using the qualifying percentage in effect hurts the properties most in need where all expenses are paid from the tenant rent with no assistance. The overburden to these tenants is a critical issue that needs to be addressed.