4-d Affordable Housing Report

January 15, 2022

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January 15, 2022

The Honorable Cheryl Youakim
Chair, House Property Tax Division
591 State Office Building

The Honorable Bill Weber
Chair, Senate Subcommittee on Property Taxes
2109 Minnesota Senate Building

The Honorable Jerry Hertaus
Minority Lead, House Property Tax Division
389 State Office Building

The Honorable Matt D. Klein
Minority Lead, Senate Subcommittee on Property Taxes
2409 Minnesota Senate Building

Dear Committee Chairs:

I am pleased to present to you this report on 4d low-income housing undertaken by the Department of Revenue in response to Minnesota Session Laws 2021, 1st Special Session, Chapter 14, article 6, section 19.

The report was produced in consultation with the Minnesota Housing Finance Agency and used data provided by all 87 counties. It summarizes the current use and history of the 4d classification to meet the needs of low- to moderate-income individuals and families in Minnesota, and includes information on federal government low-income housing guidelines that are used by local 4d low-income housing programs.

Sincerely,

Robert A. Doty

Robert A. Doty
Commissioner of Revenue

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Introduction

Minnesota Session Laws 2021, 1st Special Session, Chapter 14, article 6, section 19 requires the Department of Revenue to create a report on class 4d low-income housing in the state of Minnesota. This report provides information on current and historic use of the 4d classification, several benchmarks related to the tax implications of this classification, and the impact of changes that could be made to the classification rate.

The data in this report was also provided to stakeholders including members of the assessment community and nonprofits. Their feedback is included in the appendix of this report.

With the information in this report, the department is ready to work with members of the Legislature to address their proposals for modifications to property taxation of low-income rental housing in Minnesota. As discussions continue, we ask that stakeholder groups continue to be involved so that assessment challenges and barriers to accurate taxation are addressed.

Use of 4d Classification

In order for a property or a unit within a property to be classified as 4d, it must meet certain statutory requirements (Minnesota Statutes, section 273.13, subdivision 25, paragraph (e)). These include:

- Minnesota Housing Finance Agency certification to the assessor
- At least 20% of the units must meet the "low-income housing" requirement as defined by Minnesota Statute 273.128, which states the units must meet any of the following:
  - Receive housing assistance payments
  - Are rent- and income-restricted
  - Are financed for rental assistance by the federal government
- Occupants' household income must not exceed 60% of the greater of area or state median income, adjusted for family size
- Rents for assisted units must not exceed 30% of 60% of the greater of area or state median income, adjusted for family size

In a typical multi-family housing property, some individual units may qualify for the 4d classification, while the remainder of the property is classified as a whole, usually as 4a residential multi-family (for example, apartments).

Class 4d property has a lower class rate than 4a property, which reduces the tax burden on 4d property. Multifamily housing (4a) property has a classification rate of 1.25% on the entire property, while 4d properties have a per-unit class rate of 0.75% on the first $174,000 value, and then a further reduced rate of 0.25% on each unit's value above $174,000[1].

Assessment 2020

In total there were 2,149 multi-family residential properties in the state that had units that qualified for the low-income rental classification (4d) in assessment year 2020. Of these properties, 449 (21%) reported to the Minnesota Housing Finance Agency that they received funding from a local program to qualify units for the 4d classification. Local programs range from programs that help fund new construction to programs that help owners meet the criteria for providing low-income rental units.

In assessment year 2020, there were 79,868 individual housing units in Minnesota that received the low-income rental classification (4d). There were an additional 11,977 units located within those properties that were not classified as 4d. Of the units that qualified for 4d classification, 4,973 (approximately 6% of the statewide total) are in properties receiving funding from a local program.

[1] The valuation tier limit was lowered from the 2021 level of $174,000 to $100,000 for assessment years 2022 and 2023 during the 2021 special legislative session.

Number of Class 4d Housing Units – Assessment 2020

Assessment Year 2020	(1) Project-Based Section 8 units	(2) Section 42 low-income housing tax credit units	(3) U.S. Department of Agriculture Rural Housing rental assistance units	(4) Other units with U.S., Minnesota, or local financing with recorded income and rent restrictions	Total Number of Units Receiving the Low-Income Rental Classification (4d)	Non-4d units in properties classified in part as 4d
Statewide Total Units	27,969	40,159	4,512	7,228	79,868	11,977

Preliminary data from assessment year 2021 shows the number of qualifying 4d units increasing by approximately 5% to 83,968. For a detailed list of units by county, see Appendix B.

In the 2020 assessment, class 4d property was valued at $7.34 billion statewide. This represents 0.9% of the state's total estimated market value (EMV)[2]. Under the current tiered 4d classification rate, the 4d net tax capacity (NTC)[3] was $53.8 million. This represents 0.6% of the statewide total.

Historical Use of 4d Classification

In the last 10 years, the number of qualifying 4d units increased by 21,474, an increase of 34%. The annual increase in 4d units over that period ranges from 1% to 6%, with an average annual increase of 3.3%.

[2] The estimated market value (EMV) for property tax purposes is the likely price a property would sell for on the open market.

[3] Taxable Market Value (TMV) is the value used to determine taxes. A property's TMV is its estimated market value minus any deferrals and value exclusions that apply. The Net Tax Capacity (NTC) for each parcel of property is calculated according to the statutory classification rates and the property's taxable market value (TMV x Class Rate = NTC).

Number of Class 4d Housing Units – Assessments 2012 through 2021

Assessment Year	(1) Project-Based Section 8 units	(2) Section 42 low-income housing tax credit units	(3) U.S. Department of Agriculture Rural Housing rental assistance units	(4) Other units with U.S., Minnesota, or local financing with recorded income and rent restrictions	Total Number of Units Receiving the Low-Income Rental Classification (4d)
2021	27,928	42,410	4,539	9,091	83,968
2020	27,969	40,159	4,512	7,228	79,868
2019	27,890	37,569	4,371	5,533	75,363
2018	27,846	35,961	4,321	4,192	72,320
2017	27,801	33,640	4,579	3,255	69,275
2016	27,653	32,010	4,563	3,344	67,570
2015	27,633	31,200	4,661	3,373	66,867
2014	27,742	29,227	4,709	3,640	65,318
2013	28,564	27,140	4,643	3,259	63,606
2012	28,081	26,847	4,660	2,906	62,494

Valuation Allocation

Currently, there are two valuation tiers for qualifying 4d units. The units are valued individually and the valuation tiers are applied on a per-unit basis. Each tier has a different classification rate. These valuation tiers are recalculated each year by the Department of Revenue based on guidelines outlined in statute. The valuation tier limit was $174,000 for assessment year 2021.

The first tier of a qualifying 4d unit's value has a classification rate of 0.75%. Any value over the first-tier limit has a classification rate of 0.25%. This results in a lower net tax capacity for a unit exceeding the first-tier valuation limit than the unit would have had without the tiered classification rates.

During the 2021 special legislative session, the valuation tier limit was lowered from the 2021 level of $174,000 to $100,000 for assessment years 2022 and 2023. The department will annually adjust the new first-tier limit per statutory guidelines beginning with assessment year 2024.

Over the last three assessment years, the number of 4d units that have second-tier qualifying value has averaged approximately 5.7% of the total number of 4d units across the state. During these assessment years, the first-tier valuation limit was $174,000 in 2021, $164,000 in 2020, and $150,000 in 2019.

Number of 4d Units with Second Tier Value

Assessment Year	Class 4d Second Tier Limit	Total Number of 4d Units	Total Number of 4d Units Whose Value Qualifies for the Second Tier	Percentage of Total 4d Units Whose Value Qualifies for the Second Tier
2021	$174,000	83,968	4,630	5.5%
2020	$162,000	79,868	4,907	6.1%
2019	$150,000	75,363	4,091	5.4%

Second Tier 4d Market Value

Assessment Year	Class 4d Second Tier Limit	Total 4d Market Value	Second Tier 4d Market Value (value above the tier limit)	Percentage of Total 4d Market Value Whose Value Qualifies for the Second Tier
2021	$174,000	$8,063,100,000	$222,800,000	2.8%
2020	$162,000	$7,340,100,000	$241,300,000	3.3%
2019	$150,000	$6,251,800,000	$191,600,000	3.1%

Note: Assessment year 2021 market values are preliminary

The first-tier valuation limit decrease in the last legislative session will result in some of the value that was taxed at the first-tier rate of 0.75% to now qualify for the second tier rate of 0.25%. It is estimated that approximately 18% of class 4d value currently in the first tier will qualify for the second tier under the 2021 law change[4].

[4] For additional analysis of the law change, refer to the revenue estimate of Special Session Laws 2021, Chapter 14.

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Taxes Paid by 4d Property

In 2021, units receiving the 4d classification paid $75,457,000 in property taxes. If these units had been classified as 4a, the comparative tax amount could be calculated as $125,169,000, an increase of $49,712,000. By classifying these properties as 4d rather than 4a, the properties paid 40% less in property taxes. For an example of the difference between a 4d and 4a property tax burden, see Appendix C.

Tax Reduction Due to 4d Classification

	(1) Project-Based Section 8 units	(2) Section 42 low-income housing tax credit units	(3) U.S. Department of Agriculture Rural Housing rental assistance units	(4) Other units with U.S., Minnesota, or local financing with recorded income and rent restrictions	Total Number of Units Receiving the Low-Income Rental Classification (4d)
4d Classified Property Tax (Pay 2021)	$21,410,000	$44,575,000	$2,023,000	$7,449,000	$75,457,000
Estimated Property Tax with 4a Class Rate	$34,805,000	$74,835,000	$3,292,000	$12,237,000	$125,169,000
Estimated Tax Difference Resulting from 4d Classification	($13,395,000)	($30,260,000)	($1,269,000)	($4,788,000)	($49,712,000)

4d Properties in TIF Districts

There are currently 375 parcels that are, in whole or in part, classified as 4d and located in a tax increment financing (TIF) district. This represents 11% of all 4d parcels. Approximately half of all counties have some 4d parcels located in a TIF district.

The 4d properties located in TIF districts paid approximately $13.4 million in TIF tax increment for payable year 2021. It is estimated that 4d properties would have paid an additional $10.3 million in tax increment if their classification was 4a apartments rather than 4d low-income rental housing. Of that additional $10.3 million in tax increment, 84% of it would be for properties located in the seven-county metropolitan area.

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Proposed Classification Rate Change

Impact on Local Tax Base

All 87 counties in Minnesota have 4d property. The class 4d net tax capacity (NTC) is less than 1% of the total tax base in 86 counties and is 1.2% in Ramsey County. However, 4d property represents more than 2% of the total tax base in 45 of the 405 cities that have 4d property.

Any changes to the class rate will impact the property's NTC (and tax burden). Lowering the 4d classification rate to 0.25% would reduce the net tax capacity, or tax base, assigned to 4d property. For example, a change in the 4d classification rate to a single tier rate of 0.25% would reduce statewide 4d net tax capacity by $35.5 million to $18.3 million. This would result in 4d NTC being reduced from 0.6% to 0.2% of total statewide NTC. These reductions in tax base would lower the share of property taxes paid by 4d property. In this scenario, all other property types, including homesteads, would pay a higher share of total property taxes in jurisdictions that contain 4d property.

The 405 cities with 4d property would all have reduced NTC from changing the classification rate to a flat 0.25%. Below is a chart showing the number of jurisdictions by range of NTC reduction.

Number of Jurisdictions with Net Tax Capacity Reduction – 0.25% Class Rate

Net Tax Capacity Reduction	Counties	Cities	Schools Districts
2.0% or more	0	17	0
1.5% - 2.0%	0	15	1
1.0% - 1.5%	1	43	4
0.5% - 1.0%	2	137	13
0.25% - 0.5%	17	120	58
0.01% - 0.25%	67	73	199
None	0	448	56

For a complete list of jurisdictions with an NTC reduction of greater than 1%, see Appendix D. TIF districts are not included in Appendix D, but in this scenario, total NTC in some TIF districts might also decrease by more than 1%.

Impact on Homestead Property Taxes

The impact of a potential change to the 4d class rate on property taxes paid by homesteaded properties would vary between communities. The property tax burden on individual homestead properties is dependent on several factors. Homesteaded properties located in jurisdictions with a high share of class 4d tax base would be impacted more than properties in jurisdictions with a small share of 4d tax base. The impact would also be dependent on each jurisdiction's mix of property tax base. For example, a jurisdiction with a higher share of business property than residential homestead property would see less of an impact on homestead taxes.

Tax Base and Homestead Tax Changes – 0.25% Class Rate

Payable Year 2021 Estimates	Class 4d Share of Tax Base at 0.75%/0.25% Class Rate	Change in Tax Base with Class 4d at 0.25% Class Rate	Average Dollar Change for Residential Homestead Net Property Tax	Average Percentage Change in Residential Homestead Net Property Tax
Statewide	0.62%	-0.41%	$17	0.52%
Metro Seven County	0.84%	-0.55%	$25	0.62%
Greater MN	0.31%	-0.21%	$8	0.31%

For tables showing the cities in the metropolitan area and Greater Minnesota with the largest tax base changes, see Appendix E.

Impact on Property Tax Refunds

Because lowering the class rate for 4d units would redistribute the property tax burden, such a change may impact property tax refunds for homeowners and renters.

- Property Tax Refund - Homesteads: Homeowners' refunds are based on the amount of property taxes paid by the owners of residential homesteads (including farm homesteads[5]). A higher share of property taxes paid by residential and farm homesteads is likely to change the amount some of those homeowners receive in property tax refunds. Based on the average homestead property tax burden change noted earlier, households meeting the qualifying income limits may receive an increase in their property tax refund for a portion of the increase in tax.
- Property Tax Refund - Renters: Renter property tax refunds are based on the amount of rent paid and are not tied directly to the amount of property tax paid by the property owner. With a potential 4d classification rate reduction leading to less property tax base, owners of 4d property would pay a lower share of property taxes. However, increases or decreases in property taxes do not have a direct effect on the monthly rent that is charged and may not affect property tax refunds for renters.

[5] Farm homesteads include the house, garage, and 1 acre of land.

Examples of Average Homestead Tax and Potential Property Tax Refund (PTR) Impacts

City of Blackduck (Highest Greater Minnesota Average Tax Increase)
Example Homestead
Household Income: $34,200
Homestead Property Tax: $1,269

	Property Tax Before PTR	PTR[5]	Property Tax After PTR
0.75%/0.25% 4d class rate	$1,269	$611	$658
0.25% 4d class rate	$1,320	$648	$672
$ Change in Property Tax	$51	-$37	$14
% Change in Property Tax	4.0%	-2.9%	1.1%

City of Lexington (Highest Metropolitan Area Average Tax Increase)
Example Homestead
Household Income: $57,000
Homestead Property Tax: $2,970

	Property Tax Before PTR	PTR[6]	Property Tax After PTR
0.75%/0.25% 4d class rate	$2,970	$1,332	$1,638
0.25% 4d class rate	$3,064	$1,397	$1,667
$ Change in Property Tax	$93	-$65	$28
% Change in Property Tax	3.1%	-2.2%	1.0%

[6] PTR based on 2020 M-1PR for taxes payable 2021, assumes 2 dependents.

City of St. Paul
Example Homestead
Household Income: $57,900
Homestead Property Tax: $3,902

	Property Tax Before PTR	PTR[7]	Property Tax After PTR
0.75%/0.25% 4d class rate	$3,902	$1,943	$1,959
0.25% 4d class rate	$3,968	$1,986	$1,982
$ Change in Property Tax	$66	-$43	$23
% Change in Property Tax	1.7%	-1.1%	0.6%

Profile of Income Limits and Area Median Incomes

Each year, the U.S. Department of Housing and Urban Development (HUD) publishes community specific income limits for the Public Housing and Section 8 Programs. MHFA uses these income limits to certify low-income housing to the county assessor. These income limits are used to define the terms "low-income," "very low-income," and "extremely low-income" in accordance with Section 3(b)(2) of the United States Housing Act of 1937, as amended:

- ***Low-income family*** is defined as those families whose incomes do not exceed 80% of the median family income for the area, subject to adjustments for areas with unusually high or low incomes or housing costs
- ***Very low-income family*** is defined as low-income families whose incomes do not exceed 50% of the median family income for the area, subject to specified adjustments for areas with unusually high or low incomes relative to housing costs
- ***Extremely low-income family*** is defined as a very low-income family whose income does not exceed the higher of the poverty guidelines as determined by the Department of Health and Human Services or 30% of the median family income for the area
- Income limits are adjusted for family size so that larger families have higher income limits:

Number of Persons in Family and Percentage Adjustments

1	2	3	4	5	6	7	8
70%	80%	90%	Base	108%	116%	124%	132%

[7] PTR based on 2020 M-1PR for taxes payable 2021, assumes 2 dependents.

HUD limits annual income limit decreases and increases based on changes in the national median family income. HUD Section 8 Income Limits begin with the calculation of median family incomes for each metropolitan area, parts of some metropolitan areas, and each non-metropolitan county. For a detailed explanation of the process and the 2021 breakdown for Minnesota, see Appendix F. Below are examples of 2021 income limits for each area.

Statewide example

FY 2021 State Income Limits

		---------- INCOME LIMITS ----------							
State	Program	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
Minnesota									
FY 2021 MFI: 93100	Extra Low-Income (30%)	19550	22350	25150	27950	30150	32400	34650	36850
	Very Low-Income (50%)	32600	37250	41900	46550	50250	54000	57700	61450
	Low-Income (80%)	52150	59600	67050	74500	80450	86400	92350	98300

Non-metro county example

FY 2021 State Income Limits

Swift County, MN	Program	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
		---------- INCOME LIMITS	----------						
FY 2021 MFI: 67800	Extra Low-Income (30%)	15650	17900	21960	26500	31040	35580	40120	44660
	Very Low-Income (50%)	26100	29800	33550	37250	40250	43250	46200	49200
	Low-Income (80%)	41750	47700	53650	59600	64400	69150	73950	78700

Metro counties example

FY 2021 State Income Limits

Minneapolis – St. Paul – Bloomington, MN-WI HMFA	Program	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
		---------- INCOME LIMITS	----------						
FY 2021 MFI: 104900	Extra Low-Income (30%)	22050	25200	28350	31450	34000	36500	40120	44660
	Very Low-Income (50%)	36750	42000	47250	52450	56650	60850	65050	69250
	Low-Income (80%)	55950	63950	71950	79900	86300	92700	99100	105500

Conclusion

We look forward to continued discussions around the classification and taxation of 4d low-income rental housing in Minnesota. We believe that any modifications to classification should also address assessment concerns so that qualifying properties are taxed accurately. We are committed to maintaining communication between stakeholders and administrators to ensure accurate administration of the law.

Appendix A – Historical Timeline of Class 4d

The 4d classification was first introduced in 1997. In the years since, the definition of qualifying properties and the associated classification rate has changed multiple times. The 4d classification was also eliminated for several assessment years during this timeframe.

Timeline

Assessment Years 2005 to 2013
Reinstated Qualifying low-income properties – Classification rate of 0.75%

Assessment Years 2014 to 2021

The legislature created a tiered valuation for 4d properties assigned to individual housing units. It was first effective for the 2014 assessment with recalculation beginning in 2015.

- The first-tier limit was $100,000 for assessment year 2014, with a classification rate of 0.75%
- A classification rate of 0.25% was applied to valuation above the first-tier limit
- The first-tier valuation limit for each unit of class 4d low income rental housing property was adjusted annually by the average statewide change in estimated market value of property classified as class 4a apartments and 4d low income rental housing, excluding valuation change due to new construction
- The limit may never be less than $100,000
- Beginning with assessment year 2015, the commissioner of revenue must certify the limit for each assessment year by November 1 of the previous year

Assessment Years 2022 and 2023

Minnesota Session Laws 2021, 1st Special Session, Chapter 14, article 6, section 7 reset the first-tier value to $100,000. That level will remain unchanged for assessment years 2022 and 2023. The Department of Revenue will begin to make valuation increases mandated by statute for assessment year 2024.

Appendix B - Number of Class 4d Units by County for Assessment 2020

County	Project-Based Section 8 Units	Section 42 Low Income Housing Tax Credit Units	U.S. Department of Agriculture Rural Housing Rental Assistance Units	Other Units with U.S., Minnesota, or Local Financing with Recorded Income and Rent Restrictions	Total Number of Units Receiving the Low Income Rental Classification (4d)	Non-4d Units in Properties Classified in Part as 4d
Aitkin	72	11	15	0	98	2
Anoka	1,080	2,190	30	99	3,399	268
Becker	172	148	64	0	384	58
Beltrami	251	201	73	0	525	69
Benton	367	197	40	40	644	27
Big Stone	12	0	29	0	41	37
Blue Earth	443	373	73	0	889	138
Brown	162	92	51	10	315	155
Carlton	162	44	25	0	231	8
Carver	145	452	133	0	730	81
Cass	61	69	44	0	174	10
Chippewa	109	23	41	0	173	29
Chisago	150	149	153	0	452	49
Clay	246	224	12	58	540	25
Clearwater	30	0	22	0	52	2
Cook	31	0	35	23	89	6
Cottonwood	48	52	30	0	130	18
Crow Wing	161	301	98	0	560	85
Dakota	863	1,187	27	224	2,301	1,114
Dodge	97	24	53	15	189	35
Douglas	213	125	65	0	403	51
Faribault	73	0	32	0	105	12
Fillmore	149	20	70	0	239	15
Freeborn	174	215	65	0	454	15
Goodhue	311	219	160	10	700	107
Grant	0	0	8	0	8	8
Hennepin	7,122	13,458	25	4,298	24,903	3,872
Houston	118	0	28	0	146	7
Hubbard	187	64	16	0	267	1
Isanti	102	238	53	0	393	23

County	Project-Based Section 8 Units	Section 42 Low Income Housing Tax Credit Units	U.S. Department of Agriculture Rural Housing Rental Assistance Units	Other Units with U.S., Minnesota, or Local Financing with Recorded Income and Rent Restrictions	Total Number of Units Receiving the Low Income Rental Classification (4d)	Non-4d Units in Properties Classified in Part 4d
Itasca	224	317	73	0	614	30
Jackson	48	39	0	0	87	15
Kanabec	99	83	19	0	201	5
Kandiyohi	163	290	262	0	715	104
Kittson	85	0	0	0	85	0
Koochiching	175	0	39	0	214	58
Lac qui Parle	60	0	0	0	60	0
Lake	81	0	0	0	81	0
Lake of the Woods	32	19	0	0	51	1
Le Sueur	141	0	68	16	225	67
Lincoln	16	0	13	0	29	7
Lyon	192	104	108	0	404	88
McLeod	218	62	109	0	389	86
Mahnomen	30	43	11	0	84	8
Marshall	0	12	0	0	12	0
Martin	71	35	92	0	198	71
Meeker	74	0	38	0	112	8
Mille Lacs	261	121	116	0	498	35
Morrison	311	163	72	0	546	27
Mower	84	172	0	0	256	58
Murray	72	0	8	0	80	4
Nicollet	71	359	51	7	488	86
Nobles	122	207	99	0	428	49
Norman	60	0	0	0	60	0
Olmsted	1,043	1,518	56	148	2,765	189
Otter Tail	412	79	131	0	622	73
Pennington	66	189	0	0	255	2
Pine	166	133	55	0	354	20
Pipestone	53	20	0	0	73	0
Polk	136	137	109	0	382	55
Pope	84	0	12	0	96	4
Ramsey	3,802	8,437	0	1,971	14,210	2,179

County	Project-Based Section 8 Units	Section 42 Low Income Housing Tax Credit Units	U.S. Department of Agriculture Rural Housing Rental Assistance Units	Other Units with U.S., Minnesota, or Local Financing with Recorded Income and Rent Restrictions	Total Number of Units Receiving the Low Income Rental Classification (4d)	Non-4d Units in Properties Classified in Part 4d
Red Lake	16	0	0	0	16	0
Redwood	68	75	40	0	183	35
Renville	74	8	39	0	121	30
Rice	525	281	131	26	963	349
Rock	78	23	14	0	115	3
Roseau	100	74	18	0	192	86
St. Louis	2,115	1,150	0	24	3,289	521
Scott	425	811	62	65	1,363	165
Sherburne	133	792	92	74	1,091	25
Sibley	122	0	30	0	152	2
Stearns	575	782	311	40	1,708	149
Steele	299	122	81	0	502	140
Stevens	80	24	34	0	138	41
Swift	77	40	30	0	147	10
Todd	131	17	40	0	188	19
Traverse	24	0	6	0	30	6
Wabasha	88	20	0	0	108	0
Wadena	98	75	39	0	212	3
Waseca	48	109	83	0	240	50
Washington	705	2,176	0	50	2,931	421
Watonwan	40	0	13	0	53	3
Wilkin	68	12	15	0	95	1
Winona	87	270	60	20	437	52
Wright	376	683	255	10	1,324	204
Yellow Medicine	54	0	8	0	62	8
Statewide Total Units	27,969	40,159	4,512	7,228	79,868	11,977

Note: Detailed property information is available on the Minnesota Housing Finance Agency website.

Appendix C – 4a vs. 4d Property Tax Comparison

Residences of 4 or more units (such as apartment buildings or multi-family homes) are generally classified as 4a apartment, unless some units qualify as low-income rental housing and are classified as 4d.

Class 4d property has a lower class rate than 4a property, which reduces the tax burden on 4d property.

4a properties have a classification rate of 1.25% on the entire property.

For example, a $1,000,000 apartment building has a net tax capacity of $12,500.

$1,000,000 x 1.25% = $12,500

4d properties have a class rate by unit (rather than the entire property). The class rate is 0.75% on the first $174,000 value, then a reduced rate of 0.25% on the value above $174,000

Assume a low-income housing property is also valued at $1,000,000 – comprised of four units, each valued at $250,000

$174,000 x 0.75% = $1,305

($250,000 - $174,000 = $76,000 remaining value at second tier)

$76,000 x 0.25% = $190

$1,305 + $190 = $1,495 net tax capacity per unit

Each unit's net tax capacity of $1,495 means the entire building's net tax capacity is $5,980.

$1,495 x 4 units = $5,980

The traditional class 4a apartment has a net tax capacity of $12,500 on a total $1 million value, while the property classified entirely as 4d low income rental housing has a significantly reduced net tax capacity of $5,980 on its $1 million value.

One of the challenges with this type of classification system is that the apartment building is valued as a whole, while units qualifying for 4d are valued separately from the rest of the building, and individually from each other.

Appendix D - Jurisdictions with an NTC Reduction of Greater than 1.0%

Proposed Class 4d Classification Rate of 0.25%

Cities

County	City	NTC Reduction
Anoka	Lexington	-6.7%
Beltrami	Blackduck	-6.7%
Mille Lacs	Onamia	-3.5%
Koochiching	Big Falls	-3.4%
Kanabec	Ogilvie	-2.9%
Crow Wing	Ironton	-2.8%
Anoka	Spring Lake Park	-2.8%
Pine	Askov	-2.7%
St. Louis	Meadowlands	-2.6%
Itasca	Bigfork	-2.5%
Anoka	Columbia Heights	-2.5%
Pine	Sandstone	-2.2%
Todd	Bertha	-2.2%
Koochiching	Northome	-2.2%
Beltrami	Kelliher	-2.1%
Traverse	Browns Valley	-2.0%
Mille Lacs	Milaca	-2.0%
St. Louis	Floodwood	-2.0%
Cass	Remer	-2.0%
Morrison	Motley	-1.9%
Otter Tail	Deer Creek	-1.9%
Ramsey	St. Paul	-1.9%
Otter Tail	Pelican Rapids	-1.8%
Wadena	Sebeka	-1.7%
Otter Tail	New York Mills	-1.6%
Wright	Cokato	-1.6%
Nicollet	St. Peter	-1.6%
Polk	Winger	-1.6%
Todd	Grey Eagle	-1.6%
Kanabec	Mora	-1.6%
Stevens	Chokio	-1.5%
Polk	Crookston	-1.5%
Fillmore	Rushford	-1.5%
Houston	Caledonia	-1.5%
Wright	Annandale	-1.5%
Ramsey	North St. Paul	-1.4%
Kittson	Lancaster	-1.4%
Itasca	Keewatin	-1.4%
Washington	Oakdale	-1.4%
Meeker	Watkins	-1.4%
Hubbard	Park Rapids	-1.4%
Isanti	Braham	-1.4%
Carlton	Kettle River	-1.3%
Polk	Fisher	-1.3%
Wadena	Menahga	-1.3%
Nobles	Round Lake	-1.3%
Pine	Hinckley	-1.3%
Meeker	Grove City	-1.3%
Cass	Pine River	-1.3%
Clearwater	Clearbrook	-1.3%
Cass	Cass Lake	-1.2%
Hennepin	St. Anthony	-1.2%
St. Louis	Aurora	-1.2%
Morrison	Randall	-1.2%
Washington	Newport	-1.2%
Itasca	Marble	-1.2%
Waseca	Waldorf	-1.1%
Chisago	Rush City	-1.1%
Mahnomen	Waubun	-1.1%
Nobles	Worthington	-1.1%
Kittson	Karlstad	-1.1%
Kandiyohi	Lake Lillian	-1.1%
Houston	Spring Grove	-1.1%
Stearns	Albany	-1.1%
Roseau	Warroad	-1.1%
Kandiyohi	Raymond	-1.1%
Hennepin	New Hope	-1.1%
Roseau	Roseau	-1.1%
Hennepin	Brooklyn Center	-1.1%
Benton	Foley	-1.1%
Brown	Comfrey	-1.1%
Renville	Renville	-1.0%
Pennington	Thief River Falls	-1.0%
Hennepin	Minneapolis	-1.0%
Hennepin	Robbinsdale	-1.0%

School Districts

School District	NTC Reduction
St. Paul	-1.7%
Columbia Heights	-1.5%
North St. Paul-Maplewood	-1.1%
St. Anthony-New Brighton	-1.1%
Minneapolis	-1.0%

Counties

County	NTC Reduction
Ramsey	-1.2%

Appendix E – Cities with Largest Tax Base Changes

Proposed Class 4d Classification Rate of 0.25%

Metropolitan Cities

Payable Year 2021 Estimates	Class 4d Share of Tax Base at 0.75%/0.25% Class Rate	Change in Tax Base with Class 4d at 0.25% Class Rate	Average Dollar Change for Residential Homestead Net Property Tax	Average Percentage Change in Residential Homestead Net Property Tax
Lexington	10.11%	-6.74%	$93	3.14%
Spring Lake Park	4.18%	-2.79%	$41	1.51%
Columbia Heights	3.95%	-2.48%	$58	2.11%
St. Paul	2.89%	-1.89%	$66	1.70%
North St. Paul	2.13%	-1.42%	$46	1.40%
Oakdale	2.08%	-1.39%	$35	1.20%
St. Anthony	1.92%	-1.20%	$64	1.28%
Newport	1.76%	-1.17%	$24	0.64%
New Hope	1.64%	-1.09%	$37	0.99%
Brooklyn Center	1.63%	-1.09%	$29	0.96%
Minneapolis	1.56%	-1.03%	$45	1.01%
Robbinsdale	1.53%	-1.02%	$27	0.88%

Greater Minnesota Cities

Payable Year 2021 Estimates	Class 4d Share of Tax Base at 0.75%	Change in Tax Base with Class 4d at 0.25%	Average Dollar Change for Residential Homestead Net Property Tax	Average Percentage Change in Resential Homestead Net Property Tax
Blackduck	10.06%	-6.70%	$51	4.05%
Onamia	5.24%	-3.50%	$27	1.76%
Big Falls	5.16%	-3.44%	$6	1.55%
Ogilvie	4.41%	-2.94%	$15	1.18%
Ironton	4.25%	-2.83%	$25	2.72%
Askov	4.00%	-2.67%	$19	1.51%
Meadowlands	3.91%	-2.60%	$9	2.10%
Bigfork	3.73%	-2.49%	$11	1.23%
Sandstone	3.34%	-2.22%	$17	1.09%
Bertha	3.33%	-2.22%	$12	1.16%
Northome	3.31%	-2.20%	$9	1.19%
Kelliher	3.11%	-2.07%	$6	0.64%
Browns Valley	3.01%	-2.00%	$15	1.62%
Milaca	3.00%	-2.00%	$21	0.94%

Appendix F – U.S. Department of Housing and Urban Development Income Limits for Fiscal Year 2021

U. S. Department of Housing and Urban Development

Special Attention of:

Regional Directors, Field Office Directors,
Economists, Public & Indian Housing
Division Directors, Multifamily Hub Directors,
Multifamily Program Center Directors

NOTICE PRD-2021-02

Issued: April 1, 2021
Expires: Effective until superseded

Cross References:

Subject: Transmittal of Fiscal Year (FY) 2021 Income Limits for the Public Housing and Section 8 Programs

This notice transmits income limits used to define the terms "very low-income", "low-income" and "extremely low-income" in accordance with Section 3(b)(2) of the United States Housing Act of 1937, as amended. These income limits are listed by dollar amount and family size, and they are effective on the later of April 1, 2021 or the date issued.

Since FY 2010[8] HUD has limited all annual income limit decreases to five percent and all annual increases to the greater of five percent or twice the change in the national median family income. HUD has maintained these limits to increases and decreases in income limits for FY 2021. HUD has maintained these limits to increases and decreases in income limits for FY 2021. The national median family income for the United States for FY 2021 is $79,900, an increase of almost two percent over the national median family income of $78,500 in FY 2020. Twice this change is 3.6 percent which is less than five percent, so for FY 2021 income limits the cap is five percent.

HUD Section 8 Income Limits begin with the calculation of median family incomes for each area. HUD uses the Section 8 program's Fair Market Rent (FMR) area definitions in developing medians, which means that median family incomes are developed for each metropolitan area, parts of some metropolitan areas, and each nonmetropolitan county. For FY 2021, the geographic definitions incorporate all changes published by the Office of Management and Budget through the April 10, 2018

[8] Prior to FY 2010, HUD maintained a "hold harmless" policy, whereby Section 8 income limits for certain areas were held at previously published levels when reductions would otherwise have resulted from changes in housing cost, median income, or income limit methodologies, or changes in metropolitan area definitions.

bulletin. A new metropolitan area was formed in 2018, Twin Falls, ID MSA, which means that the two nonmetropolitan counties in this MSA (Jerome County and Twin Falls County) are now metropolitan counties and identified by HUD as HUD Metro FMR Areas (HMFAs). HUD Section 8 Income Limits are calculated for every FMR area with adjustments for family size and for areas that have unusually high or low income-to-housing-cost relationships.

HUD uses the 2018 American Community Survey (ACS) and Puerto Rico Community Survey (PRCS) median family income data (as opposed to household income data) as the basis of FY 2021 Income Limits for all areas of geography, except for the U.S. Virgin Islands and Guam, American Samoa, and the Northern Marianas (the Pacific Islands). HUD uses the Consumer Price Index (CPI) forecast published by the Congressional Budget Office (CBO) in February 2021 to bring the ACS and PRCS data forward from mid-2018 to the mid-point of the fiscal year, April 2021. HUD bases the median family incomes and income limits for the U.S. Virgin Islands and the Pacific Islands on 2010 Decennial Census data which is the most current information available. The decennial data for the U.S. Virgin Islands and the Pacific Islands reports 2009 median family incomes. HUD trends these incomes forward using the change in national median family incomes between 2009 and 2018 (from the ACS). HUD then applies the same CBO forecast from 2018 to the mid-point of the fiscal year, April 2021.

Last year HUD discussed considering a change that would replace the CBO forecast with the economic forecast of the Office of Management and Budget (OMB), beginning with the calculation of the FY 2021 Medians. This OMB forecast would have matched the economic assumptions used in the calculation of HUD median family income estimates with assumptions used in the formulation of the Administration's Budget and with the economic assumptions used in the calculation of Fair Market Rents (FMRs). However, HUD did not use the OMB economic assumptions in the calculation of the FY 2021 FMRs in the summer of 2020. HUD used CBO forecast assumptions because they were based on more recent economic data that measured early economic impacts of the pandemic. HUD will still consider using OMB forecasts instead of CBO next year.

Public Housing/Section 8 Income Limits are used to determine the income eligibility of applicants for Public Housing, Section 8, and other programs subject to 42 USC 1437a(b)(2). The income limits are calculated from the HUD medians for FY 2021.

The most important statutory provisions relating to income limits are as follows:

- <u>very low-income</u> family is defined as low-income families whose incomes do not exceed 50 percent of the median family income for the area, subject to specified adjustments for areas with unusually high or low incomes relative to housing costs;

- <u>low-income family</u> is defined as those families whose incomes do not exceed 80 percent of the median family income for the area, subject to adjustments for areas with unusually high or low incomes or housing costs;

- <u>extremely low-income family</u> is defined as a very low-income family whose income does not exceed the higher of the poverty guidelines as determined by the Department of Health and Human Services or 30 percent of the median family income for the area;

- where the area income limit is less than those derived from the state nonmetropolitan median, income limits are based on the state nonmetropolitan median; and,

- income limits are adjusted for family size so that larger families have higher income limits.

Very Low-Income Limits:

HUD calculates very low-income limits using a set of formulae as follows. The first step in calculating very low-income limits is to determine what they would be if the four-person limit is based on 50 percent of the median family income. HUD then makes adjustments if this number is outside formula constraints.

More specifically, HUD calculates the very low-income limit for a four-person family as follows:

(1) HUD calculates and sets 50 percent of the area median family income as the preliminary four-person family income limit;

(2) HUD increases the four-person very low-income limit if it would otherwise be less than the amount at which 35 percent of it equals 85 percent of the annualized two-bedroom FMR. This adjusts income limits upward for areas where rental housing costs are unusually high in relation to the median family income;

(3) HUD reduces the four-person very low-income limit to the greater of 80 percent of the U.S. median family income level, or the amount at which 30 percent of a four-person family's income equals 100 percent of the two-bedroom FMR. This adjusts income limits downward for areas with unusually high median family income;

(4) HUD increases the four-person income limit if it is less than 50 percent of the relevant state nonmetropolitan median family income level;[9] and,

(5) HUD raises any four-person income limit that has declined by more than five percent to five percent below last year's income limit and reduces any income limit that has increased more than five percent to an increase of five percent over last year's income limit, the remainder of this decrease/increase to be implemented next year if the underlying data warrant. In any year that twice the national change in median family incomes is greater than five percent, limits will be allowed to increase up to that level if so warranted by the local data. For FY 2021 income limits, twice the increase in the national median income compared to the FY 2020 median income is 3.6 percent, so the cap on increases is set at five percent.

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[9] Under a Housing and Community Development Act of 1987 amendment, nonmetropolitan area income limits should never be set lower than the State nonmetropolitan median family income level. In implementing this provision, HUD used its discretion to apply this policy to metropolitan areas as well. Doing so avoids the anomaly of assigning higher income limits to a nonmetropolitan county than are assigned to a metropolitan area where the median family income is less than the State non-metro level but above the level for the non-metro county.

Low-Income Limits:

Most four-person low-income limits are the greater of 80 percent of the median family income, or 80 percent of the state nonmetropolitan median family income. Because HUD does not always base the very low-income limits on 50 percent of median, however, calculating low-income limits as 80 percent of median would produce anomalies inconsistent with statutory intent (e.g., very low-income limits could be higher than low-income limits). To eliminate this problem, HUD's normal calculation is to set the four-person low-income limit at 1.6 (i.e., 80 percent/50 percent) times the relevant four-person very low-income limit. The two exceptions to this practice are that the four-person low-income limit may not exceed the U.S. median family income ($79,900 for FY 2021) except when justified by high housing costs; and once adjusted, HUD limits decreases in the four-person low-income limit to five percent, and caps increases at the greater of five percent or twice the national change in median income (which is 3.6 percent for FY 2021). Use of very low-income limits as a starting point for calculating other income limits has the effect of adjusting low-income limits in areas where the very low-income limits have been adjusted because of unusually high or low housing-cost-to-income relationships.

Extremely Low-Income Limits:

The Consolidated Appropriations Act, 2014, amended Sec. 238. (a) Section 3(b) of the United States Housing Act of 1937 (42 U.S.C. 1437a) as follows:

> *(C) The term extremely low-income families means very low-income families whose incomes do not exceed the higher of—*
>
> *(i) The poverty guidelines updated periodically by the Department of Health and Human Services under the authority of section 673(2) of the Community Services Block Grant Act applicable to a family of the size involved (except that this clause shall not apply in the case of public housing agencies or projects located in Puerto Rico or any other territory or possession of the United States); or*
>
> *(ii) 30 percent of the median family income for the area, as determined by the Secretary, with adjustments for smaller and larger families (except that the Secretary may establish income ceilings higher or lower than 30 percent of the median for the area on the basis of the Secretary's finding that such variations are necessary because of unusually high or low family incomes).*

HUD calculated the extremely low-income limits for all areas in the U.S. using the 2021 Poverty Guidelines for the 48 contiguous states and the District of Columbia (Lower-48 States), for Alaska and for Hawaii. These poverty guidelines were available on their website on January 13, 2021 and published in the Federal Register by HHS on February 1, 2021. HUD first calculates extremely low-income limits as 30/50ths (60 percent) of the Section 8 very low-income limits. HUD then compares these to the appropriate poverty guideline and if the poverty guideline is higher, HUD choses that value. If the poverty guideline is above the very low-income limit at that family size, the extremely low-income limit is set at the very low-income limit because the definition of extremely low-income limits caps them at the very low-income levels.

Family Size Adjustments:

By statute, family size adjustments are required to provide higher income limits for larger families and lower income limits for smaller families. HUD applies the factors shown below to the very low-income limits and the low-income limits, but not the extremely low-income limits set at the poverty income threshold, as follows:

Number of Persons in Family and Percentage Adjustments

1	2	3	4	5	6	7	8
70%	80%	90%	Base	108%	116%	124%	132%

HUD does not include income limits for families with more than eight persons in the printed lists because of space limitations. For each person over eight-persons, the four-person income limit should be multiplied by an additional eight percent. (For example, the nine-person limit equals 140 percent [132 + 8] of the relevant four-person income limit.) Income limits are rounded up to the nearest $50. Local agencies may round income limits for nine or more persons to the nearest $50, or they may use the un-rounded numbers. HUD does not re-test family size-adjusted income limits for compliance with the cap and floor policy. Rounding anomalies produce some family size-adjusted income limits whose annual change is slightly larger or smaller than the five percent change in the floor and the five percent change in the cap allowed for FY 2021.

Due to the extremely low-income definition changes, these family size adjustments are no longer sufficient to determine the level of extremely low-income limits. The poverty guidelines have fixed dollar amount adjustments between household sizes (different for Alaska and Hawaii than the rest of the U.S.). Therefore, the actual amounts shown for 1- to 8-person families will not necessarily follow the percentages shown above. For families with more than eight persons, HUD has developed a tool that should be used to calculate the extremely low-income limit for that area at https://www.huduser.gov/portal/datasets/il.html. Please use the FY 2021 Income Limits Documentation system, pick the area in question, and select “Click Here” under the label “Extremely Low-Income Limits.” Near the bottom of the explanations, there is a drop-down box to select the number of household members needed (from 9 to 20).

FY 2021 income limits are available in multiple formats and available at **https://www.huduser.gov/portal/datasets/il.html**. Questions related to how these income limits apply to the programs of state and other federal agencies should be referred to those agencies. Questions concerning the methodology used to develop these income limits are addressed in the FY 2021 Income Limits Methodology, or the documentation system for income limits and median family income, which are on the income limits website.

Lopa P. Kolluri
Principal Deputy Assistant Secretary
for Housing, H

Dominique G. Blom
General Deputy Assistant Secretary for
Public and Indian Housing, P

Available online at: https://www.huduser.gov/portal/datasets/il/il21/HUD-sec8-FY21.pdf

STATE: MINNESOTA	PROGRAM	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON
		----------------------------SECTION 8 INCOME LIMITS----------------------------							
Duluth, MN-WI MSA									
FY 2021 MFI: 76300	EXTR LOW INCOME	16050	18350	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26750	30550	34350	38150	41250	44300	47350	50400
	LOW-INCOME	42750	48850	54950	61050	65950	70850	75750	80600
Fargo, ND-MN MSA									
FY 2021 MFI: 91300	EXTR LOW INCOME	19200	21950	24700	27400	31040	35580	40120	44660
	VERY LOW INCOME	32000	36550	41100	45650	49350	53000	56650	60300
	LOW-INCOME	51150	58450	65750	73050	78900	84750	90600	96450
Grand Forks, ND-MN MSA									
FY 2021 MFI: 80000	EXTR LOW INCOME	18050	20600	23200	26500	31040	35580	40120	44660
	VERY LOW INCOME	30050	34350	38650	42900	46350	49800	53200	56650
	LOW-INCOME	48100	54950	61800	68650	74150	79650	85150	90650
La Crosse-Onalaska, WI-MN MSA									
FY 2021 MFI: 85100	EXTR LOW INCOME	16950	19400	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	28250	32250	36300	40300	43550	46750	50000	53200
	LOW-INCOME	45150	51600	58050	64500	69700	74850	80000	85150
Mankato-North Mankato, MN MSA									
FY 2021 MFI: 80300	EXTR LOW INCOME	16950	19350	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	28200	32200	36250	40250	43500	46700	49950	53150
	LOW-INCOME	45100	51550	58000	64400	69600	74750	79900	85050
Minneapolis-St. Paul-Bloomington, MN-WI									
Le Sueur County, MN HMFA									
FY 2021 MFI: 86700	EXTR LOW INCOME	18200	20800	23400	26500	31040	35580	40120	44660
	VERY LOW INCOME	30350	34700	39050	43350	46850	50300	53800	57250
	LOW-INCOME	48550	55500	62450	69350	74900	80450	86000	91550
Mille Lacs County, MN HMFA									
FY 2021 MFI: 65100	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Minneapolis-St. Paul-Bloomington, MN-WI HMFA									
FY 2021 MFI: 104900	EXTR LOW INCOME	22050	25200	28350	31450	34000	36500	40120	44660
	VERY LOW INCOME	36750	42000	47250	52450	56650	60850	65050	69250
	LOW-INCOME	55950	63950	71950	79900	86300	92700	99100	105500
Sibley County, MN HMFA									
FY 2021 MFI: 77500	EXTR LOW INCOME	16300	18600	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	27150	31000	34900	38750	41850	44950	48050	51150
	LOW-INCOME	43400	49600	55800	62000	67000	71950	76900	81850
Rochester, MN MSA									
Fillmore County, MN HMFA									
FY 2021 MFI: 78000	EXTR LOW INCOME	16400	18750	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	27300	31200	35100	39000	42150	45250	48400	51500
	LOW-INCOME	43700	49950	56200	62400	67400	72400	77400	82400
Rochester, MN HMFA									
FY 2021 MFI: 99700	EXTR LOW INCOME	20950	23950	26950	29900	32300	35580	40120	44660
	VERY LOW INCOME	34900	39900	44900	49850	53850	57850	61850	65850
	LOW-INCOME	55850	63800	71800	79750	86150	92550	98900	105300

STATE: MINNESOTA		---------------------------SECTION 8 INCOME LIMITS---------------------------							
	PROGRAM	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON
Wabasha County, MN HMFA									
FY 2021 MFI: 81200	EXTR LOW INCOME	17050	19500	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	28450	32500	36550	40600	43850	47100	50350	53600
	LOW-INCOME	45500	52000	58500	64950	70150	75350	80550	85750
St. Cloud, MN MSA									
FY 2021 MFI: 79000	EXTR LOW INCOME	16600	19000	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	27650	31600	35550	39500	42700	45850	49000	52150
	LOW-INCOME	44250	50600	56900	63200	68300	73350	78400	83450
Aitkin County, MN									
FY 2021 MFI: 58800	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Becker County, MN									
FY 2021 MFI: 74500	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Beltrami County, MN									
FY 2021 MFI: 62400	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Big Stone County, MN									
FY 2021 MFI: 72900	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Brown County, MN									
FY 2021 MFI: 78900	EXTR LOW INCOME	16600	18950	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	27650	31600	35550	39450	42650	45800	48950	52100
	LOW-INCOME	44200	50500	56800	63100	68150	73200	78250	83300
Cass County, MN									
FY 2021 MFI: 62500	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Chippewa County, MN									
FY 2021 MFI: 72800	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Clearwater County, MN									
FY 2021 MFI: 63500	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Cook County, MN									
FY 2021 MFI: 67600	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700

STATE: MINNESOTA	PROGRAM	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON
		---------------------------SECTION 8 INCOME LIMITS---------------------------							
Cottonwood County, MN									
FY 2021 MFI: 69500	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Crow Wing County, MN FY 2021 MFI: 70800	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Douglas County, MN									
FY 2021 MFI: 80100	EXTR LOW INCOME	16850	19250	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	28050	32050	36050	40050	43300	46500	49700	52900
	LOW-INCOME	44900	51300	57700	64100	69250	74400	79500	84650
Faribault County, MN									
FY 2021 MFI: 70800	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Freeborn County, MN									
FY 2021 MFI: 65600	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Goodhue County, MN									
FY 2021 MFI: 87600	EXTR LOW INCOME	18450	21050	23700	26500	31040	35580	40120	44660
	VERY LOW INCOME	30700	35050	39450	43800	47350	50850	54350	57850
	LOW-INCOME	49100	56100	63100	70100	75750	81350	86950	92550
Grant County, MN									
FY 2021 MFI: 68400	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Hubbard County, MN									
FY 2021 MFI: 69700	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Itasca County, MN									
FY 2021 MFI: 67900	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Jackson County, MN									
FY 2021 MFI: 76300	EXTR LOW INCOME	16050	18350	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26750	30550	34350	38150	41250	44300	47350	50400
	LOW-INCOME	42750	48850	54950	61050	65950	70850	75750	80600
Kanabec County, MN									
FY 2021 MFI: 67100	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700

STATE: MINNESOTA		----------------------------S E C T I O N 8 I N C O M E L I M I T S----------------------------							
	PROGRAM	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON
Kandiyohi County, MN									
FY 2021 MFI: 75200	EXTR LOW INCOME	15800	18050	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26350	30100	33850	37600	40650	43650	46650	49650
	LOW-INCOME	42150	48150	54150	60150	65000	69800	74600	79400
Kittson County, MN									
FY 2021 MFI: 74700	EXTR LOW INCOME	15700	17950	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26150	29900	33650	37350	40350	43350	46350	49350
	LOW-INCOME	41850	47800	53800	59750	64550	69350	74100	78900
Koochiching County, MN									
FY 2021 MFI: 66900	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Lac qui Parle County, MN									
FY 2021 MFI: 67800	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Lake County, MN									
FY 2021 MFI: 72500	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Lake of the Woods County, MN									
FY 2021 MFI: 68700	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Lincoln County, MN									
FY 2021 MFI: 69700	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Lyon County, MN									
FY 2021 MFI: 76700	EXTR LOW INCOME	16100	18400	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26850	30700	34550	38350	41450	44500	47600	50650
	LOW-INCOME	42950	49100	55250	61350	66300	71200	76100	81000
Mahnomen County, MN									
FY 2021 MFI: 56400	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Marshall County, MN									
FY 2021 MFI: 77400	EXTR LOW INCOME	16250	18600	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	27100	31000	34850	38700	41800	44900	48000	51100
	LOW-INCOME	43350	49550	55750	61900	66900	71850	76800	81750
Martin County, MN									
FY 2021 MFI: 71800	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700

STATE: MINNESOTA ---------------------------**S E C T I O N 8 I N C O M E L I M I T S**---------------------------

	PROGRAM	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON
McLeod County, MN									
FY 2021 MFI: 80900	EXTR LOW INCOME	16850	19250	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	28100	32100	36100	40100	43350	46550	49750	52950
	LOW-INCOME	44950	51350	57750	64150	69300	74450	79550	84700
Meeker County, MN									
FY 2021 MFI: 78600	EXTR LOW INCOME	16550	18900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	27550	31450	35400	39300	42450	45600	48750	51900
	LOW-INCOME	44050	50350	56650	62900	67950	73000	78000	83050
Morrison County, MN									
FY 2021 MFI: 71000	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Mower County, MN									
FY 2021 MFI: 73300	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Murray County, MN									
FY 2021 MFI: 79400	EXTR LOW INCOME	16700	19050	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	27800	31800	35750	39700	42900	46100	49250	52450
	LOW-INCOME	44450	50800	57150	63500	68600	73700	78750	83850
Nobles County, MN									
FY 2021 MFI: 67600	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Norman County, MN									
FY 2021 MFI: 71000	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Otter Tail County, MN									
FY 2021 MFI: 73800	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Pennington County, MN									
FY 2021 MFI: 77400	EXTR LOW INCOME	16150	18450	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26950	30800	34650	38450	41550	44650	47700	50800
	LOW-INCOME	43050	49200	55350	61500	66450	71350	76300	81200
Pine County, MN									
FY 2021 MFI: 63400	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Pipestone County, MN									
FY 2021 MFI: 68500	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660

	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700

STATE: MINNESOTA ---------------------------**S E C T I O N 8 I N C O M E L I M I T S**---------------------------

	PROGRAM	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON
Pope County, MN									
FY 2021 MFI: 77500	EXTR LOW INCOME	16300	18600	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	27150	31000	34900	38750	41850	44950	48050	51150
	LOW-INCOME	43400	49600	55800	62000	67000	71950	76900	81850
Red Lake County, MN									
FY 2021 MFI: 81500	EXTR LOW INCOME	17100	19550	22000	26500	31040	35580	40120	44660
	VERY LOW INCOME	28500	32550	36600	40650	43950	47200	50450	53700
	LOW-INCOME	45550	52050	58550	65050	70300	75500	80700	85900
Redwood County, MN									
FY 2021 MFI: 68800	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Renville County, MN									
FY 2021 MFI: 74800	EXTR LOW INCOME	15750	18000	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26200	29950	33700	37400	40400	43400	46400	49400
	LOW-INCOME	41900	47900	53900	59850	64650	69450	74250	79050
Rice County, MN									
FY 2021 MFI: 90200	EXTR LOW INCOME	18200	20800	23400	26500	31040	35580	40120	44660
	VERY LOW INCOME	30300	34600	38950	43250	46750	50200	53650	57100
	LOW-INCOME	48450	55350	62250	69150	74700	80250	85750	91300
Rock County, MN									
FY 2021 MFI: 71800	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Roseau County, MN									
FY 2021 MFI: 75400	EXTR LOW INCOME	15850	18100	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26400	30200	33950	37700	40750	43750	46750	49800
	LOW-INCOME	42250	48250	54300	60300	65150	69950	74800	79600
Steele County, MN									
FY 2021 MFI: 83600	EXTR LOW INCOME	17600	20100	22600	26500	31040	35580	40120	44660
	VERY LOW INCOME	29300	33450	37650	41800	45150	48500	51850	55200
	LOW-INCOME	46850	53550	60250	66900	72300	77650	83000	88350
Stevens County, MN									
FY 2021 MFI: 83400	EXTR LOW INCOME	17500	20000	22500	26500	31040	35580	40120	44660
	VERY LOW INCOME	29200	33400	37550	41700	45050	48400	51750	55050
	LOW-INCOME	46700	53400	60050	66700	72050	77400	82750	88050
Swift County, MN									
FY 2021 MFI: 67800	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700

Todd County, MN									
FY 2021 MFI: 67100	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700

STATE: MINNESOTA ---------------------------**S E C T I O N 8 I N C O M E L I M I T S**---------------------------

	PROGRAM	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON
Traverse County, MN									
FY 2021 MFI: 65300	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Wadena County, MN									
FY 2021 MFI: 56600	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Waseca County, MN									
FY 2021 MFI: 74800	EXTR LOW INCOME	15750	18000	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26200	29950	33700	37400	40400	43400	46400	49400
	LOW-INCOME	41900	47900	53900	59850	64650	69450	74250	79050
Watonwan County, MN									
FY 2021 MFI: 72400	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Wilkin County, MN									
FY 2021 MFI: 72100	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700
Winona County, MN FY 2021 MFI: 78200	EXTR LOW INCOME	16450	18800	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	27400	31300	35200	39100	42250	45400	48500	51650
	LOW-INCOME	43800	50050	56300	62550	67600	72600	77600	82600
Yellow Medicine County, MN FY 2021 MFI: 73200	EXTR LOW INCOME	15650	17900	21960	26500	31040	35580	40120	44660
	VERY LOW INCOME	26100	29800	33550	37250	40250	43250	46200	49200
	LOW-INCOME	41750	47700	53650	59600	64400	69150	73950	78700

Available online at: https://www.huduser.gov/portal/datasets/il/il2021/select_Geography.odn

Appendix G – Stakeholder Responses

This appendix includes letters received from our stakeholders in response to the study.

The department received responses from:

- Association of Metropolitan Municipalities (Metro Cities)
- Association of Minnesota Counties, Minnesota Association of Assessing Officers, and Minnesota Inter-County Association
- League of Minnesota Cities
- A 4d Coalition with 18 members signing the letter

METRO CITIES
Association of Metropolitan Municipalities

November 30, 2021

Mr. Robert Doty, Commissioner
Minnesota Department of Revenue
Saint Paul, MN 55101

Dear Commissioner Doty,

The Association of Metropolitan Municipalities (Metro Cities), representing the shared interests of cities across the seven-county metropolitan region, would like to thank you and your staff for your work to conduct a study of the 4d Low Income Rental Classification and to issue the 4d Low Income Housing Report. Metro Cities appreciates the opportunity to provide comments and feedback on the report.

As background, Metro Cities supports the 4d classification program as currently configured. In the context of recent legislative consideration to expand the program, the association's legislative policies also supported a study of the effects of an expansion on local tax bases. Metro Cities recognizes that the 4d program is a state program paid for by local property taxpayers.

The report provides both general and specific analysis on the effects a lowered 4d tax rate would have on local property tax bases and illustrates the effects on several local jurisdictions. The report further helpfully illustrates cities that would see the most significant effects on property tax bases, several of which are in the metropolitan area. Metro Cities has heard from metropolitan city officials expressing concern with the effects of an expansion on local property taxpayers and the significant effects of an expansion on those cities that have higher levels of affordable housing and modest tax bases. Further legislative analysis on specific local effects would be useful in this regard. City officials also continue to express concerns that an expansion of the 4d program as recently proposed lacks an identified public benefit and could negatively affect other types of crucial affordable housing investment, including the preservation of existing affordable properties and other capital improvement needs.

Metro Cities appreciates the report's acknowledgement of the statutory change to the 4d Low Income Rental Classification made in 2021, with the first-tier break reduced and reset to $100,000. This change benefits the owners and operators of qualified affordable units by lowering the threshold to when the lower-class rate of 0.25 percent is in effect. Metro Cities believes the cost savings from this policy change warrants a review prior to any class rate changes.

Thank you again for the opportunity to comment on the report.

Sincerely,

Patricia Nauman

Charlie Vander Aarde

Patricia Nauman
Executive Director
Metro Cities

Charlie Vander Aarde
Government Relations Specialist
Metro Cities

145 University Ave W · St. Paul, MN 55103-2044 · Phone: (651) 215-4000 · www.MetroCitiesMN.org

Association *of* Minnesota Counties

MAAO
Minnesota Association of Assessing Officers

MICA
MINNESOTA INTER-COUNTY ASSOCIATION

November 30, 2021

Dear Ms. Raverty:

Thank you for the opportunity to provide feedback on the Department of Revenue's recently released 4D Low-Income Housing Report. Counties were supportive of the report's inclusion in the 2021 1st Special Session omnibus tax bill and are appreciative of being included in discussions surrounding the expansion of the current 4d benefit. Counties join the Legislature's interest in prioritizing the development of affordable and low-income housing/rental properties and would respectfully posit that housing affordability should not come at the expense of increasing tax burdens for other community members, or without enacting program requirements that provide a stronger guarantee to the intended benefits and beneficiaries. Moreover, MAAO, AMC, and MICA believe there are opportunities to further strengthen the current 4d program by creating better processes for county and city assessors to garner more accurate information about these properties to ensure just taxation.

Counties appreciated the Department's breakdown of 4d unit types as well as a comparative analysis of the current tax benefit 4d owners/developers are receiving juxtaposed to what the tax rate would be for 4a (multi-family unit owners). It should be noted that 4d properties/units already receive a healthy benefit via the Minnesota tax code and already have the lowest tax rate (.25% for value over $100K) in Minnesota's complex and ever-expanding property tax code. In addition to an already reduced property tax rate, it is clear from the report that a good number of 4d properties may also receive federal tax benefits and/or state and local assistance that further incent and benefit developers and property owners. Counties remain guarded in further eroding or lessening property tax base for unclear results especially when the burden for paying for a benefit would fall to other individuals and families who—through no choice of their own—live in areas of the state with a high percentage of 4d properties. Should proposals to further change 4d continue this upcoming session, AMC would ask legislators to keep in mind these points and also consider further strengthening requirements that any benefit be tied directly to rental relief, property improvements, or the expansion of 4d units. Without stronger language included in statute, there is no guarantee that a benefit provided for "affordable housing" actually goes to affordable housing.

In addition, counties are interested in working with the Department to further identify and create efficiencies within the administration of the current 4d benefit to ensure more accurate assessments of these properties and a resulting benefit that reflects a truer apportionment of the estimated market value for classification purposes based upon the breakdown of qualifying units when the qualifying percentage is less than 100%. Changes that would require property tax owners to provide accurate, up-to-date information to the Minnesota Housing Finance Agency (MHFA) would cut down on the need for assessors to literally go door-to-door (sometimes even interacting with tenants, themselves) to figure out which units qualify as 4d. The results of the current process are inefficient and do not guarantee the tax benefit is accurately applied.

We thank you for the opportunity to provide input and would be happy to respond to any follow up questions.

Sincerely,

Mark Peterson

Matt Hilgart, Government Relations Manager
Association of Minnesota Counties

Mark Peterson
Minnesota Association of Assessing Officers

Matt Massman, Executive Director
Minnesota Inter-County Association

LEAGUE of MINNESOTA CITIES

November 30, 2021

Commissioner Robert Doty
Commissioner of Revenue
Minnesota Department of Revenue
600 Robert St N, St Paul, MN 55101

Re: City feedback on the draft 4d Low-Income Rental Classification report

Dear Commissioner Doty:

The League of Minnesota Cities appreciates the opportunity to provide comments on the Department's draft 4d Low-Income Housing report. On behalf of our 837 member cities, we appreciate the work done by the Minnesota Department of Revenue and the Minnesota Housing Finance Agency to produce an in-depth analysis of the 4d Low-Income Rental Classification and how it impacts low- and moderate-income renters and homeowners in Minnesota. We also appreciate the opportunity to provide feedback on the draft report as the Department seeks to finalize the report prior to its presentation before the Legislature.

The League of Minnesota Cities continues to support policy efforts that address the statewide need for affordable housing construction and preservation, and we support the existing 4d Low-Income Rental Classification that provides a local property tax reduction to qualifying units. However, we remain concerned with the current trend of continued erosion of the local property tax base due to expanding state property tax class-rate reductions. We continue to strongly urge policymakers that any modifications to the current 4d classification must balance the substantial property tax incentives for owners of low-income units with additional benefits for renters of 4d units and consider the additional financial impact to the broader property tax base who will bear the responsibility of the redistributed taxes. As a result of legislative discussions to reduce the 4d class-rate to the lowest property tax class rate in the state, the League urged lawmakers to commission the 4d Low-Income Rental Classification report and base any proposals for modification of the 4d classification on the full analysis outlined in the report.

The report fulfills the specific session law requirements outlined in Minnesota Session Laws 2021, 1st Special Session, Chapter 14, article 6, section 19. We believe the usefulness of the report for policymakers would be enhanced with additional, important analysis and trend information that cannot readily be gleaned from the report as drafted. The League of Minnesota Cities respectfully offers the following suggestions for the inclusion of additional information that would be helpful for future discussions on modifying the 4d Low-Income Rental Classification:

- While the report includes an analysis of the number of 4d units and 4a units within 4d buildings, we believe it would be helpful for policymakers to include an assessment of the impact of the existing 4d preferential property tax classification on the supply, affordability and quality of affordable housing units as well as an analysis of the impact of the current annual tier adjustment on the supply, affordability and quality of affordable housing units.

- A sensitivity analysis that would estimate the impact of a future 4d class-rate reduction between 0.25 percent and 0.75 percent or an alternative method for program expansion such as freezing the threshold that delineates first-tier and second-tier valuation on the supply, affordability and quality of affordable housing units. Such an analysis could include an estimate or a range of estimates of the potential net impact of a more favorable 4d classification rate on greater participation of current 4a units in 4d buildings
- While regional and specific city analysis on the effects of the 4d classification on net tax capacity and average household property tax increase resulting from a class-rate reduction to 0.25 is important, it would be helpful to also include more granular analysis on the impact on certain homesteads such as a below median priced home, median priced home, and above median priced home for each of the cities analyzed in the report
- A further analysis of the property tax impact resulting from the 2021 law change that lowered the 4d tier limit from $174,000 to $100,000 for assessment years 2022 and 2023, including the impact for affordable homestead properties as well as the impacts of shifting taxes to other property taxpayers, including low-income homeowners and homeowners on fixed income
- A depiction of the benefit for existing 4d units that are now being taxed based on the lower valuation limit of $100,000 and any evidence of deeper affordability for renters of those units or property reinvestment due to the additional property tax reduction

Again, we appreciate the Department's effort and in-depth analysis on this report and we thank you for the opportunity to provide our comments. We continue to stand ready to assist the Department with its analysis of the 4d Low-Income Rental Classification program in any way we can.

Thank you for your consideration.

Sincerely,

Gary N Carlson

Gary Carlson
Intergovernmental Relations Director
League of Minnesota Cities

Daniel Lightfoot

Daniel Lightfoot
Intergovernmental Relations Representative
League of Minnesota Cities

November 30, 2021

Commissioner Robert Doty
Minnesota Department of Revenue
600 North Robert St.
Saint Paul, MN 55101

Dear Commissioner Doty:

We the undersigned are non-profit and for-profit affordable housing operators and developers, who collectively operate more than 90 percent of the Class 4d affordable housing rental units in Minnesota, in both the Twin Cities metropolitan area and in Greater Minnesota.

We thank you for the opportunity to include our comments in the appendix of the *4d Low-income Housing Report*, which your Department has prepared pursuant to Minnesota Session Laws 2021, 1st Special Session, Chapter 14, Article 6, Section 19.

We very much welcomed the Legislature's request for and your examination of the issues surrounding the property tax crisis afflicting Class 4d low-income rental affordable housing properties. Overall, we find your study to be accurate as far as it goes. The impact on cities' levies and the relative share of taxes paid by property is an important discussion, but equally important is the impact of the tax burden on the creation and retention of affordable housing in Minnesota.

There are some important facts which are either missing from the report or deserve to be commented on for the benefit of the report's readers, especially those in the Legislature:

First, the dramatic increase in the first-tier valuation threshold – from $100,000 in assessment year 2014 to $174,000 in assessment year 2021, driven by market-rate valuations in neighboring areas to these properties – pushed the tax benefit of the second tier's 0.25 percent rate beyond the reach of most 4d low-income rental properties. Effectively, the tax benefit of the Legislature's original policy intention quickly eroded to the point of being virtually nullified. As a result, 4d housing operators have experienced significant year-over-year tax increases, causing enormous financial stress on their abilities to operate their properties on a long-term, sustainable basis. To find the resources to pay these unexpected tax increases, they have had to use reserves, defer maintenance, postpone improvements, or (in the case of non-profits) engage in special fundraising just to pay these taxes. For Natural Occurring Affordable Housing (NOAH) properties, the effect of the increased property tax burden is (a) pressure on operators to increase rents (making rental units less affordable for their residents) and/or (b) operators considering converting affordable units to market-rate properties because the added property tax costs make them financially inoperable. In short, the valuation increases of recent years have significantly raised taxes on operators in a short period of time and imperiled the already limited supply and quality of affordable housing in Minnesota. We are not exaggerating when we describe the Class 4d property tax problem to be a crisis. This set of facts is not discussed in the report.

Second, while representatives of local governments have raised concerns about property tax shifts which would result from the enactment of legislative proposal to move to a single rate of 0.25 percent, the fact remains that local governments have enjoyed the benefit of ever greater tax collections year after year at the expense of low-income rental affordable housing operators and their tenants. The typical tenant of these properties are female-led households from communities of color. It is no exaggeration to say that local governments' increased property tax collections on Class 4d rental properties are done so at the expense, directly or indirectly, of those least able to pay or who have the most difficulty in finding adequate housing. This fact is not discussed in the report.

Third, your report confirms (pages 11-12) that in almost all cases under the proposed 4d reform legislation the property tax shifts to other taxpayers would be very modest. Many state and local government leaders routinely lament the lack of sufficient affordable housing in the state and their communities respectively, but then express concerns about these shifts. The fundamental fact is this: The proposal for a single 0.25 percent class rate is the single most cost-effective state policy tool available today to incentivize operators to build new affordable properties and retain existing properties as affordable. If there is no reform of the current Class 4d tax rate, the number of existing affordable properties will undoubtedly decline and the costs to local taxpayers will be higher (in the form of subsidies) to replace the lost properties with new affordable construction than the cost of providing property tax relief in the first place.

Fourth, the report's comparison (pages 9-10) of the taxes paid by Class 4d properties versus what they would pay if they were classified as 4a properties misses the essential point of the public policy debate about the appropriate level of taxation on low-income affordable rental properties. If 4d properties were taxed as 4a properties, it is fair to speculate that Minnesota would have very little affordable rental housing as we know it. The tax burden would simply be too high. The report's comparison could mislead a reader who is not knowledgeable about how affordable housing works to conclude that operators somehow are already benefitting from a tax break ("a 40% property tax reduction," page 9) and that a further reduction of the 4d tier-one rate of 0.75 percent to 0.25 percent represents a windfall. Nothing could be further from the truth. Rather, the appropriate comparison would have been between Minnesota's taxation of low-income rental units versus other states' tax rates. We know that several states tax affordable housing at lower rates or, in some cases, not at all.

Fifth, we are glad to see that the report concludes that the impact on TIF projects of the 4d tax reform legislation would be minimal.

While your report did not address all of the issues relevant to the Legislature's consideration of Class 4d tax reform, we appreciate the report for what it does address. We look forward to working with the Legislature and you in the 2022 regular session to address the acute problem of taxation on affordable housing, the inequity created by the current statute, and the need to more forthrightly address Minnesota's affordable housing crisis,

Sincerely,

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