4d Affordable Housing Tax Reform Alliance

Aeon | CommonBond Communities | Dominium | Ecumen | Greater Minnesota Housing Fund
Home Place MN |Joseph Development | Landon Group | Lupe Development
Minnesota Housing Partnership |MWF Properties | Newport Midwest | Project for Pride in Living
Real Estate Equities | Reuter Walton Development | Sand Companies | Schafer Richardson
Sherman Associates | Wall Development | Wellington Management

FACT SHEET

The problem

- For taxation purposes, affordable housing in Minnesota is assessed to have the same value as market rate housing even though it cannot generate that same value unless it is taken out of affordability.
- To correct this problem, Minnesota Statute 273.13, subd. 25, was enacted to provide a lower property tax rate intended to incent operating, retention and construction of low-income rental (Class 4d) properties: This policy created a first-tier rate of 0.75 percent which was applied to the first $100,000/unit of market valuation and a second-tier rate of 0.25 percent which was applied to any value above that amount.
- **However, in the past seven years driven by market rate housing valuations, tax valuations for affordable housing have increased a staggering 74% on low-income Class 4d properties**. As a result, the threshold between the two classification rates has moved from $100,000 /unit (in 2014) up to $174,000/unit (in 2021). For most housing units, this has reduced or wiped out entirely the theoretical tax benefit of the original state policy.
- As a result, property taxes on Class 4d properties have skyrocketed, reducing operators' ability to keep rents low and reinvest in properties. It has also created a disincentive for the retention of low-income properties as affordable when they are sold and requires more public subsidy when creating new affordable units.
- Property tax rates on low-income affordable housing rental units are now effectively higher in Minnesota than in most other states.

The proposed solution

- H.F. 1157 (Howard)/S.F. 316 (Senjem) would simplify and reduce the classification rate to 0.25 percent for all Class 4d properties.
- Operators would be able to use their increased net operating income to offset COVID-19 costs, keep rent increases to a minimum, increase their reinvestment in existing properties, leverage more private debt (reducing public investment required) when building new affordable housing.
- Endorsed by Homes for All.

The impact furthers state policy goals

- Will help developers and operators of existing affordable housing stock to preserve it as affordable and lessen the economic pressures which drive the conversion of many affordable units into market-rate status.
- Will help provide greater means to reinvest in improvements of existing units, which will benefit renters.
- Will aid the creation of new low-income units by leveraging more private funding.
- Uses a simple and existing system to reduce burden of administrative system change.

Benefits

- Helps both Twin Cities metro area and Greater Minnesota.
- Is equity oriented, as renters of affordable housing are more likely to be BIPOC, female head of households, etc.

- Small state budget impact: Estimated $2.5 million due to increased property tax refunds – in return for a highly effective tool to retain and increase affordable housing units.
- Very modest property tax shift on local governments (2020 numbers):
  - Average-valued home statewide ($231,000): $8.00 property tax increase.
  - Average-valued metro home ($281,000): $15.00 property tax increase.
  - Average-valued Greater Minnesota home ($172,000): $3.00 property tax increase.
  - There are only 43 cities (out of 853 Minnesota cities) where 4d properties constitute more than 2% of a city's tax capacity; only 14 of these cities are estimated to see a shift of more than $20/year per on an average valued home.
  - Cities have the ability control the enrollment of new properties in Class 4d and thereby can protect local taxpayers from significant shifts.
  - Property tax circuit breaker protects disadvantaged homeowners from dramatic shifts.
- Returns the policy of Class 4d to its original intent.
- Highly cost-effective and inexpensive policy solution to help retain existing affordable housing stock and encourage new construction.
- Cost of rate reduction to preserve NOAH units is far less than the cost for new affordable construction.