A New Direction for Financing

Affordable Housing

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SECTION A

Executive Summary

Multi-family housing has seen unparalleled growth across our state and country over the past ten years. This segment of development has far outpaced other areas of commercial real estate development such as office, and retail. The demand for more housing is significant and this demand is at all levels of pricing. Despite this demand, the development community has been unable to meet the new housing demand across the country. Most of the new housing that has been built has been developed for renters and owners with higher incomes. This has been caused by the need to have higher sales prices or rents due to a multitude of factors including rising costs for land, public utility and infrastructure access, construction, governmental fees, and real estate taxes making the development of a lower cost product almost impossible.

Institutional investors invest in real estate to get a return on their invested money. Most of this investment analysis for a real estate project focuses on the property's Net Operating Income (NOI). The NOI is basically the net difference from subtracting all the property operating costs, such as taxes, utilities, maintenance, repairs, replacements, staff, insurance, various fees, etc., from the income on the property, which is predominately the rents [Property Income – Operating Costs = NOI]. The NOI is what is left for the payment of mortgage debt and to provide a return to the investors that invested in the property. Most investors have a required minimum rate of return and when a proposed project does not meet this required rate of return the investor will not invest in the property.

For many years we have had a gap between the cost of new construction and the ability for many to be able to afford to buy or rent. As increases in construction costs, governmental fees and real estate taxes have accelerated in recent years, this gap has grown larger and that has resulted in more people allocating a higher percentage of their income for housing expenses.

We have attempted for many years to reduce development and construction costs by subsidizing those costs with government aid programs. These governmental aid programs include such things as providing tax credits, grants, tax increment financing, providing free land, real estate tax payment subsidies, etc. All these programs are essentially trying to buy down the initial capital costs of development and construction to lower these costs in the project to make the project more affordable. However, these programs are expensive, complicated to use, legally intensive, in some cases divert tax revenue from other areas of need and overall have not been very effective based upon the unmet and growing need for more affordable housing.

What we need is to take a fresh look at this process and develop new and additional programs that are simpler, fairer, easier to use and understand so that we unleash the ability of the private market to build more affordable housing. The information contained herein is an attempt to do just that. This proposal is focused on building more mixed market rate and affordable multi-family projects without using any existing governmental revenue, without raising taxes and without creating mandates that will end up stifling development of not just affordable housing, but market rate housing as well.

SECTION B

Affordable Housing Myths

The development of a real estate project is already a very complicated process, and the inclusion of affordable housing requirements makes that even more complicated and, in some cases, unfeasible. Most multi-family housing is owned by sophisticated investors who are looking to make a return on their investment. Usually when an investment becomes more complicated to build, the required return to the investor needs to increase and/or the investor, if it becomes too complicated, will simply choose not to invest at all.

As the awareness of the need for more affordable housing has recently grown, many are trying to create policies or programs towards meeting this growing need. Many local communities are establishing policies and programs with well-intentioned hopes of solving this issue, but in many of these cases these policies and programs will result in a reduced ability to meet the need. Many of these programs are being established with little substantive input from the development community, even as they rely on the developers to participate in the solution.

In addition, several of what I will call "myths" about the affordable housing issues have been created and I would like to look at several of these myths further.

Myth #1 | Developers are making too much money

Some simply believe that multi-family developers are making too much money and therefore, if affordable housing requirements are mandated, the developers will continue to build. Their belief is that the developers will make less money, but they will still build. This argument is false.

Most developer project equity capital comes from investors who compare the potential returns from a multi-family development project to those returns from other real estate investments such as office or industrial or even from investments that are not in real estate - such as stocks or bonds.

Most of this equity capital is coming from institutional investors such as life insurance companies, pension funds, private equity funds, and high net worth individuals. Most of these investors can invest anywhere they desire, and they usually have no loyalty to a city or state. Their capital for any project is evaluated on a risk return basis to provide that highest potential return to their shareholders, investors, pensioners, or union retirees. The greater the risk, the higher the needed return. The adding of governmental mandates further complicates the already complicated process of real estate development by adding to the risk and correspondingly requires a higher return. It is the need for this equity capital that influences where developers will build, as most developer profit in today's market is generated from fees while the investors receive most of the development profit over time or by a sale of the property.

Myth #2 | Developers are choosing not to build affordable housing

Some believe that the solution is to mandate affordable housing. The argument is that developers will then build more affordable multi-family housing in lieu of the more commonly promoted "amenity rich" luxury multi-family housing currently being built in many communities. However, the development, design, and construction costs alone of any given project cannot be reduced enough to make the affordable housing work. Why is that? The primary reasons are that most of the fixed costs for designing and building a market rate multi-family building versus a 100% affordable building are the same. The building codes are the same, the mechanical, electrical, plumbing, acoustic, fire, elevator, exiting, storm water, loading, and structural codes are all the same.

The only real areas for potential cost reduction are in reducing or eliminating amenity areas such as community or exercise rooms, swimming pools or spas, reducing or eliminating balconies, reducing parking, and making changes to the certain finishes within the apartments such as using plastic laminate versus granite or quartz for countertops, using cheaper light fixtures, appliances, flooring, cabinets, or bathroom fixtures. But even with doing all of this, you cannot reduce the cost enough to offset the reduced returns caused by the differences in the rent between market rate and affordable housing. That is why almost every 100% affordable new building being built has some level of public financing or subsidy and why some communities have lowered or eliminated certain fees, such as park dedication fees, for affordable housing projects.

Most developers would be very willing to build a lower cost project and lease at a corresponding lower rent if it was possible.

Myth #3 | What is causing rents to rise

In newer constructed multi-family properties, there are many factors contributing to rising rents. The first factor is the rising cost of land, development, and construction as well as governmental fees and entitlement costs. Some of the factors influencing this are the rising cost of labor, which in large part is being caused by shortages in labor. Fewer young people are entering the building trades and many older trades people are retiring. There have also been increases in material costs due, in part, to high demand and secondarily in reaction to tariffs that have been imposed or threatened. Many local governments have also increased fees and other charges at a pace greater than inflation.

The second factor that has been increasing at a rate greater than inflation are real estate taxes. In many communities, real estate tax increases have been greater than inflation for multiple years and have outpaced both the increases in construction costs and increases in rents. It is not uncommon that the real estate taxes paid are now the second largest expense after only the mortgage payment and they are greater than the net cash flow to the property owner after deducting all expenses from the total revenue. The net result is the governmental recipients of the property tax receive more revenue from the property, and without risk, than the property owner who takes all the risk.

It is not uncommon to hear local officials claim they are only following state law. So as costs increase, rents must rise, then assessed values increase and then corresponding taxes rise and so on and so on.

Myth #4 | We can build our way out of this problem

Many will offer that the solution for creating more affordable housing can simply be met by allowing the market to build more and more housing and thus the increase in the total supply, or perhaps over supply, thus lowering the price of housing in the market. This is a typical market-oriented supply and demand economic model. Could it work? Maybe, but not likely for a long time. Why? Because part of the issue is that the development of real estate takes a long time. In some cases, it can take three or more years from conception of the project to the completion of the building, with many steps along the way. This long process does not, in my opinion, react well to a simple market based economic model. It will simply take too long to build enough housing units to test this hypothesis and during this period there are also many other economic or other factors and events that could alter the results.

Myth #5 | Redirecting resources will help solve the problem

Some communities are trying to assist in the financing of affordable housing by adding restrictions to existing governmental grant programs. Grants that were typically provided for other purposes, such as environmental clean-up or transportation, are now only being approved if the project also includes affordable housing. The re-directing of state funded grant programs that were established for their own unique public benefit into affordable housing-only projects are misguided.

Myth #6 | The not-for-profit developers will solve the problem

Many housing advocates believe that the best solution for creating more affordable housing is to increase opportunities for only the not-for-profit developers. We are blessed in the Twin Cities metropolitan area to have some of the best not-for-profit affordable housing developers in the country. However, they will tell you that they are very limited in how they can create affordable housing and their primary constraint is financing. In many not-for-profit developments, there can be ten or more financing sources and corresponding hundreds of thousands of dollars in attorney fees.

Many of the not-for-profit developers focus on 100% affordable buildings, which is not the focus of this proposal. These 100% affordable projects will have a mix of units for incomes ranging from 30% to 60% of Area Median Income (AMI). It is very common however that people whose incomes are in that range have a higher probability for the need for additional services, in areas such as mental health or addiction. The not-for-profit sector currently provides or coordinates many of these additional services. It is not possible for these additional services to be supplied by a private building owner in a mixed market rate and affordable building.

Myth #7 | Mandating affordable housing will make a difference

More communities are discussing and implementing various affordable housing mandates that will require all new market rate multi-family housing projects to have some portion of the units affordable, usually 10% to 20%, typically at 60% of the AMI. These policies range from mandates with no offering of financial assistance, to mandates with varying levels of financial assistance. The assistance being offered may include the reduction or waiving of fees, development incentives through the reduction in code or ordinance requirements such as parking requirements, or assistance by allowing the increase in building density, heights or setbacks or other factors such as using Tax Increment Financing (TIF). Many of these policies have a one size fits all type of approach, making these affordable requirements a factor in all new projects.

I do not believe some of these policies will work and they will likely add to the problem. By mandating this affordable requirement, without providing enough financial assistance or development incentives that offset the impact of incorporating affordable housing into a market-rate project, there will be a reduction in the amount of overall housing that is built. This is already evident in communities in other states that have implemented similar affordable housing mandates.

In 2017, the Governor's Housing Task Force estimated the need for 300,000 new housing units with 60,000 affordable by 2030. Meeting this estimate will be difficult enough, but with the addition of these type of unworkable affordable housing mandates, the Task Force goal will be impossible.

Additionally, the implementation of the affordable housing mandates without financial assistance will reduce the overall amount of new multi-family housing that is being built. It will take a few years for this to happen as there will be new projects approved in communities prior to the implementation of these policies that will need to be built. But eventually, the supply of new projects seeking approvals will be reduced and in turn, this will cause rents in existing multi-family buildings to rise. The result will be the exact opposite of what policymakers that approved these mandates think they will be achieving.

SECTION C

The Current Financing Options

In today's development and construction environment it costs, on average, about $250,000 to $300,000 per unit to build a multi-family apartment unit. An affordable housing unit at 60% AMI can support, based upon the limits in rent and current financing underwriting, on average, about $100,000 to $150,000 in debt per unit. Thus, for a mixed market rate and affordable building to work, the financial gap between these two numbers of $150,000 to $200,000 for each multi-family affordable housing unit must be financed.

Unlike 100% affordable housing projects, mixed market rate (80%) and affordable (20%) buildings have difficulties in participating in the very competitive tax credit programs or other governmental affordable housing finance programs of consequence. Thus, direct financing grant programs and TIF are usually the two main viable government programs available to assist in financing the affordable housing development cost gap.

Over the years there have been many governmental grant programs created to provide funding for the construction of new affordable housing. Most of these programs have been centered around providing funds to reduce or subsidize the development and construction costs and therefore, create a percentage of the project's housing units as affordable. These grant programs have not been able to provide enough funding to have a meaningful impact towards the creation of new affordable multi-family housing. There is just simply not enough money available. Typically, these funds come from the local, county or state general fund portion of their budgets. However, these funds are limited and then not available for other societal needs.

As an example, if a governmental grant program was able to offer $100 million as the sole financing tool in funding for mixed market rate and affordable multi-family housing. The number of affordable units this would create would be $100 million divided by the $150,000 to $200,000 financial gap per unit for a 60% AMI project, which equals between 500 and 667 units that could be constructed.

The other primary method to assist in the closing of the financial gap for mixed use market and affordable housing has been for local governments to provide TIF to a project. In most cases, the issuance of a "Pay as You Go" Note by the city that provides for the city to reimburse the increase in incremental portion of the paid property taxes generated by the development back to the property developer or investor until the note, plus interest, is paid in full. The developer or investor uses the payments under this note to be able to add this revenue into their financing model as additional income, and the project can then finance the gap between the market rate and the affordable units thru a private sector loan.

Under this program the city usually takes an administrative fee of 5% to 10% off the top to pay for their expenses. This reduces the amount of funds available to assist in paying for the affordable housing. It is also an uncertain and long cumbersome process. It is also costly with many tens of thousands of dollars in legal and consulting fees, delays in the process for the funds to get back to the developer or investor and there are limits under state law as to how much a local government can have in TIF financing overall as a percentage of their total tax base. TIF financing also requires all the incremental tax payments go towards the payment of the TIF Note and thus it may take years or decades before taxes from the development will flow not only to the city but also to the county and school district.

In most cases the required commitment to maintain the affordable housing portion of the project in exchange for TIF financing support is 20 to 30 years. Under this method the financial assistance is essentially used to reduce the cost basis on the affordable units in the building over the allowed timeframe. Once the time frame has expired, the current owner will see a windfall in increased value in the property as they no longer will be obligated to provide the affordable units, but the TIF generated revenue has reduce their basis in the property versus the now increased market value created by eliminating the lower rent generating affordable units. The use of TIF increases the probability for the affordable housing units becoming market rate units at the end of the commitment timeframe rather than staying as affordable units.

As an example, if a 250-unit project was built with 20% of the units being affordable, then the financing gap is 50 units times $150,000 to $200,000, which equals $7,500,000 to $10,000,000. Full assessed real estate taxes on this project may range approximately between $3,600 to $4,200 per unit. This tax number will vary depending on the location and assessed value of the property. This generates real estate taxes of between $900,000 and $1,050,000 per year from the project. If the prior real estate taxes on the property were $200,000, then the annual TIF amount available for financing is between $630,000 and $765,000 after the city takes a typical 10% administrative fee from the incremental increase in the taxes. This amount is then used to assist with the interest and principal debt payments on the TIF Note issued by the City to the developer or investor that the developer or investor then uses to help finance the gap. If TIF was the only tool used for financing the affordable housing gap, the TIF Note amount would equal $7,500,000 to $10,000,000. Based upon the above and depending on the interest rate on the note, it would take roughly 15 to 20 years for the property to pay off the TIF Note.

SECTION D

A New Additional Affordable Housing Financing Option

Real estate development and financing is already a very complex process and adding to that complexity regarding the financing of an affordable component reduces the likelihood of projects becoming a reality. Complexity is not the friend of financing. Any new program to create additional financing sources for the creation of affordable housing needs to be simple to understand and use, reduce the cost of implementation, and keep the control at the local governmental level. However, there are legislative steps the state government could take to create a new tool that would significantly grow the availability of financial resources from the private sector to build more affordable units in a mixed market rate and affordable building. These steps will be explained as we continue.

Creating an Affordable Housing Tax Valuation Assessment

This new option proposes the state legislature create an Affordable Housing Market Value Exclusion Program. This option would reduce the market value tax assessment by 50% of the assessed value of a project that provides 20% of its units as affordable at 60% AMI. The local assessor would continue to assess the building as if it were a 100% market rate project with 100% market rents. Once the fully assessed value is determined, a reduction in the assessed value of 50% would be taken against the full assessed value, which would also equate to a 50% reduction in the real estate taxes payable. This process would be very easy to implement and understand. A newly constructed building enrolled into this program would also not qualify for other tax reduction programs such as the current 4d program.

WHY IT WORKS: Generating cash flow to offset the financing gap

The key policy outcome resulting from adding this option is that, from a financing perspective, it will enable these new projects to generate cash flow from the reduction in the real estate taxes that can offset the reduction in rents for the affordable units. As a point of contrast, TIF and other incentives reduce the cost, through debt amortization, of the project over the life of the affordable commitment – enabling the project to get financing where it otherwise wouldn't.

Under the additional option, the tax savings are not used to pay down the principal portion of a TIF Note. Instead, the tax savings are used to supplement the property's cash flow over the affordable life commitment. The difference in the Present Value of these two scenarios is significant.

Further, creating this cash flow savings and increasing the NOI from the property makes it much more likely the property may continue its affordable housing status at the end of the original commitment period if extensions were permitted by the legislature.

IMPORTANT FACTS TO NOTE

Importantly, this proposal pertains only to the development of a mixed market rate and affordable unit building(s). Although the proposal may have components that could assist in the financing of other types of affordable projects, this proposal is specifically limited to the mixed market rate (80% of the units) and affordable units (20% of the units). This proposal assumes the 20% affordable units are directed at residents with incomes of 60% AMI on average.

Additionally, this policy change would not change or impact any current tax credit, TIF, grant or other program that is used to finance 100% affordable projects or projects oriented to incomes of less than 60% AMI.

In fact, this program for financing has a few of the same basic elements as a TIF program. Including:

1. The local government unit will make the ultimate decision on its use.
2. The source of the funding will be generated from the project.
3. The local unit of government will have no financial responsibility for the success of the project or generation of the revenue.
4. This program will not be considered debt or will not be statutorily limited for the local government unit.

AN EXAMPLE OF HOW THIS WOULD WORK: A 250-unit building (80 percent market rate/ 20 percent affordable)

Sample 250-unit building example

Scenario:

- 250 unit building with 20% (50 units) affordable
- Development Cost per unit is $275,000
- The financing gap is $7,500,000 (50 affordable units x $150,000 per unit)
- Assessed taxes for the property is $1,000,000 per year ($4,000 per unit x 250 units)

Proposed change:

$1,000,000 in taxes per year is reduced to $500,000 – a 50% credit for providing 50 units of affordable units. The $500,000 in tax savings stays with the property owner who in turn uses this source of funding to subsidize the rents for the 50 (20%) affordable units or on average $10,000 per year per affordable unit or $833 per month per unit. This amount is an average and will vary depending on the different type and sizes of the units.

Why this closes the financing gap:

It reduces the real estate tax operating expense to offset the lower rents for the affordable units. **Please see the project financial model in Section F.**

The following are other aspects where this option will enhance the ability to grow the number of affordable units being built:

1. First and foremost, it is very simple to use. The local government and developer can quickly assess the applicability and viability for the program to be used on any project.

2. Local, county and school districts will see immediate and significant tax revenue from these projects versus using the traditional TIF programs where all tax revenue is used to pay off TIF bonds or pay-as-you-go notes.

3. Although the local government will have the final say, on a case-by-case basis, as to whether the program is used or not, the program itself will have a self-determining financial model that will eliminate the current cumbersome negotiation process for determining the amount and timing of the affordable housing financial assistance. The local government must use the program in its complete form or not at all.

4. It will not require the expenditure of tens of thousands of dollars on attorney and consultant fees on both sides.

5. The real estate taxes generated meet the "but for" standards. The clear assumption is that a new project using this financing tool and including 20% of its units as affordable would not have been built or be financially viable without the use of the financing option. Thus, none of the real estate taxes generated from these projects would have happened absent the use of this financial option. The net result is that the projects built using this financial option will add to the tax base of the communities they are locating in, as well as to the school district and county.

6. Local governments could also choose to add to the real estate tax revenues generated from projects that utilize this affordable financing option by allowing for increases in project density which would further incentivize developers to include affordable housing under this program.

7. The use of this option will not impact the credit rating of the local governmental entity as the use of TIF does today.

8. No funding or credit enhancement from the State of Minnesota is required.

SECTION E

Legislative Requirements

For this option to become reality, the state government must assist by passing legislation that would allow local governments to implement and use the program. The following are the suggested steps in the creation and passage of such legislation.

This option should be passed as a stand-alone program, and it should not be tied into or with other related affordable housing programs. This program should not and will not change any of the financial assistance programs such as tax credits, TIF or any other program that is currently used to assist in the development of 100% affordable projects whether built by for-profit or not-for-profit developers. It is also likely that by passing this legislation those projects built using this option will not need Grants, TIF or other financial assistance as part of their financing and thus this could increase the use of these limited financial tools for projects that would provide housing for renters that have incomes at less than 60% AMI or that require other services for their residents. Most of the private sector users of this option will not have or will have less experience in affordable housing development and the overall goal is to keep it simple, and therefore investor friendly.

We propose to call the legislation the “Affordable Housing Market Value Exclusion Program”.

A draft of the bill was introduced in the Minnesota State Senate as SF3200 by Senators Bakk, Limmer and Rest and is attached under Section H. The following are a few of the highlights of the bill.

A. The local RGU must approve the use of the program on an individual application basis by a simple majority vote of the members of the city council or county board.

B. The property is not classified in whole or part as class 4d under section 273.13, subdivision 25.

C. Construction of the property began on or after January 1, 2022.

D. At least 20 percent of the units in the property are available for residents whose income does not exceed 60% AMI.

E. Requires annual certifications by the Minnesota Housing Finance Agency

SECTION F

Financial Model

In this section there a side-by-side project based financial model for a total market rate development versus a mixed market rate (80%) and affordable (20%) property. The rents and costs contained in this model are reflective of the current rents and development and construction costs in today's multi-family development market.

The model uses a 250-unit market rate housing project and the same mixed market rate project that includes 20% of the units as affordable. The title sheet highlights the primary assumptions for the model.

A couple of the key investment benchmarks that many developers/investors use to gauge whether a project makes sense is return on cost and return on equity. The return on cost is calculated by taking the Net Operating Income ('NOI"), which is the net dollar amount after deduction all the properties operating expenses, real estate taxes and insurance costs and subtracted that from the total revenue generated from the property and then dividing it into the total cost to develop and build the project. The return on equity is calculated by taking the NOI and dividing it into the total amount of equity invested in the project.

Using this option to finance affordable housing, the return on costs for the two different scenarios is nearly the same. (See the yellow highlighted lines on this financial analysis). This creates no financial disincentive for a developer to include affordable housing and in fact, most developers will embrace this option as the 20% of the units that are affordable will lease quickly based upon the demand for them.

Sample Project

250 Market Rate Units and
200 Market Rate Units and 50 Affordable Units at 60% AMI

KEY ASSUMPTIONS

1. Market rents at $2.30 per Sq. Ft.
2. $100 monthly charge for parking
3. No charge (income) for affordable unit utilities
4. 5% vacancy factor on base rental income
5. $200 per unit expense for affordable unit utilities
6. Admin fee for administration of affordable units
7. Real Estate Tax expense of $4,000 per unit - corresponding credit of ($2,000) per unit
8. Land cost of $20,000 per unit
9. Construction cost of $186,983 per unit
10. Local Sewer Access Charge of $800 per unit
11. Local Water Access Charge of $800 per unit
12. Park Dedication Fees of $3,000 per unit
13. Financing costs increased for New Program related to additional underwriting and lender review
14. Total Project Cost of $62.3 million
15. Total Value of $69.0 million - a 10.8% margin to cost
16. Equity investments of $17.7 million

Estimated Residential Income

	Market Rate						With Assistance					
	Units	**Avg Sq Ft**	**Unit Sq Ft**	**Avg Rent**	**Per Sq Ft**	**Annual**	**Units**	**Avg Sq Ft**	**Unit Sq Ft**	**Avg Rent**	**Per Sq Ft**	**Annual**
MARKET												
Studio	50	575	28,750	$1,450	$2.52	$ 870,000	40	575	23,000	$1,450	$2.52	$ 696,000
Alcove	70	675	47,250	$1,600	$2.37	$ 1,344,000	56	675	37,800	$1,600	$2.37	$ 1,075,200
1 Bedroom	60	750	45,000	$1,750	$2.33	$ 1,260,000	48	750	36,000	$1,750	$2.33	$ 1,008,000
2 Bedroom	50	1,150	57,500	$2,600	$2.26	$ 1,560,000	40	1,150	46,000	$2,600	$2.26	$ 1,248,000
3 Bedroom	20	1,450	29,000	$2,900	$2.00	$ 696,000	16	1,450	23,200	$2,900	$2.00	$ 556,800
Subtotal	250	1,450	207,500	$1,910	$2.30	$ 5,730,000	200	1,450	166,000	$1,910	$2.30	$ 4,584,000
60% AMI (2021 Met Council)												
Studio							10	575	5,750	$1,101	$1.91	$ 132,120
Alcove							14	675	9,450	$1,180	$1.75	$ 198,240
1 Bedroom							12	750	9,000	$1,180	$1.57	$ 169,920
2 Bedroom							10	1,150	11,500	$1,417	$1.23	$ 170,040
3 Bedroom							4	1,450	5,800	$1,635	$1.13	$ 78,480
Subtotal							50	0	41,500	$1,248	$1.50	$ 748,800
Base Rent Income	**250**	**830**	**207,500**	**$1,910**	**$2.30**	**$ 5,730,000**	**250**	**830**	**207,500**	**$1,778**	**$2.14**	**$ 5,332,800**
Other												
Parking Underground	150		60,000	$100		$ 180,000	150		60,000	$100		$ 180,000
Storage Units	88			$50		$ 52,500	88			$50		$ 52,500
Utility Fees	250			$40		$ 120,000	200			$40		$ 96,000
Pet Fees	125			$50		$ 75,000	125			$50		$ 75,000
Other						$ 30,000						$ 30,000
Other Gross Income						**$ 457,500**						**$ 433,500**
Gross Income						**$ 6,187,500**						**$ 5,766,300**
Vacancy @	5.0%					$ (286,500)	5.0%					$ (266,640)
Effective Gross Income						**$ 5,901,000**						**$ 5,499,660**
Operating Expenses												
Utilities				$700		$ 175,000				$700		$ 175,000
Utilities for Affordable Units				$0		$ -				$200		$ 50,000
Staffing/Payroll				$1,850		$ 462,500				$1,850		$ 462,500
Repairs & Maintenance				$1,870		$ 467,500				$1,870		$ 467,500
Insurance & Other				$560		$ 140,000				$560		$ 140,000
Replacement Reserves				$250		$ 62,500				$250		$ 62,500
Management Fee				$640		$ 160,000				$640		$ 160,000
Admin Fee for Affordable				$0		$ -				$120		$ 30,000
Subtotal				$5,870		$ 1,467,500				$6,190		$ 1,547,500
Real Estate Taxes				$4,000		$ 1,000,000				$4,000		$ 1,000,000
Real Estate Tax Credit				$0		$ -				$2,000		$ (500,000)
Subtotal				$4,000		$ 1,000,000				$2,000		$ 500,000
Total Expenses				$9,870		$ 2,467,500				$8,190		$ 2,047,500
Net Operating Income (NOI)				$13,734		$ 3,433,500				$13,809		$ 3,452,160

Operating Proforma	Market Rate Annual	Market Rate %	With Assistance Annual	With Assistance %	Difference
Gross Rental Income	6,187,500		5,766,300		(421,200)
Vacancy	(286,500)	5.0%	(266,640)	5.0%	19,860
Effective Gross Income	5,901,000	95.0%	5,499,660	95.0%	(401,340)
Operating Expenses	1,467,500	23.7%	1,547,500	26.8%	80,000
Property Taxes	1,000,000	16.2%	1,000,000	17.3%	-
Property Tax Credit	-	0.0%	(500,000)	-8.7%	(500,000)
Gross Expenses	2,467,500	39.9%	2,047,500	35.5%	(420,000)
Net Operating Income (NOI)	**3,433,500**	55.5%	**3,452,160**	59.9%	18,660
NOI Per Unit	*13,734*		*13,809*		75

Development Summary	Market Rate Cost	Market Rate Per Unit	With Assistance Cost	With Assistance Per Unit	Difference
Land Cost	5,000,000	20,000	5,000,000	20,000	-
Design & Predevelopment	1,553,000	6,212	1,553,000	6,212	-
Construction	46,745,827	186,983	46,745,827	186,983	-
Met Council Sewer Access Charges	621,250	2,485	621,250	2,485	-
Local Sewer Access Charges	200,000	800	200,000	800	-
Local Water Access Charges	200,000	800	200,000	800	-
Park Dedication Fee	750,000	3,000	750,000	3,000	-
Building Permit	408,459	1,634	408,459	1,634	-
Legal Fees & Consultants	205,000	820	205,000	820	-
Financing Costs	368,000	1,472	468,000	1,872	100,000
FF&E & Lease Up	1,500,000	6,000	1,500,000	6,000	-
Interest Reserves	1,500,000	6,000	1,500,000	6,000	-
Other	3,164,229	12,657	3,164,229	12,657	-
Total	62,215,765	248,863	62,315,765	249,263	100,000

FINANCING & INVESTMENT	Market Rate		With Assistance	Difference
Proforma NOI	$ 3,433,500	Proforma NOI	$ 3,452,160	18,660
CAP Rate	5.00%	CAP Rate	5.00%	
Estimated Value	$ 68,670,000	Estimated Value	$ 69,043,200	373,200
Value per Unit	274,680	Value per Unit	276,173	1,493
Mortgage	$ 44,292,150	Mortgage	$ 44,532,864	240,714
Loan to Cost	71.2%	Loan to Cost	71.5%	
Loan to Value	64.5%	Loan to Value	64.5%	
Equity Investment	$ 17,923,615	Equity Investment	$ 17,782,901	(140,714)
Construction Loan Intere	5.00%	Construction Loan Intere	5.00%	
Debt Service	$ 2,214,608	Debt Service	$ 2,226,643	
Cash Flow	$ 1,218,893	Cash Flow	$ 1,225,517	
DSCR	1.55	DSCR	1.55	
Proforma NOI	$ 3,433,500	Proforma NOI	$ 3,452,160	
Estimated Value	$ 68,670,000	Estimated Value	$ 69,043,200	
Equity	$ 17,923,615	Equity	$ 17,782,901	
Perm Interest Rate	5.00%	Perm Interest Rate	5.00%	
Debt Service	$ 2,853,238	Debt Service	$ 2,868,745	15,506
DSCR	1.20	DSCR	1.20	
Cash Flow	580,262	Cash Flow	583,415	3,154
Return on Costs	5.52%	Return on Costs	5.54%	0.02%
Return on Equity	3.24%	Return on Equity	3.28%	0.04%

Operating Expense

		Market Rate				With Assistance			
Utilities	Note	Annual $/Unit		Annual Expense		Annual $/Unit		Annual Expense	
Electric/Gas		$	325	$	81,250	$	325	$	81,250
Water/Sewer		$	325	$	81,250	$	325	$	81,250
Utilities for Affordable Units		$	-	$	-	$	200	$	50,000
Media		$	50	$	12,500	$	50	$	12,500
Subtotal		$	700	$	175,000	$	900	$	225,000
Payroll									
Property Manager		$	450	$	112,500	$	450	$	112,500
Asst. Property Manager		$	275	$	68,750	$	275	$	68,750
Leasing		$	325	$	81,250	$	325	$	81,250
Leasing Commissions		$	150	$	37,500	$	150	$	37,500
Maintenance Personnel		$	350	$	87,500	$	350	$	87,500
Other		$	300	$	75,000	$	300	$	75,000
Subtotal		$	1,850	$	462,500	$	1,850	$	462,500
Repairs, Maint., Supplies									
Cleaning Service		$	250	$	62,500	$	250	$	62,500
Cleaning Supplies		$	100	$	25,000	$	100	$	25,000
Concierge/Security		$	200	$	50,000	$	200	$	50,000
Security Equipment		$	50	$	12,500	$	50	$	12,500
Repairs & Maintenance		$	500	$	125,000	$	500	$	125,000
Trash Removal		$	150	$	37,500	$	150	$	37,500
Elevator Maintenance		$	125	$	31,250	$	125	$	31,250
Window Washing		$	50	$	12,500	$	50	$	12,500
Landscaping & Maint.		$	75	$	18,750	$	75	$	18,750
Pool & Spa		$	100	$	25,000	$	100	$	25,000
Amenities		$	150	$	37,500	$	150	$	37,500
Snow Removal		$	50	$	12,500	$	50	$	12,500
Local Rental Fees		$	50	$	12,500	$	50	$	12,500
Fire Sprinkler Monitoring		$	20	$	5,000	$	20	$	5,000
Subtotal		$	1,870	$	467,500	$	1,870	$	467,500
Admin & Misc. Expenses									
Insurance		$	300	$	75,000	$	300	$	75,000
Replacement Reserve		$	250	$	62,500	$	250	$	62,500
Management Fee	3.00%	$	640	$	160,000	$	640	$	160,000
Admin Cost for Afforable Units	0.50%	$	-	$	-	$	120	$	30,000
Office Supplies		$	40	$	10,000	$	40	$	10,000
Bank Charges		$	20	$	5,000	$	20	$	5,000
Advertising & Promotion		$	200	$	50,000	$	200	$	50,000
Subtotal		$	1,450	$	362,500	$	1,570	$	392,500
Real Estate Taxes		$	4,000	$	1,000,000	$	4,000	$	1,000,000
Real Estate Tax Credit	50%	$	-	$	-	$	(2,000)	$	(500,000)
Residential Operating Expense		**$**	**9,870**	**$**	**2,467,500**	**$**	**8,190**	**$**	**2,047,500**

Predevelopment Costs

		Market Rate				With Assistance			
Land	Note		Per Unit		Cost		Per Unit		Cost
Land Basis		$	20,000	$	5,000,000	$	20,000	$	5,000,000
Interest Holding Cost		$	-	$	-	$	-	$	-
Subtotal		$	20,000	$	5,000,000	$	20,000	$	5,000,000
Pre-Development									
Title		$	30	$	7,500	$	30	$	7,500
Survey		$	12	$	3,000	$	12	$	3,000
City/County Approval Fees		$	100	$	25,000	$	100	$	25,000
Market Study		$	40	$	10,000	$	40	$	10,000
Architectural Planning		$	800	$	200,000	$	800	$	200,000
Civil Planning		$	300	$	75,000	$	300	$	75,000
Building Evaluation		$	-	$	-	$	-	$	-
Historical Review		$	-	$	-	$	-	$	-
Other		$	-	$	-	$	-	$	-
Subtotal		$	1,282	$	320,500	$	1,282	$	320,500
Design									
Architectural		$	3,400	$	850,000	$	3,400	$	850,000
Structural Engineering		$	600	$	150,000	$	600	$	150,000
Civil Engineering		$	500	$	125,000	$	500	$	125,000
Other		$	400	$	100,000	$	400	$	100,000
Subtotal		$	4,900	$	1,225,000	$	4,900	$	1,225,000
Environmental									
Geotechnical		$	20	$	5,000	$	20	$	5,000
Environmental (Phase I ESA)		$	10	$	2,500	$	10	$	2,500
Environmental (Phase II ESA)		$	-			$	-		
Environmental Remediation		$	-			$	-		
(Grant Reimbursements)		$	-			$	-		
Other		$	-			$	-		
Subtotal		$	30	$	7,500	$	30	$	7,500
Predevelopment Costs		**$**	**26,212**	**$**	**6,553,000**	**$**	**26,212**	**$**	**6,553,000**

Construction Costs

		Market Rate				With Assistance			
Construction	Note	Sq Ft	$ / Sq Ft	Per Unit	Budget	Sq Ft	$ / Sq Ft	Per Unit	Budget
Residences		249,000	$ 135.00	$ 134,460	$ 33,615,000	249,000	$ 135.00	$ 134,460	$ 33,615,000
Underground Parking		60,000	$ 67.50	$ 16,200	$ 4,050,000	60,000	$ 67.50	$ 16,200	$ 4,050,000
Surface Parking				$ 7,200	$ 1,800,000			$ 7,200	$ 1,800,000
Office/Commons		7,000	$ 200.00	$ 5,600	$ 1,400,000	7,000	$ 200.00	$ 5,600	$ 1,400,000
A/V and Low Voltage				$ 700	$ 175,000			$ 700	$ 175,000
Pool/Spa				$ 1,000	$ 250,000			$ 1,000	$ 250,000
Sitework & Landscaping				$ 3,500	$ 875,000			$ 3,500	$ 875,000
General Conditions	4.50%	316,000	$ 6.00	$ 7,590	$ 1,897,425	316,000	$ 6.00	$ 7,590	$ 1,897,425
Subtotal		316,000	$ 139.44	$ 176,250	$ 44,062,425	316,000	$ 139.44	$ 176,250	$ 44,062,425
Builder's Overhead & Profit	3.00%	316,000	$ 4.18	$ 5,287	$ 1,321,873	316,000	$ 4.18	$ 5,287	$ 1,321,873
Subtotal		316,000	$ 143.62	$ 181,537	$ 45,384,298	316,000	$ 143.62	$ 181,537	$ 45,384,298
Subtotal		**316,000**	**$ 143.62**	**$ 181,537**	**$ 45,384,298**	**316,000**	**$ 143.62**	**$ 181,537**	**$ 45,384,298**
Hard Cost Contingency	3.00%	316,000	$ 4.31	$ 5,446	$ 1,361,529	316,000	$ 4.31	$ 5,446	$ 1,361,529
Total Construction Cost		**316,000**	**$ 147.93**	**$ 186,983**	**$ 46,745,827**	**316,000**	**$ 147.93**	**$ 186,983**	**$ 46,745,827**

Fees

	Note	Market Rate Per Unit	Market Rate Budget	Note	With Assistance Per Unit	With Assistance Budget
Governmental						
Met Council Sewer Access Charges	2,485	$ 2,485	$ 621,250	2,485	$ 2,485	$ 621,250
Local Sewer Access Charges	800	$ 800	$ 200,000	800	$ 800	$ 200,000
Local Water Access Charges	800	$ 800	$ 200,000	800	$ 800	$ 200,000
Park Dedication Fee - Residential	3,000	$ 3,000	$ 750,000	3,000	$ 3,000	$ 750,000
Building Permit		$ 1,634	$ 408,459	-	$ 1,634	$ 408,459
Contingency		$ -	$ -	-	$ -	$ -
Subtotal		$ 8,719	$ 2,179,709		$ 8,719	$ 2,179,709
Legal Fees						
Legal		$ 400	$ 100,000		$ 400	$ 100,000
Lender Legal		$ 160	$ 40,000		$ 160	$ 40,000
Leasing Legal		$ -	$ -		$ -	$ -
Other		$ -	$ -		$ -	$ -
Subtotal		$ 560	$ 140,000		$ 560	$ 140,000
Professional Fees						
Lender Inspecting Architect		$ 60	$ 15,000		$ 60	$ 15,000
Cost Segregation Study		$ 100	$ 25,000		$ 100	$ 25,000
Consultant		$ 100	$ 25,000		$ 100	$ 25,000
Other		$ -			$ -	
Subtotal		$ 260	$ 65,000		$ 260	$ 65,000
Financing Fees						
Mortgage Registration Tax	40,000,000	$ 384	$ 96,000	40,000,000	$ 384	$ 96,000
Origination Fee	0.50%	$ 800	$ 200,000	0.75%	$ 1,200	$ 300,000
Appraisal		$ 48	$ 12,000		$ 48	$ 12,000
Title & Recording Fee		$ 40	$ 10,000		$ 40	$ 10,000
Closing Costs		$ 200	$ 50,000		$ 200	$ 50,000
Capital Placement Fee	*0.0%*	$ -	$ -	*0.0%*	$ -	$ -
Subtotal		$ 1,472	$ 368,000		$ 1,872	$ 468,000
Total Fees		**$ 11,011**	**$ 2,752,709**		**$ 11,411**	**$ 2,852,709**

Other Costs

	Market Rate		With Assistance	
Commissions and Leasing Costs	Per Unit	Budget	Per Unit	Budget
Broker Fee, Property Sale	$ -	$ -	$ -	$ -
Residential Leasing	$ 600	$ 150,000	$ 600	$ 150,000
Other	$ -	$ -	$ -	$ -
Subtotal	$ 600	$ 150,000	$ 600	$ 150,000
Residential FF&E				
Model Unit/Sales Office	$ 200	$ 50,000	$ 200	$ 50,000
Common Area FF&E	$ 3,000	$ 750,000	$ 3,000	$ 750,000
Fitness Equipment	$ 800	$ 200,000	$ 800	$ 200,000
Maintenance Equipment	$ 400	$ 100,000	$ 400	$ 100,000
Other	$ -	$ -	$ -	$ -
Subtotal	$ 4,400	$ 1,100,000	$ 4,400	$ 1,100,000
Promotional Costs				
Promo Design/Implementation	$ 1,000	$ 250,000	$ 1,000	$ 250,000
Celebrations	$ -	$ -	$ -	$ -
Other	$ -		$ -	
Subtotal	$ 1,000	$ 250,000	$ 1,000	$ 250,000
Misc.				
Developer Fee	$ 8,000	$ 2,000,000	$ 8,000	$ 2,000,000
Project Management	$ 2,000	$ 500,000	$ 2,000	$ 500,000
Property Taxes during Construction	$ 800	$ 200,000	$ 800	$ 200,000
As-Built Survey	$ 40	$ 10,000	$ 40	$ 10,000
Materials Testing	$ 600	$ 150,000	$ 600	$ 150,000
Builders Risk Insurance	$ 817	$ 204,229	$ 817	$ 204,229
Other	$ -	$ -	$ -	$ -
Subtotal	$ 12,257	$ 3,064,229	$ 12,257	$ 3,064,229
Interest Expense				
Construction Interest	$ 4,000	$ 1,000,000	$ 4,000	$ 1,000,000
Interest Reserve during Lease Up	$ 2,000	$ 500,000	$ 2,000	$ 500,000
Subtotal	$ 6,000	$ 1,500,000	$ 6,000	$ 1,500,000
Soft Costs Contingency	$ 400	$ 100,000	$ 400	$ 100,000
Total Other Costs	**$ 24,657**	**$ 6,164,229**	**$ 24,657**	**$ 6,164,229**
GRAND TOTAL DEVELOPMENT COSTS	**$ 248,863**	**$ 62,215,765**	**$ 249,263**	**$ 62,315,765**

SECTION G

Conclusion

What we unfortunately really have is an affordable housing finance problem. We have been unable to create a development and investment scenario that will attract significant private capital towards building affordable housing. That is the real issue that is causing the lack of affordable housing creation. If we make the process easier to understand and fairer to participate in and we provide a financial program that will work with lower front end costs, we will unleash the private market willingness to invest and create more affordable housing.

In this Section as well as the attached Exhibit A in this Section is a summary analysis that we believe makes the point as to how we can, in a simpler way, with legislative action, dramatically change the way financial assistance is provided for affordable housing development.

This analysis on Exhibit A assumes an overall review period of 15 years. Each of the three scenarios assumes the need to fund or finance a gap of $150,000 per unit, which is the low-end difference between the cost of developing a typical apartment and the amount the reduced rents at 60% AMI can support in debt. We have used for this model real estate taxes payable of $4,000 per unit. To make it easier to follow we have not included inflation in the analysis, and we have not factored in the delays for a new project to become fully assessed. In each scenario we have used the creation of 10,000 units of affordable housing in the first year and in mixed-use projects at an 80%/20% ratio that would equate to a total of 50,000 units of new housing.

The first set of columns under the “Grant Program” assumes only a government funded program of grants as the 100% solution for financing the gap. These grants could be sourced from federal, state, county or local resources or a combination thereof. To build 10,000 affordable units, within 50,000 total units using only grants to finance the gap of $150,000 per unit it would require grants totaling $1.5 billion dollars. That investment would in turn create $3 billion in paid real estate taxes over 15 years, excluding inflation, and that $3 billion equates to $2.076 billion in present value terms. The investment return to the government is fair in this simple analysis, but we recognize the political and economic difficulty in funding $1.5 billion in the first year for this type of program and the unlikely nature of diverting current tax revenue or raising taxes for it, but we offer it as a base case scenario.

The second set of columns called “Tax Increment Financing (TIF)” assumes only a TIF program as the 100% solution for financing the gap. This model assumes again the financing limits would be $1.5 billion in tax increment financing notes issued to the developers in the initial year to finance, the gap at $150,000 per unit, the 10,000 units of affordable housing within the development of 50,000 total units. After the continued payment of the pre-development taxes and the deduction of a local government administrative fee of 10% the remaining tax increment is $144 million per year and $2.16 billion over fifteen years which also equates to a present value of $1.495 billion that can be paid to the developer(s). This analysis is not perfect as the present value of the tax increment reimbursement should equal the initial total note amount, but it is close enough for this example.

Under the New Financing Option proposal, no government grants or notes are issued up front or ever. The assessed value of the property is simply reduced by half and thus the taxes payable also are reduced by half. The reduction in taxes is not initially paid, nor reimbursed as in the TIF section, but retained by the property owner thus immediately reducing the expenses of the property. This savings is used by the property to offset the lower rents for the 20% affordable units and stabilize the properties NOI and allows the property owner to finance the project sufficiently enough to cover the financing gap for the affordable units. In addition, this new program generates $1.5 billion in new tax revenue that would be available to the cities, counties, and school districts versus zero new tax revenue generated from a TIF program in the 15-year period.

This Affordable Housing Market Value Exclusion program fundamentally is about contributing or adding to the annual cash flow rather than the funding the development cost reduction of the property. This program does not require the payment of principal reduction as is the case using TIF Notes and thus also generates tax revenue immediately to the various taxing authorities that receive revenue from real estate taxes.

The Affordable Housing Market Value Exclusion program is simple to use, reduces or eliminates the costly fees to attorneys and consultants, it meets the “but for” because none of the projects using it would have happened without the program and it does not negatively impact the credit or bond ratings of the city using it. It could also be easily extended with the legislatures approval thus keeping more affordable units available for a longer period.

Although the model used herein provides for the development of 10,000 units, there are no financial limitations regarding the use of this financing option and thus this tool cold be used to significantly grow the amount of new affordable housing well beyond the capabilities of any grant or TIF related programs.

Creating and passing the necessary legislation to allow this to happen will generate thousands of additional affordable housing units without raising taxes, issuing bonds, notes or diverting funds from other programs.

PUBLIC BENEFITS COMPARED

	Government Grants Only Program			Tax Increment Financing (TIF) Only Program					"Affordable Housing Market Value Exclusion"		
Total Units	**50,000**			**50,000**					**50,000**		
Total Affordable Units	**10,000**	*built in first year*		**10,000**	*built in first year*				**10,000**	*built in first year*	
Financing Gap per Unit	**150,000**			**150,000**					**150,000**		
Total Initial Capital	**1,500,000,000**			**1,500,000,000**					**0**		
Taxes Paid per Unit	**4,000**			**4,000**					**4,000**		
Discount Rate	**5.0%**			**5.0%**					**5.0%**		
Year	**Total Amount of Grants Issued**	**Annual Taxes Paid**	**Net Government Investment**	**Annual Taxes Paid**	**Existing Tax Revenue**	**Available Tax Increment**	**Annual Admin Fee Paid to City**	**Annual Tax Increment Reimbursement**	**Annual Taxes Paid**	**Annual Assessed Value Credit**	**Annual Net Taxes to Governments**
1	1,500,000,000	200,000,000	(1,300,000,000)	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
2		200,000,000	(1,100,000,000)	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
3		200,000,000	(900,000,000)	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
4		200,000,000	(700,000,000)	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
5		200,000,000	(500,000,000)	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
6		200,000,000	(300,000,000)	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
7		200,000,000	(100,000,000)	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
8		200,000,000	100,000,000	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
9		200,000,000	300,000,000	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
10		200,000,000	500,000,000	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
11		200,000,000	700,000,000	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
12		200,000,000	900,000,000	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
13		200,000,000	1,100,000,000	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
14		200,000,000	1,300,000,000	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
15		200,000,000	1,500,000,000	200,000,000	40,000,000	160,000,000	16,000,000	144,000,000	200,000,000	100,000,000	100,000,000
Totals	**1,500,000,000**	**3,000,000,000**	**1,500,000,000**	**3,000,000,000**	**600,000,000**	**2,400,000,000**	**240,000,000**	**2,160,000,000**	**3,000,000,000**	**1,500,000,000**	**1,500,000,000**
Present Value	**1,500,000,000**	**2,075,931,608**	**575,931,608**	**2,075,931,608**	**415,186,322**	**1,660,745,286**	**166,074,529**	**1,494,670,757**	**2,075,931,608**	**1,037,965,804**	**1,037,965,804**

Increase from Grants: ***462,034,196***
Increase from TIF: ***622,779,482***

* Accounted for zero inflation, and timing for assessed values is not included

SECTION H

SENATE
STATE OF MINNESOTA
NINETY-SECOND SESSION

S.F. No. 3200

(SENATE AUTHORS: BAKK and Limmer)

DATE	D-PG	OFFICIAL STATUS
02/17/2022		Introduction and first reading Referred to Taxes

A bill for an act

relating to taxation; property; establishing an affordable housing market value exclusion; amending Minnesota Statutes 2020, sections 273.032; 273.13, by adding a subdivision; 276.04, subdivision 2; proposing coding for new law in Minnesota Statutes, chapter 273.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2020, section 273.032, is amended to read:

273.032 MARKET VALUE DEFINITION.

(a) Unless otherwise provided, for the purpose of determining any property tax levy limitation based on market value or any limit on net debt, the issuance of bonds, certificates of indebtedness, or capital notes based on market value, any qualification to receive state aid based on market value, or any state aid amount based on market value, the terms "market value," "estimated market value," and "market valuation," whether equalized or unequalized, mean the estimated market value of taxable property within the local unit of government before any of the following or similar adjustments for:

(1) the market value exclusions under:

(i) section 273.11, subdivisions 14a and 14c (vacant platted land);

(ii) section 273.11, subdivision 16 (certain improvements to homestead property);

(iii) section 273.11, subdivisions 19 and 20 (certain improvements to business properties);

(iv) section 273.11, subdivision 21 (homestead property damaged by mold);

(v) section 273.13, subdivision 34 (homestead of a veteran with a disability or family caregiver); ~~or~~

(vi) section 273.13, subdivision 35 (homestead market value exclusion); or

(vii) section 273.13, subdivision 36 (affordable housing market value exclusion); or

(2) the deferment of value under:

(i) the Minnesota Agricultural Property Tax Law, section 273.111;

(ii) the Aggregate Resource Preservation Law, section 273.1115;

(iii) the Minnesota Open Space Property Tax Law, section 273.112;

(iv) the rural preserves property tax program, section 273.114; or

(v) the Metropolitan Agricultural Preserves Act, section 473H.10; or

(3) the adjustments to tax capacity for:

(i) tax increment financing under sections 469.174 to 469.1794;

(ii) fiscal disparities under chapter 276A or 473F; or

(iii) powerline credit under section 273.425.

(b) Estimated market value under paragraph (a) also includes the market value of tax-exempt property if the applicable law specifically provides that the limitation, qualification, or aid calculation includes tax-exempt property.

(c) Unless otherwise provided, "market value," "estimated market value," and "market valuation" for purposes of property tax levy limitations and calculation of state aid, refer to the estimated market value for the previous assessment year and for purposes of limits on net debt, the issuance of bonds, certificates of indebtedness, or capital notes refer to the estimated market value as last finally equalized.

(d) For purposes of a provision of a home rule charter or of any special law that is not codified in the statutes and that imposes a levy limitation based on market value or any limit on debt, the issuance of bonds, certificates of indebtedness, or capital notes based on market value, the terms "market value," "taxable market value," and "market valuation," whether equalized or unequalized, mean "estimated market value" as defined in paragraph (a).

EFFECTIVE DATE. This section is effective beginning with assessment year 2023.

Sec. 2. **[273.129] AFFORDABLE HOUSING MARKET VALUE EXCLUSION PROGRAM; ESTABLISHMENT.**

Subdivision 1. **Definitions.** (a) For purposes of this section, the following terms have the meanings given, unless otherwise indicated.

(b) "City" means a statutory or home rule charter city.

(c) "Governing body" means the governing body of a statutory or home rule charter city.

(d) "Market value" has the meaning given in section 272.03, subdivision 8.

(e) "Property" means a residential rental housing property classified as class 4a under section 273.13, subdivision 25, a portion of which is occupied by residents meeting the income requirement under subdivision 4.

Subd. 2. **Establishment.** An affordable housing value exclusion program is established to promote the development and redevelopment of affordable rental properties in the state. Eligible properties located in participating cities are eligible to receive a market value exclusion of 50 percent.

Subd. 3. **Approval.** (a) The governing body of a city may, upon approval by a majority vote of its members, adopt a resolution agreeing to participate in the affordable housing market value exclusion program. Prior to approval, the governing body must publish notice of its intent to discuss the resolution at a regularly scheduled meeting, in a newspaper with general circulation in the city at least twice, not less than 30 days prior to the meeting. The notice must include the date, time, and location of the meeting at which the program will be discussed and public input allowed.

(b) After a city has adopted a resolution agreeing to participate in the program, the city must adopt a separate resolution, subject to the same voting, notice, and public hearing requirements under paragraph (a), for each property the governing body approves to receive the affordable housing valuation exclusion. The resolution must state the valuation exclusion percentage of 50 percent which the property shall receive, and which shall remain the same each year, subject to the duration limit under subdivision 5.

Subd. 4. **Eligibility.** (a) A property located in a participating city is eligible for the affordable housing value exclusion applied under section 273.13, subdivision 36, if:

(1) the property is not classified in whole or in part as class 4d under section 273.13, subdivision 25;

(2) construction of the property began on or after January 1, 2022; and

(3) the Minnesota Housing Finance Agency certifies to the county or local assessor that:

(i) at least 20 percent of the units in the property are available for residents whose household income at the time of initial occupancy does not exceed 60 percent of the greater of area or state median income, adjusted for family size, as determined by the United States Department of Housing and Urban Development; and

(ii) at least 80 percent of the available units in the property are occupied by residents meeting the income requirement.

(b) By February 1 each assessment year, an application for certification under this subdivision must be filed by the property owner to the Minnesota Housing Finance Agency. The property owner must provide a copy of the application to the county or city assessor. The application must be filed on a form prescribed by the agency and must contain the property tax identification number, evidence that the property meets the requirements of paragraph (a), and any other information necessary for the Minnesota Housing Finance Agency to determine eligibility. The Minnesota Housing Finance Agency may charge an application fee approximately equal to the costs of processing and reviewing the applications. If imposed, the applicant must pay the application fee to the Minnesota Housing Finance Agency and the fee must be deposited in the housing development fund.

(c) By March 1 each assessment year, the Minnesota Housing Finance Agency must certify to the appropriate county or city assessor:

(1) the specific properties, identified by parcel identification numbers, that are eligible under this section to receive the exclusion for the current assessment year; and

(2) the specific properties, identified by parcel identification numbers, that received the exclusion in the previous assessment year but no longer meet the requirements under this section.

In making the certification, the Minnesota Housing Finance Agency must rely on the property owner's application and any other supporting information that the agency deems necessary.

Subd. 5. **Duration.** The governing body of a participating city shall determine the duration of the affordable housing value exclusion for each eligible property, provided that the exclusion applies for at least ten but not more than 20 assessment years, except that when a property no longer meets the requirements of subdivision 4, the exclusion shall be removed at the beginning of the next assessment year.

EFFECTIVE DATE. This section is effective beginning with assessment year 2023.

Sec. 3. Minnesota Statutes 2020, section 273.13, is amended by adding a subdivision to read:

Subd. 36. **Affordable housing value exclusion.** (a) Prior to determining a property's net tax capacity under this section, property classified as class 4a under subdivision 25, paragraph (a), shall be eligible for an affordable housing market value exclusion as determined under paragraph (b).

(b) For a property that meets the requirements under section 273.129, the exclusion is 50 percent of the market value. The valuation shall be rounded to the nearest whole dollar, and may not be less than zero.

(c) Any valuation exclusions or adjustments under section 273.11 shall be applied prior to determining the amount of the valuation exclusion under this subdivision.

EFFECTIVE DATE. This section is effective beginning with assessment year 2023.

Sec. 4. Minnesota Statutes 2020, section 276.04, subdivision 2, is amended to read:

Subd. 2. **Contents of tax statements.** (a) The treasurer shall provide for the printing of the tax statements. The commissioner of revenue shall prescribe the form of the property tax statement and its contents. The tax statement must not state or imply that property tax credits are paid by the state of Minnesota. The statement must contain a tabulated statement of the dollar amount due to each taxing authority and the amount of the state tax from the parcel of real property for which a particular tax statement is prepared. The dollar amounts attributable to the county, the state tax, the voter approved school tax, the other local school tax, the township or municipality, and the total of the metropolitan special taxing districts as defined in section 275.065, subdivision 3, paragraph (i), must be separately stated. The amounts due all other special taxing districts, if any, may be aggregated except that any levies made by the regional rail authorities in the county of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, or Washington under chapter 398A shall be listed on a separate line directly under the appropriate county's levy. If the county levy under this paragraph includes an amount for a lake improvement district as defined under sections 103B.501 to 103B.581, the amount attributable for that purpose must be separately stated from the remaining county levy amount. In the case of Ramsey County, if the county levy under this paragraph includes an amount for public library service under section 134.07, the amount attributable for that purpose may be separated from the remaining county levy amount. The amount of the tax on homesteads qualifying under the senior citizens' property tax deferral program under chapter 290B is the total amount of property tax before subtraction of the deferred property tax amount. The amount of the tax on contamination value imposed under sections 270.91

to 270.98, if any, must also be separately stated. The dollar amounts, including the dollar amount of any special assessments, may be rounded to the nearest even whole dollar. For purposes of this section whole odd-numbered dollars may be adjusted to the next higher even-numbered dollar. The amount of market value excluded under section 273.11, subdivision 16, if any, must also be listed on the tax statement.

(b) The property tax statements for manufactured homes and sectional structures taxed as personal property shall contain the same information that is required on the tax statements for real property.

(c) Real and personal property tax statements must contain the following information in the order given in this paragraph. The information must contain the current year tax information in the right column with the corresponding information for the previous year in a column on the left:

(1) the property's estimated market value under section 273.11, subdivision 1;

(2) the property's homestead market value exclusion under section 273.13, subdivision 35, or the affordable housing market value exclusion under section 273.13, subdivision 36;

(3) the property's taxable market value under section 272.03, subdivision 15;

(4) the property's gross tax, before credits;

(5) for agricultural properties, the credits under sections 273.1384 and 273.1387;

(6) any credits received under sections 273.119; 273.1234 or 273.1235; 273.135; 273.1391; 273.1398, subdivision 4; 469.171; and 473H.10, except that the amount of credit received under section 273.135 must be separately stated and identified as "taconite tax relief"; and

(7) the net tax payable in the manner required in paragraph (a).

(d) If the county uses envelopes for mailing property tax statements and if the county agrees, a taxing district may include a notice with the property tax statement notifying taxpayers when the taxing district will begin its budget deliberations for the current year, and encouraging taxpayers to attend the hearings. If the county allows notices to be included in the envelope containing the property tax statement, and if more than one taxing district relative to a given property decides to include a notice with the tax statement, the county treasurer or auditor must coordinate the process and may combine the information on a single announcement.

EFFECTIVE DATE. This section is effective beginning with assessment year 2023.

Kelly Doran

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Kelly Doran is widely regarded as one of the leading developers of high-end residential and retail communities in the Twin Cities. With nearly 40 years of experience, his nuanced understanding of the market combined with his relationships and tenacity ensure his projects not only succeed, but that they are recognized for their superior level of quality, design, popularity, and lasting value.

Throughout his career, Kelly has developed dozens of major retail and multi-family projects with an aggregate value into the billions. With a currently owned real estate portfolio valued at over $1 billion, Kelly has received widespread recognition as both a leader and a developer. Kelly is the recipient of numerous awards including being named "The Most Admired CEO" by the Minneapolis-St. Paul Business Journal, "Executive of the Year" by the Minnesota Real Estate Journal and inducted into the Minnesota Shopping Center's Hall of Fame, the Twin Cities Business' Hall of Fame, and the Business Journals' National Influencers List in Commercial Real Estate.

A Minneapolis native, Kelly attended Minneapolis Public Schools and the University of Minnesota where he earned a bachelor's degree and a master's degree in finance. Proud of his deep roots in the city, he has shared his success with many donations to education institutions, including Southwest High School, the University of Minnesota, Augsburg University and Summit Academy, and has provided numerous scholarships for disadvantaged students from the Minneapolis School District to attend college.

Kelly currently lives in Minneapolis with his wife Connie, with whom he shares six adult children.