



# Rochester-Olmsted County 4(d) Affordable Housing Incentive Program

## **Program Guidance**

The Rochester-Olmsted County Affordable Housing Incentive program is a partnership among the City of Rochester, Olmsted County, and the Olmsted County Housing and Redevelopment Authority (OCHRA). The program is administered by OCHRA staff and applications are accepted annually between November and January. Enrollment documents for eligible properties are sent in February and are due to OCHRA mid-March. To participate in the program, please visit [olmstedcountyhousing.com](http://olmstedcountyhousing.com) for application materials.

## **What is the 4(d) Property Tax Classification?**

Low-income rental property is entitled to valuation and classification as 4(d) property if at least 20% of the rental housing property meets any of the following qualifications:

- Units are subject to a housing assistance payment contract under Section 8 of the United States Housing Act of 1937 as amended;
- Units are rent-restricted and income-restricted units of a qualified low-income housing project receiving tax credits under section 42(g) of the Internal Revenue Code of 1986 as amended;
- Units are financed by the Rural Housing Service of the United States Department of Agricultural and receive payments under the rental assistance program pursuant to Section 521(a) of the Housing Act of 1949 as amended; or
- Units are subject to rent and income restrictions under the terms of financial assistance provided to the rental housing property by the federal government, the State of Minnesota, or a local unit of government as evidenced by a document recorded against the property.

The 4(d) tax class qualifying properties are identified by MN Housing on a yearly basis, and the list is sent to the County Assessors so that the 4(d) tax class can be placed on the properties. These properties typically involve a subsidy such as tax credits, revenue bonds or some other MN Housing program funding assistance.

Properties taxed under the 4(d) classification are at the .75%, rate which is approximately a 40% reduction from the general multifamily housing tax rate classification of 1.25%. In return for the tax reduction, the property owner agrees to keep the property affordable for a 10-year period.

On average, a unit would see a property tax reduction of between \$300-\$600/unit per year. However, prior to participation, property owners are encouraged to individually explore the potential savings.

## **Using the 4(d) Property Tax Classification as a Housing Preservation Tool**

The intent of this program is to utilize the 4(d) property tax classification in a voluntary manner with property owners who wish to see their property tax bill reduced. In return for this reduced tax bill, the property owner will agree to restrict their rents and annual rental increases.

## **Rent Limits**

Addendum 1 will be annually updated to show maximum rents for units applying to enroll in the program for each calendar year. At application, contract rent for units applying to enroll in the program must be at or below the Payment Standard Rents for the Housing Choice Voucher Program or 30% of 60% of Area Median Income (AMI), whichever is lower.

Addendum 2 will be annually updated to show maximum rents for enrolled units. Maximum ongoing rents for enrolled units must not exceed 30% of 60% of the AMI, adjusted for family size, as determined by the United States Department of Housing and Urban Development (HUD). These amounts are set annually by HUD.

## **Annual Rent Increases**

The property owner must agree to cap rent increases for current tenants in enrolled units to 6% annually. If the unit turns over, a larger rent increase is allowable if the rent for the unit is below the rent limit.

## **Eligible properties**

Any multifamily property with four (4) or more units that has a valid City of Rochester Housing Registration Certificate is eligible for the program. Units applying to enroll in the program must be at or below program rent limits. A property may be included in the program if 20% or more of the units are restricted. The tax reduction is only applicable for units included in the program.

## **Eligible Tenants**

Existing tenants in units that have program compliant rents do not need to be income qualified. As units turnover, income qualification for tenants is determined upon initial occupancy by the property manager and must be at or below 60% area median income, adjusted for household size. Thereafter, increased incomes of tenants in affordable units will not violate the program requirements.

Addendum 3 will be annually updated to show updated income requirements at initial occupancy.

## **Term of the Agreement**

The agreement will be in effect for 10 years. If the property is sold during that time, the agreement must be passed on to the new property owner.

## **Housing Choice Vouchers**

Any participant in the program must agree to accept Housing Choice Vouchers as a form of payment.

## **Program Applications**

Applications for participation in the Rochester-Olmsted County Affordable Housing Incentive program will be accepted between November 3 through January 31.

MN Housing charges a \$10 per unit application fee. For the first year of program participation, the application fee will be paid by OCHRA. In subsequent years, the application and renewal fees will be the responsibility of the property owner.

## **Program Compliance**

Verified income and monthly rent charged for 4(d) units must be recorded on the Annual Compliance form. OCHRA will review this document for completion. The Annual Compliance form should reflect all activity for the taxable year. For the first year of participation, this time period will be the date of your declaration through 12/31. In addition to submitting the Annual Compliance form, a valid City of Rochester Housing Registration Certificate for the property with enrolled 4(d) units must be submitted to OCHRA.

## **Out of Compliance**

Rent is over the 60% area median income limit or increases by more than 6% in one year without turning over a new tenant.

- Property owner is required to lower the rent, refund any rent overcharges to come back into compliance, and provide an updated rent and income spreadsheet showing the new rent for that unit.
- For the 1<sup>st</sup> year that a property has units that are out of compliance
  - The property owner will not be able to claim the Low Income Rental Classification (LIRC) status, also known as the 4(d) tax rate, on the out of compliance unit(s) for the following year.
  - The property owner must refund any rent paid by the tenant over the 60% AMI rent limit and/or over the 6% annual increase limit, back to the tenant. The property owner must provide a letter signed by both the property owner and the tenant stating that the rent has been returned to the tenant. The letter must specify the amount of rent returned. Copies of this letter must be submitted to 4(d) program staff.
- For the 2<sup>nd</sup> year that a property has units that are out of compliance
  - The property owner will not be able to claim LIRC status on the out of compliance unit(s) for the following year.
  - Property owner must refund any rent paid by the tenant over the 60% AMI limit and/or over the 6% annual increase limit.
  - Property owner will pay a \$500 annual fine to OCHRA for each unit that is out of compliance starting the 2<sup>nd</sup> year that a property has units that are out of compliance.

Over-income tenant: a tenant moves in with an income over the 60% AMI limit. Please note that all tenants in place before the effective date on declaration are not required to income qualify.

- For the 1st year that a property has units that are out of compliance
  - Property owner will not be able to claim LIRC status on any out of compliance units the next application year and cannot claim LIRC status for any year on that unit until an eligible tenant moves into the unit.
- For the 2nd year, and for any additional years, that a property has units that are out of compliance
  - Property owner cannot claim LIRC status on out of compliance units.
  - Property owner must pay a \$500 annual fine for each out of compliance until an income eligible tenant moves into that unit. Fines will be assessed annually after compliance reports are submitted on January 31, and fines will be due within 30 days of the notice of a fine.

Subletting and short term rentals

- Short term rentals (less than 30 days) in 4(d) program units are not allowed.
- Subleases arranged by tenants are not allowed. However, the owner of the property may facilitate a subleasing arrangement as long as the income of the sublessee is verified prior to move-in and is reported on OCHRA's annual 4(d) compliance form.
- If a unit is subletting without income verification, or if short term rental activity takes place at a property, the owner cannot claim LIRC status for units with subleasing or short term rental activity.

All other violations of program requirements not specifically described above (e.g. the property not having a valid City of Rochester Housing Registration Certificate, etc.) may result in a temporary or permanent loss of LIRC status for the units or property in question.

# Addendum 1

Maximum Rents at Application

Program Year 2022-2023				
0 Bedroom	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
805	951	1,203	1,420	1,555

# Addendum 2

## Maximum Rents for Enrolled Units

Program Year 2022-2023						
1 Person Household	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person
1,047	1,196	1,346	1,495	1,615	1,735	1,855

Maximum ongoing rents for enrolled units must not exceed 30% of 60% of the AMI, adjusted for family size.

# Addendum 3

Maximum Income for Tenants in Enrolled Units at Initial Occupancy

## INCOME LIMITS - EFFECTIVE 4-01-21

Median Income \$99,700 (huduser.gov)

	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
60%	41,900	47,850	53,850	<b>59,800</b>	64,600	69,400	74,200	79,000