



**CONCURRENT CITY COUNCIL AND HRA WORK SESSION
RICHFIELD MUNICIPAL CENTER, BARTHOLOMEW ROOM
AUGUST 19, 2019
5:45 PM**

Call to Order

1. Consideration of Rental Housing Work Plan and Priorities.

Adjournment

Auxiliary aids for individuals with disabilities are available upon request. Requests must be made at least 96 hours in advance to the City Clerk at 612-861-9738.

**STAFF REPORT NO. 7****WORK SESSION****8/19/2019**

REPORT PREPARED BY: Julie Urban, Housing Manager

DEPARTMENT DIRECTOR REVIEW: John Stark, Community Development Director
8/5/2019

OTHER DEPARTMENT REVIEW:

CITY MANAGER REVIEW: Katie Rodriguez, City Manager
8/14/2019**ITEM FOR WORK SESSION:****Consideration of Rental Housing Work Plan and Priorities.****EXECUTIVE SUMMARY:**

In 2018, policymakers adopted goals and a work plan for strengthening the City's apartment communities. The attached work plan shows the items that have been accomplished, those that are in process, and several that remain on the list for future consideration.

On July 23, 2019 the Council approved 2019-2020 Goals and Objectives including the following goal for housing: Provide a full range of quality housing options through our policies and programs.

At the work session, staff will facilitate a discussion of the following items to inform a work plan and related action steps:

1. Shared Expectations: The City has a significant amount of rental housing affordable to households earning between 31 and 80% of the Area Median Income, but not as much affordable for those earning less than 30% and over 80%. Discussing shared expectations of the ideal amount of rental housing affordable across the spectrum of incomes will provide an appropriate context for discussions about property tax reductions for affordable housing and the City's Inclusionary Housing Policy.
2. 4d Tax Classification: The attached 4d Fact Sheet provides a background of the 4d tax classification, its use in Richfield, the tax implications, information on programs in other communities, and options to consider. Staff will review the 4d Fact Sheet at the work session and lead a discussion about possible use of 4d as a tool for preserving and improving apartments in Richfield.
3. Inclusionary Housing Policy: The Policy was adopted in 2019 and applies only to projects receiving City financial assistance, which at that time, covered most projects in the City. Several apartment projects have since been proposed to be developed without City assistance, so it is appropriate to review the existing policy and determine if adjustments are warranted.
4. Priorities: Policymakers will be asked to review the future items for discussion and prioritize which should be considered for action in the remainder of 2019 and into 2020.

DIRECTION NEEDED:

1. Review future items for discussion, and prioritize items for a work plan and related action steps.

2. Provide direction regarding a potential 4d program or policy.
3. Provide direction regarding potential changes to Inclusionary Housing Policy, if time allows.

BACKGROUND INFORMATION:

A. HISTORICAL CONTEXT

- On May 21, 2018, the Council and Housing and Redevelopment Authority (HRA) reviewed a work plan for NOAH preservation and strengthening Richfield apartment communities. The following priorities were identified: adoption of a tenant protection ordinance, an Inclusionary Housing Policy, and a local Fair Housing Policy, and consideration of a 4d policy/program to encourage preservation and leverage improvements.
- In September 2018, the Council adopted a three-month Tenant Protection Ordinance.
- In October 2018, the Council, HRA and Economic Development Authority (EDA) adopted an Inclusionary Housing Policy.
- In December 2018, the Council, HRA and EDA adopted a local Fair Housing Policy.

B. POLICIES (resolutions, ordinances, regulations, statutes, etc):

In 2018, policymakers adopted the following four goals for strengthening apartment communities to inform the rental housing work plan:

1. Preserve and improve the quality of existing affordable housing while discouraging displacement of our residents.
2. Diversify the housing stock through targeted redevelopment to provide a variety of rental housing opportunities at a range of income levels.
3. Strengthen protections for renters in order to promote housing stability.
4. Provide support to renters and apartment owners and managers to facilitate successful apartment communities.

On July 23, 2019 the Council approved the following 2019-2020 Goal and related Objectives. Housing: Provide a full range of quality housing options through our policies and programs.

1. Identify and support an optimal mix of housing to serve all residents' needs.
2. Continue to implement affordable housing tools and investigate additional methods to address unmet housing needs, including very affordable housing and accessible housing.
3. Maintain and improve the quality and safety of the City's housing stock, especially naturally occurring affordable housing (NOAH).
4. Work towards closing the racial disparity gap in home ownership.
5. Strengthen the City's rental housing environment and communicate its value to the community.

C. CRITICAL TIMING ISSUES:

- A work plan and related action steps for the remainder of 2019 and 2020 should be established.
- A 4d program would need to be adopted this Fall in order to advertise, receive, and process applications in time for the March 31 deadline to Minnesota Housing.

D. FINANCIAL IMPACT:

Financial impacts of work plan items will be discussed at the work session.

E. LEGAL CONSIDERATION:

Legal issues relating to the work plan items will be discussed at the work session.

ALTERNATIVE(S):

N/A

PRINCIPAL PARTIES EXPECTED AT MEETING:

N/A

ATTACHMENTS:

Description	Type
□ Work Plan	Backup Material
□ 4d Fact Sheet	Backup Material

Strengthening Richfield Apartment Communities Work Plan

Items Completed:

- ✓ Define Goals. (2017)
- ✓ Apply NOAH Preservation strategies to any project receiving HRA/City assistance that includes affordable units. (2017-)
- ✓ Meet with landlords and with tenants to solicit feedback. (2017-2018)
- ✓ Increase funding for Kids @ Home Program through the EDA budget. (2018)
- ✓ Create Apartment Rehab Financing Program. (3/18)
- ✓ Building Permit Fee Reduction. (2/18)
- ✓ Create down payment assistance program targeted to renters. (6/18)
- ✓ Adopt 90-day Tenant Protection Ordinance. (2018)
- ✓ Adopt Inclusionary Housing Policy. (10/18)
- ✓ Adopt local Fair Housing Policy. (12/18)
- ✓ Identify NOAH housing and those buildings at risk of conversion. (1/19)
- ✓ Sell HRA-owned land/support tax credit application for 55 units of work force housing with 4-6 units for people with disabilities/at 30% AMI. (5/19)

Current Items for Action:

1. Create pilot "Apartment Liaison" program at Richfield Towers. Develop broader program for 2020 implementation.
2. Research accessible housing needs and ways to incorporate standards into existing programs, new developments.
3. Research potential 4d Program and/or policy.
4. Develop shared expectations for affordable housing.
5. Develop strategies and communications plan regarding the need for affordable housing and the value of all residents. [Fall]

Future Items for Discussion:

1. Consider possible revisions to Inclusionary Housing Policy.
2. Explore ways to increase supply of housing affordable at 30% of the AMI.
3. Research just-cause non-renewal in cases of mass non-renewals.
4. Research just-cause non-renewal during winter months (Cold Weather Rule).
5. Identify buildings in need of physical/management improvements; City response team.
6. Create & implement tenant education programs.
7. Promote voluntary Legacy program.
8. Consider adoption of point-of-sale inspection program for rental housing.

Low-Income Rental Classification Program – “4d”

Summary

The State of Minnesota provides a property tax break for subsidized rental properties under the Low Income Rental Classification Program (LIRC), commonly referred to as the “4d” program. 4d is one of several tax classifications the State of Minnesota applies to rental property. Class 4d property is taxed at a class rate of 0.75%, approximately 40% less than other classifications.

Non-subsidized properties are eligible for the 4d tax classification when a property meets two conditions:

1. The property owner agrees to rent and income restrictions serving households at 60% of the AMI or below.
2. The property receives financial assistance from federal, state or local government requiring rent and income restrictions.

At least 20% of the units must meet the income requirements. The 4d tax status applies only to the rent/income-qualifying units. The application deadline to Minnesota Housing is March 31 of each year for taxes payable the following year.

Background

The LIRC Program was created in 1999 and originally included subsidized properties and non-subsidized properties (“pledged” properties) where owners agreed to rent and income restrictions. The program was repealed by the Legislature in 2003 and then restored in 2005 but without the “pledged” property category. The Legislative Auditor had concluded that most rents weren’t anywhere near the rent ceiling of 60% of AMI, so the owners were receiving a tax break, but the public wasn’t receiving anything in return. Minnesota Housing has determined that non-subsidized properties are still eligible if a property is receiving public financial assistance that requires rent and income restrictions. (Housing Preservation Project report, 2015)

Savings to Property Owners (Cost to Other Taxpayers)

- Non-4d apartments have a tax class rate of 1.25%
- Units classified as 4d have a tax class rate of 0.75% (for the first tier)

Example:

42-unit building valued at \$3,453,000

Non-4d property taxes paid in 2019:

$\$3,453,000 \times 0.125 = \$43,163$ tax capacity

Taxes = \$65,478

4d property taxes (all units):

$\$3,453,000 \times .0075 = \$25,898$ tax capacity

Taxes = \$39,287

TOTAL SAVINGS/COST = \$26,191 (\$623/unit)

A bill that would reduce the class rate for affordable rental housing from 0.75% to 0.25% was introduced at the Legislature this year. While it didn't pass this session, it could be reintroduced in future sessions.

<i>Example:</i>	
42-unit building valued at \$3,453,000	
<u>Non-4d property taxes paid in 2019:</u>	<u>4d property taxes (all units):</u>
\$3,453,000 x 0.125 = \$43,163 tax capacity	\$3,453,000 x .0025 = \$8,633 tax capacity
Taxes = \$65,478	Taxes = \$13,381
TOTAL SAVINGS/COST = \$52,097 (\$1,240/unit)	

Current 4d Properties in the City

- Several properties in the City are classified as 4d as a matter of right:

Richfield Towers
 Sheridan Court
 Robert Will
 Lynwood Commons (20%)
 Lyndale Plaza (20%)

- The City has approved the 4d classification for one property:

Seasons Park

- The total savings/cost of properties currently classified as 4d is \$720,000*. The City portion of the taxes is \$247,000.

*Minus Lyndale Plaza, which is in a Tax Increment District.

4d Programs in other Cities

Minneapolis, St. Paul, St. Louis Park, and Edina have approved 4d programs. All programs are modeled after the program developed by the City of Minneapolis. The programs offer a modest-sized grant and 4d property tax status in exchange for preserving affordability.

	Income Limits	Benefits	Time Limit	Building Size	Other
Minneapolis	20% of the units at 60% AMI	\$150 application fee Grant of \$100/unit Max grant = \$1,000	10 years	2+	Energy assessment and improvements encouraged Rent increases for existing tenants < 6% annually
St Paul	20% at 60% AMI (preference to 50%)	\$150 application fee Grant of \$100/unit Max grant = \$1,000	10 years	2+	Rent increases for existing tenants < 3% annually
St Louis Park	20% at 60% AMI	\$150 application fee Grant of \$200/unit Max grant = \$6,000	10 years	3+	Rent increases for existing tenants < 5% annually Energy assessment required Energy improvements encouraged

Edina	20% at 60% AMI	Grant of \$100/unit Max grant = \$5,000 Max grant for energy improvements = \$30,000	15 years	4+	Rent increases for existing tenants < 6% annually Energy assessment and improvements encouraged
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Rent Limits

---- Maximum Gross Rents by Bedroom Size (4/24/19) ----

	0	1	2	3	4
50% AMI	875	937	1,125	1,300	1,450
60% AMI	1,050	1,125	1,350	1,560	1,740
70% AMI	1,225	1,312	1,575	1,820	2,030

Questions/Concerns

- What are the benefits to the City?
- Savings for apartment owners shifts the tax burden to other tax payers (approx. 1/3 to all Hennepin County taxpayers; 2/3 to Richfield residents). What amount is too much?
- Does the benefit outweigh the cost?
- Are we inadvertently encouraging higher rents?
- If tied to the Apartment Remodeling Program, do the paperwork requirements act as a disincentive and make it less likely for owners to use this money?
- How much funding would be enough for a Minneapolis-style program? Is it worth funding out of our declining resources?

Options

1. Create a program similar to Minneapolis, et al, with grants for preserved units and optional energy efficiency assessments/improvements.
2. Create a program allowing 4d status for recipients of the Economic Development Authority's Apartment Remodeling Program Loan. Require rents at 50% of the AMI.
3. Create a policy allowing for consideration of 4d status when NOAH units are preserved and improvements are made to the property.
4. Continue to consider requests for 4d status on a case-by-case basis.