

2025-2026



# 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 classification 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. The current Rochester-Olmsted County 4(d) Affordable Housing Incentive Program application is for the Tax Assessment Year 2025 - Tax Payable Year 2026, the tax savings for this application will not be realized until the Tax Payable Year 2026.

Properties taxed under the 4(d)1 classification are at the .25% rate which is approximately an 80% 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.

Minnesota Statute 273.128 provides those qualifying low-income rental properties, including those enrolled in the Rochester-Olmsted County 4(d) Affordable Housing Incentive Program, are eligible for 4d tax classification under Minnesota Statutes 273.13, subd. 25(e) and (f).

Property owners are encouraged to individually explore the potential savings, below is an example for illustration:

A 30-unit building with a \$50,000 annual property tax bill would save \$111/ month for each unit in the 4(d) program, under the 4(d)1 tax classification. The owner would save between \$8,000 - \$40,000 annually depending on the number of participating units.

$$\$50,000 \text{ taxes} / 30 \text{ units} = \$1,667 \text{ Annual tax per non-4d unit}$$

$$\$1,667 * 0.2 = \$333 \text{ Annual tax per 4d unit}$$

$$\$1,334 \text{ Annual savings per unit}$$

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

The intent of this program is to utilize the 4(d)1 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 the 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 (Addendum 1) Payment Standard Rents for the Housing Choice Voucher Program or (Addendum 2) 30% of 60% of Area Median income (AMI), whichever is lower.

Preservation Project: If the project is a preservation project, the rents must be the lower of the two numbers found in Addendum 1 and Addendum 2.

Affordable Housing Creation New Construction: If the project is new construction, the rent may be either at or below the (Addendum 1) Payment Standard Rents for the Housing Choice Voucher Program **or** (Addendum 2) 30% of the 60% of Area Median Income.

Addendum 2 will be updated annually to show the maximum rent 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.

## **Household Income Limits**

Addendum 3 will be updated annually for the income of units applying to enroll in the program for each calendar year. At application, contracts for units applying to enroll in the program must be at or below 60% of the Area Median Income 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 unless approved by the Olmsted County Housing and Redevelopment Authority Housing Director or their designee. 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 to 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.

## **Affordable Housing Creation**

A secondary goal of the 4(d) program is to support new construction development projects that provide a minimum percentage of affordability.

New construction is defined as any program eligible property that has a Multi-Family Building (New) Permit issued and has received the original building Certificate of Occupancy after January 1, 2025.

In recognition of the significant rise in construction costs including land, materials, and labor, the program is now available for developers and builders who agree to keep a minimum of 20% of their building units affordable to households making 60% of Area Median Income (AMI), for ten years to achieve a reduced property tax bill on those designated units as of January 1, 2025. In return for this reduced tax bill, the property owner will agree to restrict contracts for affordable units by household income and to cap annual rental increases.

## **Program Applications**

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

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.

The owner of a property certified as a 4(d)1 classification under this section must use the property tax savings received from the 4(d)1 classification for one or more of the following eligible uses:

- Property maintenance
- Property Security
- Improvements to the property
- Rent stabilization.
- Increases to the property's replacement reserve account.

To maintain the 4(d)1 tax classification, the property owner must annually reapply and certify to the Housing Finance Agency that the property tax savings were used for one or more eligible uses in the prior year.

## **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)1 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 owners cannot claim LIRC status on out-of-compliance units.
  - Property owners 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.

### **Modifications to 4d Program Commitments**

Property owners can reduce the number of units in the 4d program if they originally opted for a higher than required level of participation (minimum commitment of 20% affordable units) in the program.

A property owner can also choose an "early opt-down" for any units enrolled in the 4d program if they pay a \$2,000 opt-down fee per unit removed from the program. Please note the following:

- This early opt-down fee applies to units removed from the declaration prior to the 5 year period as described in the declaration.
- The property owner can reduce the number of units after 5 years without paying an early opt-down fee.
- Under all circumstances at least 20% of units in the building must remain in the 4d program per the minimum requirements of the program guidelines.

### **4(d) Government Data Practices Act Disclosure Statement**

All adult applicants that are applying to units that receive the 4(d) tax reduction must complete the 4(d) Government Data Practices Act Disclosure Statement at application. The disclosure statement remains in effect for as long as the household occupies a unit in the property.

# Addendum 1

Maximum Rents at Application

<b>Program Year 2025-2026 Effective November 2024</b>						
<b>0 Bedroom</b>	<b>1 Bedroom</b>	<b>2 Bedroom</b>	<b>3 Bedroom</b>	<b>4 Bedroom</b>	<b>5 Bedroom</b>	<b>6 Bedroom</b>
\$895	\$1,015	\$1,260	\$1,775	\$2,140	\$2,460	\$2,785



# Addendum 2

## Maximum Rents for Enrolled Units

Program Year 2025-2026 - Effective June 1, 2024 *dates subject to change						
<b>1 Person Household</b>	<b>2 Person</b>	<b>3 Person</b>	<b>4 Person</b>	<b>5 Person</b>	<b>6 Person</b>	<b>7 Person</b>
\$1,231	\$1,407	\$1,582	\$1,758	\$1,899	\$2,040	\$2,181

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

Program Year 2025-2026 - Effective 6/15/2023 * dates subject to change						
<b>1 Person Household</b>	<b>2 Person</b>	<b>3 Person</b>	<b>4 Person</b>	<b>5 Person</b>	<b>6 Person</b>	<b>7 Person</b>
\$49,260	\$56,280	\$63,300	\$70,320	\$76,960	\$81,600	\$87,240

60% of the Area Median Income (AMI).