

Memorandum

TO: City Council

FROM: Niki Hill, AICP , Assistant Community Development Director

DATE: March 17, 2025

SUBJECT: 4D Affordable Housing Incentive Program - Participation Agreement - Scandia Shores (Avinity)

ITEM NUMBER: 8.m

SECTION: CONSENT AGENDA

REQUESTED MOTION

To approve the 4D Participation Agreement with Avinity for Scandia Shores located at 418 Highway 96, and to adopt Resolution 25-22, approving the submission of the application for the 4D Low-Income Rental Classification.

INTRODUCTION

Earlier in 2024, the city received an inquiry from Avinity regarding setting up a 4D affordable housing incentive program in order for them to utilize the Low-Income Rental Classification (LIRC) / 4D tax classification for their Scandia Shores property located at 418 Highway 96. This senior housing property was assisted by the city through a housing tax increment district, which supported affordable rental units. The housing district has since expired and the ownership wants to continue to provide affordable housing options with restricting rents for 40% of their units based on 60% area median income (AMI), but to do so requires participation in the 4D program.

The city adopted a 4D program in December of 2024 to help this complex, and others who may be interested in providing affordable units. Minnesota Statutes 273.128 provides that qualifying low-income rental properties are eligible for a property use classification that has a lower tax class rate thereby reducing the property tax obligation for a qualifying property. The LIRC statute specifies the type of properties that are eligible and requirements to receive the reduced tax class rate. By participating in city 4D program, that property can now become eligible for the tax rate.

DISCUSSION

This is the first applicant for the city's 4D program. The following report and attachments give a brief overview of what the 4D Program is statutorily and what our program includes.

Program Information

This classification reduces the property's tax class rate which reduces the amount of property tax due. The property tax savings must only be used on one or more eligible uses. These include:

- Property maintenance
- Property security

- Improvements to the property
- Rent stabilization
- Increases to the property's replacement reserve account

In order for a property or unit to be eligible for the LIRC program at least 20% of the units must meet one or more of the criteria presented in the statute at the time the application is submitted. These criteria include:

- The units are subject to a project-based housing assistance payments (HAP) contract under Section 8 of the United States Housing Act of 1937.
- The 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.
- The units are financed by the Rural Housing Service (RHS) of the United States Department of Agriculture and receive payments under the rental assistance program pursuant to Section 521(a) of the Housing Act of 1949, as amended.
- The 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 rent and income restrictions must meet both of the following:
 - The restrictions must require assisted units to be occupied by residents whose household income at the time of initial occupancy does not exceed 60% 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
 - The restriction must require the rents for assisted units to not exceed 30% of 60% 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

Additionally, a property owner is required to obtain approval of the governing body of the city or town that the property resides in through a resolution prior to submitting an application to the Housing Finance Agency if they have not previously been classified as class 4D(1). The property owner does not need to receive this approval if the property is located in a city or town in which the net tax capacity of 4D(1) property did not exceed two percent of the total net tax capacity in the municipality in the assessment year prior.

In assessment year 2024 the 4D(1) tax class rate will be .25% with no tiers. For the qualifying properties, only the eligible units are able to use the 4D(1) tax class rate of .25%. The regular rental class rate of 1.25% will apply to the remainder of the property.

What does this mean for cities?

The statutory authorization that cities rely on to open up the 4D classification to property owners hinges on "income restrictions under the terms of financial assistance provided to the rental housing property" which is what the 4d programs throughout the state are designed to provide. All 4D programs have some form of financial assistance flowing to the property through a 4D participation agreement. Without providing financial assistance to the property, the restricted property would not clear the statutory hurdle and their application could be rejected by the state after having already recorded a declaration against the property.

To provide financial assistance, a local unit of government should have a program with both participation criteria - and objective and open application procedures. Providing one-off assistance outside of established criteria and procedures could cause issues for the city, from both others that want to be given the same assistance and state agencies that have oversight

authority (e.g. the state auditor finding the expenditure provided a direct benefit, not a general benefit to the public, and therefore lacking a public purpose).

The City of Shoreview policy includes:

- Duration: Minimum of 5 years
- City financial participation:
 - \$100 grant per affordable unit, capped at \$1,000 per property.
 - City Pays the first-year fee for the Minnesota Low Income Rental Classification (LIRC)
- Other additional requirements (energy, engagement, etc.)
 - A free full-service energy audit.
- The property will also be eligible for utility rebates for energy efficiency and health homes improvements identified in the free assessment from Xcel and CenterPoint Energy.

By submitting their application to the program, the Scandia Shores complex at 418 Highway 96 is now eligible to apply for the classification change.

RECOMMENDATION

Staff is recommending approval of the 4D Participation Agreement with Scandia Shores located at 418 Highway 96, and adoption of Resolution 25-22, approving the submission of application for the 4D Low-Income Rental Classification.

ATTACHMENTS

[Resolution 25-22 - LIRC 4d\(1\) Resolution Scandia Shores Participation Agreement - signed by Avinity](#)
[Shoreview 4d Affordable Housing Program Guide - Final Affordability Declaration Scandia Shores 2025](#)