



10.04 LOW INCOME RENTAL CLASSIFICATION (LIRC) POLICY, 4d AFFORDABLE HOUSING INCENTIVE PROGRAM HOUSING & REDEVELOPMENT AUTHORITY

Enabling Legislation: Res. 2025-009

Date Adopted: 01-21-25

Revised: 09-24-25

The goal of this program is to preserve housing affordability. Healthy, stable, and affordable housing is important for the well-being, prosperity, and security of all residents. Due to recent housing, economic and demographic trends, the City of Northfield needs more affordable housing. Already burdened low- and moderate-income tenants are increasingly paying more than 30 percent of their income on rent and utilities. At the same time, many rental property owners are faced with increased operating and maintenance costs, as well as market opportunities to increase rents.

The City of Northfield's 4d Affordable Housing Incentive Program offers incentives that reduce property tax liability, with the ultimate goal of preserving affordability and strengthening the bottom line for rental property owners.

PURPOSE

- Incentivize owners of Naturally Affordable Housing (NOAH) to keep their rents affordable thereby preserving affordable housing;
- Helps property owners reduce property tax obligation on affordable housing units.

BENEFITS TO PROPERTY OWNERS

Qualified market rate building owners that agree to keep a minimum of 20 percent of units per building affordable to households making 60 percent of area median income (AMI) for 5 years will receive:

- 5-year eligibility for 4d(1) property tax rate, which provides property tax reductions on qualifying units.*
- City pays for the first-year fee for the Minnesota Low Income Rental Classification (LIRC) application, also known as 4d(1) tax classification (\$10 per unit).
- \$200 cost reimbursement per affordable unit, capped at \$6,000
- Reduced renter turnover.



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**Minnesota Statute 273.128 provides that qualifying low-income rental properties, including those enrolled in the City of Northfield 4d incentive program, are eligible for 4d(1) tax classification. According to state statute, eligible units use the 4d(1) tax class rate of 0.25%. The regular rental rate of 1.25% will apply to the remainder of the property.*

ELIGIBILITY GUIDELINES

Owners of multifamily properties that meet the following criteria:

- At least 20 percent of rental units in a building are affordable to households whose family income is at or below 60 percent of the area median income (AMI).
- Existing tenants in units that have program-compliant rents do not need to be income qualified.
- Income qualification for tenants is determined upon initial occupancy. Increased income of tenants in affordable units will not violate program requirements.
- Licensed properties that have at least two rental units and are in good standing with no code compliance violations.
- Buildings can include units with owner occupants, but only rental units are eligible for 4d(1) tax status.
- Building does not already qualify for LIRC tax status in Minnesota.

The city will receive and review applications on an annual basis. The city expects to accept applications January through late February. Properties will be selected based on city goals of preserving housing affordability in neighborhoods throughout the city, subject to the availability of city grant funds. This program is intended for NOAH properties that do not currently have requirements to restrict rents.

The City of Northfield reserves the right to deny applications for the 4d incentive program if the owner or property manager applying owns or manages other properties with outstanding code compliance issues.



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PROCESS AND PROGRAM REQUIREMENTS

Step 1 (required)

- Property owners submit a 4d program application and rent roll and sign a participation agreement with the city. The participation agreement includes a commitment to accept tenant-based assistance and affirmative fair marketing, and prohibits involuntary displacement of existing tenants.
- The city will draft and record a declaration against the property that limits the rents and incomes on the qualified units for 5 years (a recorded document is required for 4d(1) tax classification status). The declaration also limits rent increases for tenants in affordable units to five percent or less annually, unless the unit is turning over to a new tenant, or the owner provides evidence that a larger rent increase is needed to address deferred maintenance or unanticipated operating cost increases.
- City staff must approve an alternative schedule for rent increases.
- The city will reimburse each 4d(1) property owner in the program in the amount of up to \$200 per affordable unit, capped at \$6,000 per property, for documented costs of 4d(1) administrative and reporting requirements associated with the program, as well documented costs of health, safety, and energy efficiency improvements to such 4d(1) properties upon completion of such improvements and submission of paid receipts or other evidence of the costs to be reimbursed.
- Property owners will select the percentage of their building units to restrict, with a minimum of 20 percent. After completing the five-year program, property owners can request an extension up to five years with the option to reduce the percentage of restricted units to a minimum level of 20 percent of the units per building.
- Property owners will sign a 4d application once declaration is filed.
- The city will submit a signed 4d application, application fee and declaration to Minnesota Housing on behalf of the property owner for their first year. Owners are responsible for submitting annual applications to Minnesota Housing to renew 4d(1) tax status. See “annual owner compliance” for additional



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information. Owners are responsible for complying with any state requirements for 4d(1) tax classification status, including certifying to the use of any Property Tax Savings for Eligible Uses. Information regarding Eligible Uses can be found on the [https://www.mnhousing.gov/rental-housing/low-income-rental-classification-\(lirc\).html](https://www.mnhousing.gov/rental-housing/low-income-rental-classification-(lirc).html)

MODIFICATIONS TO DECLARATIONS

- The declaration for the 4d program commitments runs with the property. Anyone buying and selling 4d property should contact Northfield HRA staff at 507-645-3047 to complete an assignment, assumption and consent form transferring the declaration to the new owner.
- Any other changes to the declaration, such as revisions to the Exhibit B document specifying which units in the building are restricted, should contact staff.

WHAT DOES ANNUAL OWNER COMPLIANCE INVOLVE?

To continue to receive 4d status, property owners are required to submit:

- An annual 4d application to Minnesota Housing Finance Agency;
- An annual report to the City of Northfield, no later than the end of the first quarter following the first year of 4d status.

RENT AND INCOME RESTRICTIONS, THE CITY OF NORTHFIELD 4D AFFORDABLE HOUSING INCENTIVE PROGRAM.

Program rent and income limits are based on the 60 percent of area median income as determined by Housing and Urban Development (HUD) for the Minneapolis/ St. Paul Statistical Area. Rent and income restrictions are adjusted annually, typically in the spring.