

HOUSE RESEARCH

Bill Summary

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Overview

Recreates a low-income housing (4d) property classification for property participating in designated state or federal low-income housing programs. Property valuations for qualified properties are based on net operating income using restricted rents, and benefit from a reduced class rate of 0.55 percent. Effective for taxes payable in 2007 and thereafter.

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1 **Class 4d established.** Establishes a new class 4d property for qualifying low-income rental housing certified to the assessor by the MHFA under section 0, with a class rate of 0.55 percent of market value.

Provides that class 4d includes the value of land in proportion to the total value of the structure qualifying for class 4d.

(The stricken language on page 1 is obsolete.)

Effective for taxes payable in 2007 and thereafter.

2 **Valuation of low-income rental property.**

Subdivision 1. Requirement. Provides that low-income rental property is entitled to

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classification as class 4d property if at least 75 percent of the units are:

- (1) subject to a housing assistance payments contract under Section 8 of the U.S. Housing Act of 1937, as amended;
- (2) 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;
- (3) financed by the Rural Housing Service of the U.S. Department of Agriculture and receive payments under the rental assistance program under Section 521(a) of the Housing Act of 1949; or
- (4) subject to rent and income restrictions under the terms of financial assistance provided to the rental housing property by a federal, state, or local unit of government.

Further provides that the restrictions under clause (4) must require the assisted units to be occupied by residents whose household income, at the time of initial occupancy, do not exceed 60 percent of the greater of area or state median income, adjusted for family size, as determined by the U. S. Department of Housing and Urban Development. Also requires that the rents for the assisted units do not exceed 30 percent of 60 percent of the greater of area or state median income, adjusted for family size, as determined by the U.S. Department of Housing and Urban Development.

(Categories (1) to (3) of low-income apartment units are often referred to as "deemed" units. These units receive some form(s) of government financing, tax credits, section 8 vouchers, etc.)

Subd. 2. Determination of value. Provides that the value of qualifying property shall be determined based on the restricted use of the property, by capitalizing the net operating income of the property prior to the payment of debt service. The net operating income must be determined based on a financial statement prepared by a certified public accountant or firm. Capitalization rates are to be established jointly by the Commissioner of Revenue and the Housing Finance Agency based on market data and industry standards.

Subd. 3. Application. (a) Requires an application for certification to be filed by February 28 of the levy year, or at a later date if the Housing Finance Agency (MHFA) deems practicable. Provides that the application be filed with MHFA, on a form prescribed by the agency. (b) Requires the application to contain (i) the property identification number, (ii) evidence that the property qualifies under subdivision 1, and (iii) a true and correct copy of the property's financial statement. (c) Allows the MHFA to charge an application fee approximately equal to its administrative costs. The revenue from the fees collected must be deposited in the housing development

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fund.

Subd. 4. Certification. Requires the MHFA to certify to the local assessors by June 1 of each levy year, the valuation of qualifying properties. States that the Agency may rely on information provided by the property owner in making the certification.

Effective for taxes payable in 2007 and thereafter.