



Richfield City Council Agenda
February 17, 2026 -- 6:00 PM
Richfield Municipal Center
Bartholomew Conference Room
6700 Portland Avenue South

- 1. Call to Order**
- 2. Item Discussion**
 - a. Discuss 4d(1) tax classification impacts and possible policy.**
- 3. 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 612-861-9739.

Includes Materials - Materials relating to these agenda items can be found in the Council Chambers Agenda Packet book located by the entrance. The complete Council Agenda Packet is available electronically on the City of Richfield website.



Report Prepared By:

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Department Director:

Melissa Poehlman, Community Development Director

Item for Consideration:

Discuss 4d(1) tax classification impacts and possible policy.

EXECUTIVE SUMMARY

In January 2025, the City Council and Housing and Redevelopment Authority (HRA) considered a request from Hempel Companies to approve the 4d(1) tax classification for three apartment complexes in order to preserve affordability and rehabilitate the buildings. The Low-Income Rental Classification (LIRC or 4d(1)) provides a reduction in the tax class rate from 1.25% to 0.25%. While the classification offers a cost savings to owners of affordable housing, the savings require the City to either collect fewer taxes or shift the tax burden to other property taxpayers in the community.

The City Council asked that staff conduct further study into the costs and benefits of the 4d(1) tax classification and bring a potential policy back to policymakers for consideration. Given the significant and complex issues raised by this topic, staff will present information at this work session, answer any immediate questions, and then ask policymakers to consider several questions and bring feedback to a second work session on April 20.

RECOMMENDED ACTION

Listen to the presentation from staff and ask questions.

HISTORICAL CONTEXT

The 4d(1) tax classification provides a reduced tax rate for affordable housing properties. A specific request from Hempel Companies in January 2025 led the Council to request additional information and study on the issues raised and to bring additional information to policymakers in a work session. A summary of the 4d(1) tax classification and its use in Richfield is provided in Attachment A.

EQUITABLE OR STRATEGIC CONSIDERATIONS OR IMPACTS

- There are two desired outcomes in the Strategic Plan that are impacted by the 4d(1) tax classification including maintaining Richfield as an affordable place to live and creating a diversified tax base.
- Creating and preserving affordable housing can also support the desired outcome of reducing racial inequities and barriers for traditionally excluded

groups.

POLICIES (RESOLUTIONS, ORDINANCES, REGULATIONS, STATUTES, ETC.)

More detailed information on the 4d(1) tax classification is provided in Attachment A.

CRITICAL TIMING ISSUES

A second work session is scheduled for April 20. Staff is asking that you take time to consider the information and the questions posed and be prepared for further discussion and to offer feedback on April 20.

FINANCIAL IMPACT

Information on financial impacts is provided in the attached presentation.

LEGAL CONSIDERATIONS

The 4d(1) tax classification is automatic for properties that receive State and/or Federal funding that requires affordability. Owners may also qualify for the classification if a city provides financial assistance in exchange for a commitment to affordability (at least 20% of units at 60% of the Area Median Income). In cases where a property owner requests financial assistance from the City and/or the HRA, policymakers have the discretion to deny the funding and/or decide not to tie financial assistance to a commitment of affordability. Funding from the Affordable Housing Trust Fund can only be provided if the recipient commits to affordability. Additional information on the legal considerations is provided in the presentation and in Attachment A.

ALTERNATIVE RECOMMENDATION(S)

NA

ATTACHMENTS

1. Attachment A 4d Summary
2. CC-HRA 4d Presentation 2.17.26

Low-Income Rental Classification Program – “4d”

Summary

Minnesota Statutes [273.128](#) provides a property tax break for affordable 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. During the 2023 Legislative Session, the State lowered the Class 4d property class rate from 0.75% to 0.25%. The typical classification for rental housing is 1.25%.

Affordable rental 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 Area Median Income (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.

To maintain the class 4d 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 of the following eligible uses: property maintenance, property security, improvements to the property, rent stabilization, or increases to the property's replacement reserve account.

Savings to Property Owners/Cost to Other Taxpayers

The 4d tax classification provides a benefit to property owners, which lowers the total taxes collected by a municipality. For a municipality to collect the same amount of total taxes, the tax burden is shifted to other taxpayers.

<i>Example:</i>	
42-units valued at \$4,729,000 in Pay 2025	
<u>Non-4d property taxes payable in 2025:</u>	<u>4d property taxes (all units):</u>
\$4,729,000 x 0.125 = \$59,113 tax capacity	\$4,729,000 x .0025 = \$11,823 tax capacity
2025 City Tax Rate = 54.57%	Estimated City Tax Rate = 54.9%
City Taxes = \$32,258	City Taxes = \$6,491
TOTAL SAVINGS/COST = \$25,767 (\$613/unit)	

Current 4d Properties in the City

Several properties in the City are classified as 4d because they receive federal subsidies in exchange for income/rent restrictions:

- Richfield Towers (7717 Chicago Ave S) (150 units)
- Sheridan Court (2500 66th St W) (30 units)
- Robert Will (6345 Pleasant Ave S) (11 units)
- Lyndale Plaza (20%) (6401 Lyndale Ave S) (19 units)

As of taxes payable 2025, the City had approved 4d for one property:

Seasons Park (420 units)

- The HRA approved \$150,000 in assistance to Seasons Park and as a condition requires all units to be affordable at 60% AMI. The affordability is required for 40 years. At the time assistance was provided, the 4d tax rate was 0.75%.

The total savings in City taxes to these properties classified as 4d was \$343,376 (Pay 2025).

The City approved 4d for three additional properties in 2025 that will take effect in Pay 2027:

New Orleans Court, Richland Court, Winton House (236 units)

- The HRA approved \$1.77 million in assistance for the acquisition and rehabilitation of these properties in exchange for affordability at 60% AMI for 212 of the units for 15 years.

Rent Limits

---- Maximum Gross Rents by Bedroom Size (4/1/25) ----

	0	1	2	3	4
50% AMI	1158	1241	1490	1721	1920
60% AMI	1390	1490	1788	2065	2304
70% AMI	1622	1738	2086	2409	2688

*actual rents must be adjusted to accommodate average utility costs.

4d(1) Tax Classification

Joint Work Session

City Council – Housing & Redevelopment Authority

February 17, 2026

Background

- 4d(1) Tax Classification
 - Definition
 - Eligibility/Requirements
 - City Discretion
 - Use as a Tool

Background: MN Property Taxes

Taxable Market Value x Tax Class = Tax Capacity

Tax Capacity x Tax Rate = Taxes Paid

Background: MN Property Taxes

City taxes paid on an 11-unit apartment building:

$$\$1,000,000 \times 1.25\% = \$12,500$$

$$\$12,500 \times 54.734\% = \underline{\$7,000}$$

City taxes paid at 4d tax class:

$$\$1,000,000 \times 0.25\% = \$2,500$$

$$\$2,575 \times 54.734\% = \underline{\$1,400}$$

Background: NOAH Preservation

- Hempel Request = \$1.77M + 4d tax class
 - NOAH Preservation
 - Three complexes – 236 units
 - 60/70% AMI
 - 3-bedroom units
 - 48 rental assistance clients
 - Risk of displacement
 - \$7.2 million rehab investment
 - Increase in tax capacity from TIF Districts

Impacts of 4d in Richfield

	Units	City Discretion
Richfield Towers	150	N
Sheridan Court	30	N
Robert Will	11	N
Lyndale Plaza	19	Y/N
Seasons Park	420	Y

New Orleans Court	80	Y
Richland Court	90	Y
Winton House	42	Y

Impacts of 4d in Richfield

- \$477,000 tax savings/cost
- 0.5% of total tax capacity
- Cost to median-valued home = \$28
- Cost to 11-unit apartment building = \$176

Policies and Priorities

Strategic Plan

- Maintain Affordability
- Diversify the Tax Base

Inclusionary Housing Policy/Trust Fund Priorities

- Larger Bedroom Sizes
- Deeper Affordability
- Supportive Housing
- Accessible Housing
- Housing Options for Voucher Holders
- Preservation of NOAH Properties
- Rehab of NOAH Properties
- Energy-Efficiency

“Unofficial” Priorities:

- Properties with high numbers of school children
- Properties where all-affordable is “highest and best use”
- Richfield-sized
- Challenging apartment properties

Preservation

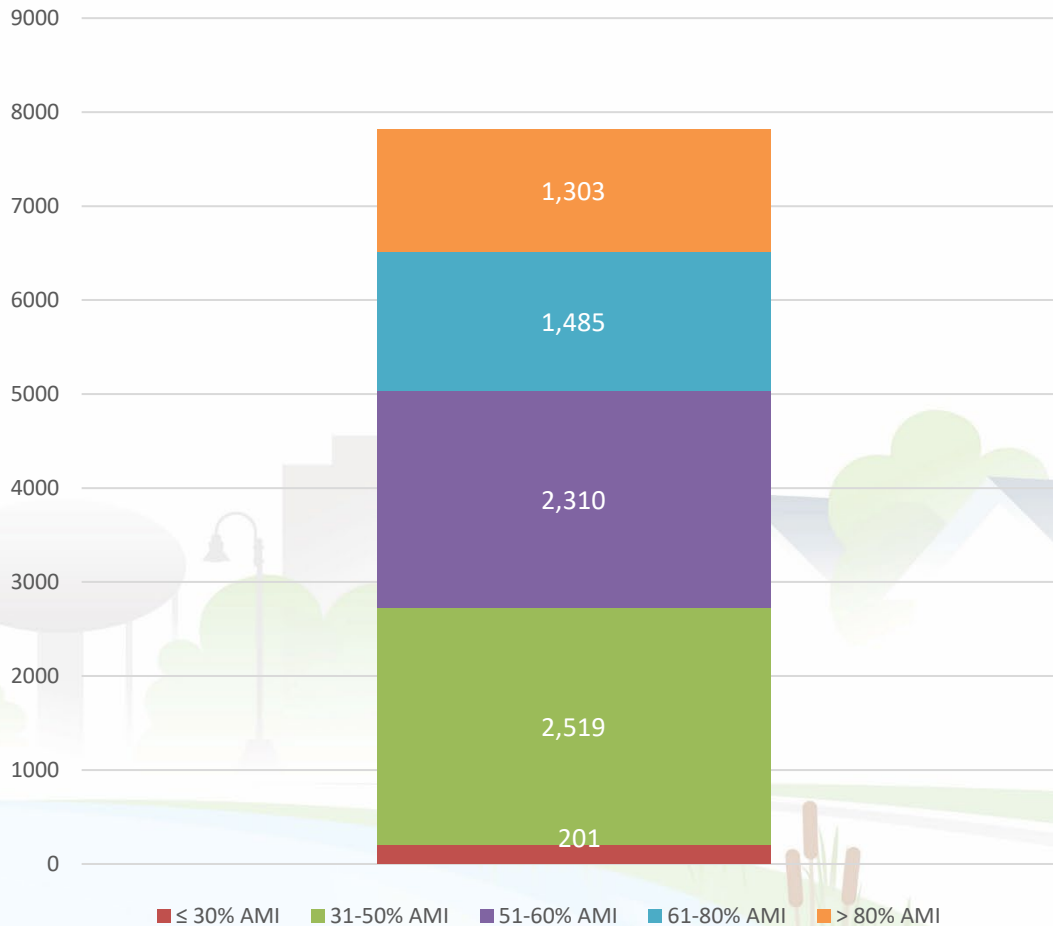
Inquiries from five owners (875 units)

Potential Impacts

- 14 NOAH properties (2,100 units)
- If all 4d:
 - \$1.48 million tax savings/cost
 - \$100 shift to a median-valued home
 - \$600 shift to an 11-unit apartment building

Existing Rental Housing Stock

Rental Housing by Affordability Levels
2023 ACS Data, US Census



Cost-burdened
Renters = 44%

Age of Housing Stock
4,000 units > 55 years

Questions

- What are your preservation priorities?
- What do you want to achieve?
- What's a desirable/reasonable length of time for an affordability period

New Development: TIF vs. 4d

Building A: All-affordable Tax Credit Building

4d tax classification

42 affordable units, large bedroom sizes, 30/50/60% AMI

Annual taxes = \$13,000

Building B: Market-rate Building with TIF

84 units: 67 market-rate; 17 affordable (50% or 60% AMI)

Base annual taxes = \$7,000

At expiration of TIF District taxes = \$129,000

Difference

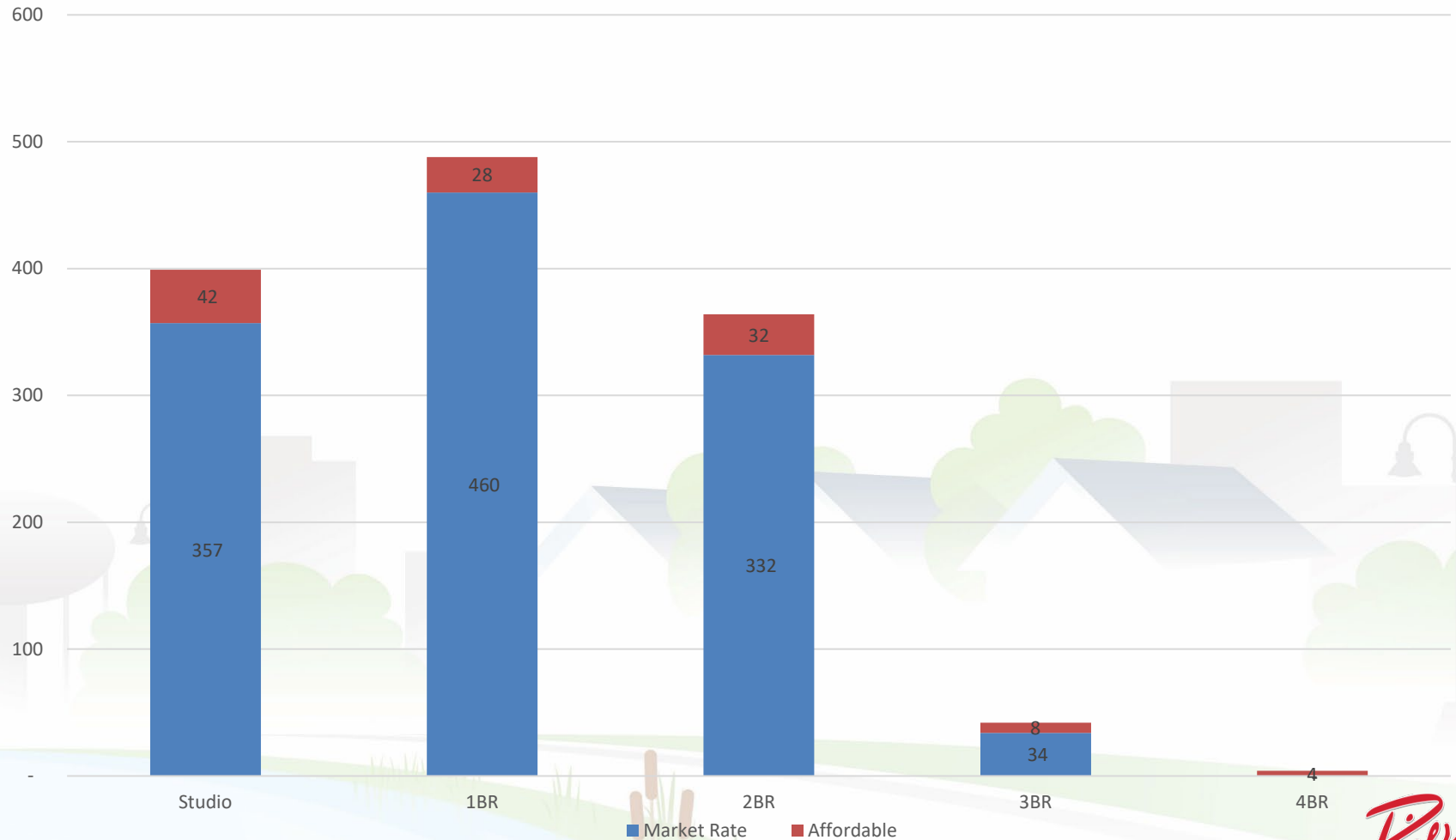
25 more affordable units with Building A

During TIF: \$6,000* more taxes with Building A

Expiration of TIF: \$116,000 more taxes with Building B

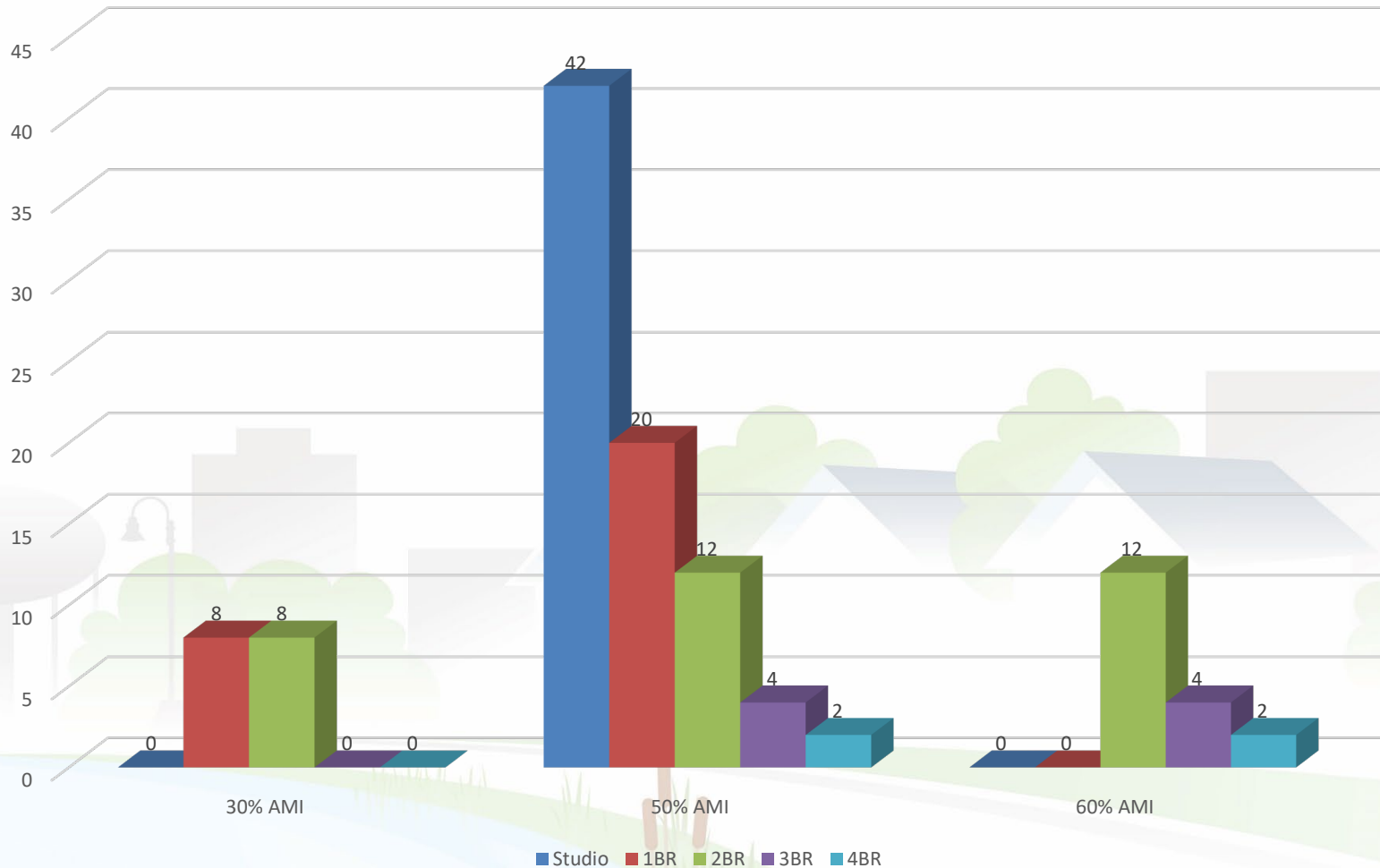
Recently-Constructed Apartments

New/Under Construction Rental Units by BR Size



Recently-Constructed Apartments

Rental Affordable Units New/Under Construction
by Affordability and Bedroom Size



Questions

- Is a mix of market-rate and affordable housing units the preference?
- When is all-affordable acceptable? Preferred? i.e., under what conditions?
- Is there a number of affordable units we should aim for?
- Do we focus on preserving existing affordable housing and creating it through filtering?
- What's the best way to create accessible units? Large bedroom sizes? Deeply affordable units?

General Observations and Questions

Many factors out of our control impact tax capacity and affect people's tax bills.

TIF districts coming offline softened the impact of the Hempel decision.

City has a significant number of tax-exempt properties that add value to the community. How much can the City afford?

What value does the community place on new affordable housing options?

Layering of TIF and 4d should be considered at the beginning as part of the deal.

Should we be advocating for a higher 4d tax rate instead of asking for financial assistance?

Homework

- Review the information presented
- Reach out to staff with questions
- Rank the housing priorities (slide 8)
- Provide priorities to staff by April 10
- Bring feedback to April work session