Business Item

Community Development Committee

Committee Meeting Date: May 20, 2024 **For the Metropolitan Council:** NA*

*Per Livable Communities Act Grant Amendment Process (Business Item 2012-296 and 2014-182), the Community Development Committee is the final authority on this item.

Business Item: 2024-126

Amend TBRA Cleanup Grants Anticipated Net Tax Capacity to Account for New 4d(1) Classification

District(s), Member(s):	All
Policy/Legal Reference:	Minn. Stat. § 473.253
Staff Prepared/Presented:	Samuel Johnson, Principal Grants Administrator (651-602-1757)
Division/Department:	Community Development / MTS Finance and Admin/Livable Communities

Proposed Action

That the Community Development Committee (CDC) authorize Council Staff to administratively amend the estimated Net Tax Capacity (NTC) for all active TBRA Cleanup grants awarded in 2023 or before to affordable housing projects that will receive a 4d(1) property tax classification.

Background

The Tax Base Revitalization Account (TBRA) Cleanup grant program uses the estimated NTC a project anticipates producing as one of the criteria for awarding grants. NTC is calculated using *property use* classifications set by the State of Minnesota (Minn. Stat. § 273.13). A 2023 change in state law (Minn. Stat. § 273.128) created a new 4d(1) Low-Income Rentals Classification (LIRC) tax class rate for qualifying affordable housing projects. All projects that receive the 4d(1) classification will see their tax class rate reduced from 1.25% to 0.25%. This will cause the estimated NTC calculated during award of TBRA Cleanup grants to decrease for projects that contain affordable housing.

Applications to the TBRA Cleanup grant program submitted in 2023 or before used the old (higher) tax class rate in their applications to estimate the project's anticipated NTC. The anticipated NTC is included in the grant project summary attached to the grant agreement for awarded grants. These awarded TBRA Cleanup grants will have a lower anticipated NTC if they receive the new 4d(1) LIRC tax class rate once the project is completed and assessed a property use classification. The project summaries for these grants will need to be amended to accurately show the project's anticipated net tax capacity using the new 4d(1) tax class rate.

The change only affects active TBRA Cleanup grants awarded in 2023 and before to affordable housing projects that will qualify for the new 4d(1) tax class rate. The change in tax class rates for affordable housing has been factored into evaluations of grant recommendations for 2024 and beyond.

Rationale

Per our LCA amendment policy, a grantee must monitor their project and notify Council staff when a change occurs that would affect the project summary so it can be reviewed for significance and amended if necessary. For TBRA Cleanup grants, a change to the project that ***results in a reduction of 20 percent or more of the total net tax capacity [NTC] expected to be generated by the project as originally proposed*** is considered a significant change requiring approval by the CDC. Most TBRA Cleanup grants for housing projects with affordable units will have a lower estimated NTC due to the new 4d(1) property tax classification. A significant amount of these projects will have their estimated NTC reduced by over 20% and therefore be considered a significant change that will require approval by the CDC.

When reviewing changes to the property tax class rate classification, Council staff concluded they do not fit within the LCA amendment process. The process only considers changes to the grant project, not changes to state law. The reduction in NTC was not the result of changes to the grant projects but instead a result of systemic changes to state law informing the project's anticipated NTC. The changes to the law will equally affect all affordable housing projects awarded TBRA grants.

Therefore, Council staff recommend the CDC authorize Council staff to administratively amend the estimated NTC for all active TBRA Cleanup grants awarded in 2023 or before to affordable housing projects that will receive a 4d(1) property tax classification.

Thrive Lens Analysis

Investigating and cleaning up contamination to encourage new residential choices and business opportunities supports stewardship of prior infrastructure investments, increased Prosperity and Livability, and encourages redevelopment and infill. Investments in equitable development areas or areas of concern for environmental justice as well as investments supporting a mix of housing affordability also support the Equity outcome identified in Thrive.

Funding

Funds have been awarded from the Livable Communities authorized budget and Livable Communities reserve accounts. The proposed action does not change the amount of funding that has been already awarded for the affected grants.