The State Needs to Pass Workforce Housing Tax Credits in the 2016 Omnibus Tax Bill So Businesses Can Expand in Greater Minnesota

- **How the Workforce Housing Tax Credit Program works under the 2015 Omnibus Tax bill (not passed, still in Conference Committee)**
  - **Proposed Funding**: $5M in 2016 & $7M in 2017 (would create about 400 units)
  - **Summary**: Investors (equity or non-equity) receive a 33% state tax credit (up to $1M) for contributions toward eligible workforce rental housing. Tax credits are refundable. A project cannot receive more than 33% of the total tax credits available. The project must also have at least 50% non-state matching funds.
  - **Project Areas**: Cities with populations greater than 1,000, not located in Anoka, Benton, Carver, Chisago, Dakota, Hennepin, Isanti, Olmsted, Ramsey, Scott, Sherburne, Stearns, Washington, or Wright Counties
  - **Requirements**: Areas with a median number of full-time jobs of at least 500 for the last five years, where the average rental vacancy rate is 4% or less, and which have built fewer than four market rate rental units per 1,000 residents over the last 10 years (without government subsidy).
  - **Cost Requirements**: Must have per-unit cost of no more than $150,000 and no less than $75,000.

- **Changes that should be made to the current proposal for the 2016 Omnibus Tax Bill:**
  - **Proposed Funding**: $30M/year (would create about 3,600 units)
  - **Make Simpler for Participants**: Remove requirement for at least 500 median jobs in the city; a requirement that a project be located in a city of at least 1,500 residents was added late in the process and accomplishes the same thing.
  - **Tailor Costs Requirements to Units Built**: Change per-unit costs to "no more than $250,000 for three or more units, $200,000 for two units, and $185,000 for one or fewer units," and "no unit may cost less than $75,000"
  - **Make Less Costly for Participants**: Require less than a 4% vacancy rate for *any two* of the last five years, not two consecutive years, so participants aren't forced to pay for costly local housing studies for each application round.

Questions? Contact Dan Dorman, Executive Director of the GMNP at dan@gmnp.org.
Prepared by Flaherty & Hood, P.A. for the Coalition of Greater Minnesota Cities and Greater Minnesota Partnership, 6/30/2015

The State Created a Workforce Housing Grant Fund in 2015 To Encourage Construction of Workforce Housing Projects, But Provided Inadequate Funding

- **What Passed in 2015:**
    - **Summary**: The state awards grants to eligible projects with need for workforce housing from a "workforce housing fund." In 2015, workforce housing fund was created, and $5.373M was appropriated for FY 2016-17, with $1.373M earmarked in FY 2016 for Roseau and Pennington Counties.
    - **Project Areas**: Restricted to Greater Minnesota cities with populations over 500, or areas (cities plus area within 15 miles) with populations over 1,500.
    - **Qualified Expenditures**: Includes acquisition of property, construction, or improvements, provisions of loans or subsidies, grants, interest rate subsidies, public infrastructure, and related financing costs.
    - **Requirements**: Average vacancy rate for rental housing must be five percent or less for at least the prior two-year period, one or more businesses that employs a minimum of 20 full-time employees must provide a written statement that the lack of workforce housing impedes their ability to recruit and hire employees.
    - **Preference**: For project areas with less than 18,000 people.
    - **Grant Amount**: May not exceed 25% of the total project cost. Must have 50% non-state matching funds. Assuming units cost $180,000, this state appropriation would create about 60 units.

- **Why a Workforce Housing Tax Credit is Better Than the Workforce Housing Grant Program:**
    - **It's Market Oriented:** Investors and developers are currently on the sidelines, and a state incentive to directly incentivize their involvement would help jump-start local markets, rather than a grant program that funds projects directly.
    - **Leverages Knowledgeable Stakeholders:** For areas that need workforce housing but lack the local government capacity or knowledge to create workforce housing, the workforce housing tax credit is a solution aimed at stakeholders in the private market
    - **Targets Funds Efficiently:** With investors receiving the tax credit directly, more units can be created because there is less money lost through local government administration
    - **Efficient Use of State Money:** Prevailing wage requirements are less restrictive for tax credits compared to grants.

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