

Minnesota Tax Credit Contribution Fund



S.F. 3301 | H.F. 4072

An innovative new tool that encourages local businesses and neighbors to invest in their community by creating housing opportunities.

WHY

The private market is not supplying housing that is affordable to Minnesota's workers. A public private partnership is the best way to ensure an adequate supply of housing. The Minnesota Tax Credit Contribution Fund incentivizes private investment and promotes community and economic development.

WHAT

Since its inception in 2011, North Dakota's Housing Incentive Fund (HIF) has leveraged roughly \$5 for every \$1 invested, creating more than 2,500 units across the state. Modeled after North Dakota's HIF, the Minnesota Tax Credit Contribution Fund will encourage local businesses and neighbors to invest in their community by creating housing opportunities.

The program is capitalized by contributions from taxpayers that have state income, corporate, or insurance premium tax liabilities. In exchange for contributions to affordable housing, participating taxpayers receive credit against their state income tax liability equal to their contribution to a specific development or the general loan pool. The program relies on taxpayer support to provide low-cost financing to developers of affordable housing.

A proven model, simple and effective

Commonwealth Development Vice President Erin Anderson works in Minnesota and North Dakota to create affordable housing, and has utilized North Dakota's Housing Incentive Fund to build 60 units in two communities, providing affordable housing for working families and seniors. "It was a simple process with a major impact," Anderson says. "The Fund attracted essential investments by local financial institutions who saw the need for additional housing and wanted to invest in the Fund to fill funding gaps and advance needed projects. Minnesota would absolutely benefit from this proven, flexible tool."

Skip Duchesneau, President of D.W. Jones, which develops affordable housing in 25 different communities in Greater Minnesota, says: "We need straightforward, effective tools – like the Minnesota Tax Credit Contribution Fund – that allow local businesses to partner with developers to meet pressing local needs for affordable, workforce, and senior housing. This Fund would be an efficient state investment that leverages private, state, and federal resources to positively impact communities across the state."

Greg Handberg, Senior Vice President at Minneapolis-based developer Artspace, utilized the North Dakota Housing Incentive Fund to create 34 units of affordable housing in Minot. "The Fund was a simple, effective tool; the contributor got to say that they helped make affordable housing happen in their community, and we were able to close financing gaps to advance the project and get the job done." Becky Carlson St. Clair, Director of Property Development at Artspace, says, "It was a win-win-win scenario – for the developer, the investor, and the community. A program like this in Minnesota could have a significant impact."

HOW IT WORKS

Eligible applicants apply to the state housing agency for funds. Successful applicants are issued a conditional commitment of funds during which time the applicants solicit contributions. If a project does not solicit the full amount of funds, the state can allocate funds from the general pool.

The funds are provided by the state agency to each project in the form of subordinate forgivable or bona fide soft loans, if requested by the developer for tax purposes. The forgivable loans require no periodic payments and are forgiven in their entirety if the project satisfies the ongoing rent/income restriction requirements.

Contributors receive a dollar-for-dollar certificated state tax credit to be claimed in the same year as the contribution against their state tax liability. If the amount of the credit exceeds the contributing taxpayer's tax liability for the taxable year, the excess may be carried forward to each of the ten succeeding taxable years.

Contributions are made on a project-specific basis or on a general pool basis to be used to fund projects statewide. If a single project receives contributions in excess of its awarded amount, the state housing agency allocates the contribution to another project.

BENEFITS

Flexibility: This program allows for greater flexibility to support different types of projects that serve different needs. As a Minnesota tool, it is more flexible than existing federal resources that fund new development and preservation. Minnesota Housing Finance Agency will still prioritize the types of projects to be awarded during each annual application process. The state could use this tool in conjunction with other programs or award by itself to provide gap financing.

Simplicity: The credit does not require syndication, therefore, every dollar invested stays in Minnesota and goes directly to the project.

Easy to participate: Any taxpayer with state income, corporate, or insurance premium tax liabilities would be eligible to contribute and receive a credit. Those without state tax liability can still contribute to a development. A contribution does not give the contributor ownership interest in the housing project. The contributor only receives the tax credits in exchange for their contribution. This makes it easier for businesses in need of housing to participate.

Leverage: The program makes housing projects feasible by leveraging other private, state and federal resources.

Good for Greater Minnesota: The program will work better for Greater Minnesota than existing federal credits or other proposed state credits. Existing federal tax credit programs can be difficult to utilize outside of metropolitan communities.

Boosts local businesses

» Banks can receive CRA credit; a huge advantage for projects in Greater Minnesota. Banks support similar programs because this model allows them to donate to projects in areas where they would not purchase federal tax credits.

» A contribution to a project is potentially eligible for a federal tax deduction in addition to a state tax credit. Similar contributions have been treated as charitable donations.

» Businesses can use the tax credit to help build the affordable workforce housing needed throughout Minnesota.

» Investments in housing pay for themselves by building the economy and creating jobs.

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