MN State Housing Tax Credit Coalition.
Homes for All presentation
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Year after year, the state housing finance agency receives three times the amount in funding requests than it awards. All developers can share stories about being forced to abandon a project or put a project on hold due to a lack of financing. Every year, several potential projects fall through due to relatively small financing gaps. Time and time again, projects are delayed even as demand outstrips supply.

What

A loan pool to promote the development and preservation of affordable multifamily housing projects. The proposed loan pool 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 multifamily housing.**

How it works

Eligible applicants apply to Minnesota Housing Finance Agency (MHFA) for funds through the annual Request for Proposals (RFP). MHFA awards a conditional commitment of funds to successful projects. Successful applicants then solicit contributions from state taxpayers. Once contributions are solicited, MHFA provides funds to each project in the form of subordinate forgivable or bona fide soft loans.

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.

Benefits

- One of the best features of this type of program is that it will allow for greater **flexibility** in funding different types of projects that serve different needs. Because this is a Minnesota tool, this tool is more flexible than the existing set of federal resources that fund new development and preservation. MHFA will still prioritizes 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. The concept is easy to understand and communicate, which makes it easy to discuss with lawmakers.

- **Easy to participate.** Any taxpayer can contribute. Taxpayers with state tax liability will receive a credit. Those without state tax liability, can still contribute to a development. Any taxpayer with state income, corporate, or insurance premium tax liabilities would be eligible to contribute. 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.

- 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.
- **Banks can receive CRA credit** – this is a huge advantage for projects in Greater Minnesota. Banks love 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.
- Non-profits have successfully used this model in ND – nearly half of all funds have been awarded to non-profits.
- New resource that would not drive down volume cap an existing proposal.

To Be Determined

- The level and duration of rent and income requirements will need to be determined. There will likely be a need for rent/income limits higher than 60% AMI for some Greater Minnesota workforce housing projects.
- The annual credit limit, if any, to be imposed. The Minnesota state historic tax credit does not have an annual limit, so there is precedent for proceeding without that in place. A cap may be needed in order to gather the necessary political support.
- The amount of funds allowed per project. North Dakota, which has a similar program, caps projects receiving LIHTCs at no more than $600,000 in HIF funds, and for non-federally subsidized projects, the cap is no more than $3,000,000. Such caps would need to be adjusted to allow the funds to be utilized as needed in Minnesota.

Why

For several years, tax committees in both the House and Senate have considered housing tax credit legislation. The proposals would not have worked for affordable housing development or would have produced significant inefficiencies. Both tax committee chairs have co-sponsored housing tax credit legislation. Democrats and Republicans have supported these proposals. Affordable housing stakeholders in Minnesota and affordable housing advocates have not produced an alternative. Without an alternative, there is a chance that the state could adopt a housing tax credit that is either ineffective or inefficient. It is strategic for affordable housing advocates to be more active in the tax committee in order to influence policies, priorities and perceptions.

Given the current makeup of the legislature, tax credits may be more favorable to appropriations. Recently, Republican legislators in the House have proposed cuts to MHFA programs. There are more funds to pursue in the tax committee. Advocates have been forced to play defense, resulting in few gains. If lawmakers support tax credits, the affordable housing community may be able to secure real gains for affordable housing.

Right now, Congress is proposing to wipe out all private activity bonds. If tax reform eliminates tax exempt bonds, there will be no 4% federal HTC. 4% credits are responsible for 40% of all multifamily affordable housing production and preservation. This would be devastating. It could also potentially diminish the impact of Housing Infrastructure Bonds (HIB). It may be prudent to propose an additional tool – a tool intended to enhance existing resources. Additionally, if Congress eliminates deductions for state credits, tax payers with liability in Minnesota will look to new ways to reduce their state income tax liability.

FAQS

- The credits are nontransferable and must be made by the taxpayer who makes the contribution.
- Contributions are made on a project-specific basis or on a general pool basis to be used to fund projects statewide. Contributors can express a preference that their contribution benefit a specific eligible project, community or area.
- If a single project receives contributions in excess of its awarded amount, the state housing agency allocates the contribution to another project that is unable to solicit the full amount of contributions. Once a contribution is made and a certificate issued, the contribution is irrevocable.
- 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.