

**SENATE**  
**STATE OF MINNESOTA**  
**NINETIETH SESSION**

**S.F. No. 785**

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DATE  
02/09/2017

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552 Introduction and first reading  
Referred to Taxes

OFFICIAL STATUS

1.1 A bill for an act  
1.2 relating to taxation; economic development; income and corporate franchise;  
1.3 establishing a refundable workforce housing tax credit; requiring reports; amending  
1.4 Minnesota Statutes 2016, section 290.06, by adding a subdivision; proposing  
1.5 coding for new law in Minnesota Statutes, chapter 116J.

1.6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.7 Section 1. **[116J.5491] WORKFORCE HOUSING TAX CREDIT.**

1.8 Subdivision 1. **Definitions.** (a) For the purposes of this section, the following terms have  
1.9 the meanings given.

1.10 (b) "City" means a statutory or home rule charter city.

1.11 (c) "Eligible project area" means an area that meets the following criteria:

1.12 (1) a census block with a population density over 200 persons per square mile according  
1.13 to the most recent United States census data available, or located in an area served by a joint  
1.14 county-city economic development authority;

1.15 (2) located in a greater Minnesota city with at least 500 jobs, as measured in the QCEW;  
1.16 and

1.17 (3) the average vacancy rate for market rate residential rental properties, as defined in  
1.18 paragraph (f), located in the municipality and in any statutory or home rule charter city  
1.19 located within 15 miles or less of the boundaries of the municipality has been four percent  
1.20 or less for any two of the last five years, based on a market housing analysis that supports  
1.21 demand for the proposed development.

(d) "Greater Minnesota" means the area of Minnesota located outside the metropolitan area as defined in section 473.121, subdivision 2.

(e) "Joint county-city economic development authority" means an economic development authority, formed under Laws 1988, chapter 516, section 1, as a joint partnership between a city and county and excluding those established by the county only.

(f) "Market rate residential rental properties" means properties that are rented at market value and excludes properties constructed with:

(1) financial assistance requiring the property to be occupied by residents that meet income limits under federal or state law of initial occupancy; and

(2) federal, state, or local flood recovery assistance, regardless of whether that assistance imposed income limits as a condition of receiving assistance.

(g) "QCEW" means the Quarterly Census of Employment and Wages with the most recent annual data published by the commissioner.

(h) "Qualified investment" means a cash investment or the fair market value equivalent for common stock, land, a partnership or membership interest, preferred stock, debt with mandatory conversion to equity, or an equivalent ownership interest as determined by the commissioner that is made in a qualified workforce housing project.

(i) "Qualified project investor" means an investor who has been certified by the commissioner under subdivision 2.

(j) "Qualified workforce housing project" means a project:

(1) for market rate residential rental properties with a minimum of three dwelling units;

(2) with an average construction cost per unit of no more than \$250,000 and no less than \$75,000;

(3) located in an eligible project area;

(4) that has more than 50 percent nonstate funding proposed to fund the project; and

(5) that has been designated by the commissioner as a qualified workforce housing project.

(k) "Workforce Housing Undersupply Ratio" means the total number of full-time jobs in an eligible project area, as reported in the QCEW, divided by the total number of persons over the age of 16 who are employed and living in the eligible project area, as reported by

the United States Census "EMPLOYMENT STATUS" dataset or similar United States Census dataset.

**Subd. 2. Qualified project investor tax credits.** (a) A credit of up to \$1,000,000 is allowed against the tax imposed under chapter 290 for a qualified project investor that makes a qualified investment in a qualified workforce housing project equal to 40 percent of the amount of the qualified investment.

(b) The credit under this subdivision is allowed in the taxable year that the qualified workforce housing project has housing units that are certified for occupancy by the Department of Labor and Industry or a city inspector.

(c) The commissioner must not allocate more than \$40,000,000 in credits to qualified project investors for taxable years beginning after December 31, 2017, and before January 1, 2024. Any portion of credits not allocated by the commissioner for any taxable year does not cancel and shall be carried forward to the subsequent taxable year. The commissioner must not allocate more than 40 percent of qualified project investor tax credits to the same qualified workforce housing project.

(d) Applications for tax credits for a taxable year must be made available by the commissioner by November 1 of the prior calendar year. The commissioner must make every effort to provide applications and relevant data to applicants in a simple, concise manner using plain language, and distribute relevant eligibility information on the DEED Web site. In allocating the credits, the commissioner must give preference to projects with the highest Workforce Housing Undersupply Ratio, except where the commissioner determines the investment is circumventing the spirit of the law or where little or no local economic growth would occur as a result of the investment. The commissioner must approve or reject a tax credit request application within 15 days of receiving the application. The investment specified in the application must be made within one year of the allocation of the credit. If the investment is not made within one year, the credit allocation is canceled. A qualified project investor who fails to invest as specified in the application must notify the commissioner immediately and no later than five business days after the expiration of the one-year investment period. The commissioner may require an application fee for the applications submitted under this subdivision.

(e) If a credit allocation has been granted to the qualified project investor and the qualified project investor has made the investment specified in the application as required under paragraph (d), the commissioner must issue a credit certificate to the qualified project investor designated in the application. The credit certificate must state the amount of the

4.1 credit. The commissioner must notify the commissioner of revenue of credit certificates  
4.2 issued under this subdivision.

4.3 (f) The commissioner of revenue shall prescribe the manner in which the credit may be  
4.4 issued or claimed.

4.5 Subd. 3. **Transfer and revocation of credits.** (a) A tax credit under this section is  
4.6 transferable to any other taxpayer. Credits passed through to partners, members, shareholders,  
4.7 or owners are not considered transfers for purposes of this subdivision.

4.8 (b) If the commissioner discovers that a qualified project investor did not meet the  
4.9 eligibility requirements for the tax credits under this section after the credits have been  
4.10 allocated, the commissioner may determine that credit allocated is revoked and must be  
4.11 repaid by the investor. The commissioner must notify the commissioner of revenue of every  
4.12 credit revoked and subject to full or partial repayment under this section.

4.13 Subd. 4. **Reporting.** Beginning in 2019, the commissioner must annually report by  
4.14 March 15 to the chairs and ranking minority members of the committees in the senate and  
4.15 house of representatives with jurisdiction over taxes and economic development, in  
4.16 compliance with sections 3.195 and 3.197, on tax credits issued under this section. The  
4.17 report must include:

4.18 (1) information about the availability of workforce housing in greater Minnesota;

4.19 (2) information from employers and communities in greater Minnesota about whether  
4.20 or not workforce housing needs are being met;

4.21 (3) which projects have been funded by the workforce housing tax credit and whether  
4.22 previously funded projects have created economic growth;

4.23 (4) any suggested legislation to accelerate construction of workforce housing;

4.24 (5) the number and amount of tax credits issued and the identity of the recipients;

4.25 (6) the number and amount of tax credits revoked under subdivision 3;

4.26 (7) the location, total cost of, and expected rent to be received as a result of qualified  
4.27 workforce housing projects funded under this section; and

4.28 (8) any other relevant information needed to evaluate the effect of the workforce housing  
4.29 tax credits.

4.30 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
4.31 31, 2017, and before January 1, 2024.

5.1 Sec. 2. Minnesota Statutes 2016, section 290.06, is amended by adding a subdivision to  
5.2 read:

5.3 Subd. 37. **Workforce housing credit.** (a) A taxpayer is allowed a credit against the tax  
5.4 under this chapter equal to the amount certified by the commissioner of employment and  
5.5 economic development under section 116J.549 to the taxpayer as a qualified project investor  
5.6 for the taxable year.

5.7 (b) Credits allowed to a partnership, limited liability company taxed as a partnership,  
5.8 corporation, or multiple owners of property are passed through to the partners, members,  
5.9 shareholders, or owners, respectively, pro rata to each partner, member, shareholder, or  
5.10 owner based on that person's share of the entity's income for the taxable year.

5.11 (c) If the amount of credit which the taxpayer is eligible to receive under this subdivision  
5.12 exceeds the taxpayer's tax liability under this chapter, the commissioner of revenue shall  
5.13 refund the excess to the taxpayer.

5.14 (d) The amount necessary to pay claims for the refund provided in this subdivision is  
5.15 appropriated from the general fund to the commissioner of revenue.

5.16 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
5.17 31, 2017, and before January 1, 2024.