HOUSE RESEARCH

Bill Summary

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Subject: Tax increment financing (TIF) – workforce housing

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Overview

This bill allows the use of economic development TIF for workforce housing projects – essentially projects that assist market rate, rental housing, none of whose tenants would be required to satisfy income limits. To qualify, the city must make findings regarding the need for the housing, based on local employment and housing market conditions. The bill would provide up to 25-year duration limits for these projects.

Section

1 **MHFA grants.** Confirms that local contributions under the Minnesota Housing Finance Agency's Challenge Program may be made with tax increments.

2 **TIF economic development districts.** Modifies the definition of economic development districts to authorize the municipality to make the alternative findings for workforce housing projects authorized by the bill.

3 **TIF plan approval; workforce housing projects.** Specifies the findings that a city must make to approve an economic development district for either (1) workforce housing (8-year duration, the regular duration limit for economic development districts) or (2) housing to address a "chronic shortage of workforce housing" (duration limit of 25 years).

Workforce housing findings:

- County's unemployment rate is 90 percent or less of the statewide unemployment rate for the most recent year

Section

- Percentage of adults in the county who are employed exceeds 80 percent
- Average vacancy rate for rental housing in the city or any other city within 15 miles is 5 percent or less for at least the last two years
- One or more businesses in the city or within 15 miles of the city who employ 20 more full-time equivalent employees have provided a written statement to the city that the lack of available rental housing has impeded their ability to hire employees
- The city intends to use increments to develop workforce housing.

Housing to address "a chronic shortage of workforce housing" findings:

- All of the findings for workforce housing
- The city is outside of the seven-county metropolitan area
- Fewer than five market rate residential units per 1,000 residents have been constructed in the city in each of the last ten years. These units exclude units constructed with federal or state assistance with income limits or to replace housing destroyed by a natural disaster.

4 **Duration limit.** Provides a 25-year duration limit for housing used to address "a chronic shortage of workforce housing." Under present law, economic development districts are allowed an 8-year duration limit; this allows the collection of nine years of increment. The 25-year limit will allow collection of 26 years of increment.

5 **Economic development district.** Allows the spending of increments from an economic development district for workforce housing projects.

Under present law, economic development districts increment may only be used for:

- Manufacturing
- Research and development
- Warehousing
- Telemarketing
- Tourism in qualifying counties

6 **Housing districts; income limits.** Allows the higher income limits under the MHFA Challenge Program to be used for housing TIF districts, if the project receives an MHFA grant.

Background information. The income limits under present TIF law for rental housing require projects to meet the income limits under federal law (for tax credit and tax exempt bond financed projects). These limits require projects to meet either a 20-50 or 40-60 test.

Section

The 20-50 test requires that the 20 percent of the units be occupied by tenants whose incomes (when they begin occupying the unit) are less than 50 percent of the greater of the area or the state median income. The 40-60 test substitutes 40 percent and 60 percent benchmarks in the same test. For 42 rural counties in 2013, the 50 percent income limit is $30,850 for a family of four and the 60 percent limit is $37,020. These limits are set based on the state median income, since it is higher than the county amount in those 42 counties. By contrast, the MHFA Challenge program uses an 80 percent benchmark. This would increase the income limit to $49,360 for a family of four in one of the 42 rural counties. The 2013 legislature appropriated $10 million to MHFA for the Challenge Program to help fund workforce housing.