



MHP Capitol Update

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FEDERAL UPDATE

*In addition to **MHP Capitol Update**, MHP also publishes **The MHP Bulletin**, a newsletter that follows housing trends that affect Minnesota. Click [here](#) to sign up for The Bulletin.*

STATE UPDATE

Unallotment: Risks for Housing?

Now that the 2009 session has adjourned with neither a budget agreement nor a plan for special session, there is a good chance that housing programs will see additional cuts come July 1, when Governor Pawlenty plans to use his unallotment power to balance the budget. With a \$2.7 billion gap that must be addressed, the breadth and scope of the unallotments leaves every program on the table.

Based on what we saw from the unallotments this spring and the budget fight this session, it is safe to say that the Challenge Fund stands out among those facing the carving knife under the unallotment plan. Back at the start of session, the Governor significantly cut the program in its initial budget proposal. During unallotment this spring, it was the CRV funding round (funded by Challenge) which was trimmed. So if past practice is an indication of future action, when the Governor approaches Minnesota Housing to identify programs to unallot, the Challenge Fund may well face trouble.

As for supportive services, it is no secret that the Health and Human Services budget, which includes supportive services and homeless funding, will be a key target of the unallotment threatened by the Governor. This is true even though the final HHS bill cuts hundreds of millions of dollars compared to the last biennium. The Governor left housing provisions intact when he line-item vetoed the bill on Sunday; supportive housing services received \$3 million in one-time resources for FY 2010-11, while the Homeless and Runaway Youth Act got \$218,000. \$2.5 million was set aside in federal stimulus (not state) funds for homeless youth.

Additional unallotment risks for housing programs, including the renters' credit and public housing bonding are covered in stories below. For more information on unallotment check out the [Minnesota Budget Bites Blog](#) and this House Research [document on unallotment](#).

Housing Budget Passed into Law

The re-worked, new economic development omnibus bill (H.F. 2088) was signed into law by Governor Pawlenty last week, but not before a number of provisions fell victim to the line-item veto. The previous economic development omnibus bill, which includes funding for the Minnesota Housing Finance Agency, had been vetoed in full previously. Housing portions of H.F. 2088 were spared the line-item veto. The bill appropriates \$86.7 million for the Minnesota Housing Finance Agency, including \$14.7 million for the combined Challenge Fund and Urban and Tribal Indian programs. The base budget for Challenge will increase to \$18 million for the 2012-13 biennium. The portions of the bill nixed through line-item veto totaled less than \$2 million—the largest being a \$1.2 million grant to the Minnesota Film and TV Board in the second year of the biennium.

Public Housing Survives Line-Item Veto

Last week, the *Capitol Update* reported that the omnibus bonding bill (H.F. 855), which included a \$2 million bonding provision for public housing rehabilitation, had been sent to the Governor for his signature. Governor Pawlenty, who had originally asked for a smaller bonding bill, ultimately signed the bill, but not before a line-item veto. In welcome news for housing advocates, the public housing provision was spared. The \$85 million worth of projects that were vetoed were primarily for new projects, including the Bell Museum of Natural History, North Hennepin Community College Center for Business and Technology, a Health and Science Center addition at the Lake Superior Community and Technical College, and a Mankato-Civic Center expansion. With the new public housing bonding money, the Minnesota Housing Finance Agency (MHFA) will be able to fund public housing rehab proposals, especially those that maximize federal or local resources for capital costs.

We've been trying to wrap our heads around how unallotment might impact bonding provisions. The picture we've gotten so far isn't totally clear. According to House Research, since unallotment is meant as a response to a general fund deficit, bond funds are irrelevant because they come from an entirely different revenue source. However, debt service for the bonds does come from the general fund. House Research also reminds us that the state has debated at length over guidelines on the amount of bonding they are allowed to pass. Right now, the guidelines are that the general fund appropriation for debt service should be no more than 3% of general fund revenues—the state is currently a little over 3%. There is no legal limit on how much debt the state may incur, but guidelines are meant to help maintain a good state credit rating. When Minnesota has cancelled bonding appropriations in the past, it has only been in the event they are not used.

A Medley of Foreclosure Bills Head to Governor

In the final days/hours of session and amid the budget negotiations, the legislature managed to pass numerous foreclosure-related bills. Since most of the bills were presented after session adjourned, the Governor has up to 14 days to either sign or veto each one before they become law. Unless noted otherwise, the fate of these foreclosure bills will likely remain unknown for up to two weeks.

- [The Reverse Mortgage bill](#) (H.F. 0528/S.F. 0489) passed out of both houses this weekend. The bill strengthens the counseling provisions for all reverse mortgages, requires the lender to make a "suitability determination" before proceeding with the loan, and restricts the "cross selling" of products by the lender.
- On the final day of session, the legislature also passed the [Homeowner-Lender Mediation Act](#) (H.F. 0354/S.F.0340), which requires court-supervised mediation between homeowners

and lenders prior to filing foreclosure proceedings. With fierce opposition from lenders and bankers, it is likely to be vetoed by the Governor.

- In contrast, the Governor is likely to sign H.F. 1394/S.F. 1147, which addresses properties abandoned due to foreclosure. When property owners fail appropriately to secure and protect their foreclosed properties, cities are granted greater power to secure the premises and file court action to have the property deemed vacant. For properties thus deemed vacant, the redemption period is reduced to 5 weeks during foreclosure proceedings.
- Also likely to be signed is the foreclosure "clean up bill," which improves the notice provisions to the homeowner. Specifically, when the lender opts to postpone the sheriff's sale, the homeowner must be notified. The notification must include the exact date/time to vacate by, if the borrower fails to redeem. The bill also strengthens contract for deed provisions and extends the consumer protections to foreclosures by action.
- Finally, a piece of the Economic Development bill (H.F. 0019/S.F. 1981), which has already been signed by the Governor, allows postponement of the sheriff's sale by five months in exchange for reducing the redemption period by five months. This postponement is made at the request of the homeowner. This change gives a homeowner five more months to bring the mortgage current, rather than five months in which the owner must repay the mortgage in full.

Bits & Bytes

Session Ends with No New Taxes Forecast

For some, raising taxes to solve the budget deficit would only compound the problem of a weak economy. For others, failing to raise taxes means further disinvestment and cutting services needed by the most vulnerable. Whatever one believes, H.F. 885 and 2323, two revenue raising bills passed by the legislature, did not and will not survive, respectively, the Governor's veto. With regard to housing, the original H.F. 2323/S.F. 2074 contained important tax increment financing (TIF) tools to help cities deal with foreclosure, but these provisions didn't make it into the final version that was passed during the last hour of session. (See next story.)

Metzen Amendment to Tax Bill Fails

S.F. 2078, a bill introduced by Sen. Metzen failed as an amendment to the omnibus tax bill. The bill contained a number of housing provisions. Part of this amendment would have created a state version of the federal low income housing tax credit program. John Herman, an attorney with Faegre and Benson, states that he will work on bringing the initiative back to the legislature in 2010. MHP plans to work with Herman to see if a state tax incentive can be created that works well for a variety of housing developments, including redevelopment of vacant foreclosed homes. Another provision in the amendment was intended to capitalize upon the federal first time homebuyer credit of \$8,000, to make that money available upfront to low-income homebuyers for down payments and closing costs. Word has it that the House conferees were particularly disenchanted with the ten-year extension/expansion of TIF (Tax Increment Financing) in the amendment. This extension would be for any capital project that a local government determines would create or retain jobs.

Renters' Credit: Another Target of Unallotment?

Pawlenty has identified the renters' credit as one area to trim, come unallotment this July. Despite attempts to eliminate or reduce this tax credit for low and moderate income renters this session, the renters' credit was untouched by the legislature. However, Pawlenty has specifically mentioned the renters' credit as a target.

The "Looking Ahead" Housing and Jobs Bill

In the waning days of the legislative session, Senator John Marty and Representative Carlos Mariani introduced bills to fund affordable housing; job creation; and make green, energy saving investments. For housing, S.F. 2165/H.F. 2406 provides \$190 million in bonding for rental and land

trust housing, and improvements for housing so that it can comply with the Americans with Disabilities Act. An additional \$200 million in bond proceeds is to be used for public housing rehab. With the introduction of this legislation, the authors hope to spur discussion prior to the 2010 session about ways to generate jobs in Minnesota while at the same time improving the state's infrastructure.

Status of housing-related omnibus bills:

Finally, here's a list of the final omnibus bills related to housing and their current status:

- Omnibus tax bill ([H.F. 2323](#)): Passed May 18, awaiting presentment and signature or veto by Governor
- Omnibus technical tax bill ([H.F. 885](#)): Vetoed May 9; Veto Override attempt failed May 17
- Omnibus public finance bill ([H.F. 1298](#)): Signed by Governor, May 16
- Omnibus bonding bill ([H.F. 855](#)): Signed by Governor with [Line Item Vetoes](#), May 16
- Omnibus economic development bill II ([H.F. 2088](#)): Signed with [Line Item Vetoes](#) May 14
- Omnibus economic development bill I ([S.F. 2081](#)): [Vetoed](#) May 7
- Omnibus health and human services finance bill ([H.F. 1362](#)): Signed with [Line Item Veto](#) May 17, Veto Override attempt failed May 17

FEDERAL UPDATE

(Compiled from material provided by the National Low Income Housing Coalition)

The major housing bills Congress is currently debating are the foreclosure legislation and the reform of the Section 8 program. The foreclosure bill (S. 896) is traveling back and forth between House and Senate, as each body adds amendments. On May 21st, HUD Secretary Donovan will testify before the House Financial Services committee on the Section 8 bill. Rep. Maxine Waters has released a draft of that bill, which is being referred to with the acronym SEVRA; however, it has not been formally introduced.

The Senate Banking Committee held its first confirmation hearing on two key HUD assistant secretaries. Nominated for the position overseeing Public and Indian Housing is Sandra Henriquez, head of the Boston Housing Authority. Mercedes Marquez, who leads the Los Angeles Housing Department, is the choice for the Community Planning and Development position. You can review the [Marquez testimony](#) and the [Henriquez testimony](#) through the links here, respectively.

Distributed weekly during the Minnesota legislative session and monthly outside of session, the *MHP Capitol Update* provides information about state and national housing policy and politics that affect Minnesota. *MHP Capitol Update* is published by Minnesota Housing Partnership. To share ideas for future issues, to ask questions, or to "Unsubscribe," please contact Rick Bernardo at Rick.Bernardo@mhponline.org or (651) 925-5549.

Minnesota Housing Partnership also publishes and distributes *The MHP Bulletin* monthly, which includes affordable housing news and trend information, new research, publications, and upcoming events. Please [click here to subscribe](#) *The Bulletin*, or contact Rick Bernardo at (651) 925-5549 or email Rick.Bernardo@mhponline.org.

Minnesota Housing Partnership's mission is to promote homes for all Minnesotans and to assist Minnesota communities in the creation and preservation of housing affordable to low- and moderate-income people.