



MHP Capitol Update

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STATE UPDATE

Mortgage and Deed Revenue Capture Passes Unanimously in House Committee

Advocates for affordable housing funding were pleasantly surprised Wednesday, April 20 by a unanimous vote to pass the Housing/Jobs bill ([HF 3725/SF 3304](#)) out of Rep. Clark's House Housing Finance and Policy and Public Health Finance Committee. The bill is expected to create 1,000 units of additional affordable housing per year by capturing the increase in mortgage and deed tax revenues collected over 2011, starting in 2012 as the market improves. The mortgage and deed tax rates do not change.

In the hearing, the bill's author, Rep. Marquart, underscored the importance of the legislation, mentioning the financial burden on workers who have to travel long distances because they cannot find housing closer to their work site. He also quoted the mayor of Moorhead who said that without the Challenge program many workers, and a part of the city's tax base, would have ended up in Fargo.

Rep. Severson expressed concern that Challenge funds are not targeted to a low enough income group, but said that the housing problem represents an appropriate arena for state investment. Marquart responded by explaining that the average renter household income for Challenge is only \$24,000 for rental and \$33,000 for ownership, although the

allowed maximum income for the program is higher (80% of the area median income for rental and 115% of AMI for home ownership).

Steve Cramer, president of Project for Pride in Living (PPL), testified that 272 units recently developed by PPL supported 311 construction jobs, and paid \$8.7 million in local, state and federal taxes. He said that the Challenge program had a track record of success.

Sue Haigh, president of Twin Cities Habitat for Humanity, spoke of Habitat affiliates throughout the state that utilize Challenge to provide housing to low income families. She added that "safe and stable neighborhoods start with families in safe and stable housing."

Jeff Huggett, partner at Dominion Development, said his company owns and manages 8,000 housing units in Minnesota, of which two-thirds are affordable. He showed pictures of properties in Plymouth and Bloomington, and explained that people with lower wage jobs, like nursing assistants and retail workers, live there. He said that many are motivated to move to Dominion's properties by high quality schools for their kids.

Rep. Sailer echoed Rep. Marquart's point about long travel distances in her part of the state. She's heard from workers who travel several hours a day to get to jobs at Digi-Key, a fast growing company in Thief River Falls.

Representative Marquart enthusiastically stated he is honored to author this bill. "I'm a property tax guy," he explained, "but when I started looking deeper into this bill, I became more and more passionate about it." He added that in light of a tightening budget, this bill represents goals we can all agree on: jobs, housing, leveraging power, and paying the state back.

Now that the bill has passed out of this committee, it heads to the House Finance Committee.

Fix to Sales Tax Exemption for Nonprofit Developers Moves Forward

On April 20, a bill which would provide an important technical correction to the existing nonprofit exemption on sales taxes for affordable housing construction materials, passed out of the Senate tax committee. The bill, [SF 2229 \(Moua\)](#), is now included in a second Senate omnibus tax bill and will head to floor. Meanwhile, the House version of the bill, [HF 2527 \(Davnie\)](#), is awaiting a hearing in the House tax committee.

Back in 2008, the sales tax exemption was extended to nonprofit developers in the case where a nonprofit is the general partner. The bill under consideration ensures that limited liability companies owned by nonprofit developers are also exempted from the sales tax.

Both the House and Senate are likely to pass a second omnibus tax bill, but it is not clear if the Governor will be willing to sign such a bill.

Challenge Bond Concept Poised for Next Session

The Challenge bond proposal introduced by Rep. Clark and Sen. Tomassoni has stalled in committee this session. The proposal, as written, was controversial among housing advocates due to concern that funds for debt service on the bonds would cut into the Minnesota Housing budget. Challenge bonds are bonds that would be issued by Minnesota Housing to fund housing developments eligible for Challenge Program dollars.

However, the Challenge Bond concept is a big step closer to success for next year. In an email to Rep. Hausman in early April, the Minnesota Management and Budget (MMB) Assistant Commissioner wrote that such bonds would be marketable, as they are similar in finance structure to existing Minnesota Housing nonprofit (501c3) bonds. If a source of funding for debt service can be identified, there is no legal or financial reason the proposal could not move forward.

Challenge bonds would be used for projects not now eligible for other types of bond financing such as Habitat for Humanity and land trust homes and rental projects that receive low income housing tax credits. The new bonds would create a useful tool for addressing Minnesota's serious housing and employment needs.

Manufactured Housing Co-ops May Be on Track for Improved Tax Treatment

Among the many tax policy provisions moving forward this week is a proposal to ensure that manufactured home park resident-owned communities received equitable treatment under the property tax code. Currently, the land of a manufactured home park is assessed and taxed as real estate, while the homes are treated as personal property. Based on its interpretation of statute, the Department of Revenue taxes resident owned communities of manufactured home parks at a higher rate than comparable owner-occupied homes. The additional tax burden on these communities seems unfounded, since manufactured home owners often have low incomes.

To address this inequity and streamline the tax process, advocates and the Department of Revenue agreed to an approach that would apply a lower tax rate (4d rate of 0.75 percent) to manufactured home cooperatives. The bill also includes homestead tax treatment for co-ops. This week the House Property and Local Sales Tax Division heard [HF 3760](#) (Marquart), and the Senate companion bill [SF 3348](#) (Dibble) was heard late last week in the Senate Tax Committee. While the House language passed out as introduced, in the Senate Sen. Skoe offered an amendment which applies the 0.75 percent rate only if more than half of the co-op's units are shareholder (homeowner) occupied, and a class rate of one percent if half or less of the units are so occupied. Both bills passed out of committee for consideration in the omnibus tax bill - the original language has already been included in the House's omnibus tax bill. Differences will be worked out in conference committee.

Bits & Bytes

State Housing Tax Credit Stalled, Waiting for 2011

Back in March, a new state housing tax credit bill ([SF 3307/HF 3724](#)) was introduced by Sen. Moua and Rep. Rukavina. The bill would have created a state mechanism similar to the federal low income housing tax credit. Unfortunately, 2010 will not be the year for the bill's passage. Neither chamber heard the bill, with tax committee chairs largely unwilling to entertain proposals that cost money, given the state's budget deficit. However, champions for the bill and housing advocates look forward to reintroducing the bill next year due to its potential to increase competitiveness for the state in creating housing and jobs.

FEDERAL UPDATE

The pressure continues in the effort to actually fund the National Housing Trust Fund (NHTF). Though the NHTF legislation was enacted in 2008, the Trust Fund still lacks a capital source. This program, which primarily finances the production of affordable housing for extremely low income renters, was the topic of attention at the recent conference of the National Low Income Housing Coalition. There HUD Secretary Shaun Donovan reiterated the Administration's commitment to funding the first \$1 billion. Also attending the conference, Rep. Barney Frank (D-MA) said that initial funding would be available this year and that a permanent funding source would also be identified. A HUD official stated that regulations governing the Trust Fund should be released in July. If the program is funded, interim regulations would be released so that the program could be implemented as soon as funds are made available.

For each \$1 billion available to the Trust Fund, HUD estimates that \$14 million would reach Minnesota. Minnesota Housing (MHFA) would administer the program. To promote the Trust Fund NLIHC asks all supporters sign-on to this [letter to Congress](#).

Distributed weekly during the Minnesota legislative session and periodically 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 at 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.