



MHP Capitol Update

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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

Uncertainty Prevails as Court Decision & Veto Threat Leave Budget in Flux

Wednesday morning the Minnesota Supreme Court, in a divided opinion, ruled that Governor Pawlenty over-stepped his authority in wielding the unallotment knife without coming to agreement with the Legislature on a balanced budget in 2009. With the release of the court ruling, the political landscape has changed again and uncertainty prevails as lawmakers seek to resolve budget issues in the final weeks of session. In particular, the opinion raises questions about \$2.7 billion in budget cuts which were unallotted last year.

While the unallotment at issue in the Supreme Court opinion relates to funding for the Special Diet Program, it is worth noting that the court referenced the unallotment of the renters' credit, an important housing program. In a footnote, the ruling explains that the renters' property tax refund program was an unallotment that not only reduced dollar amounts for the program, but also changed the substantive criteria that established eligibility.

The ruling also comes the morning after Governor Pawlenty promised to veto the Health and Human Services budget working its way through the House and Senate. On Tuesday, Pawlenty called for \$536 million in budget cuts, up from his original ask of \$196 million. He threatened to unallot again if he does not get a budget he likes by the end of session on May 17. Later that night, the House passed its version of the bill, which cuts the budget by

\$170 million. The existing Senate bill, which has yet to reach the floor, cuts health and human services by \$114 million.

With the ground shifting beneath lawmakers' feet, it's useful to look at what's known. First, the uncertainty of federal aid and the unallotment lawsuit now leave a gaping hole of up to \$3.1 billion in the budget talks. But the Legislature now has the opportunity to put its own thumbprint on the cuts that will have to be made.

The other known is that Minnesota might receive a hefty \$408 million in federal funds for health care, but we won't know Congress's decision about this funding before Minnesota's legislative session ends. It remains unclear how lawmakers will treat the \$408 million in a budget agreement. Pawlenty's new recommendation of \$536 million in cuts is based on the assumption that federal dollars will not come. One of the areas to receive the deepest cuts would be local government aid.

Despite the many questions that remain about how the budget will be balanced (or not) in the next twelve days, it's safe to assume that more budget cuts are likely with lawmakers facing a multi-billion dollar deficit. Housing advocates need to actively protect every dollar in the waning days of session, as all bets are off and everything is in play.

Mixed News for Housing Programs in Health & Human Services Bills

The news for housing remains mixed in the existing health and human services bills, which are subject to change in light of the unallotment ruling and uncertainties about the arrival of federal health care dollars. Health and human services programs touch housing and families in need of housing through programs like Minnesota Family Investment Program (MFIP) cash assistance, supportive services to the homeless, mental health services, and general assistance medical care (GAMC). Here's a rundown:

- The House bill, but not the Senate bill, reduces MFIP cash assistance to families with subsidized housing by \$100 each month. Neither chamber cuts the MFIP amount to families with a member with a disability, as proposed by Pawlenty.
- Supportive services for the homeless remain intact in both chambers.
- Both bills propose cuts to mental health services for kids and adults. Neither bill cuts General Assistance (GA).
- With respect to General Assistance Medical Care (GAMC), nearly every major hospital in the state has said that participating in the new GAMC system proposed earlier this session is not feasible. Under that backdrop, both the House and Senate bills expand Medicaid coverage (aka Medical Assistance) starting in 2011. Both chambers rely on receiving the \$408 million in federal Medicaid dollars, but it will not be known if this aid will come until after the state legislature adjourns.

The House bill includes a total of \$170 million in cuts. It also raises \$55 million in revenues by taxing firms that do business overseas, especially in the Caribbean plus \$87 million by increasing in taxes on health maintenance organizations. The new funds would increase payments to nursing homes and health providers. The Senate bill cuts services by \$114

million and raises no revenues. Pawlenty has threatened to veto the final bill; he finds the revenue increases especially distasteful.

MHP recommends following the [Minnesota Budget Project's Budget Bites Blog](#) for updates.

Sales Tax Exemption and Manufactured Housing in Second Tax Bill

In both the House and Senate, a second omnibus tax bill is likely to pass. These bills include benefits for manufactured home park cooperatives and nonprofit affordable housing developers. However, it is not clear if the Governor will be willing to sign this second set of tax bills.

Bill language for manufactured housing park co-operative property taxes ([SF 3348/HF 3760](#)) is included in the House and Senate omnibus tax bills, but the versions differ slightly. Both the House and Senate versions include homestead tax treatment for co-ops. In the House, a lower tax rate would be applied (a rate equivalent to the 4d rate of 0.75 percent) to manufactured home cooperatives, but in the Senate, the 0.75 percent rate would be applied to the cooperatives only if more than half of the co-op's units are shareholder (homeowner) occupied. Otherwise, a class rate of one percent would apply. Assuming both bills are passed, the conference committee will iron out the differences between the two versions.

The sales tax exemption bill ([SF 2229/HF 2527](#)) for nonprofit developers is included in both the House and Senate versions of their second omnibus tax bills. The bill provides an important technical fix to the existing exemption on sales taxes for affordable housing construction materials for nonprofits so that limited liability companies owned by nonprofit developers are also exempted.

The Senate tax bill has gone to the floor, but a vote will not be taken until the House version makes its way to the floor of the House.

Bits & Bytes

Mortgage and Deed Revenue Capture Bill Hearings See Late-Session Shuffle

The HousingJobs Mortgage and Deed revenue was scheduled for two hearings this week: one each in the House and Senate, but both have been cancelled and rescheduled.

The bill was scheduled to get a first hearing in the Senate on May 5 in Sen. Tomassoni's economic development and housing committee. That hearing was cancelled, and has been rescheduled for Thursday, May 6 at 11:00 am. Housing advocates are encouraged to attend.

In the House, as reported in the last issue, the bill passed out of the House housing committee April 20 by a unanimous vote. It was sent to the Finance committee and then to Rep. Hausman's Capital Investment (bonding) committee. A hearing scheduled for May 4 was cancelled; advocates await word of a rescheduled hearing.

The bill ([HF 3725/SF 3304](#)) is designed to create 1,000 units of additional housing per year starting in 2012 as the housing market improves. The bill captures the increase in mortgage and deed tax revenue collections as the market improves, but the mortgage and deed tax rates do not change.

Tenant Bill of Rights Emerges from Conference and Heads to Floors

This week, the conference committee has reached agreement on the Minnesota Tenant Bill of Rights. The House is set to vote on the bill today, with the Senate to follow. [Click here](#) for the bullet points summarizing the agreement, which include a stronger set of protections for renters.

FEDERAL UPDATE

Senator Al Franken recently signed on to a letter in favor of increasing funding for the HUD community development block grant (CDBG) program. The letter, requesting \$4.1 billion -- an amount slightly higher than the president's request, was sent to the chair and ranking member of the Subcommittee on Transportation, Housing and Urban Development. The appropriations committee is preparing its spending recommendations for the 2011 fiscal year beginning October 1.

The Federal Housing Administration (FHA) reform bill was passed out of the Financial Services committee in the House and heads to the House floor. This bill, [HR 5072](#), increases mortgage insurance premiums and grants the HUD Secretary additional powers to ban lenders with high default rates from participating in the FHA insurance program.

MHP and NLIHC still encourage agencies to [sign a letter](#) in support of a \$1 billion appropriation to the National Housing Trust Fund. As of early May, [34 Minnesota agencies](#) have signed this letter.

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.