



# MHP Capitol Update

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## Capitol Notes

### **Housing Appropriations Finalizing**

With the legislature on break, we have about one week to relax and then it's back to the grindstone. The first phase of the appropriations process should be concluded by the middle of this week following the spring break when all House bills will be passed off the floor. Our overall take on appropriations bills is favorable, with funding in the House and Senate hovering around the level of the administration's recommendations. However, a closer look shows that the House proposal has significant shortcomings.

Though the House's funding proposal is disappointing, there are a few positives. After the initial dust settles and conference committees begin, negotiations will start with the governor's budget, which increased base funding for housing by 26 percent and overall funding for housing by 62 percent. The Senate's agreement with the governor's numbers strengthens negotiation stances for the administration's budget. Additionally, the housing budget is not tied to any tax increases like property tax relief, K-12 education, or higher education funding proposals. The key will be whether advocates can mount a strong enough push to increase one-time money allocations.

### **Senate One-Time Funding Bill Boosts Housing Initiatives**

The Senate decided to combine all of its one-time funding into one bill totaling about \$240 million, which includes an additional \$28 million for housing and homeless efforts. This infusion of cash basically matched Minnesota Housing's budget request plus about \$4 million more for homeless programs. The Senate also set the base budget at roughly \$19 million over the last biennium, bring the base to almost \$90 million. Last minute negotiations by housing supporters secured these additional funds and fiscal leaders indicated that more would have been made available if the budget reserve wasn't set so high.

### **House's Appropriations Bill Has Program-Level Problems**

The House's Housing and Public Health Finance bill was passed out of committee on Friday with an allocation for housing of about \$9 million more than proposed by both the Senate and the administration. The bill also increases funding for homeless programs in the Human Services budget by about \$12 million.

As we mentioned last week, committee members were able to shake loose more one-time money for housing, but leadership took it away and replaced it with Temporary Assistance for Needy Families, or TANF, funds. A number of increases in both the Minnesota Housing and Human Services budget were provided by TANF funds totaling \$7.5 million, which disappear or are reduced in the next biennium. This funding approach is questionable, at best, especially relative to maintaining programs or services that are expected to be on-going. In addition, the House's recommended funding for the Housing Challenge Program is about \$3 million below

Minnesota Housing's proposal for this year and \$7 million lower than the agency numbers for the next biennium's program base dollars.

A more serious concern is that the House's appropriations for Minnesota Housing's base budget for the next biennium is \$12 million lower than the governor's and the Senate's proposals. Cutting Minnesota Housing's base budget is a giant step backwards. Advocates and committee members on either side of the aisle have expressed concern and dismay over this funding approach.

### **Tax Proposals Taking Shape**

The DFL majorities in the House and Senate unveiled various plans to increase Minnesota's top-tier income tax rate to fund a variety of high-interest proposals. The House is focusing primarily on property tax relief, while the Senate is linking revenue increases to funding education efforts. The governor has indicated opposition to any new taxes; even user oriented ones like the gas tax and car licenses.

#### **House Property Tax Bill Includes 4d Modifications and "Crime Free" Requirements**

MHP's Low Income Rental Classification (LIRC, or tax class 4d) modifications were included in the House property tax bill. MHP's proposal lowers the percentage of rent-restricted units, from 75 to 20 percent; a property must have in order to be eligible for the tax rate. The proposal also expands tax rate eligibility to include projects funded exclusively by local units of government. As we suspected, the "crime free" multi-housing provision presented by Rep. Hilstrom was added as a modification. Unfortunately, Rep. Hilstrom did not take up our offer to include some clarifying language regarding the type of police/sheriff calls that would require a property to enroll in the crime prevention program. Please contact Warren at [wclaflin@mhponline.org](mailto:wclaflin@mhponline.org) if you have questions about this, or would more information about the 4d modifications.

The primary focus of the House property tax bill was property tax relief and buy-downs of locally levied school taxes. The most intriguing aspect of the plan is the creation of a homestead credit state refund, which links property taxes and incomes. Under this proposal, households earning up to \$150,000 would be entitled to a refund of a percentage of property taxes that exceeds 2 percent of their income. The credit is capped at \$2500 (compared to the current cap of \$1740). We believe this will increase refunds to lower-income homeowners.

Additionally, the renter's credit maximum refund was increased to \$1500 from \$1430. Plus, the eligibility ceiling was increased to \$60,000 from \$50,160 and the income brackets were expanded as well. Please note that these proposals are tied to an increase in the income tax rate for the highest tax bracket which will be part of the House Omnibus Tax bill presented after the break.

#### **Senate Tax Bill Contains 4d**

The Senate passed two tax bills this week, including an education bill that includes a new tax rate and a new tax bracket for the state's highest income earners. This increase is expected to raise approximately \$1 billion that will be focused on education. This proposal basically erases the income tax cuts provided in the budget-surplus days during the late 1990's and early 2000's. The Senate did include MHP's LIRC modifications, which are authored by Sen. Moua, in their first tax bill, though the threshold is set at 25% not 20%. The local government funding provision was included as well.

Housing supporters were a bit disappointed that neither the sales tax exemption on construction materials nor the Affordable Housing Donor Credit was included in the Senate's tax bill. We had been told at the beginning of session that most of the tax expenditures in the Senate would be directed at property tax relief, but had hoped that housing supporters would be able to find some money for these proposals, particularly the sale tax provision which would only cost about \$1.3 million over two years.

## Committee Hearings

***Please note committee meetings and schedules can change almost daily. Use the website below to sign up for daily schedules or contact a specific committee to get on their email notice list.***

### House

#### Finance

Monday, April 2, 8a.m., Room 200, State Office Building

Agenda:

- **H.F. 2241 (Clark) / S.F. 2089 (Tomassoni), S.F. 2190 (Cohen), S.F. 2171 (Berglin)** — Omnibus Housing and Public Health Bill
- **H.F. 931 (Mullery) / S.F. 988(Higgins)** — Prohibiting Predatory Mortgage Lending Practices

For up-to-date information about House hearings and more, go to <http://www.house.leg.state.mn.us/comm/commemlist.asp>

For up-to-date information about Senate hearings and more, go to <http://www.senate.leg.state.mn.us/media/index.php#header>

## Committee Action

### House

#### Property Tax Division

- **Marquart Division Report** — Contains **H.F. 1030 (Mullery)** modifications to 4d. Some or all of this report will become the property tax article in the Omnibus Tax Bill

#### Full Tax Committee

- **H.F.1204 (Davnie) / S.F. 800 (Moua)** — Sales tax exemption on construction materials for non-profits acting as a general partner in limited partnership for affordable housing; laid over for possible inclusion in the Omnibus Tax Bill, **SF### (Lenczewski)**

#### Health and Human Services Finance Division

- **H.F. 196 (Greiling) / S.F. 148 (Marty)** — Omnibus Mental Health Bill, which will be incorporated into the Omnibus Health and Human Services Bill, **H.F.297**

- **H.F. 297 (Huntley) / S.F. 2171 (Berglin)** — Omnibus Health and Human Services Bill; still in markup
- **H.F. ### (Rukavina) / S.F. 2089 (Tomassoni)** — Omnibus Economic Development Bill

#### **Housing Policy and Finance and Public Health Finance**

- **H.F. 2241 (Clark)** — Omnibus Housing and Public Health Bill; re-referred to Finance

### **Senate**

#### **Health and Human Services Budget Division**

- **S.F. 2171 (Berglin) / H.F. 297 (Huntley)** — Omnibus Health and Human Services Bill; re-referred to Finance

#### **Health Housing and Family Security**

- **S.F. 1253 (Marty) / H.F. 1301 (Moe)** — Right of First Refusal for Manufactured Home Owners when a park is sold or closes; re-referred to Judiciary

#### **Finance**

- **S.F. 2171 (Berglin) / H.F. 297 (Huntley)** — Omnibus Health and Human Services Bill; re-referred to Senate Floor
- **S.F. 2190 (Cohen) / S.F. ###** One Time Funding bill; re-referred to Senate Floor

For more up to date committee schedules for the Senate, go to:

<http://www.senate.leg.state.mn.us/committees/>

## **Floor Action**

### **Senate**

- **S.F. 2089 (Tomassoni)** — Omnibus Jobs and Economic Development; Final Passage 3-27-07
- **S.F.2171 (Berglin)** — Omnibus Health and Human Services; Final Passage 3-29-07
- **S.F. 1024 (Bakk)** — Omnibus Tax Bill; Final Passage 3-30-07
- **S.F. 2190 (Cohen)** — One Time Funding Bill; Final Passage 3-31-07

## **Bytes and Bits**

### **Budget Reserve Game**

The budget reserve is used as a cushion against downturns in the economy and tax collection falloffs. It also is a good place to park money for the short-term. Currently, the reserve has about \$650 million, which the administration has recommended increasing to \$800 million. The House budget resolution would increase the reserve to about \$680 million whereas the Senate intends to pump it up to about \$1.2 billion. Senate leadership explains the large reserve contribution proposal as concern for a

potential recession in 2009-2010, but many Capitol insiders think a good portion of this money will come into play later in the session.

### **Real Deal Will Happen After the Break**

During a recent discussion, a budget chair told me the following, “We’ll see what [money] we can put in now, but the real bills won’t show up until after the break and the first few plays with the governor.” We’ve been noticing a number of policy bills with fiscal implications getting hearings, even though the policy and funding is, or will be, included in an Omnibus bill. It looks like they are starting to park vehicles that can be used for future appropriation actions.

### **Veto Talk Abounds**

Talk about vetoes has mostly been coming from minority members in both bodies, but the word has been bantered about repeatedly and not just in relation to tax bills. A variety of spending bills have heard the “V word” mentioned as they move through committee. The governor and his official spokespersons have not used it as frequently as others and it appears that the transportation bill will be the first real test.

### **Overheard Under the Marble Dome**

“It’s a disgrace that the legislature has failed to invest in affordable housing adequately. I’m grateful that the governor has done a good job of recognizing its importance and put good budgets on the table even during these tough fiscal years.” — *A Ranking Legislator*

“Aside from being bad tax and public policy, if the Republicans had done this we would have had them for lunch accusing them of being racist, protecting their communities from low-income housing, you name it. It would have been a feeding frenzy.” — *House Democrat commenting on linking eligibility for the 4d class rate to crime*

“It’s the worse of both worlds. It looks like an increase in funding using funny money and then it cuts the base in the next biennium. I’m not sure how you folks [housing advocates] mount a charge at leadership.” — *House Housing Committee member commenting on the housing finance bill*

Distributed weekly during the legislative session and periodically outside of session, the **MHP Capitol Update** provides information about bill introductions, committee hearings, policy analysis, and political chatter in St. Paul. **MHP Capitol Update** is published by Minnesota Housing Partnership, and content is provided by MHP’s lobbying team, Cindy Jepson and Julian Loscalzo. To share ideas for future issues, to ask questions, or to unsubscribe, please contact Barb Jacobs at [bjacobs@mhponline.org](mailto:bjacobs@mhponline.org) or 651-649-1710 ext. 117.

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.