MHP Capitol Update

Volume 2, Issue 22   June 1, 2007

2007 Session Summary

Minnesota Housing Partnership and its advocacy partners achieved numerous policy victories in Minnesota's 2007 legislative session. Our most significant accomplishment was working with the Legislature and governor to increase affordable housing appropriations by over $44 million. Of the additional $44 million, $15 million went to the Housing Challenge Program, which is Minnesota's primary vehicle for creating new affordable housing.

When the Legislature convened in January, it was widely reported that the state had a $2 billion budget surplus. After factoring for inflation, however, the budget surplus was actually only $200 million—a fact under reported by the media and never truly grasped by the wider public. This caused a significant PR problem for the DFL majorities in the House and Senate who found they did not have enough money to fund their top priorities, even though they purportedly had a significant surplus. This left the Democrats with two options: increasing revenue (taxes) to pay for their proposals, or whittling down their wish list.

The governor stood firm against numerous proposed tax increases and vetoed multiple budget and tax bills. Without an override majority, the legislature was forced to significantly reduce the scope of its top-tier agenda items. Meanwhile, most of Minnesota Housing Partnership's legislative agenda garnered bipartisan, bicameral, and administration support, helping many of MHP's initiatives make their way into final omnibus bills. In fact, the sales tax exemption on construction materials for affordable housing was the largest tax exemption in the final Omnibus Tax Bill.

MHP's Priority Legislative Issues

Below is an item-by-item outcome assessment of the 2007 MHP legislative agenda:

1) **Expand resources for affordable housing by a minimum of $100 million.** Advocates estimate that an increase of $100 million would produce and preserve up to 6,700 affordable housing units and leverage $250,000,000 in non-state funding. These additional resources would start to address the state's large affordable housing gap. MHP proposed the funding come from three sources. In order of preference, the proposed funding sources were an increase in the deed tax (Housing Solutions Act), an increase in Minnesota Housing's base budget, or a one-time resource commitment.

   Outcome: At the beginning of session, the governor placed a priority on funding affordable housing by proposing a budget of $114.3 million for Minnesota Housing (MHFA), an increase of $43.9 million over the previous biennium. Building on the governor's proposal, advocates requested that the budget include an additional $100 million for Minnesota Housing, pointing out that this would account for only one quarter of one percent of the state budget.

   Both the House and Senate proposed additional increases to the Minnesota Housing budget ($123 million by the House and $115.5 million by the Senate). The first Jobs and Economic Development Budget Bill included a $118.49 million budget for Minnesota Housing, but was vetoed. However, the DFL's inability to raise taxes to fund their other agenda items resulted in a final budget for Minnesota Housing of just over $114.5 million.

By setting the target high, the agency's initial budget proposal was maintained in the final Jobs bill signed by Governor Pawlenty on May 25. The $114 million housing appropriation within the bill is the largest affordable housing appropriations in almost a decade. The bill increases the Minnesota Housing base budget to nearly $90 million for the next biennium, a raise of about 25 percent. This is a significant victory. The legislature rarely provides agencies their requested appropriation levels.

Sadly, the Housing Solutions Act failed to gain traction this legislative session as it was beset by numerous factors outside of the control of supporters. Namely, the largest barriers were the governor's refusal to increase taxes, a declining housing market, and focused lobbying efforts by the REALTORS® Association's opposing the Act. In addition, the chairs of both Senate and House Tax committees opposed the bill.

2) **Amend the Low Income Rental Classification (LIRC/4d) by removing the 75 percent threshold and by including local government funded projects in the classification.** Many affordable housing properties are not eligible for participation in Minnesota's Low Income Rental Classification (LIRC) 4d tax rate because they are solely funded by local agencies, or fewer than 75 percent of their units are rent-restricted. The 4d modification would preserve over 9,000 publicly-assisted affordable units thru property tax relief. This represents $6 million in tax savings that would help struggling properties regain economic viability and preserve Minnesota's affordable housing.

Outcome:
Thru a collective effort, advocates got the Low Income Rental Credit, or 4d, modifications in the final tax bill. The proposed modifications lower the eligibility threshold of 75 percent rent-restricted units in a property to 20 percent and include projects solely funded by local units of government. We successfully fought off concerted efforts to eliminate 4d altogether as well as an amendment requiring that all eligible properties participate in a "crime free" multihousing program. Even though the tax bill was vetoed, inclusion of the 4d modifications in the legislation is a great victory. Few policy initiatives or tax breaks were included in the final Omnibus Tax Bill.

3) **Create a legislative intent that affordable housing properties are to be valued on the basis of their restricted rents or equity.** Tax assessment practices do not account for deed restrictions or covenants that owners of affordable rental housing are subject to through funding agreements with government agencies. The current market-based assessment practices, and resulting property tax levels, undercut government intent to create long-term affordable housing and do not reflect a property's resale value to the owner.

Outcome: In 2005, the legislature instructed the Department of Revenue to conduct a study examining the assessment practices for 4d qualifying properties. Released in February, the final report recommended "the continued use of applying classification rates to the current market rate approach to value as the preferred approach to providing tax benefits to these types of property. If the legislature concludes that the current tax results for class 4d property are still not sufficient and need adjustment, the adjustments should be made to the class rate, not the valuation method."

They further recommended that the Department of Revenue and the Minnesota Housing monitor and issue a biennial report on the number of qualifying 4d housing units, current trends in market value, and tax burdens on both market rate and 4d rental housing properties. Policymakers can review this information and address the tax issues accordingly. They believe it is important to differentiate between "best approaches to valuation" from policies for addressing tax issue concerns. Tax policy options available to the legislature include continued adjustments to the property classification rate, state paid tax credits or subsidies, tax abatements, or limited market value. The pros and cons of these policy options should be discussed in context of state tax policy and not approaches to valuation! Given the lack of support by the Department, efforts were focused on modifications to 4d.

4) **Create an Affordable Housing Donor Credit.** The Donor Credit (once known as the "Charitable Tax Credit") provides $5 million in state income tax credits for companies and individuals making charitable contributions for affordable housing. The credit generates at minimum $20 million in direct private investment and leverages many resources in the development of affordable rental and ownership housing.

   Outcome: Unfortunately, there was little support for tax credits in the House and this legislation did not pass. This is partly due to leadership's contention that a $5 million allocation is a significant budget item and a philosophical dislike for the overall policy. Notwithstanding, the proposal had good hearings in both the House and Senate, but was not included in either tax bill. Only two tax credits were included in either body's tax proposal and the final tax bill converted both of them into grants.

MHP Supported Legislative Initiatives

5) **Expand eligibility for the sales tax exemption on construction materials used for affordable housing to include limited partnerships with nonprofit general partners.** This sales tax expansion will save Minnesota nonprofit housing developers approximately $700,000 a year.

   Outcome: This was another unfortunate victim of the tax bill's veto. This bill was introduced in both the House and Senate and was referred on to the respective tax committees. While only the House included the bill in their version of the Omnibus Tax Bill, the Tax Bill Conference Committee retained the legislation. In the final Omnibus Tax Bill, the sales tax exemption for low-income housing construction materials was the largest sales tax exemption in the legislation.

6) **Expand the rights of manufactured home park residents to purchase their parks at time of sale, and establish uniform statewide relocation benefits for residents of closing manufactured home parks.** This legislation establishes a self-funded account to reimburse manufactured housing homeowners when a park closes.

   Outcome: This effort, lead by All Parks Alliance for Change (APAC) and assisted by MHP lobbyists, created quite a stir at the Capitol. Late on May 19th, the well-traveled relocation benefit legislation passed the Senate 66-0. This was the proverbial "little train that could" bill. Even though all sides supported the bill, it was one of the most negotiated bills of the session, making two stops in the Senate Housing Committee, two stops in the Local Government Committee, two stops in the Finance Committee, and one stop in Rules Committee. On the last day of session, the bill passed the House and was signed by the governor in a signing ceremony with APAC and the Manufactured Housing Association. This is the first significant piece of legislation impacting owners of manufactured homes created in over 20 years and the first legislation ever supported by both residents and park owners.

   The right of first refusal bill was introduced, advanced in both the House and Senate, and is positioned for additional action next year. Another casualty of the tax bill veto was a personal property tax exemption on the first $1000 of market value for decks, awnings, sheds or other appurtenances of a manufactured home.

7) **Provide funding needed to advance the state's plan to end long term homelessness.**

   Outcome: Along with the vetoed tax bill, one of the most disappointing aspects of the session was the Legislature's failure to adequately fund a variety of homeless assistance initiatives. This significantly undercuts the state's plan to end long term homelessness. Overall, the funding for the state's plan to end long-term homelessness was increased by $3 million, for a total of $13 million.

A $30 million supportive housing bonding bill was introduced the last week of session. **H.F. 2535** and **S.F. 2311** provide resources for developing long-term supportive housing and support the state's plan to end long term homelessness. In the House, Rep. John Benson is the chief author with co-authors Rep. Alice Hausman, Rep. Neil Peterson, Rep. Lyndon Carlson, Rep. Tom Rukavina, and many others. In the Senate, Sen. Dave Tomassoni is the chief author with co-authors Sen. John Marty, Sen. Sandy Pappas, Sen. Dave Senjem, and Sen. Keith Langseth. The early introduction will allow the House and Senate Capital Investment committees a first hand look at a sampling of projects as the committees tour the state during the interim.

8) **Eliminate the "MFIP penalty."** This initiative helps low income tenants and public agency owners by eliminating the $50 recognition of imputed income for Minnesota Family Investment Program (MFIP) recipients who reside in public housing or receive rent subsidies.

Outcome: Sadly, we were unable to eliminate or reduce the MFIP housing penalty. During the last weekend of session, just enough was cut out of the 507-page Health and Human Services behemoth to make it palatable to the governor and avoid another veto and become law. Unfortunately, the MFIP penalty repeal was among the cuts.

9) **Provide financial assistance for Public Housing Agencies to prevent deterioration of the public housing located in 200 Minnesota communities.**

Outcome: A $2.5 million allocation for public housing agency's statewide was included in the final Jobs and Economic Development Omnibus bill as part Minnesota Housing's budget. The House bill, **H.F. 2528, is authored by Rep.** Nelson, Rep. Hausman, Rep. Lanning, Rep. Urdahl, and Rep. M. Murphy. The Senate bill, **S.F. 2344** is authored by Sen. Moua, Sen. Prettner-Solon, Sen. Cohen, Sen. Dille, and Sen. Dibble. In addition, a $20 million bonding request was introduced in the last weeks of session and will be considered next year as part of the capital bonding process. We will keep you updated through the summer on capitol bonding organizing.

10) **Respond to mounting home foreclosures by providing additional assistance through the state's mortgage foreclosure program and by funding redevelopment in communities with concentrations of foreclosed properties.**

Outcome: The legislature passed a number of laws related to mortgage foreclosure and predatory lending, but failed to adequately fund foreclosure prevention and counseling services. In the end, The HECAT program was ***the only*** Minnesota Housing proposal that was not fully funded. We expect the agency to seek additional funding either internally, or through a transfer of funds from another agency.

Bytes and Bits

Many Thanks to All of Our Legislative Supporters
All-in-all, we should celebrate our many successes this session. Thank you to everyone who provided their time and energy to promote affordable housing and homeless issues at the Minnesota Legislature this year. Your involvement matters!

To help us prepare for next year and to ensure that we cover the topics that are important to you, we would love to hear what you think. Please contact Barb Jacobs at bjacobs@mhponline.org with feedback on MHP's 2007 advocacy activities and the **MHP Capitol Update.**

Another Victim of the Veto Pen

The governor also vetoed a two-year, $100,000 grant to HOME Line to run the statewide tenant hotline. HOME Line's tenant hotline provides free legal services so that tenants throughout Minnesota can solve their own rental housing problems. The tenant hotline is expected to take 10,000 calls from renters throughout the state this year. Many callers are referred to HOME Line from the state Attorney General's office, county, and city government offices.

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 or 651-649-1710 ext. 117.