



# 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*.

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## State Update

### **Governor, Senate Dems Release Budgets**

Today Governor Pawlenty released his supplemental budget taking into account the February forecast and influx of federal stimulus dollars. From the available information, it appears that the budget for economic development programs, including MHFA, have been left untouched, but that the health and human services budget, which includes funding for homeless and supportive services, suffered an additional whopping \$1.42 billion in cuts beyond those in the original January budget. Federal stimulus dollars will be funneled into state programs, but details are still unknown.

Meanwhile, Senate Democrats have rolled out their own "share the pain" budget proposal calling for \$2.4 billion in cuts plus \$2 billion in increased revenue. This plan differs significantly from the governor's in two areas. The Senate majority cuts budgets across the board by roughly 7%, leaving no budget program untouched. The governor augments the budget for some programs (e.g. education, and public safety), leaves some programs untouched, and significantly chops health and human services. Democrats in the Senate also plan to raise revenues that are still unspecified, whereas the administration uses funding shifts and bonding to balance the budget. The Senate notes that these "gimmicks" would still leave the state with a budget deficit of about \$5 billion in the next biennium, while their plan balances the budget into the future. The fact that the Senate puts education – a huge and sacred political cow – in the mix is significant. This approach leads to significantly fewer cuts to human services, higher education and local government aid.

### **Challenge Fund Expected to Take another Whack**

The original budget delivered to legislators cuts the MFHA base budget by only 5%. Under the Senate plan it would take another 2% hit, or \$1.8 million. The most likely target for additional cuts is the Challenge Fund program. A good deal of the agency's budget is directed at keeping people in their homes and off the streets. We expect legislative leaders to follow the agency's previous recommendations and cut the Challenge Fund leaving programs such as the Housing Trust Fund or

Family Homeless Prevention Fund intact. This would leave the Challenge Fund with only about \$9 million to support housing programs statewide.

### **And What's the Challenge Fund Again?**

MHP advocates have been harping on the Challenge Fund all session, but there's still some confusion about what Challenge finances and what we stand to lose by cuts to the program. The Challenge Fund is the primary vehicle for building/and or rehabbing affordable housing. It provides deferred loans which can be used either for rental or ownership housing, and for acquiring and rehabilitating existing units, constructing new units, or refinancing rental or ownership housing. The flexibility of the Challenge Fund is a key benefit, especially with the housing market in flux. This money can address vacant and boarded homes in local communities, even in places where federal foreclosure dollars are restricted. Challenge is also one of the best programs for leveraging other investment in housing. Each dollar invested through the Challenge Program in new construction leverages 5 to 6 dollars in non-state funds. Furthermore, Challenge is the primary source of funding for deferred loans utilized in federal tax credits projects.

In recent years, about half of Challenge dollars have financed the Community Revitalization Fund (CRV) program for building and rehabbing single-family homes. The other half has been used for the Economic Development and Housing Challenge (EDHC) program which builds new rental housing to meet workforce needs. Challenge can be used flexibly to meet local needs. In 2008 Challenge funds helped finance construction or rehab 1,300 units of housing. Here's what housing leaders are saying about the Challenge Fund:

“We are doing foreclosure remediation, but many low-income buyers cannot afford to maintain and heat these older homes. The current market provides the opportunity for Habitat to invest in long term housing supply by acquiring land that can be built on in the coming years. The last thing we should do is cut Challenge funding, since it actually provides a tangible solution to the lack of housing options.” –Susan Haigh, Twin Cities Habitat for Humanity

“Reduction in the Challenge Fund will severely limit the ability of groups like ours to rehabilitate vacant homes. Without that source of funding, our mixed use development, The Winnipeg, would not have come to fruition. It will act as a catalyst to reinvigorate lower Rice Street.” – Matthew Ides, SPARC, St. Paul

If we lose the Challenge Fund, Minnesota's ability to create new units of affordable housing for the future will be severely restricted. This is concerning, especially as people lose homes and the rental market tightens. To help protect the Challenge Fund from more cuts, legislators need to hear from you! Contact Julie Johnson at [jjohnson@mhponline.org](mailto:jjohnson@mhponline.org) or 651-925-5548 for support.

### **Bits & Bytes**

#### Senate Announces Bonding Bill – Nothing for Housing

The Senate proposed a \$367 million capital investment bill focused primarily on asset preservation, with state colleges and universities receiving a large infusion of funds. A number of “shovel ready” projects and a variety of transportation and transit projects are also included. No housing items were included, even though housing is one of the most pressing social needs this year. The only hope for additional funding for housing this biennium will be an effort to add bonds for housing to the mix in the House.

#### Up this Week: Non-Profit Housing Bonds

Though details are still sketchy, both the House and Senate will review bills calling for the sale of \$100 million in non-profit housing bonds. H.F. 1354 and S.F. 1382 are being heard in committees this week.

These bonds are limited to projects owned by non-profits. They also still require Challenge Funding to make deals work for both rental and land trust projects. Keeping this proposal alive is critical to a successful session.

## Heard Under Marble Dome

“How are we supposed to go after limited resources when members of our caucus don’t get heat from home to deliver for the housing effort?” – A frustrated legislative housing supporter

## Federal Update

(Compiled from material provided by National Low Income Housing Coalition and Center on Budget and Policy Priorities.)

On March 10th, President Obama signed a bill that extends federal spending through end of September, 2009. This bill is big news for housing, since it increases HUD's 2009 budget from \$37.6 billion to \$41.5 billion. Accounting complexities in the bill push some of the spending into fiscal 2010; for example, \$400 million for annual project-based Section 8 contracts run into fiscal 2010. Yet the bill still provides a 5.5% increase for housing in 2009 compared to the previous year.

Public housing enjoys a 5% increase for operating funds, and a 20% increase in HOPE VI funding to restore the most deficient public housing. However, even with the substantial increase for operating funding, the Center on Policy and Budget Priorities estimates that this funding will cover only 87% of the amount needed to operate public housing. The Center points out that this is the fifth year in a row that Congress has allocated less than 90% of what is actually needed.

For years, agencies administering Section 8 housing vouchers have faced the uncertainty of not knowing how much funding they will receive for the year. The new spending bill directs HUD to provide that information by May 11. The bill also includes enough funding for 13,000 new Section 8 vouchers. These vouchers will be used for three purposes: to unify families under the care of child welfare agencies, to provide supportive housing for veterans, and to house non-elderly people with disabilities.

Meanwhile, discussions on the 2010 budget proceed, with Congress set to complete its budget resolution by the April 6 recess. This will set the level of spending for discretionary programs such as housing. Also, early in April the Obama Administration will provide its budget details, including identifying a revenue source for the \$1 billion the Administration pledged to the National Housing Trust Fund.

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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 MHP at [info@mhponline.org](mailto:info@mhponline.org) or 651-649-1710.

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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.