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# **Housing Legislation 1999**

## **A Summary**

This summary describes housing legislation enacted during the 1999 regular legislative session. The summary includes information on appropriations to state agencies for housing programs, policy changes to existing housing programs, establishment of new programs, changes in landlord-tenant law, and other changes in laws that directly affect housing, such as certain tax law changes and policies for allocating tax-exempt revenue bonds.

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\*For questions regarding appropriations, agency programs, and other housing-related legislation, contact Wendy Simons. Contact Deborah McKnight about landlord-tenant legislation.

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## Appropriations

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In the 1999 session, the legislature made appropriations from the state general fund to several agencies for housing-related programs.

Table 1 (page 3) shows the appropriations made from the general fund to Minnesota Housing Finance Agency (MHFA) programs for the previous biennium, fiscal years 1998-1999, and the total appropriation by program for the new biennium, fiscal years 2000-2001. State appropriations for the MHFA make up about 10 percent of the agency's budget. In 1998-1999, the agency funded about 50 programs totaling over \$885 million.

Table 2 (page 5) shows the general fund appropriations that relate to housing made for the 1998-1999 and 2000-2001 bienniums to other agencies.

Table 1

<b>Minnesota Housing Finance Agency (MHFA)<sup>1</sup> Appropriations</b>	<b>Fiscal Years 1998-1999</b>	<b>Fiscal Years 2000-2001</b>
<b>Total</b>  <ul style="list-style-type: none"> <li>▶ Included in the 2000-2001 total appropriation is \$114,040,000 from the general fund and \$6,500,000 in federal TANF funds<sup>2</sup></li> <li>▶ Of the 1998-1999 amount, \$19,892,000 was intended to be a one-time increase. Of the 2000-2001 amount, \$41,250,000 is intended to be a one-time increase.</li> </ul>	\$83,156,000	\$120,540,000
<b>Crisis Support &amp; Prevention Programs</b>  <ul style="list-style-type: none"> <li>▶ Bridges (rental housing assistance for persons with mental illness) 3,100,000 3,400,000</li> <li>▶ Family homeless prevention. For the 2000-2001 biennium, \$1,875,000 the first year and \$375,000 the second year is from TANF funds (see footnote 2). \$100,000 of the total grants made to Hennepin County is for grants to organizations providing case management to help persons rehabilitate their rent history and find rental housing. 6,050,000 6,500,000</li> <li>▶ Foreclosure prevention and assistance program 1,166,000 1,166,000</li> <li>▶ Rent assistance for family stabilization. \$1,500,000 of the 1998-1999 appropriation was a one-time increase. Of the 2000-2001 appropriation, all is from TANF funds (see footnote 2) and \$250,000 is intended to be a one-time increase. 5,500,000 4,250,000</li> </ul>		
<b>Rental Housing Programs</b>  <ul style="list-style-type: none"> <li>▶ Housing trust fund. Of this, \$550,000 each year must be used for transitional housing. 4,696,000 4,696,000</li> <li>▶ Affordable rental investment fund. Of this, \$30,000,000 is for preservation of federally assisted rental housing and equity take-out loans. \$10,000,000 is a one-time increase. 27,111,000 42,986,000</li> </ul>		

<sup>1</sup> For MHFA appropriations, see [Laws 1999, chapter 223, article 1, section 5](#), effective July 1, 1999 (economic development appropriations).

<sup>2</sup> In 1996 Congress replaced the Aid to Families with Dependent Children (AFDC) entitlement program with TANF (Temporary Assistance for Needy Families), a block grant program. Each state receives an annual TANF block grant that it must use to assist its needy families, but states have broad discretion in determining how the assistance will be provided. TANF recipients are limited to a lifetime maximum of five years of assistance. Receiving TANF assistance through an MHFA program, including the Family Homeless Prevention Assistance Program (FHPAP) or Rental Assistance for Family Stabilization (RAFS), will count toward the five-year maximum per recipient. For more information on assistance to needy families, see the forthcoming House Research publication "Minnesota Family Assistance."

Table 1 - cont.

Minnesota Housing Finance Agency (MHFA) Appropriations	Fiscal Years 1998-1999	Fiscal Years 2000-2001
<b>Home Improvement &amp; Ownership Programs</b> <ul style="list-style-type: none"> <li>▶ Urban Indian housing. The legislature intends that MHFA use accumulated reserves to fund the program for the 2000-2001 biennium. The \$374,000 base is intended to be restored in the 2002-2003 biennium.</li> <li>▶ Tribal Indian housing</li> <li>▶ Minnesota rural and urban homesteading (MURL)</li> <li>▶ Capacity building grants. Of the 1998-1999 amount, \$100,000 was intended to be a one-time appropriation.</li> <li>▶ Community rehabilitation program. Of this, \$550,000 is for full-cycle home ownership and purchase-rehabilitation lending initiatives, and \$100,000 is for home ownership assistance to persons with disabilities participating in the Fannie Mae Homechoice program. Of the 1998-1999 amount, \$9,637,000 was intended to be a one-time increase. Of the appropriation for 2000-2001, \$2,000,000 is intended to be a one-time increase.</li> <li>▶ Housing rehabilitation and accessibility (deferred loans)</li> <li>▶ Home ownership assistance fund. Of the 1998-1999 amount, \$350,000 was intended to be a one-time appropriation.</li> <li>▶ Home equity conversion counseling grants. This program has been combined with the full cycle home ownership initiatives under the community rehabilitation program.</li> <li>▶ Matching grants for employer contributions for affordable housing</li> </ul>	<p>\$374,000</p> <p>3,366,000</p> <p>372,000</p> <p>580,000</p> <p>15,937,000</p> <p>8,574,000</p> <p>2,150,000</p> <p>50,000</p> <p>250,000</p>	<p>\$0</p> <p>3,366,000</p> <p>372,000</p> <p>480,000</p> <p>12,350,000</p> <p>8,574,000</p> <p>1,800,000</p> <p>0</p> <p>1,600,000</p>
<b>Other One-time Projects</b> <ul style="list-style-type: none"> <li>▶ Economic development and housing challenge program (see MHFA section under "Agency Programs," page 6)</li> <li>▶ School stability project (see MHFA section under "Agency Programs," page 6)</li> <li>▶ Innovative and inclusionary housing program (see MHFA section under "Agency Programs," page 6)</li> </ul>	<p>0</p> <p>0</p> <p>0</p>	<p>20,000,000</p> <p>1,000,000</p> <p>8,000,000</p>

Table 2

<b>General Fund Appropriations for Other Agencies<sup>3</sup></b>	<b>Fiscal Years 1998-1999</b>	<b>Fiscal Years 2000-2001</b>
<b>Department of Children, Families and Learning</b>		
▶ Transitional housing program to provide housing for homeless persons and families making the transition to independent living. Of the transitional housing appropriation, \$100,000 is for transitional housing services for homeless veterans.	\$3,5846,000	\$3,975,000
▶ Emergency services grants for organizations providing services to homeless persons	300,000	700,000
▶ Lead hazard reduction—for a nonprofit operating the CLEARCorps lead hazard reduction project. Of the 2000-2001 amount, \$300,000 is a one-time appropriation.	300,000	500,000
<b>Department of Economic Security; Youthbuild.</b> Of the 2000-2001 amount, \$200,000 is a one-time appropriation from the workforce development fund for the Youthbuild technical program to train youth for jobs in technical fields.	1,400,000	1,703,000
<b>Department of Corrections</b>		
▶ Emergency Housing Initiative to provide housing emergency housing assistance to recently released offenders who do not qualify for public assistance and who put the community at risk when their activities cannot be monitored	0	100,000
▶ Sentencing to Serve program for nonviolent offenders to work on community improvement projects including building affordable housing and to hire a housing coordinator for the institutional work crews in the program	700,000	500,000
<b>Department of Human Services</b>		
▶ Home sharing program, which links elderly, disabled, and families together to share a home. This program is funded at \$400,000 for FY2000, \$200,000 for FY2001, and then repealed as of June 30, 2001.	150,000	600,000
▶ Adult mental illness crisis housing assistance program, providing rental assistance for up to 90 days to prevent low- or moderate-income people from losing their permanent housing during an inpatient or residential stay for treatment	148,000	276,000

<sup>3</sup> See Laws 1999, ch. 205, art. 4, § 12, subds. 3, 10, and 12 (Children, Families and Learning); Laws 1999, ch. 223, art. 1, § 4, subd. 4 (Economic Security); Laws 1999, ch. 216, art. 1, § 13, subd. 4 (Corrections); Laws 1999, ch. 245, art. 1, § 2, subd. 8, ¶ (e) and art. 10, § 10, ¶ (a) (Human Services) .

## Agency Programs

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### Minnesota Housing Finance Agency (MHFA)

**Economic Development and Housing Challenge Program.** The 1999 Legislature made a one-time \$20,000,000 appropriation to this program, administered by MHFA, which will provide grants or loans for housing activities supporting economic development or job creation. Grants or loans can be made to cities, developers, nonprofit organizations, or owners of housing, with preference given to loans or grants supporting home ownership. An eligible proposal for funding under the challenge program must include a contribution from an area employer, as well as a contribution from either a local government unit or a private philanthropic, religious, or charitable organization. Proposals getting funding from all three of these sources will get preference, as will proposals that include regulatory changes that result in cost avoidance or reductions for developing housing. MHFA must coordinate the application process and funding for this program with other funding available to the Department of Trade and Economic Development and local governments. Households served by this program must have incomes at or below 115 percent of the greater of state or area median income (see Appendix).

*Laws 1999, ch. 223, art. 2, § 56, to be codified at [Minn. Stat. § 462A.33](#), effective July 1, 1999*

**Innovative and Inclusionary Housing Program.** The 1999 Legislature created this program which will fund housing developments with a variety of prices and designs serving families with a range of incomes and housing needs. Half of the one-time \$8,000,000 appropriation is for the MHFA to administer the program for the nonmetropolitan areas of the state, while the other half is for the Metropolitan Council to administer the program for the seven-county metropolitan area (see Metropolitan Council, page 10). MHFA must give preference to proposals to the degree that they: use innovative building techniques or materials to lower housing costs; are located in communities that have demonstrated a willingness to waive local restrictions that increase housing construction costs; and include units affordable to households at or below 80 percent of the greater of state or area median income (see Appendix). Cost savings from regulatory incentives must be reflected in the sale prices of all units in the development.

*Laws 1999, ch. 223, art. 2, § 54, to be codified at [Minn. Stat. § 462A.2093](#), effective July 1, 1999*

**School Stability Project.** MHFA, in consultation with the interagency task force on homelessness, may establish a demonstration project within the Family Homeless Prevention and Assistance Program (FHPAP) focusing on families with school-age children and unaccompanied youth who are homeless or at risk of becoming homeless. Each local project funded must be designed to reduce absenteeism, stabilize children in one-home settings, and reduce shelter usage. The 1999 Legislature has appropriated \$1,000,000 for this one-time demonstration project.

MHFA must target demonstration projects to communities with schools experiencing high student mobility. Each demonstration project in turn must target families with children under age 12 who have changed homes or schools at least once in the last 12 months or who have been absent from school at least 15 percent of the school year and who are at high risk of homelessness, as well as

unaccompanied youth in need of alternative residential settings. Demonstration projects must connect families with social services designed to keep families in their current homes. The school stability demonstration project would allow certain expenditures not permitted under FHPAP, including acquisition, rehabilitation, or construction of transitional or permanent housing, as well as rental assistance for periods of over 24 months.

FHPAP was established by the legislature in 1993. It provides for grants to counties, groups of counties, or county-sponsored nonprofits who agree to focus their emergency response efforts on homelessness prevention and securing housing for homeless families. The program specifies desired outcomes for local applicants, including preventing homelessness, shortening the length of shelter stays, and decreasing repeated periods of homelessness, but does not specify the means for reaching the desired outcomes.

*Laws 1999, ch. 223, art. 2, § 51, to be codified at Minn. Stat. § 462A.204, subd. 8, effective July 1, 1999*

**Cancellations.** The unobligated and unencumbered balances in three smaller agency accounts are transferred into the accounts for larger agency programs. The balance in the contract for deed guarantee account is transferred to the full cycle homeownership services program, the balance of the 1997 appropriation to the advisory task force on lead hazard reduction is transferred to the housing rehabilitation and accessibility program, and the balance of the 1997 appropriation to the community rehabilitation fund for grants to acquire, demolish, and remove substandard multiple-unit residential property is transferred to the affordable rental investment fund.

*Laws 1999, ch. 223, art. 1, § 5, subd. 19, effective July 1, 1999, for the contract for deed guarantee account and the advisory task force on lead hazard reduction, and effective July 1, 2000, for the grants to acquire, demolish, and remove substandard multiple-unit residential property*

### **Other Changes to MHFA Programs and Authority.**

- ▶ **Administrative Spending Limit.** The 1999 Legislature repealed the administrative cost ceiling for the MHFA and replaced it with an annual report, on or before February 15, delivered to the chairs of the finance and appropriations committees of the legislature. The report must include information on the expenditures for salaries and benefits, rent, professional and technical services, agency administration, and the agency's audited financial statements on its debt issuance and loan origination activities. The report must also include a budget plan for the agency including salaries and benefits, rent, professional and technical services, and agency administration. If actual expenses exceed the budget plan, the agency must notify the chairs of the legislative committees and divisions with jurisdiction over the agency's budget and submit a revised budget plan. The agency must also notify the chairs of the legislative committees and divisions with jurisdiction over the agency's budget if the agency considers an expansion of its activities not included in the submitted budget plan.

*Laws 1999, ch. 223, art. 2, §§ 49 and 50, amending Minn. Stat. § 462A.20, subd. 2, and adding subd. 2a, effective July 1, 1999*

- ▶ **Rehabilitation Loan Program.** 1999 legislation allows loans under this program to be made where the combined secured debt on the property does not exceed 110 percent of its market value as determined by the agency. Prior law did not allow the debt-to-value ratio to exceed 100 percent. MHFA is now required to report annually to the legislature on loans made under this program.

*Laws 1999, ch. 211, §§ 2 and 16, amending Minn. Stat. § 462A.04, subd. 14, effective August 1, 1999*

- ▶ **Mortgage Revenue Bond Proceeds.** Three provisions in 1999 legislation expand the eligible uses of mortgage revenue bond (MRB) proceeds. New housing in the metropolitan area may qualify for loans financed with MRB proceeds during the first ten months of the origination period if the new housing is part of an effort to meet affordable housing goals negotiated under the Metropolitan Council's Livable Communities program. MHFA may make MRB proceeds available for the exclusive use of builders or developers for loans to purchasers of new accessible housing or new housing with some significant government subsidies. The restriction on using MRB proceeds for loans on new housing in greater Minnesota is repealed.

*Laws 1999, ch. 211, §§ 3, 4, and 17, amending Minn. Stat. § 462A.073, subd. 2 and 4, and repealing Minn. Stat. § 462A.073, subd. 3, effective May 25, 1999*

- ▶ **Rent Assistance for Family Stabilization.** The 1999 Legislature extended the maximum length of time a family could receive rent assistance for family stabilization (RAFS) program assistance from 36 months to 60 months. The legislation also makes a number of technical changes in the statutes to reflect changes in the Minnesota Family Investment Program (MFIP) law. These changes include replacing references to "self sufficiency program" with "job search support plan or employment plan," and "self sufficiency program administrators" with "employment and training service providers." "Employment and training service provider" and "employment plan" are defined in the MFIP chapter of statutes. RAFS assistance in the form of portable and project-based vouchers will be awarded to employment and training service providers for use by participating families, including families with a caretaker parent with earned income. Vouchers were previously awarded to the county agencies locally designated to implement public assistance programs.

*Laws 1999, ch. 211, §§ 5, 6, 7, 8, 9, and 10, amending Minn. Stat. § 462A.205, subd. 1, 2, 4, 5, 6, and 9, effective August 1, 1999*

- ▶ **Community Rehabilitation Program.** 1999 legislation authorizes construction financing and eliminates multifamily housing as eligible projects for funding under this program.

*Laws 1999, ch. 211, § 11, amending Minn. Stat. § 462A.206, subd. 2, effective August 1, 1999*

- ▶ **Homeownership for Persons with Disabilities.** MHFA may create a consumer-owned housing revolving account for activities supporting homeownership among persons with



disabilities, including paying delinquent mortgage payments of persons participating in the Fannie Mae Homechoice pilot program for homeownership for persons with disabilities.

*Laws 1999, ch. 211, § 12, to be codified as Minn. Stat. § 462A.21, subd. 25, effective August 1, 1999*

- ▶ **Administration of Low-Income Housing Tax Credits.** The 1999 Legislature reduced the number of allocation rounds from three to two for the low-income housing tax credit program. First-round credits may be allocated to federally assisted projects where physical deterioration would result in the loss of existing federal subsidies (under prior law, first-round credits for existing subsidized housing may be used only to keep that housing from converting to market rate). A city or county which is a suballocator of tax credits may apportion some of its credits back to MHFA for a project located in the suballocator's jurisdiction.

*Laws 1999, ch. 211, §§ 13 and 14, amending Minn. Stat. §§ 462A.222, subd. 3, and 462A.223, subd. 2, effective August 1, 1999*

- ▶ **Equity Take-out Loans.** The MHFA may use equity take-out loans to keep owners from prepaying their mortgages and to encourage owners of federally subsidized rental housing to continue in the program. Originally, the MHFA could make the loans only to owners of section 8 project-based housing for properties on which the agency held the first mortgage. In an effort to preserve the supply of federally subsidized rental housing, the 1997 Legislature expanded the MHFA's authority to make equity take-out loans to include loans to owners of section 236 rental property. In 1998, the MHFA's authority was expanded to *all* federally subsidized rental housing, whether or not the agency holds the first mortgage on the property. In addition, the agency was given greater discretion in determining what security to require for the loan. In 1999, MHFA was given additional authority until August 1, 2001, to make equity take-out loans to owners who extend the affordability restrictions for less than the maximum term of the federal assistance contract if fewer than 30 percent of the units in the property are federally assisted and the units are at risk of conversion to market rate housing.

*Laws 1999, ch. 211, §15, effective August 1, 1999*

- ▶ **Full Cycle Home Ownership.** 1999 legislation merges the home equity conversion loan counseling program for seniors into the full cycle home ownership services program. The base appropriation for the combined program is equal to the sum of the base appropriations for the two separate programs. The full cycle home ownership services program provides prepurchase home buyer education and credit counseling, property inspection, technical and financial assistance in rehabilitating homes, postpurchase counseling, mortgage default counseling, assistance with home maintenance, entry cost assistance, and home equity conversion loan counseling.

*Laws 1999, ch. 223, § 53, amending Minn. Stat. § 462A.209 and repealing Minn. Stat. § 462A.28, effective July 1, 1999*

## Metropolitan Council

**Innovative and Inclusionary Housing Program.** The 1999 Legislature created this one-time program which will fund housing developments with a variety of prices and designs serving families with a range of incomes and housing needs. Half of the \$8,000,000 appropriation is for the MHFA to administer the program for the nonmetropolitan areas of the state, while the other half is for the Metropolitan Council to administer the program for the seven-county metropolitan area.

With regard to metropolitan proposals, a new inclusionary housing account is created within the metropolitan livable communities fund. The council must give preference to proposals to the degree that they: use innovative building techniques or materials to lower housing costs; are located in communities that have demonstrated a willingness to waive local restrictions that increase housing construction costs; and include units affordable to households at or below 80 percent of the greater of state or area median income. Beyond these criteria, the Metropolitan Council must give priority to proposals where at least 15 percent of the owner-occupied units are affordable to families at or below 60 percent of the area median income and at least 10 percent of the rental units are affordable to families at or below 30 percent of the area median income (see Appendix).

The council may provide incentives to inclusionary housing developments such as the waiver of service availability charges (SAC) and other regulatory incentives to reduce or avoid development costs. Grants and loans under the program will go to municipalities that offer incentives for inclusionary developments such as density bonuses, reduced setbacks and parking requirements, decreased road widths, flexibility in site development standards and zoning requirements, waiver of permit fees, or fast-track permitting and approval. Cost savings from regulatory incentives must be reflected in the sale prices of all units in the development.

*Laws 1999, ch. 223, art. 2, §§ 57 and 58, to be codified at Minn. Stat. §§ 473.251 and 473.255, effective July 1, 1999*

## Department of Children, Families and Learning

**Transitional Housing Services Set-aside Vetoes.** Two set-asides from this program were line-item vetoed by the governor: \$50,000 each year for a grant to the Kids Capacity Initiative program in Hennepin County; and \$25,000 for the biennium for a grant to Perspective, Inc. The governor also line-item vetoed \$25,000 each year for a grant to the city of St. Louis Park for the Meadowbrook Collaborative Housing Project to enhance youth outreach services and to provide educational and recreational programming for at-risk youth.

*Laws 1999, ch. 205, art. 4, § 12, subd. 3*

## Department of Human Services

**Adult Mental Illness Crisis Housing Assistance Program.** This program is moved from MHFA to the Department of Human Services.

*Laws 1999, ch. 245, art. 4, § 8, to be codified as Minn. Stat. § 245.99, and Laws 1999, art. 4, § 120, repealing Minn. Stat. § 462A.208, effective July 1, 1999*

## Landlord-Tenant Legislation

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### Tenant Screening Fees

This act regulates the practice of charging screening fees to residential tenants.

**Limit on Number of Applicant Screening Fees.** A landlord or his or her agent may not charge a screening fee in cases where the landlord knows or should have known that no unit is or soon will be available.

**Return of Applicant Screening Fee.** A landlord or agent must return any unused portion of a screening fee if the landlord does not perform a background check or purchase a credit report or tenant screening report on the applicant. The landlord may return the fee by mail, destroy the check upon applicant's request, or make the fee available to be picked up by the applicant.

**Disclosures to Applicant.** The landlord or agent must disclose, orally or on the application form, the name, address, and telephone number of any tenant screening service used before accepting any application fees from a prospective tenant. Prior law, requiring disclosure by the landlord of the name and address of any tenant screening service used when information in a screening report has been used to deny tenancy, is repealed.

**Remedies.** A landlord violating this section is liable to the applicant for the application fee plus a civil penalty of up to \$100, court filing costs, and reasonable attorney fees.

*Laws 1999, ch. 150, to be codified at Minn. Stat. § 504.301 and repealing Minn. Stat. § 504.30, subd. 5, effective August 1, 1999*

### Pre-lease Deposits on Rental Apartments

This act regulates the practice of requiring pre-lease deposits on rental apartments.

**Definition.** A "pre-lease deposit" is defined as money given by a prospective residential tenant to a landlord before a lease has been agreed to, separate from a reasonable charge covering the cost of conducting a background check.

**Limitations.** A pre-lease deposit is allowed if there is a written agreement stating the circumstances under which the deposit will be returned, and that the deposit will be returned within seven days after one of these circumstances occurs.

**Application in Case of Lease.** If the landlord and prospective tenant agree to a rental, the pre-lease deposit must be applied to the security deposit or rent.

**Remedies.** A landlord violating this section of statute is liable to a prospective tenant who paid a pre-lease deposit for the amount of the deposit, plus half that amount as a penalty. If a lease is entered and the deposit is applied toward a security deposit or rent, the landlord is not liable.

*Laws 1999, ch. 97, to be codified at Minn. Stat. § 504.38, effective August 1, 1999*

## **Court Records of Evictions**

**Expungement.** The court may order expungement of an eviction case file upon motion of the tenant if the court finds (1) the landlord's case is without basis in law or fact so that expungement is clearly in the interests of justice, and (2) those interests are not outweighed by the public's interest in knowing about the record.

**Tenant screening reports.** The prior law prohibiting a tenant screening service from giving reports on eviction actions in Hennepin and Ramsey Counties unless the report accurately shows the outcome of the proceeding is repealed. Instead, under the new legislation, if a service knows a court file has been expunged, the service must delete reference to it from data the service maintains or disseminates.

*Laws 1999, ch. 229, to be codified at Minn. Stat. § 484.014 and amending Minn. Stat. § 504.30, subd. 4, effective May 26, 1999*

## **Landlord-Tenant Law Recodification**

The legislature recodified the major landlord-tenant statutes in 1999. Minnesota Statutes traditionally divided most landlord-tenant rights and duties between two chapters, 504 and 566. In the 1998 session, the legislature passed a recodification bill to modernize the language in these statutes and to create one new chapter covering the landlord-tenant issues that have previously been divided between two chapters. The 1998 act had a delayed effective date. This act repeals the new chapter proposed by the 1998 act and replaces it with another recodification chapter that combines chapters 504 and 566, with minimal language changes aside from adding headnotes. The 1998 repeal of chapters 504 and 566 remains in effect; all the contents of those chapters are completely accounted for by the proposed chapter 504B in this act.

*Laws 1999, ch. 199, to be codified at Minn. Stat. chapter 504B, repealing Laws 1998, ch. 253, §§ 1 to 79, making conforming changes to numerous sections of statute that reference chapters 504 and 566, effective July 1, 1999*

## Other Housing-related Legislation

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### Mortgage Flipping

The 1999 Legislature took measures to curb the practice commonly known as “mortgage flipping” where a residential property is bought and quickly resold for a much higher price, usually based upon a fraudulent appraisal. It is now a gross misdemeanor for a real estate appraiser to engage in fraud or for a person to perform unlicensed appraisals (fraud was previously grounds for denial, revocation, or suspension of a real estate appraisal license). The legislature also appropriated \$100,000 from the real estate education, research, and recovery fund to the Department of Commerce to create an educational campaign to stop mortgage flipping.

*Laws 1999, ch. 209, § 2 (appropriation for the educational campaign), effective May 25, 1999; Laws 1999, ch. 223, art. 2, §§ 15 and 80 ¶ (d) (penalty provision), to be codified at Minn. Stat. § 82B.201, effective July 1, 1999, and repealing Laws 1999, ch. 137, § 5, effective retroactively to May 11, 1999 (an identical penalty provision was enacted in Laws 1999, ch. 209; a duplicate appropriation was enacted in Laws 1999, ch. 223, the economic development omnibus appropriations bill, art. 1, § 6)*

### Welfare Reform

The welfare reform provision making the first \$100 of federal rental housing subsidies count as unearned income for persons receiving assistance under MFIP is again postponed. This provision was to have gone into effect July 1, 1999, but is now scheduled to go into effect January 1, 2001. This will have the effect of reducing the MFIP grant of a family in subsidized housing by up to \$100 each month. The 1999 Legislature also amended the provision so that it will never apply to MFIP participants who are exempt from the employment and training services component of the program because they are age 60 or over; suffer from a certified illness, injury, or incapacity; or are the caregiver for an ill or incapacitated member of their household.

Because public housing rent payments equal 30 percent of a resident’s income, including the MFIP grant, effective January 1, 2001, rent paid by a public housing resident on MFIP will go down by \$30 per month, absent any increase in earned income. This \$30 monthly amount will be absorbed by the local Housing and Redevelopment Authority (HRA) or Public Housing Agency (PHA). The remaining \$70 per month will be absorbed by the affected public housing resident. The actual loss to HRAs, PHAs, and affected public housing residents will depend on whether subsidized housing residents receiving a MFIP grant increase their earned income and to what degree. MFIP recipients are expected to meet hourly work requirements and can receive employment and training services and other supports to make work possible.

*Laws 1999, ch. 245, art. 6, § 47, amending Minn. Stat. § 256J.37, subd. 9, effective July 1, 1999*

## Private Mortgage Insurance

The 1999 Legislature repealed the statutes regulating private mortgage insurance (PMI) and replaced it with a new section. The new legislation makes some changes in the conditions under which a borrower may cancel PMI, and clarifies the duties of lenders and servicers (persons that collect and remit mortgage payments for lenders) with regard to PMI.

A borrower now has the right to cancel PMI in connection with a residential mortgage loan if the following conditions are met: the current unpaid principal balance of the mortgage is 80 percent or less of the current fair market value of the property; the borrower has not been 60 days or longer past due on a payment during the 12-month period starting 24 months before the cancellation request, or 30 days or longer past due on a payment in the 12 months preceding the request for cancellation; the mortgage was made at least 24 months prior to the cancellation request; the property is owner-occupied; and the mortgage has not been pooled with other mortgages as collateral for bonds issued by the state or one of its political subdivisions or agencies. Under previous law, the current unpaid principal balance had to be 75 percent or less of the current fair market value of the property, and the borrower could not have been 30 days or longer past due on a payment in the 24 months preceding the cancellation request.

As was required of lenders under prior law, a servicer must provide annual written notice to a borrower currently paying PMI premiums that the borrower may have the right to cancel PMI. The 1999 legislation added the requirements that within 30 days of receiving a request to cancel PMI, a servicer must send notice to the insurer if the borrower is indeed eligible to cancel or send notice to the borrower of the reasons that the servicer has refused to cancel PMI. Also, if the lender or anyone involved in the mortgage transaction receives a PMI cancellation request, the recipient must promptly forward the request to the servicer of the loan or advise the borrower to contact the servicer.

A new federal law provides a somewhat different right to cancel PMI for mortgage loans entered into on or after July 29, 1999. The already existing Minnesota law, as amended in the 1999 session, will apply to those loans in addition to the federal law. For loans made prior to that date, only the Minnesota right to cancel PMI is available.

*Laws 1999, ch. 151, §§ 11 and 49, to be codified at Minn. Stat. § 47.207, repealing § 47.20, subd. 14, effective July 29, 1999*

## “This Old House”

The 1999 Legislature made several changes in the eligibility requirements for this program. The minimum age of eligible homes is increased from 35 to 45 years in order to qualify for a 50 percent property tax valuation exclusion for up to \$50,000 of improvements. An eligible home must still be at least 70 years old to qualify for the 100 percent exclusion for up to \$50,000 of improvements. All homes having an estimated market value of \$400,000 or less will be eligible to qualify for the exclusion (the legislature repealed the previous limits which varied from \$150,000 to \$300,000 to no limit based on demographic and other characteristics of the city or region).

Improvements, whether consisting of one project or many, must now add at least \$5,000 in estimated market value in a given year to qualify, but an unlimited number of improvements may be counted toward the \$25,000 or \$50,000 maximum exclusion. Prior law allowed only three improvements with a minimum value of \$1,000 each to qualify for the exclusion. The phase-in for adding the excluded value from the improvements to the tax rolls is speeded up to 50 percent per year over two years if the value is \$10,000 or less. The value of improvements over \$10,000 continues to be added back at a rate of 20 percent per year for five years, as was the case previously for all improvements, regardless of value.

*Laws 1999, ch. 243, art. 5, § 7, amending Minn. Stat. § 273.11, subd. 16, effective for improvements made after July 1, 1999*

## Property Tax Reform and Housing

**Rate Changes for Rental Housing.** The 1999 Legislature again lowered the property tax class rates on residential rental properties (see table below). The class rate changes made in the 1999 session can be seen as the continuation of a trend begun in the 1997 session of lowering property taxes overall, and particularly lowering property taxes for residential rental properties. In comparing projected property taxes payable in 2000 to actual property taxes paid in 1997, the overall burden on residential non-homestead property (1-3 units) is \$37.5 million less, or 19.9 percent, while the tax burden on market-rate apartment property is \$24.4 million less, or 10.2 percent.

### Property Tax Class Rates Residential Rental Properties

Type of Rental Unit	Class Rates			
	Payable 1997	Payable 1998	Payable 1999	Payable 2000
Single unit, <\$76,000 <sup>4</sup>	2.3%	1.9%	1.25%	1.2%
Single unit, >\$76,000	2.3%	2.1%	1.7%	1.65%
2-3 units	2.3%	2.1%	1.7%	1.65%
4 or more units, regular	3.4%	2.9%	2.5%	2.4%
4 or more units, small-city	2.3%	2.3%	2.15%	2.15%
4(d) low-income	-	-	1.0%	1.0%
Manufactured home park land	2.0%	2.0%	2.0%	1.65%

*Laws 1999, ch. 243, art. 5, § 19, amending Minn. Stat. § 273.13, subd. 25, effective July 1, 1999*

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<sup>4</sup> First-tier limit was \$72,000 for payable 1997, \$75,000 for payable 1998 and 1999.



**Low-income Apartment (4d) Aid to Cities.** Under this aid program, a city that has its tax capacity reduced by more than a threshold percentage as a result of conversion of apartments to class 4d status receives state aid. The qualifying threshold percentage is reduced from 2.5 percent of net tax capacity to 2 percent. The aid a city receives is equal to the reduction in the city's payable 1998 tax capacity over and above the threshold percentage multiplied by the city's tax rate for taxes payable in 1998.

*Laws 1999, ch. 243, art. 5, § 43, amending Minn. Stat. § 477A.06, effective for aids payable in 2000 and 2001*

## **Tax Increment Financing (TIF)**

The required local contribution for a housing district is reduced from 10 percent to 5 percent of the district's increments. If the municipality elects to make a local contribution out of its unrestricted moneys (such as its general fund), the district is exempt from the state aid offset. Qualified housing districts (those that provide low-income rental housing) are exempt.

*Laws 1999, ch. 243, art. 10, § 1, amending Minn. Stat. § 273.1399, subd. 6, effective for districts for which the request for certification is made after June 30, 1999, and for additions of geographic area to a district made after June 30, 1999*

## **Tax-Exempt Revenue Bond Allocations**

For MHFA allocations to eligible local government units from the housing pool for single-family housing programs, the income limit of buyers may not exceed 80 percent of the greater of statewide or area median income adjusted for household size (federal regulations allow income limits of up to 115 percent of the area median income; see Appendix). Under prior law, MHFA income limits could be used if they were greater than 80 percent of the area median income and income limits were not adjusted for family size. The new provisions will generally allow higher income limits, especially for homes for larger families. The present income limit in the Twin Cities (11 county) metropolitan area is \$38,500, regardless of household size. By contrast, the proposed income limits would range from \$33,450 (one-person household) to \$63,100 (eight-person household). The proposed limits for a family of four are \$47,800 in the 11-county metropolitan area; \$43,900 in Rice County; \$43,700 in Olmsted County; and \$43,040 in the rest of the state.

The house price limit now may not exceed the federal price limits established for mortgage revenue bond programs. Federal price limits permit home prices up to 90 percent of the average area purchase price, rising up to 110 percent of the average area purchase price in "targeted areas." The higher house price limits allowed under 1998 legislation for the "Minnesota City Participation Program" for new housing in the metropolitan area and for "community revitalization initiatives" for existing housing in the metropolitan area are repealed by the 1999 legislation.

If a city does not use at least 50 percent of its allotment from a preceding year by the application due date for the first allocation from the housing pool for single-family housing programs for the



succeeding year, it may not apply for or receive a new allocation for the succeeding year greater than the amount it has used out of its preceding allotment. Regardless of the amount used in a preceding year, the minimum allotment is \$100,000. This penalty is waived for a city applying for and receiving an allocation for 2000 which received bonding authority from the housing pool in 1998 and used 50 percent or less of its allotment by January 31, 1999. Applicants must include data on home purchase prices, mortgage amounts, income, household size, and race for their program for the previous year with their application.

*Laws 1999, ch. 189, §§ 3 and 7, amending Minn. Stat. § 474A.061, subd. 2a, effective May 22, 1999, and applicable to loans made after May 22, 1999*

## Appendix: Area Median Incomes

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The U.S. Department of Housing and Urban Development (HUD) determines median household incomes by county, metropolitan statistical area, and state for use in calculating eligibility for its various housing programs. The table below lists the state median income and area median incomes for selected areas in Minnesota, as well as common percentages of median income used for calculating eligibility for housing programs. HUD generally refers to 80 percent of median income or lower as “low income,” while 50 percent of median income or lower is referred to as “very low income.” (Note: HUD makes adjustments to its income limits to account for areas with high or low ratios of income to housing cost. Hence, the income limit for “low income” may be lower than 80 percent of area median income for an area with low housing costs relative to the local median income.)

The figures below are for 1999, and assume a four-person household. To calculate median income for smaller or larger families, add or subtract 10 percent for each additional person (e.g., the median income for a one-person household is 70 percent of the median income for a four-person household, while the median income for a six-person household would be 120 percent of the median income for a four-person household).

### 1999 Area Median Incomes for Four-Person Household

	Class Rates			
	Median Income	115% of Median Income	80% of Median (low-income)	50% of Median (very-low income)
State	\$41,600	\$47,850	\$33,300	\$20,800
Twin Cities Metropolitan Area	63,600	73,150	47,800	31,800
Olmsted County (Rochester)	62,800	72,200	43,700	31,400
Stearns County (St. Cloud)	46,800	53,800	37,450	23,400