

Subject Reducing the percentage of residential rental projects allowed to be financed with private activity bonds

Authors Rehrauer and Igo

Analyst Justin Cope

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Summary

The federal government limits the number of tax-exempt private activity bonds (PABs) that each state (and its political subdivisions) can issue. PABs can finance, among other things, residential rental projects. When a residential rental project is financed with the requisite percentage of PABs, it automatically receives the four percent low-income housing tax credit (LIHTC). Public Law 119-21 (commonly known as the One Big Beautiful Bill Act) lowered the percentage of a project needing to be financed by PABs to receive the four percent LIHTC from 50 percent to 25 percent.

This bill would modify Minnesota's allocation of PABs. It would reduce the maximum percentage of a residential rental project that PABs can finance from 55 percent of the reasonably expected aggregate basis of the project. The new maximum would be the greater of: (1) 30 percent of the reasonably expected aggregate basis of the project; or (2) the project's maximum supportable permanent amortizing debt, up to 40 percent of the reasonably expected aggregate basis of the project.