

**Subject** Minnesota Bond Allocation Act, housing bonds

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## Overview

This bill changes the Bond Allocation Act for residential rental housing to define and prioritize among the types of projects. Sections 1 to 8 add definitions related to residential rental housing projects.

**Minnesota Bond Allocation Act background.** The bond allocation statute sets Minnesota’s process for allocating the annual dollar limitation imposed by federal law on issuance of “private activity” tax exempt bonds. Under federal law, “private activity bonds” are bonds issued by a state or local government unit, but that finance facilities that are used (ten percent or more) for some type of private use and that are secured (again, ten percent or more) by revenues from or relating to the private use. Some private activity bonds are not subject to the dollar limit (e.g., bonds issued for private hospitals, colleges, and other exempt entities). The common types of facilities financed with bonds that are subject to the dollar limits include:

- Housing bonds used to finance both low-income rental and owner-occupied housing (except veterans mortgage bonds which are exempt from the dollar cap)
- Student loan bonds
- Small issues (typically for smaller manufacturing projects)
- Various types of public utility projects (such as the district heating bonds that are the subject of this bill)

The bond allocation statute sets up a complicated mechanism for allocating Minnesota’s dollar limit by type of project (i.e., what the bonds finance) and the governmental entity issuing them (e.g., state agency, various specific cities or counties, etc.). The mechanism sets priorities among these uses and issuers; it also is intended to ensure that the full amount of the annual cap is used and does not lapse, since the ability to issue tax exempt bonds is essentially a federal tax subsidy/grant for qualifying projects. Allowing issuance authority to lapse is considered similar to passing up a federal grant-in-aid.

## Summary

Section	Description
1	<p><b>Aggregate bond limitation.</b></p> <p>Defined to mean up to 55 percent of the reasonably expected aggregate basis of a residential rental project and the land on which the project is or will be located.</p>
2	<p><b>AMI.</b></p> <p>Defined to mean area median income for the applicable county or metropolitan area as adjusted for household size.</p>
3	<p><b>LIHTC.</b></p> <p>Defined to mean low-income housing tax credits.</p>
4	<p><b>Preservation project.</b></p> <p>Defined to mean a project expected to generate LIHTC and that receives federal project-based rental assistance or a loan or guarantee from the USDA Rural Development Program. An application must not exceed the aggregate bond limitation.</p>
5	<p><b>30 percent AMI residential rental project.</b></p> <p>Defined to mean a project in greater Minnesota that is expected to generate LIHTC from 100 percent of the rental units, is not a preservation project, and in which, on average, tenants are at 30 percent of AMI or less. Also, the units are subject to rent restrictions for at least 30 years. An application must not exceed the aggregate bond limitation.</p>
6	<p><b>50 percent AMI residential rental project.</b></p> <p>Defined to mean a project that is expected to generate LIHTC from 100 percent of the rental units, is not a preservation project or 30 percent AMI project, and in which, on average, tenants are at 50 percent AMI or less. Also, the units are subject to rent restrictions for at least 30 years. An application must not exceed the aggregate bond limitation.</p>
7	<p><b>100 percent LIHTC project.</b></p> <p>Defined to mean all units are expected to generate LIHTC and the project does not qualify under the other project definitions. An application must not exceed the aggregate bond limitation.</p>
8	<p><b>20 percent LIHTC project.</b></p> <p>Defined to mean at least 20 percent of the units are expected to generate LIHTC and the project does not qualify under the other project definitions. An application must not exceed the aggregate bond limitation.</p>

<b>Section</b>	<b>Description</b>
9	<b>Under federal tax law; allocations.</b> In this section and others, changes from July to June the date for allocation of the remaining 31 percent in the housing pool for allocation for single family housing programs in the second half of the year.
10	<b>Entitlement reservations.</b> Conforming change.
11	<b>Allocation application; small issue pool and public facilities pool.</b> Limits the application of the section to the small issue pool and public facilities pool, striking provisions relating to housing.
12	<b>Allocation application; housing pool.</b> Adds procedures for allocation of the housing pool. Requires the application to specify what type of project it is. Provides for an application fee of two percent of the requested allocation. Prohibits an entitlement issuer from applying unless it has either permanently issued bonds equal to any amount of bonding authority carried forward or has returned for reallocation any unused bonding authority carried forward.
13	<b>Housing pool allocation.</b> Establishes the priority for projects using the definitions in the bill and how to allocate among projects of the same priority. Strikes language relating to projects for persons 55 and older.
14	<b>Small issue pool allocation.</b> Conforming change.
15	<b>Public facilities pool allocation.</b> Conforming change.
16	<b>Return of allocation; deposit refund for small issue pool or public facilities pool.</b> Conforming change.
17	<b>Return of allocation; deposit refund for housing pool.</b> Provides for reallocation procedures that depend on when during the year an allocation is cancelled and returned for reallocation. Provides for return of the application deposit on a return for reallocation; the amount of the deposit return declines as time passes.
18	<b>Minnesota Office of Higher Education.</b> Clarifying change.

<b>Section</b>	<b>Description</b>
19	<b>Unified pool amount.</b> Conforming change. This section through section 23 make changes to allocations from the unified pool. Unused allocations from the small issue pool, housing pool, and public facilities pool are transferred to the unified pool after the last Monday in June.
20	<b>Application.</b> Provides for allocation from the unified pool for residential rental housing applications.
21	<b>Application for all other types of qualified bonds.</b> Adds a provision for allocation from the unified pool for all other types of qualified bonds (since section 20 is limited to residential rental housing).
22	<b>Allocation procedure.</b> States priorities for residential rental housing projects if there is more than one for the same type of project (same as in section 13)
23	<b>Return of allocation; deposit refund.</b> Same deposit refund for residential rental housing projects that return an allocation from the unified pool as in section 17.
24	<b>Notice of issue (carryforward).</b> Conforming changes.
25	<b>Deadline for issuance of qualified bonds.</b> Provides that if bonds for a residential rental project have not been issued by the end of the year and the time to issue has not passed, the bonding authority is allocated to the Minnesota Housing Finance Agency (MHFA) to carry forward for use by the residential rental housing project. Obligations issued by the MHFA for a residential rental housing project are not subject to debt management policies of the MHFA.
26	<b>Carryforward notice.</b> Exempts a residential rental housing project from notifying Minnesota Management and Budget (MMB) of its intent to carry forward its allocation.
27	<b>Notice of availability authority.</b> Conforming change.



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