Conduit Bond Discussion
FAQs

Q. What is Conduit Bond Financing, and whosefunds are they?
A. A Bond issued by a governmental entity but repaid by another entity benefiting from the financing generated by the issuance of the Bond. For example, a business might be the borrower using the proceeds of the Bonds issued by the governmental entity to raise capital for a real estate development project. The governmental entity would have no obligation to pay the bondholders except from loan repayments made by the borrower and would bear no responsibility for repayment if the borrower defaulted.

Conduit bonds are revenue bonds. When the bonds are sold, investors look only to the credit of the private borrower (and any related private security, such as mortgages and guarantees). While the county must approve issuance of the bonds and all the bond documents, the transaction is largely handled by the private borrower and the underwriter that usually serves as the initial purchaser of the bonds.

Q. Who can make requests of MMB Conduit Bonds?
A. Identify the jurisdictions in the State of Minnesota, and how Ramsey County can make a request.

Any municipality may act as a conduit bond issuer. Any request for participation as a bond issuer is typically first directed to the municipality in which the project is located. Cities are usually interesting in acting as the issuer for the revenue from fees. If a municipality does not wish to act as the issuer, the HRA may choose to undertake the bond issue.

Q. When are applications for Conduit Bonds due?
A. Applications are accepted January 1 of each year.

Q. Will taking this action open the Board up to additional requests for funding from many community organizations?

A. This action is primarily for housing preservation.

The intention of acting as a conduit bond issuer is only to preserve and/or rehabilitate affordable housing units. The user of bond proceeds is a private for-profit entity that builds housing intended for occupancy by persons or families who meet specified low-income guidelines.

Other types of conduit bonds are listed below. These types of conduit bonds are not being considered within the draft policy at this time.

• Qualified 501(c)(3) bonds, where the user of bond proceeds is a nonprofit 501(c)(3) entity. Typical examples include nonprofits that own nursing homes, hospitals, senior and other affordable housing, and schools (from K-12 to college).The HRA only did this once, for West Side Community Health/LaClinica.

• Small issue manufacturing bonds, where the user of the proceeds is a manufacturing business that constructs manufacturing facilities that meet certain federal requirements.

Q. Why is using this tool important for housing preservation?

A. Additional Benefit to Conduit Bond process: 4% Housing Tax Credits

Conduit Bond Discussion

FAQs

By participating and requesting an allocation of bonds from the Minnesota Office of Management and Budget (MMB), the County may provide an additional financing resource for affordable housing developers in Ramsey County. The non-competitive 4% Housing Tax Credits (HTCs) are used for projects financed with tax-exempt bonding authority through MMB. The tax credits are awarded to eligible participants and provide a source of equity financing for the development of affordable housing. Investors in qualified affordable multifamily residential developments can use the HTCs as a dollar-for-dollar reduction of federal income tax liability. The tax credits are awarded when the bonds finance at least 50% of the cost of the land and buildings in the project. In some cases, the 4% tax credit may offer an advantage over the 9% credit.

Q. What types of projects did the County use this tool for in the past?

A. Conduit Bonds Issued Previously by Ramsey County

1999	Skyline Towers	$ 15,000,000
2000	Hanover Townhomes	$ 3,230,000
2000	Rivertown Commons/Capitol View	$ 5,818,825
2001	Dominium/Emerald Garden/808 Berry	$ 11,705,000
2001	Centex/Chestnut Housing-UpperLandings/Joseph's Pointe	$ 5,250,000
2002	Dominium/Stonebridge-Gateway Village	$ 38,690,000
	TOTAL	$ 79,693,825

501(c)(3) Revenue Bonds

2003	West Side Community Health	$ 5,000.000

Conduit Bond Discussion
FAQs

Q. How does Minnesota Management and Budget (MMB) award the allocation of bonding authority?

A. MMB awards the allocation of bonding authority. The draft County Conduit Bond policy is in alignment with the priorities of MMB.

The following is the statutory priority ranking for allocating bonding authority for housing projects:

> Commencing on the second Tuesday in January and continuing on each Monday through the last Monday in June, the commissioner shall allocate available bonding authority from the housing pool to applications received on or before the Monday of the preceding week for residential rental projects that meet the eligibility criteria under section 474A.047.
>
> Allocations of available bonding authority from the housing pool for eligible residential rental projects shall be awarded **in the following order of priority:**
> **(1) preservation projects;**
> **(2) 30 percent AMI residential rental projects;**
> **(3) 50 percent AMI residential rental projects;**
> **(4) 100 percent LIHTC projects;**
> **(5) 20 percent LIHTC projects; and**
> **(6) other residential rental projects for which the amount of bonds requested in their respective applications do not exceed the aggregate bond limitation.**
>
> If there are two or more applications for residential rental projects at the same priority level and there is insufficient bonding authority to provide allocations for all the projects in any one allocation period, available bonding authority shall be randomly awarded by lot but only for projects that can receive the full amount of their respective requested allocations. If a residential rental project does not receive any of its requested allocation pursuant to this paragraph and the project applies for an allocation of bonds again in the same calendar year or to the next successive housing pool, the project shall be fully funded up to its original application request for bonding authority before any new project, applying in the same allocation period, that has an equal priority shall receive bonding authority.

1. "Preservation project" means any residential rental project, regardless of whether or not the project is restricted to persons of a certain age or older, that is expected to generate low-income housing tax credits under section 42 of the Internal Revenue Code of 1986, as amended, and (1) receives federal project-based rental assistance, or (2) is funded through a loan from or guaranteed by the United States Department of Agriculture's Rural Development Program.
2. "30 percent AMI residential rental project" means a residential rental project that does not otherwise qualify as a preservation project, is expected to generate low-income housing tax credits under section 42 of the Internal Revenue Code of 1986, as amended, from 100 percent of its residential units, and in which all the residential units of the project:
   (i) are reserved for tenants whose income, on average, is 30 percent of AMI or less;
   (ii) are rent-restricted in accordance with section 42(g)(2) of the Internal Revenue Code of 1986, as amended; and
   (iii) are subject to rent and income restrictions for a period of not less than 30 years
3. "50 percent AMI residential rental project" means a residential rental project that does not qualify as a preservation project or 30 percent AMI residential rental project, is expected to generate low-

income housing tax credits under section 42 of the Internal Revenue Code of 1986, as amended, from 100 percent of its residential units, and in which all the residential units of the project:

(1) are reserved for tenants whose income, on average, is 50 percent of AMI or less;

(2) are rent-restricted in accordance with section 42(g)(2) of the Internal Revenue Code of 1986, as amended; and

(3) are subject to rent and income restrictions for a period of not less than 30 years.

4. "100 percent LIHTC project" means a residential rental project that is expected to generate low-income housing tax credits under section 42 of the Internal Revenue Code of 1986, as amended, from 100 percent of its residential units and does not otherwise qualify as a preservation project, 30 percent AMI residential rental project, or 50 percent AMI residential rental project.
5. "20 percent LIHTC project" means a residential rental project that is expected to generate low-income housing tax credits under section 42 of the Internal Revenue Code of 1986, as amended, from at least 20 percent of its residential units and does not otherwise qualify as a preservation project, 30 percent AMI residential rental project, 50 percent AMI residential rental project, or 100 percent LIHTC project.