

## Request for Board Action Details

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**File #:** 2020-451

**Type:** Administrative Item      **Status:** Agenda Ready

**In control:** Housing and Redevelopment Authority

**On agenda:** 10/27/2020      **Final action:**

**Title:** Conduit Bonds/Conduit Financing for Affordable Housing Projects.

**Sponsors:** Community & Economic Development

**Indexes:**

**Code sections:**

**Attachments:** 1. Draft - HRA Summary Policies Revised 10-2020

Date	Ver.	Action By	Action	Result
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**Sponsor:** Community & Economic Development

**Title**

Conduit Bonds/Conduit Financing for Affordable Housing Projects.

**Recommendation**

None. For information and discussion only.

**Background**

The Ramsey County Housing and Redevelopment Authority (HRA) has acted as conduit issuer of housing/mortgage revenue bonds in the past. The most recent was for the Skyline Towers rehabilitation and the Chestnut Housing new construction (now Joseph's Pointe) in Saint Paul in the early 2000's. There is currently increased demand for these bonds, and the 4% Housing Tax Credit which accompanies them. Municipalities often have demand greater than they can meet under their volume cap. County participation as a bond issuer can help fill the gap, enabling more projects to move forward. A renewed program will increase production of housing to address the growing housing need and deepen affordability in new and rehabbed units.

Housing/mortgage revenue bonds are a form of conduit financing that provides funding for affordable housing development, or acquisition and redevelopment of existing housing properties. Conduit bonds enable developers to obtain below-market financing for a project because interest income from the bonds is exempt from state and federal taxes. As the conduit issuer, Ramsey County or HRA is not responsible for making payments to bondholders; rather the conduit borrower must make such payments from the cash flow generated from the project.

Unlike almost all other bonds, conduit bonds are initiated by and issued for the benefit of private entities. Under the state statutes that authorize these bonds, the county HRA issues the bonds and loans the proceeds to the private entity. That private entity repays the loan in an amount sufficient to pay principal and interest on the bonds. As a practical matter, the loan is (normally) handled entirely by a separate bond trustee (usually the trust division of a bank). After the bonds are issued, the county or HRA plays a minimal role in payment or administration of the bonds.

The bonds are revenue bonds - the county or HRA does not pay debt-service or any other cost related to the transaction and does not make any guarantee as to future repayment. As such, the bonds have no effect on the county's credit rating and are not counted against any statutory limitations on borrowing. 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 HRA board 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. The bond counsel for conduit bonds may be the county's regular bond counsel or may be retained by the private entity (this is a matter of county policy and practice).

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 program are awarded when the bonds finance at least 50% of the cost of the land and buildings in the project.

Conduit bonds are payable exclusively through pledged project revenues, they do not impose any risk on local or state government issuers.

#### GENERAL PROCESS

In order to restart the conduit bonds program, Ramsey County CED has updated the existing conduit bond policy. HRA is ready to receive applications for participation in the program. From there Ramsey County staff and/or consultants will review the application and determine project feasibility. Upon approval, applicants will enter a Memorandum of Understanding to establish responsibilities and goals of the project.

Preliminary approval is required before submitting the application to MMB. Ramsey County must hold a public hearing and adopt a resolution granting approval of the project for allocation from MMB to be completed.

Once the project has been notified that there is sufficient bonding capacity for the project to proceed, Ramsey County HRA will follow the procedures established in the conduit policy and procedure guide adopted in February 2004. During this time, the HRA will conduct due diligence and work with Bond Counsel to assure issuance requirements are met. Prior to issuance, the HRA Board will need to approve a final resolution of authorization. The closing on the sale of the bonds must occur within 180 days of award.

The County will begin to see applications for conduit bond financing as early as next month under this existing policy. CommonBond Communities has made an application for conduit bond financing in partnership with the City of St. Paul HRA. Their proposal will renovate a 136-unit affordable housing project adding seven new ADA units, a new computer lab, and serve seven High Priority Homeless households. Ramsey County staff are reviewing the application and will begin the process for Board consideration pending approval of the amended policy.

#### **County Goals** (Check those advanced by Action)

☐ Well-being

☒ Prosperity

☒ Opportunity

☐ Accountability

#### **Racial Equity Impact**

There is an existing gap or need for more units for households at or below 30% of the Adjusted Median Income (AMI). Currently, households/individuals earning 30% AMI or less, outnumber the total number of units that are affordable to them by roughly 15,000 in Ramsey County based on the latest data available.

What we know: Minority households that are cost-burdened are overwhelmingly earning 50% AMI or lower. The majority of cost-burdened households are white, but minority households are more likely to be cost-burdened (e.g. 48% of African American households outside Saint Paul are cost-burdened, but they account for only 4 percent of the cost-burdened households in Ramsey County.)

Additionally, the median white household in Ramsey County can afford roughly ~ \$1,000 more in housing costs per month than the median African American household in Ramsey County. This income inequality translates into inequality in affordable housing options for all nonwhite households.

To increase production of housing and deepen affordability of housing units in Ramsey County. An additional resource for affordable housing, especially one with incentives for developers, lends itself as a tool to fix inequalities in housing opportunities experienced by minority households.

The county has flexibility to set parameters on projects financed through conduit bonds to ensure the most critical needs are addressed with priority (e.g. 30% AMI units).

### **Community Participation Level and Impact**

Ramsey County residents have consistently expressed concern about a lack of affordable housing in the County.

☒ Inform      ☐ Consult      ☐ Involve      ☐ Collaborate      ☐ Empower

### **Fiscal Impact**

Acting as an issuer of Conduit Bonds bears no financial risk for the County. Administrative fees will be collected as part application submittals to offset internal review costs by Finance and Community and Economic Development staff.

### **County Manager Comments**

Staff and Bond Counsel recommend the Ramsey County HRA have an approved Conduit Bond policy and procedures in place prior to accepting applications.

### **Last Previous Action**

On February 3, 2004, the Ramsey County Housing and Redevelopment Authority approved a prior summary of policies and procedures for conduit bonds (Resolution H04-002).

### **Attachments**

1. DRAFT - Ramsey County HRA Conduit Financing Policies and Procedures Summary