

MUNICIPAL BONDS TO SUPPORT AFFORDABLE, MIXED-INCOME, OR SENIOR HOUSING

Under state law, cities and counties are authorized to develop and administer programs that make or purchase mortgages to finance the acquisition or rehabilitation of affordable housing. These housing programs usually involve issuing mortgage revenue bonds for homebuyers and multifamily housing revenue bonds for rental properties. Cities may further make or purchase loans using the proceeds of the bond sales for activities such as new construction, acquisition and rehabilitation, or refinancing bond debt. In many cases, cities issue bonds and then enter into loan agreements with project developers to cover development financing.

Cities may use municipal bonds for:

- Acquisition of an existing building and conversion to a limited equity cooperative
- Acquisition and/or improvement of multifamily rental housing operated by a nonprofit corporation primarily for the elderly or people with disabilities
- Taking out accumulated equity for the preservation of low-income housing
- A multifamily rental housing development primarily for the elderly or people with disabilities, that is functionally related to a new or existing health care facility

Under state law, a locally-created housing program supported by revenue bonds must document the timing for bond sales, methods for ensuring appropriate use of bond proceeds, a brief analysis of how the program meets the needs of low- and moderate-income families, and other details (for complete requirements, please see [Minn. Stat. Chapter 462C](#)).

Cities do not need to back the bonds with their taxing authority. Rather, the bonds can be backed solely from revenues derived from the project or program assisted with the bonds. Some cities and counties with housing and redevelopment authorities pledge the revenue from other income-producing properties in their portfolio, further enhancing the quality and pricing of the bonds. Because the bonds are often secured only by a revenue agreement pledging funds from the development, this type of bond issuance can be a safe activity for cities. Under [Minn. Stat. sec. 462C.04](#), the Metropolitan Council reviews each program to determine whether the program furthers local and regional housing policies, is consistent with the Council's metropolitan development guide (*Thrive MSP 2040*), and is compatible with the housing portion of the city's comprehensive plan. Since the early 1990s, more than 85 cities have submitted over 700 requests for housing bond program review to the Council.



We Haven't Issued Bonds for Housing Before—Is it Difficult?

Because of the relative complexity of federal and state bond law, many cities retain the services of experienced finance firms to structure the bond sales, market the bonds, and perform other functions. Others look to [Minnesota Housing](#), the state housing finance agency, to issue bonds on their behalf. In some cases Minnesota Housing uses local bonding authority to issue mortgage revenue bonds to purchase first-time homebuyer mortgages from lenders. In other circumstances Minnesota Housing issues tax exempt bonds on behalf of municipalities to facilitate eligibility for federal 4% Low-Income Housing Tax Credits.

A county Housing and Redevelopment Authority (HRA) may issue bonds on behalf of a city provided that the city has granted the HRA the authority to do so. Finally, cities can use their authority to issue bonds on behalf of other adjacent

cities to promote affordable housing development, rehabilitation, or to refinance existing affordable properties. This circumstance is most likely where a smaller city that does not typically use its bonding authority agrees to transfer bond proceeds to a project in a larger city that may have exhausted its authority under the state bonding volume cap.

In affordable rental projects financed with bonds, households with incomes at or below 80% of the area median income (AMI) must occupy at least 20% of the units in the project unless the development is primarily for the elderly or people with disabilities. (You can find more information about the region's levels of affordability and AMI on the [Council's website](#)).

Recent Examples of Housing Revenue Bond Requests

- The City of Minnetonka requested review for a \$17 million bond issuance for a 106-unit rental development with the developer financing the remaining development costs. At least 20% of the units will be for households earning 50% of AMI or less.
- The City of Columbus requested review for participation in refinancing a 115-unit independent senior living facility and an attached 31-unit assisted living senior rental housing project in the city of Richfield. The issuance of both tax exempt and taxable bonds (taxable bonds are not subject to the federally-mandated state volume cap), not to exceed the amount of \$21 million, will refinance the project at a lower cost than otherwise available, strengthening development feasibility and possibly resulting in lower rents.



Note: the information in this resource sheet is a general summary only; for more detail, please consult the pertinent statutory provisions including Minn. Stat. Chapter 462C and bond counsel.

April 2017