Senate Counsel, Research,
and Fiscal Analysis
Minnesota Senate Building
95 University Ave. W. Suite 3300
St. Paul, MN 55155-1800
(651) 296-4791
Thomas S. Bottern
Director

Senate

State of Minnesota

FROM: Stephanie James, Senate Counsel (651/296-0103)
Casey Muhm, Senate Fiscal Analyst (651/296-2500)

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RE: MHFA Housing Infrastructure Bonds

This memo describes the history of laws authorizing the Minnesota Housing Finance Agency to issue housing infrastructure bonds and the allowed purposes of those bond proceeds.

What are Housing Infrastructure Bonds?

Housing infrastructure bonds ("HIBs") are "appropriation bonds" issued by the Minnesota Housing Finance Authority ("MHFA") that differ from state general obligation bonds in several ways.

First, by the terms of the authorizing law and as reflected in the contract with the bondholders, the full faith, credit, and taxing powers of the state are not pledged to repayment of the bonds. The only promise made to the bond purchasers is that IF the state appropriates money for debt service, that money will be used to make payments on the bonds.

Second, appropriation bond proceeds are not constrained as to their use in the ways that proceeds from the sale of state general obligation bonds are. For example, appropriation bonds can be used to fund acquisition of or improvements to privately-owned property.

Third, a law authorizing appropriation bonds can pass with a majority vote and does not require a 3/5 vote, as is required for state general obligation bonds for improvement to public buildings. Nevertheless, the laws authorizing housing infrastructure bonds have been typically, though not always, carried in the omnibus capital investment bill.

Uses of Proceeds of Housing Infrastructure Bonds

MHFA has authority to apply proceeds of housing infrastructure bonds to any of the following purposes, specified in statute, unless the authorizing law contains constraints:

(1) to finance the costs of the construction, acquisition, and rehabilitation of supportive housing for individuals and families who are without a permanent residence;

(2) to finance the costs of the acquisition and rehabilitation of foreclosed or abandoned housing to be used for affordable rental housing and the costs of new construction of rental housing on abandoned or foreclosed property where the existing structures will be demolished or removed;

(3) to finance that portion of the costs of acquisition of property that is attributable to the land to be leased by community land trusts to low- and moderate-income homebuyers;

(4) to finance the acquisition, improvement, and infrastructure of manufactured home parks under section 462A.2035, subdivision 1b;

(5) to finance the costs of acquisition, rehabilitation, adaptive reuse, or new construction of senior housing;

(6) to finance the costs of acquisition and rehabilitation of federally assisted rental housing and for the refinancing of costs of the construction, acquisition, and rehabilitation of federally assisted rental housing, including providing funds to refund, in whole or in part, outstanding bonds previously issued by the agency or another government unit to finance or refinance such costs;

(7) to finance the costs of acquisition, rehabilitation, adaptive reuse, or new construction of single-family housing; and

(8) to fund loans to finance the costs of the construction, acquisition, and rehabilitation of supportive housing for girls and women to provide them protection from and the means to escape exploitation and trafficking.

Purposes (1)-(7) are listed in section 462A.37, subd. 2; the purpose in item (8) is specified in section 462A.375. These purposes have been amended several times since 2012. Purpose (4) relating to manufactured home parks and Purpose (5) relating to senior housing were added in 2018.

A portion of the housing infrastructure bonds authorized in 2018 must be used specifically for "permanent supporting housing for people with behavioral health needs." Minn. Stat. section 462A.37, subd. 2d.

Prioritization Amongst Permanent Supportive Housing Projects and Senior Housing Projects

Proposals to access these funds are prioritized by the agency based on factors described in statute. Among comparable proposals for permanent supportive housing, preference must be given to permanent supportive housing for veterans and other individuals or families who:

(1) either have been without a permanent residence for at least 12 months or at least four times in the last three years; or

(2) are at significant risk of lacking a permanent residence for 12 months or at least four times in the last three years.

Among comparable proposals for senior housing, the agency must give priority to requests for projects that:

(1) demonstrate a commitment to maintaining the housing financed as affordable to seniors;

(2) leverage other sources of funding to finance the project, including the use of low-income housing tax credits;

(3) provide access to services to residents and demonstrate the ability to increase physical supports and support services as residents age and experience increasing levels of disability;

(4) provide a service plan containing the elements of clause (3) reviewed by the housing authority, economic development authority, public housing authority, or community development agency that has an area of operation for the jurisdiction in which the project is located; and

(5) include households with incomes that do not exceed 30 percent of the median household income for the metropolitan area.

To the extent practicable, the agency must balance the loans made between projects in the metropolitan area and projects outside the metropolitan area. Of the loans made to projects outside the metropolitan area, the agency must, to the extent practicable, balance the loans made between projects in counties or cities with a population of 20,000 or less, and projects in counties or cities with populations in excess of 20,000.

Authorizations of Housing Infrastructure Bonds

The legislature has passed several laws to authorize MHFA to issue housing infrastructure bonds. Each law authorizing the sale of housing infrastructure bonds specifies the following things:

- a limit on the amount of bonds authorized;

- the purpose to which the funds may be applied; and
- a statutory appropriation from the general fund of the amount needed to pay the debt service on the bonds. Before 2018, a cap for this amount is indicated.

As noted, laws enacted before 2018 specified a cap on the amount of annual debt service to be paid on the authorized bond issuance. The cap was an estimate of the amount needed for debt service and was about 8% of the authorized principal. This estimate turned out to be high, compared to actual experience. Subsequent capital investment acts amended statutes to increase earlier bond authorizations so that the required debt service was closer to the specified cap on the debt service appropriation. Beginning with Laws 2018, Chapter 214, the appropriation for debt service was not capped, so that the authorization could not be increased without also amending the appropriation to pay the increased debt service.

Each authorization for MHFA to sell housing infrastructure bonds are listed in statute in section 462A.37, subdivisions 2 through 2(f), and are reflected in Table A below. The bonds have a twenty-year term.

TABLE A – HIB Authorizations

Bond Authorization	Amount Authorized	Statutory Annual Appropriation for Debt Service	Actual Annual Debt Service (amounts vary slightly each year)
Minn. Stat. sec. 462A.37, subd. 2 (enacted 2012)	$30 million	Amount necessary up to $2.2 million	$2.04 million
Minn. Stat. sec. 462A.37, subd. 2a (enacted 2014 for $80m; increased to $95m in 2017)	$95 million	Amount necessary up to $6.4 million	$6.4 million
Minn. Stat. sec. 462A.37, subd. 2b (enacted 2015 for $10m; increased to $15m in 2017)	$15 million	Amount necessary up to $800,000	$800,000
Minn. Stat. sec. 462A.37, subd. 2c (enacted 2017)	$35 million	Amount necessary up to $2.8 million	$2.3 million
Minn. Stat. sec. 462A.37, subd. 2d (enacted in 2018)	$30 million	Amount necessary (No cap)	Projected to be $1.2 million in FY 2021 and $2.4 million each year thereafter
Minn. Stat. sec 462A.37, subd. 2e (enacted in 2018)	$50 million	Amount necessary (No cap)	Projected to be $2 million in FY 2021, and $4 million each year thereafter
Minn. Stat. sec. 462A.37, subd. 2f (enacted 2019)	$60 million	Amount necessary (No cap)	Projected to be $2.4 million in FY 2023 and $4.8 million each year thereafter
Minn. Stat. sec. 462.37, subd. 2g (enacted 2020)	$100 million	Amount necessary (No cap)	Projected to be $4 million in FY2023 and $8 million each year thereafter
Total	**$415,000,000**		**Projected $30.74 million per year (beginning FY 24 until the bonds sold under the 2012 authority are repaid), if all authorized debt is issued**

Table B lists bonds that have been issued under the authority granted in Minn. Stat. section 462A.37.

TABLE B – Issued HIB	
Issued	**Amount Issued**
Aug 2013	$15,460,000
Feb 2014	$14,540,000
Feb 2015	$37,570,000
Sept 2015	$31,095,000
Aug 2016	$18,625,000
Oct 2017	$12,690,000
Sept 2018	$25,295,000
Sept 2019	$26,775,000
Sept. 2020	$108,280,000
Total	**$290,330,000**

Other MHFA Bonding Authority

MHFA has a host of mechanisms for financing housing or housing projects, including loans and grants to people, nonprofit corporations, and local governments. The full scope of their work and statutory authorizations is beyond the scope of this memo. For example, MHFA has general authority to issue bonds in Minn. Stat. section 462A.08. This includes general obligation bonds of the agency payable from any of the agency's funds that are not pledged to other obligations and secured with a pledge of full faith and credit of the agency, and revenue bonds, secured by earnings of the agency's revenue-producing activities, such a mortgage loans or a portfolio of loans. The Fort Snelling Upper Post project is an example of a project that has been funded by agency-issued bonds and not through housing infrastructure bonds or other appropriations in capital investment bills.

Further, the MHFA has been authorized historically to issue appropriation bonds for purposes other than those listed in section 462A.37, such as those focused on housing for the homeless, under Minn. Stat. section 462A.36. In 2008, $30 million in bonds under this section were authorized and this authorization was amended in 2010 to increase the authorization to $36 million.