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CITY OF SAINT PAUL

INTRODUCTION TO CONDUIT REVENUE BONDS

May 22, 2024



WHAT ARE CONDUIT REVENUE BONDS?

- A bond is an obligation and a promise to make payments of principal and interest
- Conduit revenue bonds are special, limited revenue obligations of the governmental issuer (i.e., the HRA or City) and generally provide tax-exempt interest rates for the borrower
- The bonds are repayable solely from the revenues of the borrower and not of the governmental issuer
- They do not include a general or moral obligation of the governmental issuer
- Conduit revenue bonds are not secured by any taxing powers of the governmental issuer



WHAT ARE CONDUIT REVENUE BONDS? (CONT'D)

- The HRA and City undertake no risk by issuing the bonds
- **The conduit borrower secures the loan funds either through a private lender or a bond underwriter**
- The HRA serves only as a conduit for project financing, therefore due diligence into the project and the entities involved is completed by the private lender or bond underwriter
 - Includes, but is not limited to, an analysis of compliance with state and federal laws, including federal securities laws
- If a conduit borrower defaults on their obligation, there is not any adverse impacts to the HRA or City



WHAT ARE CONDUIT REVENUE BONDS? (CONT'D)

- A conduit borrower cannot access tax-exempt financing without a conduit issuer (governmental issuer)
- The conduit issuer must either have jurisdiction over the area in which the project is located or receive “Host Approval” from such an entity
 - For projects located in Saint Paul -- the HRA, the City and the Port Authority are qualifying conduit issuers (the City has limitations), as well as Ramsey County and the State of Minnesota
- If the conduit issuer is not one of these entities listed, [Host Approval would need to be granted](#), with a public hearing, before the conduit bond issuance could proceed
- In the absence of this type of financing, conventional financing (i.e., taxable interest rates) could be sought for the project.



TYPES OF CONDUIT REVENUE BONDS

- The HRA issues conduit revenue bonds for the following types of entities/borrowers:
 - Hospitals, nursing homes, health care providers, educational institutions, museums, performing arts organizations and other community organizations who are tax exempt under Section 501(c)(3) of the Internal Revenue Code ([aka 501c3 Bonds](#))
 - For-profit multifamily housing developers for the construction of qualified low-income rental housing (which projects also benefit from automatic 4% low-income housing tax credits (LIHTC) in addition to the revenue bonds ([aka 4% Bonds](#)))



TYPES OF CONDUIT REVENUE BONDS (CONT'D)

- There is no limit on the amount of bonds the HRA can issue for qualified 501c3 organizations (nonprofit entities)
- 4% Bonds are issued on behalf of for-profit entities and are subject to the State's Volume Cap and require an allocation
- Saint Paul is an entitlement issuer under State law with a direct allocation in 2024 of \$48.3 million of volume cap
 - **Our current available allocation (including carryforward) is \$52.24 million**



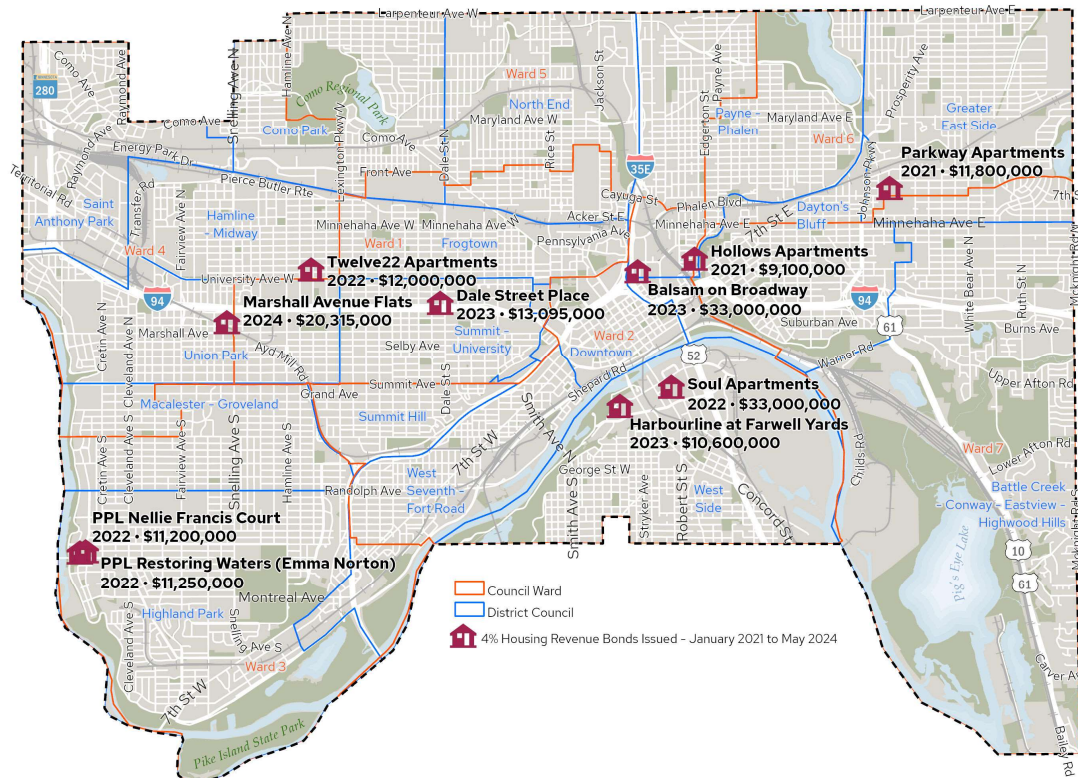
TYPES OF CONDUIT REVENUE BONDS (CONT'D)

- **The HRA issued \$165.36 million in 4% Bonds since 2021:**
 - \$20.9 million in 2021 (2 projects)
 - \$67.45 million in 2022 (4 projects)
 - \$56.7 million in 2023 (3 projects)
 - \$20.3 million in 2024 (1 project to date)
- **The HRA issued \$306.1 million in 501(c)(3) Bonds since 2021:**
 - \$161.344 million in 2021 (4 projects)
 - \$4.125 million in 2022 (1 project)
 - \$140.626 million in 2023 (3 projects)



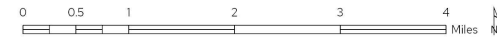
4% Housing Revenue Bonds Issued

January 2021 through May 2024 • map produced Thursday, May 16, 2024



Maple, MN 55108-1201 PM Document Date: 5/16/2024 12:01 PM Document Path: C:\Users\jsteele\OneDrive\Documents\GIS\Projects\4% Housing Revenue Bonds\4% Housing Revenue Bonds - 05/16/2024 12:01 PM.mxd

Data: St. Paul Enterprise GIS; Parcel Polygons: current Ramsey County data via Minnesota Geospatial Commons; Road and Building Polygons: 2017 impervious surface dataset, Ramsey County; Water bodies via Minnesota DNR; Housing Revenue Bonds from city/HRA records. This document was prepared by the Saint Paul Planning and Economic Development Department and is intended to be used for reference and illustrative purposes only. This drawing is not a legally recorded plan, survey, official tax map or engineering schematic and is not intended to be used as such.





HOST APPROVAL

- The HRA provides Host Approval when a 501c3 organization is seeking **Bank Qualified (BQ) bonds**
 - **BQ bonds** are bonds that enjoy a tax-advantaged status when purchased by commercial banks, enabling the bank to deduct 80% of the interest expense, and therefore offer **a lower interest rate than otherwise would be provided** with traditional tax-exempt obligations
 - BQ bonds are 501c3 bonds and **an issuer cannot issue more than \$10 million of 501c3 bonds in a calendar year**
 - Therefore, the HRA cannot issue BQ bonds without limiting our issuance capacity (which otherwise would have no limit)



HOST APPROVAL (CONT'D)

- The HRA/City recently authorized the following BQ bonds:
 - St. Paul Academy and Summit School project located 1150 Goodrich Ave (*City of Little Canada*)
 - Playwrights' Center project located at 710 Raymond Ave (*City of Lilydale*)
 - HourCar project located at 206 Wabasha Ave (*City of Mendota*)
 - Achieve Language Academy project located at 2169 Stillwater Ave (*City of Maplewood*)
 - High School for Recording Arts project located at 1166 University Avenue West (*City of Mounds View*)



HOST APPROVAL? (CONT'D)

- The HRA provides Host Approval when a housing developer is seeking 4% bonds **in excess of our available Volume Cap** (as an entitlement issuer)
 - As an entitlement issuer, the City evaluates our pipeline of projects requiring 4% bonds
 - The City receives ongoing inquiries for 4% bonds that total more than we can issue since our allocation is limited
 - The City cannot apply to the state unless we have issued our entitlement
 - Volume cap is held and carried forward to ensure sufficient capacity for our project pipeline
 - We provide Host Approval for **another issuer to apply to the state** and secure 4% bonds **for a qualifying Saint Paul project**



HOST APPROVAL (CONT'D)

- The HRA/City recently authorized the following projects to have access to the state's Volume Cap
 - Central Towers preservation project located at 20 E Exchange St (*City of Mounds View*) – this project has yet to close
 - Joseph's Point preservation project located at 200 Wilkin Street (*City of Mounds View*) – this project has yet to close
 - Sherman Forbes preservation project located at 310 7th Street (*City of Mounds View*) – this project has been completed
- **This type of approval is critical to ensure we meet our affordable housing needs throughout the city**



HRA BOND POLICIES AND PROCEDURES

The HRA has an application for the i) HRA's issuance of 501c3 and 4% bonds, and ii) authorization for Host Approval

- The HRA receives administration fees for the above applications
- The fees are used for staffing services provided to the HRA by PED staff
- Fee requirements are shown on the following page
- The HRA's budget for 2024 includes nearly \$2.7 million in ongoing fees generated from the issuance of conduit revenue bonds



HRA CONDUIT BOND FEES

Type	Issuer	Application Fee	Closing Fee	Ongoing Fees
HRA Issued 501c3 Bonds	St. Paul HRA	\$5,000	1/4 of 1% of the principal amount issued (\$25,000 for \$10 million)	Annual fees equal to 1/4 of 1% of the first \$10 million principal outstanding, plus 1/8 of 1% of above amount
HRA Issued 4% Bonds (including Recycled Bonds)	St. Paul HRA	\$5,000	1% of the principal amount issued (\$100,000 for \$10 million)	(i) Fee due every 6 months ranging from 1/4 of 1% to 3/4 of 1% of principal outstanding, if maturity date is 5 years or less; (ii) Fee due annually of 1/4 of 1% of the principal outstanding, for all others
HRA Host Approval BQ Bonds	Other Issuer	\$5,000	1/4 of 1% of the principal amount issued (\$25,000 for \$10 million)	None
HRA Host Approval Volume Cap Bonds	Other Issuer	None	\$3,500	None
Recycled Volume Cap Bonds	Other Issuer	None	1/4 of 1% of the principal amount issued	None



COMPLIANCE REQUIRED FOR CONDUIT REVENUE BONDS

- Compliance requirements are triggered for all above bond types:
 - [Affirmative Action/Equal Employment Opportunity \(AA/EEO\)](#) – Requiring all contractors/subs to have goals for project hours for minorities and women; and to file an affirmative action program registration to diversify and implement fair employment practices with its workforce
 - [Prevailing wages](#) on construction labor requiring onsite workers whose duties are physical or manual to be paid weekly minimum prevailing rates including fringe benefits
 - [Vendor Outreach Program](#) – project-specific goals for purchasing goods and services from certified Small, Women-Owned and Minority-Owned businesses
- If the project were to be financed in another way besides through HRA issuance or authorizing Host Approval, we would not have the same opportunity to require this compliance. The City's Department of Human Rights and Equal Economic Opportunity monitors the compliance areas listed above.



WHAT HAPPENS IF WE DECLINE PARTICIPATION?

- If the HRA Board and/or City Council oppose issuing conduit revenue bonds or oppose authorizing another city to issue the bonds, the project would need to seek alternative financing or an alternative issuer. As previously mentioned, the Port Authority, the County and the State all have jurisdiction for Saint Paul projects.
- The HRA generates fees from issuing the bonds and fees from providing Host Approval, alternatively if we decline to participate, the project might still happen.
- All conduit bond financed projects must follow the same city approval processes as a conventionally financed project.



Questions?

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