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CITY OF SAINT PAUL

BRIEFING ON RECYCLED BONDS

May 1, 2024



HOUSING REVENUE BONDS – VOLUME CAP

- Section 141 of the Internal Revenue Code (IRC) authorizes the issuance of “private activity bonds” by governmental units
- Most private activity bonds require “Volume Cap” including bonds issued for residential rental facilities
- Section 146 of the IRC sets the formula for each State to determine their total Volume Cap
 - **\$1.25 per capita for 2024 based on 2023 population**
- MN Statutes 474A.03 allocates the States Volume Cap to “Entitlement Issuers” which includes the city of Saint Paul (as well as Minnesota Housing, Minneapolis and Dakota County)
- Saint Paul was allocated **\$48,384,888** for 2024 (see following slide)



HOUSING REVENUE BONDS – VOLUME CAP

- Saint Paul has 3 years to issue qualifying bonds utilizing our Volume Cap, provided we have adopted a resolution “carrying” forward the unused Volume Cap
- **In January 2023, the HRA issued \$13.095 million in Volume Cap bonds for a qualifying residential rental facility known as Dale Street Apartments**
- The bonds were issued for Trellis to acquire and renovate the 150-unit project to preserve deeply affordable rental units
- The Project is complete and fully occupied and Trellis is paying off the construction period loan
- **Section 146 of the IRC enables the recycling of bonding authority, provided certain conditions are met**



HOUSING REVENUE BONDS – RECYCLING

- The recycling or refunding requires the following:
 - the “refunding” occurs within 4 years after the original bonds were issued,
 - the “refunding” bonds are issued within 6 months after the principal payment of the construction period loan, and
 - the “refunding” bonds mature within 34 years of the original issue date
- The recycling provides access to tax-exempt interest rates for the qualifying residential rental facility resulting in lower debt payments, advancing the preservation or construction of affordable rental housing in the city, the region and the State
 - The recycling does not generate new 4% Low Income Housing Tax Credits (LIHTC)



PED PROCESS PERTAINING TO RECYCLING

- PED staff is made aware of recycling opportunities through bond counsel and developers
- The IRC conditions to enable the recycling are a challenge, requiring coordination for loan payoff and securing the new financing for the 2nd project
- Staff examine our project pipeline before advancing opportunities outside the city
- Staff also evaluate future recycling opportunities



PED PROCESS PERTAINING TO RECYCLING

- The HRA received a request from **Real Estate Equities (REE)** to utilize the Dale Street Apartments recycled bonds for a project in the **city of Brooklyn Park (Decatur Landing II)**
- REE has received new Volume Cap allocated from the Housing Pool at the State for their project, but is seeking additional tax-exempt bonds
- None of the Saint Paul projects in the pipeline are able to meet the recycling requirements pertaining to the Dale Street Apartments bonds
- Staff evaluated future recycling opportunities for Saint Paul projects



PED PROCESS PERTAINING TO RECYCLING

- The HRA is required to authorize the issuance of the refunding bonds, that include recycled bonds, even though the project is outside of our city and the bonds are issued by another governmental unit
- The City Council is also required to approve the issuance as the elected representative of the governmental unit
- Resolutions will be considered on May 8, including a public hearing at the HRA Board meeting
- The proposed conduit revenue bonds will be issued by the city of Brooklyn Park and will be payable solely from revenues of the REE project and **will not constitute an indebtedness, liability, general or moral obligation, or pledge of the faith or credit or taxing power of the HRA or the City**



Questions?

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