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## NOTICE OF SPECIAL BOARD MEETING

**Date:** Thursday December 14, 2017

**Time:** 4:00 p.m.

**Location:** Minnesota Housing  
Northwest Conference Room  
400 Wabasha Street N, Suite 400  
St. Paul, MN 55102

Or

**Dial-in: 1.888.742.5095**

**Code: 4014552918**

### Agenda

1. Call to Order
2. Roll Call
3. Resolutions authorizing issuance and sale of Minnesota Housing Residential Finance Housing Bonds, 2017 Series G and Minnesota Housing Rental Housing Bonds, 2017 Series D
4. Approval of Any Related Administrative Matters that May be Necessary
5. Adjournment

**NOTE:** The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on December 14, 2017.

**Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.**

*The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 are met. In accordance with Minn. Stat. §462A.041, the Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.*

**Item: Resolutions authorizing issuance and sale of Minnesota Housing Finance Agency Residential Finance Housing Bonds, 2017 Series G and Minnesota Housing Finance Agency Rental Housing Bonds, 2017 Series D.**

**Staff Contact(s):**

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**Request Type:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Approval   | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion     | <input type="checkbox"/> Discussion       |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information      |

**Summary of Request:**

Agency staff is preparing to issue bonds, under both the Residential Housing Finance Bond (RHFB) resolution and the Rental Housing Bond (RHB) resolution, each in a Convertible Option Bond (COB) structure. These issuances will preserve the Agency's existing but unutilized tax-exempt Private Activity Bond (PAB) volume cap in the face of tax reform proposals pending in Congress that could eliminate PABs as early as January of 2018. These bonds will be privately placed, through RBC Capital Markets, with RBC Municipal Products. Each bond issue will bear interest at a floating indexed rate, and will be subject to various remarketing and tender provisions, as described more completely in the respective resolutions.

Under these resolutions, the Agency would be able to preserve approximately \$235 million in volume cap (the total projected amount of unutilized volume cap at 2017 year-end), and use it to support the future financing of either newly originated mortgage-backed securities that funded the origination of single family homeownership mortgages or to support the future financing of first mortgages for certain rental housing projects. Staff currently anticipates closing these two transactions on or about December 21<sup>st</sup>, though depending on how (and which) tax reform proposals advance in Washington the closing could be postponed until on or about December 28<sup>th</sup>. In the event that PAB authority for affordable housing purposes is definitively not eliminated by law before the end of 2017, the Agency will not issue either series of these bonds.

**Fiscal Impact:**

Although the proposed bond offerings will preserve the Agency's volume cap for future financings, while the COBs are outstanding the Agency will likely incur "negative arbitrage", as we are unlikely to fully recoup the interest expense on the bonds through our investment of the bond proceeds before the bond proceeds are invested into loans for rental housing projects or single family mortgage-backed securities. In addition, there are costs of issuance related to issuing the bonds. The COBs will be remarketed to long-term bonds to finance homeownership mortgages or to short-term bonds to make loans to rental projects eligible for 4% low income tax credits when each project is able to satisfy conditions for closing the loan. When this occurs, the Agency expects those future financings to produce both spread income over time and various fees at issuance to help offset the costs of doing the COBs themselves.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Background
- Resolution, Residential Housing Finance Bonds, 2017 Series G (to be provided under separate cover)
- Resolution, Rental Housing Bonds, 2017 Series D (to be provided under separate cover)

## Background

Under the tax reform bill adopted by the House of Representatives in November, the category of tax-exempt bonds (private activity bonds – PABs) that the Agency uses in the vast majority of situations to finance its affordable housing programs was eliminated, effective as of January 1, 2018. While the tax reform bill passed by the Senate late in November did not eliminate PABs, until the conference committee comes to agreement on a final bill, and that bill is signed by the President, the Agency is making plans for how we would execute our financings in a non-PAB future.

Because the majority of the PABs that the Agency issues requires an allocation of volume cap as part of the bond issuance, the elimination of PABs would render any existing volume cap the Agency has retained, but not yet utilized, useless and therefore the Agency would forego the opportunity to finance our programs on a tax-exempt basis. Accordingly, the Agency has been working with its finance and legal team to explore options to retain this volume cap for future financings. (We understand that most state HFAs with unused volume cap are also exploring their options, and developing COB structures similar to Minnesota Housing's proposed structures.)

In general, under the COB structures being proposed and recommended for the Agency, the Agency will issue bonds this month, under existing tax and other rules and statutes, and invest the proceeds from the issuance in eligible investments under the respective resolutions (RHFB or RHB). On later dates, the Agency will remarket all or a portion of each COB, and effectively redirect the existing investments to deploy them to finance the respective housing programs (single family homeownership for RHFB and rental projects for RHB). Under the proposed resolutions, and current tax law, a remarketing within the parameters set forth in each resolution is not a reissuance of the bonds, the bonds will retain an issuance date prior to the effective date of the repeal of future PABs, and the Agency will receive the benefits (albeit in the future) from tax-exempt financing – to the extent of our current unused volume cap allocation - for its programs even in the event that PABs are eliminated.

Staff currently forecast approximately \$235 million in available volume cap by year-end. Because of designations made in previous years, roughly \$100 million of this volume cap must be used for homeownership programs. The remaining \$135 million can be used for either homeownership or rental programs. To determine how best to divide this remaining amount, the Agency established a principle that the first priority should be to ensure, to the extent possible, that rental projects that had already had been selected, by the Agency via the 2016 or 2017 consolidated RFP, for financing would have a path to complete their financing if that financing had not already closed (or be likely to close yet in 2017). A second priority was established that explored the possibility that the Agency would become the bond issuer (and use our volume cap), to the extent possible, for other rental projects where local jurisdictions planned to issue bonds, using an allocation of volume cap from the state-wide pool that already had been received, but it was likely that the planned issuance would not be able to be completed by year-end 2017. Starting from this initial list of projects, the Agency further winnowed based on an assessment as to both the ability of the project to: a) be structured in a manner consistent with the requirements of our RHB Master Resolution, and b) to expend and disburse the proceeds from the “take-out” financing within three years of the RHB COB issuance (which is a federal tax requirement that the Agency must certify it reasonable expects to occur). This assessment will continue to be fine-tuned until closing, and will lead to the final principal amount of the RHB COB to be issued. The amount of volume cap not used in the RHB COB will be used in the RHFB COB, ensuring that the Agency fully uses the entire amount of existing volume cap and secures the future benefit of a like amount of tax-exempt financing in the future.