

Office Memorandum

Date: December 16, 2025

To: Prospective Applicants and Local Bond Counsel

From: Jen Hassemer, Assistant Commissioner - Debt Management

Subject: H.R. 1 Bond Threshold Change and Intersection with Minnesota's Bond Allocation Act

This memo addresses certain changes made to Internal Revenue Code ("IRC") § 42 by the federal reconciliation bill, H.R. 1, and how those changes intersect with Minn. Stat. Ch. 474A, Minnesota's Bond Allocation Act.

H.R. 1 Permanently Reduced the Private Activity Bond (PAB) Threshold for Low-Income Housing Tax Credits

The federal H.R. 1 amended IRC § 42 so that a lower threshold of tax-exempt private activity bonds ("PABs") are needed in order qualify for the full 4% low-income housing tax credit ("LIHTC"). Under the new law, 25% of an affordable housing project's aggregate basis needs to be financed with PABs to access LIHTC. Previously, at least 50% of the project's aggregate basis needed to be financed with PABs to access LIHTC. The purpose of LIHTC is to encourage the construction and rehabilitation of affordable housing. By lowering the threshold of PABs needed to access LIHTC, this change has the potential to help states distribute PAB volume cap to a greater number of affordable housing projects.

Minnesota's Bond Allocation Act (Ch. 474A) Application Threshold

The Internal Revenue Service allocates to Minnesota a set amount of PAB volume cap each calendar year to allocate to qualifying projects. Under Minn. Stat. Ch. 474A (the "Act"), MMB is charged with administering the allocation of this volume cap and the Act governs how these allocations can be made. MMB is required to follow the direction established in these statutes. Under the Act, qualifying projects can apply for bonding authority in an amount up to the project's aggregate bond limitation, which is defined in Minn. Stat., Sec. 474A.02, subd. 1a as 55 percent of the reasonably expected aggregate basis of a residential rental project and the land on which the project will be located.

The Act Allows Projects to Apply for Lower Thresholds of Bonding

While the Act sets the upper threshold for any residential rental project's application at 55 percent of the reasonably expected aggregate basis, a project may apply for any amount of bonds less than or equal to this amount. Because statute allows projects to apply for bonds at the 55 percent level, MMB will continue to accept applications up to that level. However, MMB recognizes that the state's annual volume cap is a scarce resource and we regularly have residential rental projects on a waiting list.

To the extent that a residential rental project does not need PABs at the 55 percent level, MMB would encourage projects to only request the amount of PAB authority needed to successfully move their project to completion. This could allow more projects to receive allocations under the 2026 volume cap.

Residential Housing Projects Currently on MMB's Master Priority List

Residential rental projects currently on MMB's master priority list are entitled to apply up to the amounts reflected on the list. These projects may also apply for bonding authority at an amount less than what is reflected on the master priority list without impacting their priority status. In these cases, if an allocation is

made to a project on the list at a lower requested amount, then the unused amount will lapse and the project will be removed from the priority list after receiving its allocation.

Future Policy Direction

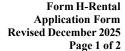
MMB is tracking reports following the passage of H.R. 1 indicating that not every project will be able to meet its financing needs at the 25 percent PAB threshold. CY 2026 will provide an opportunity for MMB to monitor residential rental project applications and see how projects adjust and react to this change in federal law. This information can help inform whether any changes to the Act may be recommended for future years.

Changes to MMB's Application Form for Residential Rental Projects

To support ongoing monitoring of statewide demand for PAB volume cap and to help inform future policy discussions, MMB has added several informational fields to the "Application for Allocation of Bonding Authority for Residential Rental Projects." These additions request applicants to identify the anticipated mix of permanent tax-exempt debt and short-term (or construction-period) debt. This information will help MMB better understand how volume cap is being used across projects and assist in estimating future demand under the new federal 25 percent financing threshold.

These questions are for planning and data-gathering purposes only and do not affect a project's eligibility to apply for bonding authority up to the statutory aggregate bond limitation established in Minn. Stat. Ch. 474A or a project's allocation priority. Applicants should use the updated forms for all CY 2026 submissions.

A copy of the new application questions is attached to this memo for informational purposes. The actual application form can be found on MMB's website: https://mn.gov/mmb/debt-management/bonding/federal-bond-program/.





APPLICATION FOR ALLOCATION OF BONDING AUTHORITY FOR RESIDENTIAL RENTAL PROJECTS

Pursuant to Minnesota Statutes, Chapter 474A, as amended

NAME OF ISSUER:
NAME OF PROJECT:
AMOUNT OF ISSUANCE AUTHORITY REQUESTED: \$
TYPE OF RESIDENTIAL RENTAL PROJECT BONDS TO BE ISSUED AND AGGREGATE BOND LIMITATION:
Applicant must complete and dipmit the Sworn Applicant Statement, Form S-Rental, identifying the type of residential rental project and certifying the project aggregate bond limitation. A copy of this Statement will be appended to any Certificate of Allocation for this project.
DESCRIPTION OF PROJECT:
DESCRIPTION OF PROJECT: AGGREGATE BOND LIMITATION: \$ Amount of bonds previously issued for the project using an allocation of volume cap: \$
AGGREGATE BOND LIMITATION: \$
Amount of bonds previously issued for the project using an allocation of volume cap: \$
Remaining amount of bonds for which an allocation is requested: \$ / .
Percent of aggregate amount of bonds compared to the reasonably expect to aggregate basis of the project and the land on which the project will be located:
and the land on which the project will be located:%
and the land on which the project will be located:
Total number of units that have project-based rental assistance:
If the project consists of multiple buildings, will it be a single project for purposes of Internal Revenue Code section 142(d)(1)? Yes / No
Has the project already submitted an application, or been prequalified by an allocation entity, for tax credits? Yes / No
PLANNED BOND STRUCTURE (INFORMATIONAL ONLY):
For planning purposes only and without affecting the applicant's ability to apply up to the aggregate bond limitation or a project's allocation priority, please provide the following information regarding the anticipated bond structure:
Estimated permanent tax-exempt debt to be issued: \$
Estimated short-term debt to be issued: \$
A short description of the anticipated structure (1-2 sentences):

IN ORDER TO BE CONSIDERED COMPLETE, THIS APPLICATION FORM MUST BE ACCOMPANIED BY:

- 1. A nonrefundable application fee of \$20 for each \$100,000 amount of issuance authority requested, with the request rounded to the nearest \$100,000. The minimum fee is \$20, and this fee will not be refunded or recalculated;
- 2. A preliminary resolution adopted by the governing body;
- 3. A statement from bond counsel that the proposed issue of obligations requires an allocation under M.S. 474A and the Internal Revenue Code in the amount requested;