MN HOUSE RESEARCH

Debt of the Minnesota Housing Finance Agency

December 2024

The Minnesota Housing Finance Agency (MHFA) implements and administers state housing programs and coordinates implementation of federal housing programs within the state. MHFA funds its activities in part by taking on debt, which it sells to investors as bonds and notes.

What kinds of debt can MHFA take on?

MHFA may only sell debt as allowed by state law. Whenever MHFA deems it "necessary to provide sufficient funds for achieving its purposes," MHFA may sell bonds and notes, either as general obligations which are payable out of any available MHFA money, assets, or revenues or as limited obligations backed only by designated MHFA moneys or revenues.[1] The state has also allowed MHFA to sell both nonprofit housing bonds to fund permanent supportive housing and housing infrastructure bonds (HIBs) to fund one of several types of residential real estate development listed in Minnesota Statutes, section 462A.37, subdivision 2.

What are the limitations on MHFA debt?

MHFA may only sell the amount of debt allowed under state law. The amount of general obligation bonds and notes that MHFA may have outstanding at any time is $9 billion. There is no statutory limit on the amount of limited obligation bonds and notes that MHFA can sell. Unlike other MHFA debt, MHFA may only issue new HIBs and nonprofit housing bonds when specifically authorized by the legislature. Through numerous authorizations since the bonds were established, the legislature has allowed sale of a total of $36 million in nonprofit housing bonds and $565 million in HIBs; the amounts of these bonds that remain outstanding and unissued are discussed below.

Who pays for MHFA debt? Is the state liable for MHFA debt?

Most MHFA debt is paid for through the activities that the debt funds; for instance, debts issued to fund loans are paid for through loan payments by borrowers (for example, homebuyers and multifamily rental property owners). In contrast, when the legislature authorizes the sale of HIBs or nonprofit housing bonds, it also appropriates money from the general fund to pay the debt service on those bonds.

MHFA bonds and notes are not state debt, and the state has no legal obligation to pay for any MHFA debt. The state does not pledge the use of its moneys, assets, or taxing powers to pay for MHFA debt, and MHFA bonds and notes must include a conspicuous statement to that effect.

Although the state has no legal obligation to pay MHFA debts, MHFA debt may impact state debt capacity. For example, while the legislature may legally reduce or repeal the appropriations enacted to pay the debt service on nonprofit housing bonds or HIBs, doing so would likely result in a downgrade of the state's overall credit rating. Similarly, some MHFA general obligation and limited obligation bonds and notes create a "moral obligation" for the state, impacting state debt capacity. When MHFA issues general obligation or limited obligation bonds and notes, it has the option to establish a debt service

[1] Minn. Stat. § 462A.08, subd. 1.

By **Justin Cope**, justin.cope@house.mn.gov

reserve fund as security for the bonds and notes. Depending on a number of conditions, including the type of debt, the creditworthiness of MHFA, and the demands of prospective investors, a debt service reserve fund may be required. When establishing a debt service reserve fund, MHFA also establishes a minimum amount to be maintained in the fund. State law requires MHFA to report to the governor if it needs additional funding to restore a debt service reserve fund to its minimum amount, and the law also requires the governor to include the amount of any reported deficiency in the governor's budget or supplemental budget. Although the legislature is not legally obligated to appropriate the amount of a reported deficiency, this reporting requirement is deemed by credit ratings agencies to create a moral obligation for the state. Failure to appropriate the reported amount would likely have a negative effect on the state's credit rating. MHFA has never reported a deficiency in any of its reserve funds.

Many MHFA general obligation debts are secured by loans backed by federal entities. These debts have no debt service reserve fund and do not trigger this reporting requirement; therefore, they do not create a moral obligation for the state and do not impact state debt capacity.

How does MHFA debt impact state debt capacity?

To guide policymakers in the state budgeting process, Minnesota Management and Budget (MMB) has developed three debt capacity guidelines corresponding to criteria developed by credit ratings agencies. MHFA debt bears on the first two of MMB's three debt capacity guidelines, detailed below using data from MMB's February 2024 debt capacity forecast. The amounts below do not include $50 million in HIBs authorized in the 2024 legislative session.

The first of MMB's debt capacity guidelines is that the amount of tax-supported outstanding principal debt must not exceed 3.25 percent of state personal income. Because the debt service on HIBs and nonprofit housing bonds is paid with general fund appropriations, the outstanding amount of those bonds counts against the first debt capacity guideline. In February 2024, MHFA had $448,780,000 in outstanding HIBs and nonprofit housing bonds. At that time, the state had $7,837,405,000 in total outstanding tax-supported debt, and the state could have authorized sale of an additional $5,771 million in tax-supported debt without exceeding the first debt capacity guideline.

The second of MMB's debt capacity guidelines is that the total principal amount of authorized state debt must not exceed 6 percent of state personal income. This measure includes outstanding tax-supported debt, authorized but unissued tax-supported debt, equipment and real estate leases, and moral obligation debt. In February 2024, in addition to the $448,780,000 in outstanding HIBs and nonprofit housing bonds, MHFA had $12,960,000 in authorized but unissued HIBs, as well as $3,565,115,000 in moral obligation debt, making the total of all MHFA debt for the purposes of MMB's second debt capacity guideline $4,026,855,000. In February 2024, all authorized state debt totaled $15,578,233,428, and the state could have authorized an additional $9,545,086,572 in debt without exceeding the second debt capacity guideline.

MN HOUSE RESEARCH

Minnesota House Research Department provides nonpartisan legislative, legal, and information services to the Minnesota House of Representatives. This document can be made available in alternative formats.

www.house.mn.gov/hrd | 651-296-6753 | Third Floor, Centennial Office Building | St. Paul, MN 55155