

The 2002 Private Activity Bonds Authorized by the Bond Cap Allocation Program

A Report to the Legislature

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STATE OF WASHINGTON
DEPARTMENT OF COMMUNITY,
TRADE AND ECONOMIC DEVELOPMENT

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INTRODUCTION

This report summarizes the use of the 2002 state ceiling for tax-exempt Private Activity Bonds (the state Bond Cap). The current allocation process is in response to the Federal Tax Reform Act of 1986 and Chapter 39.86 of the Revised Code of Washington. The corresponding state agency guidelines are codified as Chapter 365-135 of the Washington Administrative Code.

The state Bond Cap is the maximum level of tax-exempt Private Activity Bonds (PABs) that can be issued in the state for a given year. Under federal tax law, the total cap for each state in 2002 was equal to \$75.00 per capita (based on resident population). In 2002 the cap for Washington State was \$449,097,975.

The Tax Reform Act defines Private Activity Bonds as those used to fund projects or programs that have more than 10 percent private participation, although other rules or definitions may be applied on a case-by-case basis. Because of this private interest, PABs are generally taxable. However, if a project falls within one of the eligible categories established by the U.S. Congress and can demonstrate significant public benefit, the project may receive tax-exempt status through an allocation of the state's Bond Cap.

In Washington, the Department of Community, Trade and Economic Development (CTED) is responsible for administering the state's Bond Cap Allocation Program (BCAP). The state Bond Cap is initially allocated each year among six categories of bond use. The bond use categories include Small Issue, Public Utility Districts (PUD), Housing (both multifamily and single family), Exempt Facility, and Student Loans. The sixth category, Remainder, receives a small allocation to be used when the initial allocation for a category is exhausted. For example, if the Exempt Facility category is exhausted in June and an eligible application is received, CTED may approve an allocation from the Remainder category.

The Bond Cap Allocation Program section of the report describes each of the Bond Cap categories mentioned above. The Allocation of the 2002 State Bond Cap section summarizes 2002 activities for the BCAP. The third section provides a series of tables that display the 2002 state Bond Cap Allocation by category.

The report concludes with three appendices. The first provides information on carryforward allocations. The second provides information on the expected jobs to be created and/or retained by the industrial development projects receiving Bond Cap in 2002. The third is a HOPE VI allocation schedule.

BOND CAP ALLOCATION PROGRAM

The BCAP authorizes the issuance of a class of bonds called Private Activity Bonds. This authorization allows bonds to be issued as tax-exempt, based on the public benefits resulting from the project. Bonds that come under this classification are those with private financial backing for the purposes of industrial development, housing, and student loans. In some cases, traditional governmental activities such as solid waste disposal, water distribution, provision of electricity or gas, mass commuting, and disposal of wastewater or hazardous waste, can also be included under PABs.

DESCRIPTION OF ELIGIBLE BOND CATEGORIES

The Washington State Bond Cap is allocated among the following bond use categories:

1. SMALL ISSUE

The Small Issue category is reserved for industrial development projects, known as Industrial Revenue Bonds (IRBs) or Industrial Development Bonds (IDBs). Under the tax code, only bonds for manufacturing or processing are eligible for allocation under the Small Issue category. A single allocation request from within this category cannot exceed \$10 million.

2. PUBLIC UTILITY DISTRICTS (PUD)

The PUD category is reserved for certain public utility districts described in Section 1317(25) of the Tax Reform Act of 1986. These are: PUD No.1 of Douglas County, PUD No.1 of Chelan County, and PUD No.2 of Grant County. Under the code, these three districts are allowed an aggregate amount of \$750 million of the Bond Cap Allocation, and once that dollar figure is reached, the PUD category will no longer exist. The three PUDs decide among themselves which one will use the allocation each year.

3. HOUSING

The Housing category includes Mortgage Revenue Bonds, Mortgage Credit Certificates, and Exempt Facility Bonds for qualified residential rental projects. Under the Tax Reform Act of 1986, 95 percent of Mortgage Revenue Bond allocations must be used to finance residences for first-time homebuyers. This category is further allocated, 80% to the Housing Finance Commission and 20% to Local Housing Issuers.

4. EXEMPT FACILITY

While most traditional local government projects can use tax-exempt financing without an allocation from the state Cap, some cannot. The Exempt Facility category is reserved for those local government projects that have been classified as having a level of private activity that makes them subject to the state Cap. Facilities eligible for tax exemption are limited to the following:

- Mass commuting
- Local furnishing of electricity or gas
- Furnishing water
- Hazardous waste disposal
- Sewage treatment
- Solid waste disposal
- Local district heating and cooling

Under the Tax Reform Act of 1986, multifamily rental projects are also defined as Exempt Facilities. However, for classification purposes under Washington State law, such projects receive bond issuance authority from within the Housing category.

5. STUDENT LOANS

The Student Loan category is reserved for bonds issued to purchase loans from banks for students who are either enrolled in post-secondary schools within the State of Washington, or are legal residents of the state but are enrolled in similar schools outside the state.

6. REMAINDER

The Remainder category is a miscellaneous category that can be allocated to projects eligible under any of the five other bond use categories throughout the year, after the specific category has been depleted. This category can also be used when a project falls under the Tax Reform Act of 1986, but doesn't fit into one of the above categories.

PAST ISSUANCES BY CATEGORY

Table 1 provides a summary of amounts allocated to the different categories in BCAP. The total allocation is based on a \$50 per capita formula through 2001. The 2001 allocation is based on a \$62.5 per capita formula and the 2002 allocation is based on a \$75 per capita formula.

TABLE 1
SUMMARY OF ISSUANCES FROM PAST FIVE YEARS
(in Thousands)

	1998	1999	2000	2001	2002
Total Allocation	\$280,518	\$284,463	\$287,818	\$368,382	\$449,097
Small Issue	\$ 64,786	\$ 28,100	\$ 39,425	\$ 22,195	\$ 17,520
Housing	\$ 89,120	\$121,906	\$ 73,302	\$111,154	\$179,733
Student Loan	\$ 60,000	-0-	\$ 50,000	\$ 68,400	\$107,850
PUD	\$ 28,050	\$ 32,145	-0-	\$ 65,620	\$ 44,905
Exempt Facility	-0-	\$ 50,850	\$ 49,359	\$ 60,915	\$ 77,475
Carryforward	\$ 38,562	\$ 51,462	\$ 75,732	\$ 40,098	\$ 21,614
Housing	\$ 38,562	\$ 51,462	\$ 75,732	\$ 40,098	\$ 21,614

As seen in Table 1, the amount issued in any one category fluctuates. The Student Loan category has had increasing demand. The Exempt Facility category has had varied activity. The Small Issue category has been declining in activity. The Housing category continues to use its full allocation plus carryforward and continues to increase in activity.

BOND CAP ADVISORY GROUP

In 1992, the Bond Cap Advisory Group was established to provide input and advice to staff regarding the allocation of the Bond Cap. The Group's primary purpose is to discuss issues that affect the Bond Cap and to assist in making the Bond Cap an effective tool in meeting the state's economic development and public service challenges.

Members of the Group include representatives from CTED, Office of the Attorney General, Association of Washington Cities, Washington State Association of Counties, Foster Pepper & Shefelman PLLC¹, State Treasurer's Office, Office of Financial Management, Washington Public Ports Association, Preston, Gates & Ellis LLP², Chelan County PUD No.1, Douglas County PUD No.1, Grant County PUD No. 2, Student Loan Finance Association, Washington Economic Development Finance Authority, Washington State Housing Finance Commission, Port of Port Angeles, Economic Development Board for Tacoma-Pierce County, Bellingham/Whatcom County Housing Authority, and King County Housing Authority.

¹ PLLC: Professional Limited Liability Corporation

² LLP: Limited Liability Partnership

ALLOCATION OF THE 2002 STATE BOND CAP

The following tables show the final outcome of tax-exempt Private Activity Bond allocation under Washington's Bond Cap for 2002. The Cap was established at \$449,097,975 based on population figures from the United States Census Bureau. This amount was distributed among the six bond use categories according to state and federal parameters. Table 2 outlines total activity for the Cap in 2002 including the effect of previous carryforward amounts on the initial Cap allocations (initial allocations) and on total Private Activity Bond issuance for the year.

As specified in the corresponding statute, RCW 39.86.120, the following initial allocations were made to the Cap in 2002 (see Table 2 for dollar amounts): 30 percent to Housing, 24 percent to Small Issue, 19 percent to Exempt Facility, 14 percent to Student Loan, 10 percent to PUD, and 3 percent to Remainder. In accordance with Chapter 39.86 RCW, the amount of bonds issued from the Cap within each category between January 1 and September 1 is limited to the initial allocation. After September 1, any unused allocations are placed in the Remainder category, expanding the amount available for eligible issuers within those bond use categories where the initial allocation was exhausted.

Table 2 lists how the 2002 Cap was distributed among the bond use categories. It also illustrates the order of Cap activity that led to the final Cap distributions. The Washington State Housing Finance Commission received a carryforward allocation of \$21,614,461 for its Multifamily Programs.

Tables 3 through 8 give a more detailed account of Cap distribution within the bond use categories. Each table lists the corresponding allocation requests, indicating the issuer, the principal user of bond issuance, and the amounts requested, authorized, and issued for each request. The pie chart on page ten shows how the 2002 Cap was allocated (in percentage) among the bond use categories.

CTED facilitated several meetings in 2002 between the Housing Finance Commission and a representative group of the Local Housing Issuers. Discussions precipitated from the growing demand and pressure for bond cap in the housing arena. One of the main factors contributing to this pressure is the almost \$200 million needed over the next six years from Local Issuers to help leverage Federal HOPE VI grants. Housing issuers have agreed to work together to assure that all of the known HOPE VI projects are funded by "banking" Bond Cap during Carry forward so as to prevent a situation where simultaneous requests for these projects would exhaust resources for housing activities as a whole. A list of HOPE VI projects and the estimated dates of issuance appears as Appendix C. The meetings between the Local Issuers and the Commission have resulted in agreement as to how allocations could be made to meet the needs of all the housing issuers and at the same time provide the predictability that projects of the size and scale of HOPE VI require.

Over the course of 2002 CTED staff also worked with the Local Housing Issuers, through the Association of Washington Housing Authorities, to develop a revised application for allocation requests, including statewide priorities for determining how cap would be allocated in times of potential scarcity.

TABLE 2
PRIVATE ACTIVITY BOND USE IN 2002

2002 STATE BOND CAP ALLOCATION BY CATEGORY
(in thousands)

TABLE 3
SMALL ISSUE

<u>Issuer Name</u>	<u>Project/Program Principal User</u>	<u>Requested Amount</u>	<u>Amount Authorized</u>	<u>Issuance Amount</u>
Port of Chehalis IDC	JR Braun NW Inc	\$ 3,200	\$ 3,200	\$ 0
Pierce County EDC	True World Foods	\$ 8,100	\$ 8,100	\$ 6,930
WA Econ Dev Finance Auth	Absorption Corp	\$ 7,288	\$ 7,288	\$ 0
WA Econ Dev Finance Auth	Hillstrom LLC	\$ 4,000	\$ 4,000	\$ 3,265
WA Econ Dev Finance Auth	Nature's Path Foods	\$ 2,040	\$ 2,040	\$ 0
Port of Port Angeles	Port of Port Angeles	\$ 500	\$ 500	\$ 500
Spokane County IDC	Ecolite Manufacturing	\$ 2,500	\$ 2,500	\$ 2,500
WA Econ Dev Finance Auth	Mountlake LLC	\$ 2,250	\$ 2,250	\$ 2,225
WA Econ Dev Finance Auth	U.S. Pies Realty, LLC	\$ 2,100	\$ 2,100	\$ 2,100
	TOTALS	\$31,978	\$31,978	\$17,520

TABLE 4
PUD

<u>Issuer Name</u>	<u>Project/Program Principal User</u>	<u>Requested Amount</u>	<u>Amount Authorized</u>	<u>Issuance Amount</u>
Chelan Co PUD ³ No 1	Rocky Reach & Rock Island Hydro	\$44,909	\$44,909	\$44,905
	TOTALS	\$44,909	\$44,909	\$44,905

TABLE 5
STUDENT LOANS

<u>Issuer Name</u>	<u>Project/Program Principal User</u>	<u>Requested Amount</u>	<u>Amount Authorized</u>	<u>Issuance Amount</u>
Student Loan Finance Assn \$107,850	Student Loan Program	\$125,000	\$107,873	
	TOTALS	\$125,000	\$107,873	\$107,850

³PUD: Public Utility District

2002 STATE BOND CAP ALLOCATION BY CATEGORY (Continued)
(in thousands)

TABLE 6
HOUSING

<u>Issuer Name</u>	<u>Project/Program Principal User</u>	<u>Requested Amount</u>	<u>Amount Authorized</u>	<u>Issuance Amount</u>
Seattle Housing Authority	YWCA Opportunity Place	\$ 9,700	\$ 9,700	\$ 9,700
King Co Housing Authority	Angle Lake Senior Hsg	\$ 5,500	\$ 5,500	\$ 5,000
Tacoma Housing Authority	Golden Hemlock Apts	\$ 5,800	\$ 0	\$ 0
Seattle Housing Authority	Rainier Vista	\$ 22,500	\$ 22,500	\$ 22,500
Anacortes Housing Authority	Bayview Apartments	\$ 1,450	\$ 1,450	\$ 1,450
Seattle Housing Authority	NewHolly Phase III	\$ 22,500	\$ 22,500	\$ 22,500
Vancouver Housing Authority	Esther Short Apts	\$ 12,000	\$ 12,000	\$ 12,000
Vancouver Housing Authority	Teal Point Apts	\$ 5,000	\$ 5,000	\$ 5,000
Pierce Co Housing Authority	Hidden Hills Apts	\$ 8,600	\$ 8,600	\$ 8,100
Tacoma Housing Authority	Hillside Terrace Apts	\$ 2,500	\$ 2,500	\$ 2,250
Pierce Co Housing Authority	Sumner Commons	\$ 2,000	\$ 2,000	\$ 1,750
WA St Housing Finance Comm	Mallard Lake Park Apts	\$ 7,000	\$ 0	\$ 0
WA St Housing Finance Comm	Seattle Safeway	\$ 9,000	\$ 0	\$ 0
Seattle Chinatown Intl Dist PDA	Village Square 2	\$ 1,700	\$ 1,700	\$ 1,700
WA St Housing Finance Comm	Multifamily Program	\$ 62,000	\$ 62,000	\$ 62,000
WA St Housing Finance Comm	Single Family Program	\$ 25,783	\$ 25,783	\$ 25,783
WA St Housing Finance Comm	Multifamily Carryforward	\$ 21,614	\$ 21,614	\$ 0
	TOTALS	\$224,647	\$202,847	\$179,733

TABLE 7
EXEMPT FACILITY

<u>Issuer Name</u>	<u>Project/Program Principal User</u>	<u>Requested Amount</u>	<u>Amount Authorized</u>	<u>Issuance Amount</u>
Port of Bellingham IDC	BP West Coast	\$ 22,000	\$ 22,000	\$ 22,000
Port of Sunnyside	Port of Sunnyside	\$ 175	\$ 175	\$ 175
City of Everett IDC	Kimberly-Clark Corp	\$ 16,000	\$ 16,000	\$ 15,300
WA Econ Dev Finance Auth	Waste Management	\$ 20,000	\$ 20,000	\$ 20,000
WA Econ Dev Finance Auth	Waste Management	\$ 20,000	\$ 20,000	\$ 20,000
	TOTALS	\$ 78,175	\$ 78,175	\$ 77,475

2002 STATE BOND CAP ALLOCATION BY CATEGORY (Continued)

TABLE 8
ALLOCATIONS OF TOTAL 2002 BOND CAP
As of 12/31/02

TOTAL 2002 BOND CAP: \$449,097,975

APPENDIX A: CARRYFORWARD ALLOCATIONS

When an allocation is made within the Housing, Student Loans, or Exempt Facility category, and is not used before December 31 of the allocation year, the issuer may request that the approved allocation be "carried forward" into the following year. This process is referred to as a carryforward allocation. If the carryforward is authorized, the issuer will have three years from the year of authorization in which to issue the bonds derived from that authority. Bonds must be issued only for the project specified in the original Certificate of Approval.

When CTED grants a carryforward to an issuer, the amount of that carryforward may be deducted from the issuing category's initial allocation for the following year. All reductions in initial allocation will be placed in the Remainder category where they may be later reallocated to any of the bond use categories, as needed.

The following table displays carryforward activity for the BCAP from 1985 to the present.

HOUSING					
<u>Year</u>	<u>Carryforward Total</u>	<u>Use Deadline</u>	<u>Total Used</u>	<u>Used This Year</u>	<u>Unused Balance</u>
86	\$117,890,000	12/31/89	\$ 52,495,000	\$ -0-	\$65,395,000*
87	\$109,755,000	12/31/90	\$109,775,000	\$ -0-	\$ -0-
88	\$ 26,975,000	12/31/91	\$ 26,975,000	\$ -0-	\$ -0-
89	\$ 88,481,305	12/31/92	\$ 60,000,000	\$ -0-	\$28,481,305*
90	\$ 2,585,000	12/31/93	\$ 2,585,000	\$ -0-	\$ -0-
91	\$ 74,170,104	12/31/94	\$ 74,170,104	\$ -0-	\$ -0-
92	\$ 46,725,000	12/31/95	\$ 46,725,000	\$ -0-	\$ -0-
93	\$ 62,765,000	12/31/96	\$ 62,765,000	\$ -0-	\$ -0-
94	\$206,548,405	12/31/97	\$206,548,405	\$ -0-	\$ -0-
95	\$ 15,181,000	12/31/98	\$ 15,181,000	\$ -0-	\$ -0-
96	\$ 30,171,046	12/31/99	\$ 30,171,046	\$ -0-	\$ -0-
97	\$ 14,782,156	12/31/00	\$ 14,782,156	\$ -0-	\$ -0-
98	\$ 38,562,275	12/31/01	\$ 38,562,275	\$ -0-	\$ -0-
99	\$ 51,461,796	12/31/02	\$ 51,461,796	\$ -0-	\$ -0-
00	\$ 75,731,888	12/31/03	\$ 74,877,535	\$13,543,200	\$ 854,353
01	\$ 40,098,287	12/31/04	\$ 19,243,287	\$19,243,287	\$20,855,000
02	\$ 21,614,461	12/31/05	\$ -0-	\$ -0-	\$21,614,461
TOTAL CARRYFORWARD AVAILABLE					\$43,323,814**

* Past Use Deadline. No longer available.

** \$43,323,814 Allocated to Multifamily Program

APPENDIX A: CARRYFORWARD ALLOCATIONS (Continued)

STUDENT LOANS

<u>Year</u>	<u>Carryforward Total</u>	<u>Use Deadline</u>	<u>Total Used</u>	<u>Used This Year</u>	<u>Unused Balance</u>
85	\$64,000,000	12/31/88	\$45,000,000	\$ -0-	\$19,000,000*
86	\$50,000,000	12/31/89	\$50,000,000	\$ -0-	\$ -0-
87	\$45,000,000	12/31/90	\$ -0-	\$ -0-	\$45,000,000*
TOTAL CARRYFORWARD AVAILABLE					\$ -0-

EXEMPT FACILITY

92	\$73,000,000	12/31/95	\$ -0-	\$ -0-	\$73,000,000*
94	\$26,000,000	12/31/97	\$26,000,000	\$ -0-	\$ -0-
TOTAL CARRYFORWARD AVAILABLE					\$ -0-

* Past Use Deadline. No longer available.

**APPENDIX B: 2002 JOB CREATION AND RETENTION EXPECTED
THROUGH THE BOND CAP ALLOCATION PROGRAM**

<u>Issuer Name</u>	<u>Principal User</u>	<u>County</u>	<u>Issuance Amount</u>	<u>Expected # of Jobs Created or Retained</u>
Pierce County EDC	True World Foods	Pierce	\$ 6,930	120
Port of Port Angeles	Port of Port Angeles	Clallam	\$ 500	50
Spokane County IDC	Ecolite Manufacturing	Spokane	\$ 2,500	160
WA Econ Dev Finance Auth	Mountlake LLC	Snohomish	\$ 2,225	87
WA Econ Dev Finance Auth	U.S. Pies Realty, LLC	Spokane	\$ 2,100	17
WA Econ Dev Finance Auth	Hillstrom LLC	Pierce	\$ 3,265	52
		TOTALS	\$17,520	486

APPENDIX C: HOPE VI BOND CAP ALLOCATION SCHEDULE
(in thousands)

	2003	2004	2005	2006	2007	2008	TOTAL
Tacoma Housing Authority Salishan Phase I		15,000					15,000
Salishan Phase II			15,000				15,000
Salishan Phase III-A				15,000			15,000
Salishan Phase III-B					15,000		15,000
Seattle Housing Authority Rainier Vista Phase III			22,000				22,000
Seattle Housing Authority High Point Phase I		33,000					
High Point Phase II					27,000		27,000
King County Housing Authority Park Lake Homes		23,500	23,500				
Totals		71,500	60,500	15,000	42,000		189,000