

The 2001 Private Activity Bonds Authorized by the Bond Cap Allocation Program

A Report to the Legislature

February 2002



Office of Community Development

Providing financial and technical resources to build livable and sustainable communities.

Busse Nutley, Director

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INTRODUCTION

This report summarizes the use of the 2001 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 2001 was equal to \$62.50 per capita (based on resident population). In 2001 the cap for Washington State was \$368,382,563.

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 Office Community Development (OCD) 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, OCD 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 2001 State Bond Cap section summarizes 2001 activities for the BCAP. The third section provides a series of tables that display the 2001 state Bond Cap Allocation by category.

The report concludes with two 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 2001.

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.

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.

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

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Total Allocation	\$267,150	\$276,647	\$280,518	\$284,463	\$287,818
Small Issue	\$ 76,852	\$ 58,385	\$ 64,786	\$ 28,100	\$ 39,425
Housing	\$110,312	\$136,820	\$ 89,120	\$121,906	\$ 73,302
Student Loan	-0-	-0-	\$ 60,000	-0-	\$ 50,000
PUD	\$ 26,715	\$ 47,660	\$ 28,050	\$ 32,145	-0-
Exempt Facility	\$ 21,600	\$ 19,000	-0-	\$ 50,850	\$ 49,359
Carryforward	\$ 30,171	\$ 14,782	\$ 38,562	\$ 51,462	\$ 75,732
Housing	\$ 30,171	\$ 14,782	\$ 38,562	\$ 51,462	\$ 75,732

As seen in Table 1, the amount issued in any one category fluctuates. The Student Loan category only issued bonds in 1998 and 2000. The Exempt Facility category has had varied activity since 1990. The Small Issue category was very active during a time of growth from 1995 through 2000.

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 OCD, 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 2001 STATE BOND CAP

The following tables show the final outcome of tax-exempt Private Activity Bond allocation under Washington's Bond Cap for 2001. The Cap was established at \$368,382,563, 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 2001 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 2001 (see Table 2 for dollar amounts): 27.5 percent to Housing, 24.5 percent to Small Issue, 19.5 percent to Exempt Facility, 14.5 percent to Student Loan, 10 percent to PUD, and 4 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 2001 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 carryforward allocation of \$40,098,287 for its Multifamily and Single Family Programs.

Tables 3 through 9 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 2001 Cap was allocated (in percentage) among the bond use categories.

TABLE 2
PRIVATE ACTIVITY BOND USE IN 2001

2001 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>
WA Econ Dev Finance Auth	Proto Manufacturing Inc	\$ 1,125	\$ 1,125	\$ 1,125
WA Econ Dev Finance Auth	Half Diamond JL LLC	\$ 1,275	\$ 1,275	\$ 1,275
WA Econ Dev Finance Auth	Royal Ridge Fruit	\$ 4,955	\$ 4,955	\$ 4,955
Pilchuck Dev Public Corp	HCI Steel Building	\$ 2,500	\$ 2,500	\$ 2,440
Yakima Co Dev Corp	Seneca Foods Corp	\$ 3,200	\$ 3,200	\$ 3,200
Yakima Co Dev Corp	Valley Processing Inc	\$ 2,000	\$ 2,000	\$ 2,000
WA Econ Dev Finance Auth	RMI Investors LLC	\$ 5,000	\$ 5,000	\$ 5,000
WA Econ Dev Finance Auth	WestFarm Foods	\$ 1,000	\$ 1,000	\$ 1,000
WA Econ Dev Finance Auth	Vectra LLC	\$ 2,400	\$ 2,400	\$ 0
Port of Chehalis IDC	JR Braun NW Inc	\$ 3,200	\$ 3,200	\$ 0
Port of Douglas County	Berglin Corporation	\$ 1,200	\$ 1,200	\$ 1,200
	TOTALS	\$27,855	\$27,855	\$22,195

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	\$65,620	\$65,620	\$65,620
	TOTALS	\$65,620	\$65,620	\$65,620

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	Student Loan Program	\$108,000	\$68,415	\$68,400
	TOTALS	\$108,000	\$68,415	\$68,400

⁴PUD: Public Utility District

2001 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	Delridge Mutual Housing	\$ 2,000	\$ 2,000	\$ 1,571
Seattle Housing Authority	Third & Pine Building	\$ 5,000	\$ 5,000	\$ 5,000
Tacoma Housing Authority	Sunset Apts	\$ 13,250	\$ 13,250	\$ 13,250
King Co Housing Authority	Eastwood Square Apts	\$ 4,000	\$ 4,000	\$ 4,000
King Co Housing Authority	Southwood Square Apts	\$ 5,200	\$ 5,200	\$ 5,200
WA St Housing Finance Comm	Multifamily Program	\$ 62,655	\$ 62,655	\$ 39,875
WA St Housing Finance Comm	Single Family Program	\$ 20,982	\$ 20,982	\$ 20,982
Seattle Housing Authority	Plymouth Housing Group	\$ 4,750	\$ 4,750	\$ 0
Seattle Housing Authority	YWCA Opportunity Place	\$ 8,500	\$ 8,500	\$ 0
King Co Housing Authority	Washington Court Apts	\$ 6,937	\$ 6,937	\$ 6,937
Seattle Housing Authority	NewHolly Phase III	\$ 21,000	\$ 0	\$ 0
Bellingham Housing Authority	Varsity Village	\$ 4,370	\$ 4,730	\$ 0
Vancouver Housing Authority	Uptown Village	\$ 5,016	\$ 5,016	\$ 5,016
Vancouver Housing Authority	Lewis and Clark Plaza	\$ 4,600	\$ 4,600	\$ 0
King Co Housing Authority	The Cone Apts	\$ 5,000	\$ 0	\$ 0
King Co Housing Authority	Overlake Park & Ride	\$ 6,475	\$ 6,475	\$ 6,475
Pierce Co Housing Authority	Hidden Hills Apts	\$ 8,600	\$ 8,600	\$ 0
Vancouver Housing Authority	Hazel Dell Assisted Living	\$ 475	\$ 475	\$ 475
Capital Hill Housing Improve.	Helen V Apts	\$ 2,410	\$ 2,410	\$ 2,410
WA St Housing Finance Comm	Single Family Carryfor.	\$ 19,243	\$ 19,243	\$ 0
WA St Housing Finance Comm	Multifamily Carryforward	\$ 20,855	\$ 20,855	\$ 0
	TOTALS	\$231,318	\$205,678	\$111,191

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 Grays Harbor IDC	Boise Cascade Corp	\$ 17,731	\$ 17,731	\$ 0
WA Econ Dev Finance Auth	Earth Tech, Inc	\$ 3,000	\$ 3,000	\$ 3,000
Port of Benton EDC ⁴	ATG Inc	\$ 21,585	\$ 7,100	\$ 0
WA Econ Dev Finance Auth	Waste Management Inc	\$ 22,000	\$ 22,000	\$22,000
WA Econ Dev Finance Auth	WestFarm Foods	\$ 10,000	\$ 10,000	\$ 7,375
WA Econ Dev Finance Auth	Smith Brothers Farms Inc.	\$ 4,000	\$ 4,000	\$ 3,300
WA Econ Dev Finance Auth	Art Mensonides	\$ 2,240	\$ 2,240	\$ 2,240
Port of Bellingham IDC	Atlantic Richfield Co	\$ 23,000	\$ 23,000	\$23,000
	TOTALS	\$103,556	\$ 89,071	\$60,915

⁵ EDC: Economic Development Corporation

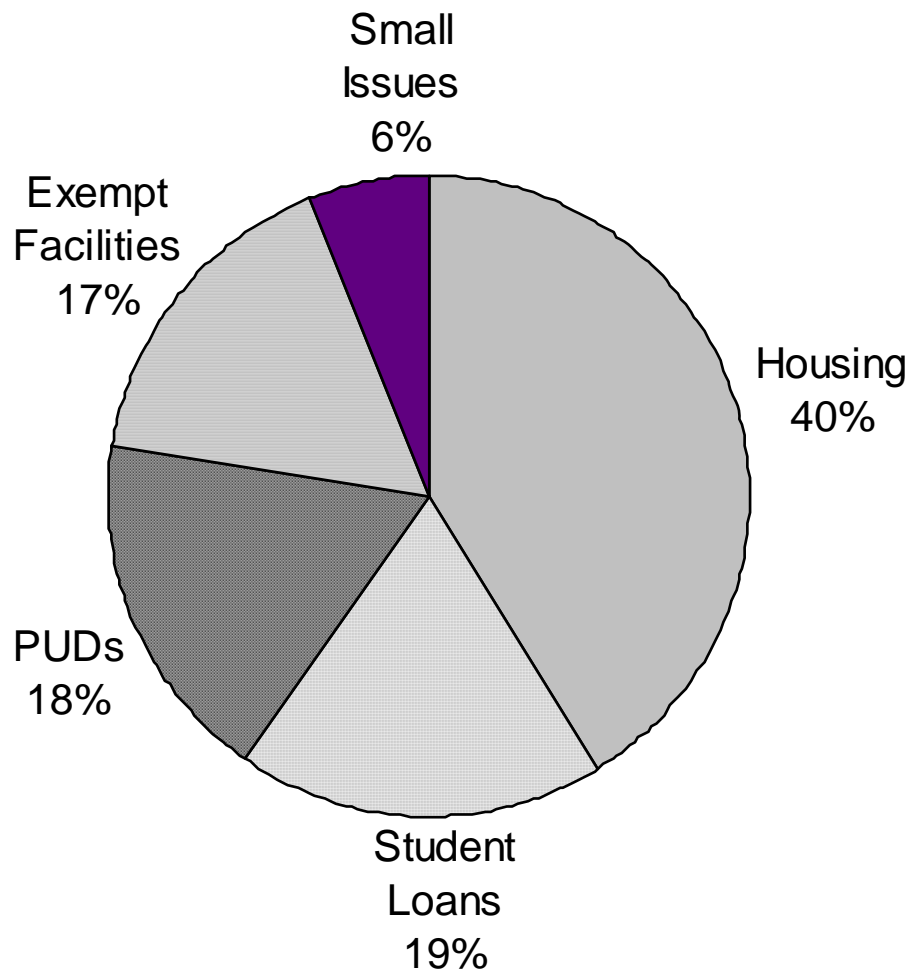
2001 STATE BOND CAP ALLOCATION BY CATEGORY (Continued)
(in thousands)

TABLE 8
REMAINDER AND REDEVELOPMENT

<u>Issuer Name</u>	<u>Project/Program Principal User</u>	<u>Requested Amount</u>	<u>Amount Authorized</u>	<u>Issuance Amount</u>
WA Econ Dev Finance Auth	GRK LLC	\$ 3,000	\$ 3,000	\$ 0
	TOTALS	\$ 3,000	\$ 3,000	\$ 0

2001 STATE BOND CAP ALLOCATION BY CATEGORY (Continued)

TABLE 9
ALLOCATIONS OF TOTAL 2001 BOND CAP
As of 12/31/01



TOTAL 2001 BOND CAP: \$368,382,562.50

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 OCD 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	\$ 355,476	\$ -0-
00	\$ 75,731,888	12/31/03	\$ 61,334,335	\$61,334,335	\$14,397,553
01	\$ 40,098,287	12/31/04	\$ -0-	\$ -0-	\$40,098,287
TOTAL CARRYFORWARD AVAILABLE					\$54,495,840**

* Past Use Deadline. No longer available.

** \$35,252,553 Allocated to Multifamily Program
 \$19,243,287 Allocated to Single Family 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: 2001 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>
WA Econ Dev Finance Auth	Proto Manufacturing Inc	Spokane	\$ 1,125	7
WA Econ Dev Finance Auth	Half Diamond JL LLC	Spokane	\$ 1,275	7
WA Econ Dev Finance Auth	Royal Ridge Fruit	Adams	\$ 4,955	20
Pilchuck Dev Public Corp	HCI Steel Building	Snohomish	\$ 2,440	84
Yakima Co Dev Corp	Seneca Foods Corp	Yakima	\$ 3,200	14
Yakima Co Dev Corp	Valley Processing Inc	Yakima	\$ 2,000	15
WA Econ Dev Finance Auth	RMI Investors LLC	King	\$ 5,000	175
WA Econ Dev Finance Auth	WestFarm Foods	Yakima	\$ 1,000	5
Port of Douglas County	Berglin Corporation	Douglas	\$ 1,200	17
TOTALS			\$22,195	344