

The 2000 Private Activity Bonds Authorized by the Bond Cap Allocation Program

A Report to the Legislature

April 2001



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 2000 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 2000 was equal to \$50 per capita (based on resident population). In 2000 the Cap for Washington State was \$287,818,050.

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 2000 State Bond Cap section summarizes 2000 activities for the BCAP. The third section provides a series of tables that display the 2000 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 2000.

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 (Industrial Revenue Bonds or IRBs)

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 Cap 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>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Total Allocation	\$267,150	\$267,150	\$276,647	\$280,518	\$284,463
Small Issue	\$ 44,680	\$ 76,852	\$ 58,385	\$ 64,786	\$ 28,100
Housing	\$ 24,880	\$110,312	\$136,820	\$ 89,120	\$121,906
Student Loan	-0-	-0-	-0-	\$ 60,000	-0-
PUD	-0-	\$ 26,715	\$ 47,660	\$ 28,050	\$ 32,145
Exempt Facility	\$182,409	\$ 21,600	\$ 19,000	-0-	\$ 50,850
Carryforward	\$ 15,181	\$ 30,171	\$ 14,782	\$ 38,562	\$ 51,462
Housing	\$ 15,181	\$ 30,171	\$ 14,782	\$ 38,562	\$ 51,462

As seen in Table 1, the amount issued in any one category fluctuates. The Student Loan category issued only once in 1998. 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 1999.

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 2000 STATE BOND CAP

The following tables show the final outcome of tax-exempt Private Activity Bond allocation under Washington's Bond Cap for 2000. The Cap was established at \$287,818,050, 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 2000 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 2000 (see Table 2 for dollar amounts): 25 percent to Small Issue, 10 percent to PUD, 25 percent to Housing, 20 percent to Exempt Facility, 15 percent to Student Loan, and 5 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 2000 Cap was distributed among the bond use categories. It also illustrates the order of Cap activity that led to the final Cap distributions. A total of \$75,731,888 was allocated as carryforward to the Washington State Housing Finance Commission 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 nine shows how the 2000 Cap was allocated (in percentage) among the bond use categories.

TABLE 2
PRIVATE ACTIVITY BOND USE IN 2000

2000 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>
Yakima Co Dev Corp	Valley Processing Inc	\$ 4,500	\$ 4,500	\$ 4,500
WA Econ Dev Finance Auth	Houk Brooklyn, LLC	\$ 2,400	\$ 2,400	\$ 2,400
WA Econ Dev Finance Auth	Ronald E. Leuning	\$ 4,200	\$ 4,200	\$ 4,125
WA Econ Dev Finance Auth	Calbag Services LLC	\$ 1,100	\$ 1,100	\$ 1,000
Yakima Co Dev Corp	Printing Press Inc	\$ 4,500	\$ 4,500	\$ 2,500
Spokane Co IDC ³	Mackay Manufacturing	\$ 2,000	\$ 2,000	\$ 2,000
Port of Chehalis IDC	Cascade Hardwoods Inc	\$ 8,000	\$ 8,000	\$ 8,000
WA Econ Dev Finance Auth	Pacific Coast Feather Co	\$ 2,850	\$ 2,850	\$ 1,000
WA Econ Dev Finance Auth	Canam Steel Corp	\$ 7,000	\$ 7,000	\$ 7,000
WA Econ Dev Finance Auth	Garco Building System	\$ 1,400	\$ 1,400	\$ 1,400
Adams Co Port District No.1	SVZ USA Washington	\$ 5,000	\$ 5,000	\$ 0
Yakima Co Dev Corp	Michelsen Packaging Co	\$ 4,200	\$ 4,200	\$ 4,200
Yakima Co Dev Corp	Columbia Ready-Mix Inc	\$ 1,300	\$ 1,300	\$ 1,300
	TOTALS	\$48,450	\$48,450	\$39,425

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 ⁴ No 1	Rocky Reach & Rock Island Hydro	\$28,782	\$28,782	\$ 0
	TOTALS	\$28,782	\$28,782	\$ 0

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	\$63,000	\$50,000	\$50,000
	TOTALS	\$63,000	\$50,000	\$50,000

³ IDC: Industrial Development Corporation

⁴ PUD: Public Utility District

2000 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>
Vancouver Housing Authority	Hazel Dell Asst Living	\$ 4,000	\$ 4,000	\$ 4,000
Seattle Housing Authority	Third & Pine Building	\$ 4,000	\$ 4,000	\$ 0
Seattle Housing Authority	Delridge Mutual Housing	\$ 2,000	\$ 2,000	\$ 0
Seattle Housing Authority	Stewart Court	\$ 6,000	\$ 6,000	\$ 6,000
Seattle Chinatown Intl Dist PDA	Village Square II	\$ 6,000	\$ 6,000	\$ 6,000
King Co Housing Authority	Overlake Park & Ride	\$ 28,000	\$ 28,000	\$ 21,525
Pierce Co Housing Authority	Hidden Hills Apts	\$ 8,600	\$ 8,600	\$ 0
Capital Hill Housing Improve.	El Nor House Apts	\$ 2,250	\$ 2,250	\$ 0
WA St Housing Finance Comm	Multifamily Program	\$ 25,884	\$ 14,762	\$ 14,762
WA St Housing Finance Comm	Single Family Program	\$ 73,250	\$ 14,251	\$ 14,251
Tacoma Housing Authority	South Hill Associates LP	\$ 13,250	\$ 0	\$ 0
Capital Hill Housing Improve.	Oleta Apts LP	\$ 1,500	\$ 1,500	\$ 1,500
Kitsap Co Consolidated Housing	Heritage Apts	\$ 2,220	\$ 2,220	\$ 2,220
Kitsap Co Consolidated Housing	Viewmont Apts	\$ 2,785	\$ 2,785	\$ 2,785
Grays Harbor Housing Authority	Monte Cove Apts	\$ 1,800	\$ 1,800	\$ 0
Capital Hill Housing Improve.	Harrison Family Housing	\$ 259	\$ 259	\$ 259
WA St Housing Finance Comm	Single Family Carryfor.	\$ 33,732	\$ 33,732	\$ 0
WA St Housing Finance Comm	Multifamily Carryforward	\$ 42,000	\$ 42,000	\$ 0
	TOTALS	\$257,530	\$174,159	\$ 73,302

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>
King Co Econ Ent Corp	Cedar Grove Composting	\$ 2,500	\$ 2,500	\$ 0
Port of Grays Harbor IDC	Boise Cascade Corp	\$ 35,000	\$ 17,269	\$ 0
City of Cashmere	Tree Top Inc	\$ 4,500	\$ 4,500	\$ 4,230
Port of Centralia IDC	Centralia Steam Plant	\$ 50,900	\$ 36,648	\$ 0
WA Econ Dev Finance Auth	Waste Connections, Inc.	\$ 6,720	\$ 6,720	\$ 0
Port of Benton EDC ⁵	ATG Inc	\$ 7,100	\$ 7,100	\$ 0
State of Washington	Stadium & Exhibition	\$ 4,694	\$ 4,694	\$ 4,694
WA Econ Dev Finance Auth	Waste Management Inc	\$ 34,535	\$ 34,535	\$34,535
WA Econ Dev Finance Auth	Earth Tech, Inc	\$ 10,000	\$ 7,000	\$ 5,900
	TOTALS	\$155,949	\$120,966	\$49,359

⁵ EDC: Economic Development Corporation

2000 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

2000 STATE BOND CAP ALLOCATION BY CATEGORY (Continued)

TABLE 9
ALLOCATIONS OF TOTAL 2000 BOND CAP
As of 12/31/00

TOTAL 2000 BOND CAP: \$287,818,050

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 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	\$13,110,944	\$ -0-
99	\$ 51,461,796	12/31/02	\$ 51,106,320	\$51,106,320	\$ 355,476
00	\$ 75,731,888	12/31/03	\$ -0-	\$ -0-	\$75,731,888
TOTAL CARRYFORWARD AVAILABLE					\$76,087,364**

* Past Use Deadline. No longer available.

** \$42,355,476 Allocated to Multifamily Program
 \$33,731,888 Allocated to Single Family Program

APPENDIX A: CARRYFORWARD ALLOCATIONS (Continued)

STUDENT LOANS

Year	<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: 2000 JOB CREATION AND RETENTION EXPECTED
THROUGH THE BOND CAP ALLOCATION PROGRAM**

<u>Issuer Name Retained</u>	<u>Principal User</u>	<u>County</u>	<u>Issuance Amount</u>	<u>Expected # of Jobs Created or</u>
Yakima County Dev Corp	Valley Processing	Yakima	\$ 4,500	10
WA Econ Dev Finance Auth	Houk Brooklyn LLC	Spokane & Douglas	\$ 2,400	13
WA Econ Dev Finance Auth	Ronald E. Leuning	Snohomish	\$ 4,125	46
WA Econ Dev Finance Auth	Calbag Services LLC	Spokane	\$ 1,000	4
Yakima County Dev Corp	Printing Press Inc	Yakima	\$ 2,500	35
Spokane County IDC	Mackay Manufacturing	Spokane	\$ 2,000	78
Port of Chehalis IDC	Cascade Hardwoods	Lewis	\$ 8,000	195
WA Econ Dev Finance Auth	Pacific Coast Feather	King	\$ 1,000	103
WA Econ Dev Finance Auth	Canam Steel Corp	Yakima	\$ 7,000	165
WA Econ Dev Finance Auth	Garco Building Systems	Spokane	\$ 1,400	45
Yakima County Dev Corp	Michelsen Packaging	Yakima	\$ 4,200	54
Yakima County Dev Corp	Columbia Ready-Mix	Yakima	\$ 1,300	16
TOTALS			\$39,425	764