Bond Cap Allocation Program

The 2020 Biennial Policy Report and Activity Summary

RCW 39.86.190

BOND CAP
ALLOCATION PROGRAM

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REPORT TO THE LEGISLATURE

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Executive Summary

Overview

The Revised Code of Washington (RCW) 39.86 guides the annual allocation of the private activity bond volume cap. A biennial report is required pursuant to RCW 39.86.190 as follows: “Beginning in June 2018 and thereafter by June 30th of each even-numbered year, the agency shall submit a biennial report to the Legislature summarizing usage of the bond allocation proceeds and any policy concerns for future bond allocations.” This is the report for 2020.

Since its inception in 1987, the Bond Cap Allocation Program has approved more than $15.3 billion in tax-exempt private activity bond issuing authority for a variety of economic and industrial development, housing, hydroelectric power, exempt capital facilities projects and student loans in Washington state. The program authorizes the issuance of bonds under the federal bond volume cap, but does not directly fund or finance projects. Funds used for projects receiving permission to issue tax-exempt private activity bonds come from private investors who purchase the bonds, not from governmental entities.

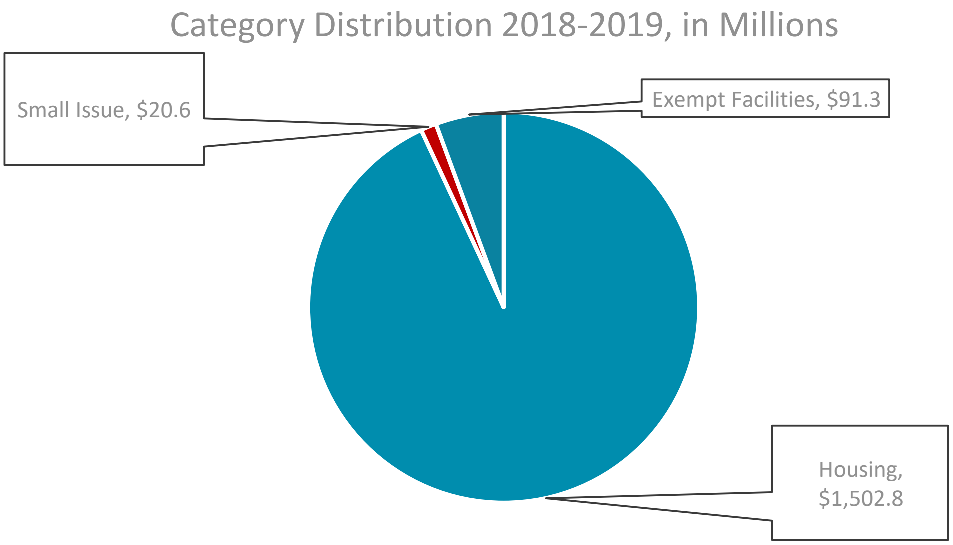
2018-19 Allocations

The Bond Cap Allocation Program authorized $1.6 billion in issuances during 2018 and 2019 through 72 projects located throughout the state. These issuances of private activity bond volume cap (alternatively known as "bond cap", "volume cap" or "cap") exceeded the annual volume cap for these years by $45.8 million. This excess activity was possible because of unused volume cap from previous years, preserved through designation as carryforward.

During this period, housing projects used approximately $1.5 billion in bond cap, including $1.3 billion to create 10,409 units of multifamily rental housing and $198.8 million for low-income, first-time homebuyer assistance that helped 1,637 first-time homebuyers. Housing construction resulted in an estimated 19,290 short-term construction jobs and 2,723 permanent positions.

Non-housing projects used $111.9 million in volume cap, with one large exempt facility project comprising 52.1% of that amount. Small Issue and Exempt Facilities projects resulted in an additional 42 new permanent positions, the retention of 1,100 existing positions, and the creation of 109 temporary jobs as reported by applicants.

Figure 1: Bond Cap Distribution by Category, 2018-2019



During 2018 and 2019, all carryforward (the allocation of volume cap not used within the current year to a qualified issuer) was allocated to the Washington State Housing Finance Commission (WSHFC) for affordable housing. This differs from the previous biennium when a substantial portion, $28.7 million, was allocated to the Washington State Economic Development Finance Authority (WEDFA) for an Exempt Facility project.[1]

2020-21 Allocations

A total of $799.6 million in new cap is available for 2020. In addition, there was $278.9 million in single-family and multi-family carryforward cap at the beginning of the year. The volume cap for 2021 will not be determined until December, 2020.

Due to demand for cap that currently exceeds the new and carryforward amounts, 2020 could mark the first time in the history of the program that no carryforward is designated at the end of the year. This is due in large part to issuances by the WSHFC and housing authorities for housing projects, although multiple exempt facility applications have resulted in significant supplemental demand.

While the COVID-19 pandemic has affected the timing and amount of project closings, there has been no impact to the total number of housing and exempt facility projects thus far requesting allocations.

As a result, more than $300 million in anticipated affordable housing projects from this year's round of applications to the WSHFC and over $100 million in exempt facility projects may need to wait for allocations from next year's volume cap. This situation could result in a deficit of volume cap for projects submitting applications for volume cap allocations in 2021.

[1] https://deptofcommerce.app.box.com/v/bond-cap-report-2018

Policy Discussion

Prior to the COVID-19 pandemic, the state was already challenged with significant affordable housing, economic development and infrastructure needs. The COVID-19 pandemic will likely exacerbate these needs and result in unsettled economic and financial impacts.

The discussion of policy issues is presented in the context of a high degree of uncertainty about future conditions and encapsulates the current understanding of circumstances, speculation about outcomes and ideas for flexible response and expanded capacity.

Demand for volume cap currently significantly exceeds supply. In order to meet this demand and respond to increased needs as a result of the pandemic, Commerce will:

- Work with our congressional delegation to increase the per-capita multiplier used to establish the annual volume cap and increase the amount of 9% Low Income Housing Tax credits (LITHCs) allocated to each state.

In addition, Commerce will work with stakeholders to:

- Convene a discussion group to strengthen partnerships, track bond cap trends, monitor impacts of the crisis, discuss proposed federal legislation and consider potential innovations or other measures such as bond cap recycling, green infrastructure, alternative energy and energy efficiency.
- Expedite use of annual cap (and preserve cap through carryforward if demand for allocations drops) to maximize resources available to address affordable housing, economic development and infrastructure needs.

Introduction

Under the federal Tax Reform Act of 1986, private activity bonds ordinarily are not eligible for tax-exempt status if the proceeds benefit businesses or individuals. However, when issued under the authority of the bond cap allocation, many projects financed by private activity bonds are able to access lower-cost, tax-exempt bond financing when the projects have substantial public benefits. The "cap" is a federal limitation on the total volume of these tax-exempt private activity bonds issued annually in each state.

The Bond Cap Allocation Program, administered by the Washington State Department of Commerce (Commerce):

- Reviews project applications to ensure they conform with federal and state guidelines
- Approves projects for bond issuance
- Monitors the total amount of tax-exempt private activity bond financing permitted under federal law

The Internal Revenue Code allows states to determine how to distribute cap authority among five categories of projects: exempt facilities, housing, public utility districts (for specific hydroelectric projects), small issue manufacturing and student loans. Washington state law sets percentages for each category, criteria for allocation within the categories, and timelines for bond cap that is set aside in some categories to encourage development in eastern and distressed areas of the state.

What is the Bond Cap?

In the mid-1980s, federal observers became concerned about revenue shortfalls. Assumed causes of the shortfall included – among other things – increasingly large numbers of tax-exempt private activity bond issuances over the previous decade. Congress responded to the concerns by passing the Deficit Reduction Act of 1984, then two years later the Tax Reform Act of 1986. These acts set a limit – the "cap" or "ceiling" – on the total volume of tax-exempt private activity bonds that states could issue annually and established bond-use categories eligible to issue bonds under the cap.

In response, Washington's then-governor and Legislature created procedures for allocating the state's cap among the categories and establishing priorities among applicants. Program administration was assigned to the Department of Community Development, which later merged with the Department of Trade and Economic Development to become the Department of Community, Trade and Economic Development (CTED). In 2009, CTED became the Department of Commerce.[2]

The Bond Cap Allocation Program has authorized approximately $15.3 billion in tax-exempt private activity bond issuances since its inception. These bonds have contributed to:

- The development of thousands of housing units and new jobs in Washington's communities
- Industry, infrastructure and clean energy production across the state
- Low-cost student loans to educate thousands of Washington's residents

How Much Cap Authority Is Available?

The total amount of tax-exempt private activity bond authority for each state is calculated using a per capita formula. In 1984, the federal Deficit Reduction Act set the volume cap at $150 per capita. The Tax Reform Act

[2] RCW 39.86

of 1986 reduced it to $50 per capita. In 2001, the Internal Revenue Service (IRS) began periodic increases in the per capita volume cap rate to adjust for inflation. Beginning Jan. 1, 2014, the cap was raised to $100 per capita. Each December, when the U.S. Census Bureau releases its official population figures, the total cap for the following year is calculated. Due to a low rate of inflation over the past several years, the per capita multiplier remained at $100 during 2016 and 2017. During the 2018-2019 biennium, the multiplier increased to $105. For calendar year 2020, the multiplier remained $105 per Washingtonian, resulting in a total of $799.6 million in bond cap authority available in Washington state. Cap authority is divided among the eligible categories by percentages described in Washington statute.[3]

[3] RCW 39.86.120

Figure 2: Bond Cap History Timeline 1984-2007

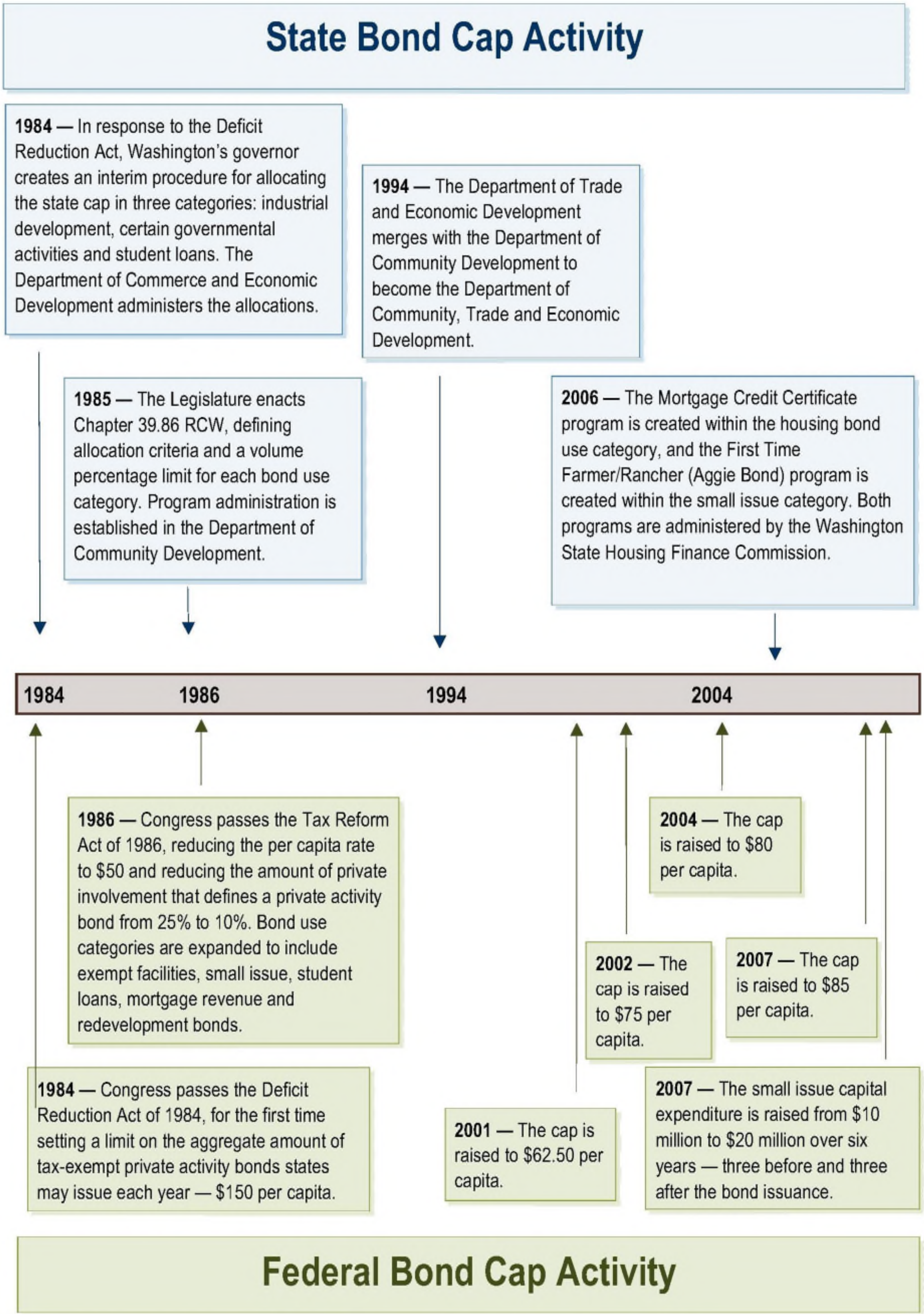
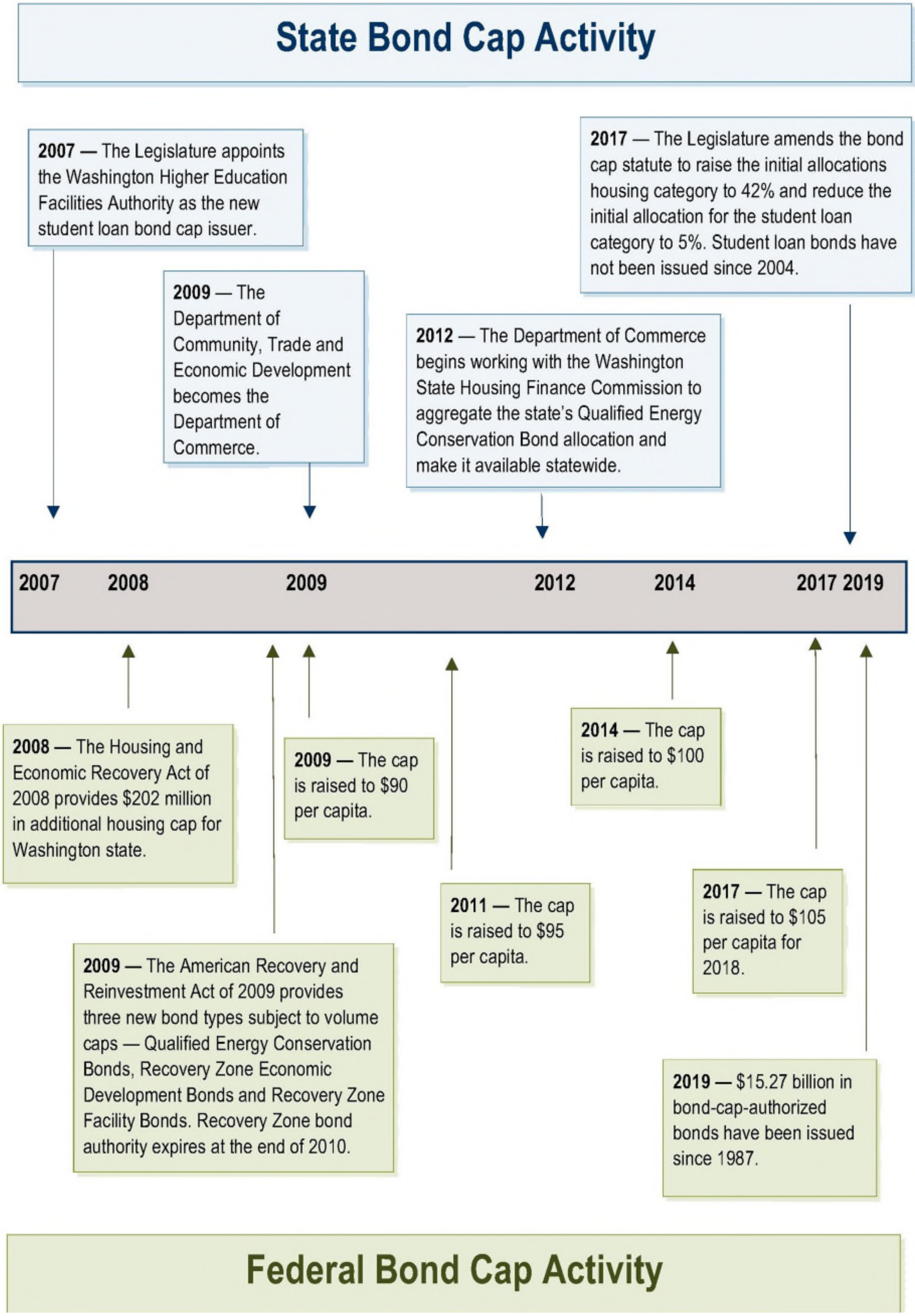


Figure 3: Bond Cap History Timeline 2007-2019



What Is Tax-Exempt Private Activity Bond?

A bond is a means for an investor to lend money to a corporate or governmental entity that borrows the funds for a defined period of time at a specified interest rate. Because the bond investor is not required to pay federal taxes on interest earned on tax-exempt bonds, these bonds can qualify for lower interest rates than conventional financing, thus saving the borrower money.

For projects with benefits that are considered essentially public – for example, roads and most infrastructure – tax-exempt bonds can be issued without cap authority. Bonds for projects with a high level of private benefit or participation are not tax-exempt unless they meet specific IRS criteria and are issued under the authority of the bond cap allocation. A bond is considered a private activity bond if it meets one of two tests, as established by the Federal Taxation of Municipal Bonds Deskbook as quoted below:

1. It meets both of the private business use tests:

   a. Greater than 10% of its proceeds are used for any private business purpose, AND

   b. Greater than 10% of its proceeds are either secured by property used for private business purposes or are to be repaid from private business sources.

2. OR, it meets the private loan financing test:

   a. Greater than 5 % (or $5 million, whichever is less) of its proceeds are used for loans to persons other than governmental entities.[4]

What Kinds of Projects Are Eligible?

The Tax Reform Act of 1986 established five categories of projects eligible to issue bonds under cap authority:

- Exempt facilities: Certain types of capital transportation, waste management, energy and environmental facilities as defined in the Internal Revenue Code. Multifamily low-income rental housing projects are also exempt facilities under federal law. However, for the purposes of distribution, Washington state law separates multifamily rental housing from the rest of the exempt facilities and places it into a separate housing category along with single-family homeownership projects, which are not exempt facilities in federal law.
- Housing: In Washington, this includes both affordable multifamily rental housing and single-family homeownership projects.
- Small issue: Industrial development projects needing less than $20.0 million in capital expenditures over six years. Bonds are limited to $10.0 million in par value.
- Student loans: Higher education loans for qualifying students.
- Public Utility District (PUD): Efficiency and environmental enhancements for certain hydroelectric facilities. Each state's PUD volume cap was further limited in federal law, with Washington's limited to a lifetime maximum of $750 million. In 2007, Washington's PUDs used the last of the $750 million cap, so the PUD category no longer exists in the state.

[4] Federal Taxation of Municipal Bonds Deskbook; Third Edition; November 2017; LexisNexis, Newark, New Jersey; page 12; Referring to 26, U.S.C Section 141, Paragraph 2.01(a) and (b)

How Does a Project Apply For Cap Authority?

Project developers work with an authorized state- or local-level bond issuer to arrange for tax-exempt private activity bond financing. The bond issuer then applies to Commerce for authorization to issue the bond. In the case of multifamily housing projects, certain exempt facilities and student loans, the governmental issuer might also be the project developer.

Bonds must be issued within the calendar year, typically no later than Dec. 15 of each year. Any cap authority that is unused at the end of the year can be allocated as "carryforward" to an exempt facilities or housing issuer to be carried forward into the next three years. Commerce is responsible for taking applications, evaluating projects, authorizing bond issuances under the cap and ensuring the state does not exceed its cap authority.

Who Applies For Cap Authority?

Private Activity Bonds are used to help finance projects that have a significant non-governmental component but that provide a qualified public benefit. These private entities can include for-profit businesses or non-profit charities including housing authorities. A significant amount of cap is used every year by non-profit providers of affordable housing to expand housing opportunities throughout the state. Qualified companies can use up to $10 million in private activity bonds to support development projects of up to a $20 million to create or expand business to support economic development. In addition, businesses such as waste management companies or private water purveyors can utilize private activity bonds to provide utility services, like water lines, expand waste collection capacity or reduce waste streams through the creation of value added products. In addition, cap can be used if a public entity such as a Port or municipality (such as a city, county or special district) is expanding infrastructure, such as sewer lines, to specific businesses (rather than the public at large). For further details on please refer to the discussion of Bond Cap Categories below.

How Does Commerce Decide Which Projects Get Cap Allocations?

Washington's Legislature has established in statute a formula for initial allocations – set-asides of cap authority – for each category. Since 2017, the initial allocations have been:

- Exempt facilities: 20%
- Housing: 42 %, divided between:
- WSHFC: 80% (that is, 33.6% of total cap)
- Local housing authorities: 20% (that is, 8.4% of total cap)
- Small issues: 25%
- Student loans: 5%
- Remainder: 8%

During the calendar year, timelines apply to some of the category set-asides in either RCW or Washington Administrative Code (WAC). No exempt facilities projects could receive more than 30% of the total exempt facilities set-aside before Sept. 1 each year.[5] Before June 1, portions of the small issue set-aside are reserved for Eastern Washington distressed counties, eastern non-distressed counties, and Western Washington

[5] WAC 365-135-070

distressed counties.[6] After July 1, unused cap from any category can be reallocated to any other category. However, 50% of any unused cap is prioritized for housing.[7]

The authority in the remainder category can be used for any eligible category of project at any time, thus creating flexibility in the program early in the year. If an issuer has been granted a carryforward allocation, that issuer's initial allocation can be reduced by the amount of carryforward received, at the discretion of the program manager. In that case, that portion of the initial allocation would be placed in the remainder category, creating additional allocation flexibility.

Each category has a set of basic eligibility criteria in the Internal Revenue Code, state statute and WAC that guide allocation decisions. These criteria help Commerce prioritize projects for allocations by assessing the public benefit of each project.

Small issue projects are evaluated based on the number of retained jobs and new jobs created per dollar of cap authority and by the need in a particular community for industrial development. Exempt facilities projects are evaluated based on the number of jobs created and the degree to which the project reduces environmental pollution, produces lower-cost energy, or diverts solid waste from disposal and remanufactures it into value-added products.

Housing projects are evaluated based on the number of housing units created or rehabilitated per dollar of cap authority and the degree to which the project meets each community's highest affordable housing needs.

How Do Economic Fluctuations Impact Bond Cap Allocations?

For most of the program's history, Commerce has been able to allocate to eligible projects in every category on a first-come, first-served basis. Rarely have projects experienced allocation delays, even in the context of the statutory set-asides, limitations and timelines for allocations.

A notable exception occurred in 2007 when market factors combined to increase demand for cap authority, particularly for housing cap. Commerce received more applications for housing allocations than there was cap available. WSHFC absorbed the majority of the impact by curtailing both their Single Family Homeownership and Multifamily Rental Housing programs. This allowed most other issuers to eventually receive the cap they needed that year. However, many experienced delays waiting for the release of the category set-asides. The year ended with a record-setting low amount of cap available to carry forward into future years.

At the beginning of 2008, Commerce again received more housing applications than there was cap authority available within the housing and remainder set-asides categories. For the first time, the program had to establish a competitive process with which to prioritize housing applications and allocate cap. The need for additional housing cap remained high for several more months. In mid-2008, the U.S. Congress provided $11.0 billion nationwide in additional cap authority for housing through the Housing and Economic Recovery Act of 2008 (HERA). Washington's share totaled $202.0 million. Nevertheless, the national housing crisis began impacting our state. And many housing developers who had competed for available cap at the beginning of the year were unable to issue their bonds before the annual deadline.

For several years afterward, economic uncertainty and low-interest rates on conventional loans caused demand for bond cap allocations in most categories to remain weak. Large amounts of unused cap were

[6] WAC 365-135-060
[7] RCW 39.86.120

carried forward into future years. By the beginning of 2014, nearly $1.7 billion in carryforward had accumulated and was allocated to WSHFC.

Commerce has traditionally chosen to allocate most or all of the carryforward each year to WSHFC, which might use the carryforward for its programs or reallocate it to other housing issuers. When the accumulation of carryforward became very large, Commerce started referring local housing authorities to WSHFC to receive allocations from the accumulated carryforward rather than using current-year cap authority. Because carryforward allocations can be used for an additional three years beyond the original allocation year, using up carryforward before using current-year cap preserves as much cap authority as possible for as long as possible.

Washington state has minimized losing cap authority by expiration because of this strategy as well as WSHFC's ability to designate a portion of single-family program carryforward for Mortgage Credit Certificates (that is, tax credits for eligible homebuyers). Once designated as Mortgage Credit Certificates, the authority does not expire until the tax credits have all been awarded.

By 2014, the ability of affordable housing developers to move forward with projects began to recover and the available carryforward began shrinking from the $1.7 billion that was available at the start of that year. In 2016, current-year cap began to be used with $174.2 million, or 24.3% of the current-year cap, used during the year. In 2017, $464.5 million, or 63.7% of the current-year cap, was used during the year, significantly reducing the amount of cap being carried forward. At the start of 2018, the available carryforward was $324.7 million, however, the amount of carryforward capacity increased and by the end of the year it stood at $437.7 million. Carryforward capacity at the end of 2019 was $278.9 with approximately one-third of that dedicated to the WSHFC's Single Family Program and the remainder dedicated to the Commission's Multi-Family Program.

As of mid-2020, current demand for allocations remains strong and current requests exceed the annual volume cap. However, with economic uncertainty related to impacts of the COVID-19 pandemic, it is unclear whether the trend toward increased demand for bond cap allocations, resulting in smaller carryforward amounts, will continue.

Bond Cap Policy Issues

In previous Biennial Reports, the discussion of key policy issues has included consideration of factors such as affordable housing trends and needs; economic conditions; impacts of federal laws on bond sales; and methods to improve bond cap program administration. While these, and other issues such as potential innovative uses of bond cap and leveraging non-bond cap financing are still critical to the administration and success of the bond cap program, this report is being finalized at a time when virtually all of these factors are affected by the current COVID-19 pandemic and its impacts on the economy and financial markets.

Discussion of policy issues for the 2020-2021 Biennium must focus on the unique impacts of the moment and identify methods for responsiveness and flexibility needed to maneuver within uncertain and rapidly changing circumstances. The following policy issues are detailed within the overall context of the current pandemic and unfolding consequences of this situation.

Overview

The COVID-19 pandemic has created a wide-ranging set of impacts to individuals, families, governments and businesses throughout the world. These include disruptions to people's daily routines and normal business operations resulting from mitigation measures such as social distancing, school closures, restrictions on large gatherings and stay-at-home orders.[8] Since March 2020, unemployment levels have surged as businesses closed or limited their operations, resulting in lay-offs. As of late-April 2020, over 145,000 Washington workers had filed for unemployment benefits.[9] In May, the unemployment rate stood at 15.1%.[10] National and state-level responses have included passage of stimulus measures, suspensions of foreclosures and evictions, and extensions or restructuring of terms of repayments on mortgages, student loans and other long-term financial obligations.[11] Financial markets have been thrown into upheaval with large fluctuations in the stock market, lowering of interest rates and announcements of quantitative easing.[12] [13] Consumer confidence levels have dropped, and housing sales have stalled as the possibility of a long economic downturn emerges.[14] [15]

Much uncertainty remains about the duration and scope of these impacts, especially as it relates to the economy. Numerous economists have described several potential scenarios of long-term impact that are described as "V", "U" or "L" shaped.[16] A "V" shaped recovery would be marked by a rapid return to similar levels

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[8] Ries, B., "Universities begin considering the possibility of canceling in-person classes until 2021", (2020, April 15), https://www.cnn.com/2020/04/14/us/university-may-cancel-classes-fall-2021-trnd/index.html

[9] Kandra J. and Wolfe, J., "More than a quarter of the workforce has filed for unemployment in six states", (2020, April 30), https://www.epi.org/blog/updated-state-unemployment-numbers-more-than-a-quarter-of-the-workforce-has-filed-for-unemployment-in-six-states/

[10] Washington State Employment Security Department, "Monthly Employment Report for May 2020", (June 17, 2020), https://esd.wa.gov/newsroom/monthly-employment-report-for-may-2020

[11] Gurdus, L., "How the Fed's bond-buying stimulus could affect ETFs", (2020, March 24), https://www.cnbc.com/2020/03/24/coronavirus-fed-bond-buying-stimulus-effect-on-etf-market.html

[12] Hunter, B., "Coronavirus' Impact on Real Estate: Why You Need To Think Short-Term and Long-Term", (2020, March 20), https://www.forbes.com/sites/bradhunter/2020/03/24/coronavirus-impacts-on-real-estate--why-you-need-to-think-short-term-and-longer-term/#7d8efc975f6f

[13] Barone, R., "The Shape Of Things To Come: 'V' or 'L' Recovery", (2020, April 6), https://www.forbes.com/sites/greatspeculations/2020/04/06/the-shape-of-things-to-come-v-or-l-recovery/#26ca520030a8

[14] Ipsos, "U.S. consumer confidence is plummeting", (2020, March), https://www.ipsos.com/en-us/news-polls/consumer-confidence-march-2020-II

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[16] Petersen, T., "V, W, U or L: What could the economic recovery from coronavirus look like?", (2020, April 10), https://ged-project.de/blogpostsen/coronavirus-economic-recovery/

of economic activity seen in the first few months of the year. A “U” shaped recovery would see a period of economic slow-down with a gradual return to prior levels of prosperity. An “L” shaped impact would occur if the economic shock depresses the economy for an extended period. Additional scenarios consider a double dip, or “W” shaped recovery or a “swoosh” recovery with a sharp drop and an accelerating pace of improvement.

Recent indications are that “V” shaped recovery is less likely for several reasons, including the likely need for continued restrictions on large gatherings, intermittent long-term social distancing measures and individual sentiment to restrict resumption of normal activities. Recent articles indicate travel, entertainment and hospitality industries will likely see an extended period of closures and restrictions or loss of customers. With reductions in consumer activities, a full-scale and quick return to previous economic conditions seem remote.[17][18][19][20] In addition, many retailers already struggling could enter bankruptcy at some point soon.[21]

More likely scenarios are an extended “U” shaped downturn or an “L” shaped downturn if there are numerous small business closures, personal bankruptcies and high levels of personal and corporate debt are accumulated.[22][23] The form of recovery could be affected by future policy decisions regarding supplemental stimulus to affected businesses.[24]

These circumstances are important to the bond cap program for several reasons. First, the disruption of the COVID-19 pandemic to financial markets resulted in a temporary suspension of bond issuances and projects moving forward. Secondly, upheaval in the economy influences the need for housing, economic development and infrastructure development, which are key outcomes of the bond cap program. Finally, these circumstances call for strengthening partnerships with stakeholders, improving program administration and investigating innovations that might enhance the bond cap program.

The following discussion of policy issues is presented in the context of a high degree of uncertainty about future conditions and encapsulates the current understanding of circumstances and speculation about potential outcomes.

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[17] Cox, J., “Why the chances for a ‘V’-shaped recovery are getting less likely”, (2020, April 6), https://www.cnbc.com/2020/04/06/coronavirus-update-a-v-shaped-economic-recovery-getting-less-likely.html

[18] Rowan Kelleher, S., “Poll: Two-Thirds Of Americans Won’t Travel For At Least Three Months After COVID-19 Subsides” (2020, April 8), https://www.forbes.com/sites/suzannerowankelleher/2020/04/08/poll-2-of-3-americans-wont-travel-for-at-least-3-months-after-covid-19-subsides/#1826cae94b60

[19] Gentile, R., “Nearly 3 of 4 Americans Say They Won’t Attend Games Without Coronavirus Vaccine Developed”, (2020, April 9), http://blogs.shu.edu/sportspoll/2020/04/09/nearly-3-of-4-americans-say-they-wont-attend-games-without-coronavirus-vaccine-developed/

[20] Meredith, S., “Harvard researchers warn social-distancing measures may need to remain in place into 2020”, (2020, April 20), https://www.cnbc.com/2020/04/15/coronavirus-study-warns-social-distancing-may-need-to-stay-until-2022.html

[21] Bomey, N., “Can these 10 retailers avoid permanent store closings amid coronavirus pandemic?”, (2020, April 14), https://www.usatoday.com/story/money/2020/04/14/coronavirus-store-closures-bankruptcy-covid-19-pandemic-retail/5124326002/

[22] Bourgi, S., “$1.5 Trillion Bank Fears Brutal ‘L-Shaped’ Recovery – And Another S&P 500 Nosedive.”, (2020, April 8), https://www.ccn.com/1-5-trillion-bank-fears-brutal-l-shaped-recovery-and-another-sp-500-nosedive/

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[24] Keshner, A., “43% of small businesses say they’ll be forced to close permanently if they don’t get help soon, survey says”, (2020, April 13), https://www.marketwatch.com/story/43-of-small-businesses-say-theyll-be-forced-to-close-permanently-if-they-dont-get-help-soon-survey-says-2020-04-03

Bond Market

Conversations with stakeholders including the WSFHC, the Washington Economic Development Finance Association (WEDFA) and Kutak Rock LLP, a law firm with expertise in private activity bonds, have confirmed information from other sources, such as the Community Development Finance Authority (CDFA), that issuances of private activity bonds were disrupted in the initial phase of the pandemic. These disruption came from changes to interest rates, credit ratings and other terms of issuance, but also to the logistics of operations. For instance, provisions that require an in-person hearing for all issuances were difficult to conduct, given that many businesses, such as banks and law firms, moved to remote operations.[25][26][27][28][29] Many of these impacts have been adjusted or resolved, and issuance of private activity bonds has resumed.[30]

The consensus of stakeholders, organizations such as CDFA, and publications such as bondbuyer.com, indicate that the disruption to market factors such as bond rates could still take time to stabilize. It is unclear what the market for private activity bonds will look like after stabilization, and this will largely depend upon the type of recovery ("V", "U", "L", etc.) that occurs. Because this outcome is not clear, the issuance of private activity bonds may be suppressed from previous levels for an indeterminate period. Private placements, such as those used by a number of affordable housing projects, may help mitigate the immediate impact on the volume of issuances.

In the event an extended downturn in private activity bond activity occurs in the coming years, it is possible that some organizations, such as housing authorities, that have relative stability in their financial situation could be in a position to move forward with bond issuances. Other entities may need to determine the impacts of economic contraction on their organizational capacity. Non-profits operating affordable housing projects might need to assess the impact of an extended downturn on rent revenue, and private corporations will need to determine changes in cash flow and investment strategies.

As during the Great Recession, private entities could prefer low-interest rates in the private market for financing projects, and thus the demand for private activity tax-exempt bonds might become weaker. This could result in the reduction or loss in some exempt facility or small issue projects.

As a result, it is possible that the demand for private activity bonds could soften over time. To support economic recovery and respond to affordable housing needs, Commerce will take steps to maximize use of volume cap and expand the reach of these instruments.

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[25] National Law Review, "NABL Asks IRS to Help with TEFRA, Debt Repurchase Problems", (2020, March 26), https://www.natlawreview.com/article/nabl-asks-irs-to-help-tefra-debt-repurchase-problems
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[28] Horstmann, T., "NABL Pushing for Municipal Bond Relief Measures in Response to COVID-19", (2020, March 24), https://www.jdsupra.com/legalnews/nabl-pushing-for-municipal-bond-relief-61897/
[29] Howard, C., "Coronavirus Fears Affect the Municipal Bond Market", (2020, March 18), https://www.schwab.com/resource-center/insights/content/coronavirus-fears-spread-to-municipal-bond-market
[30] Barclay Damon LLP, "COVID-19: IRS Allows Remote Attendance at TEFRA Public Hearings", (May 7, 2020), https://www.barclaydamon.com/alerts/covid-19-irs-allows-remote-attendance-at-tefra-public-hearings

Housing

The need for greater housing affordability throughout the state has been consistent throughout the last biennium, and this situation does not look to change over the upcoming biennium. What could occur is a shift in how bond cap is used to support affordable housing for households throughout the state.

The past several years have seen a strong construction market with development of new single-family and multi-family housing. Between 2018 and 2019, more than 38,000 new detached homes and 46,000 apartments were created in the state.

Between 2016 and 2018, homeownership in Washington state rose slightly from 62.4% to 62.8%. This parallels the national trend in ownership rates, which rose from 63.6% to 63.9% over that same time period.[31] The University of Washington's (UW) Runstad Department, which calculates the Housing Affordability Index (HAI) for first-time homebuyers in the state, saw affordability for first-time homeowners increase 22.1% from 65.1% in the first quarter of 2017 to 79.5% in the fourth quarter of 2019.[32] However, this study showed purchasing a home is out of reach for first-time homebuyers in 32 of the state's 39 counties.

The affordability of rental housing has been severely strained over the past biennium. The National Low Income Housing Coalition estimates, in 2019, a household would need an income of at least $27.78 per hour to afford an average rent for a two-bedroom apartment in the state. This jumps to $36.52 per hour in metropolitan locations such as downtown Seattle and Bellevue.[33] The coalition estimated a statewide shortage of over 165,000 units affordable to low-income households, with over 71.0% of these households currently severely cost-burdened in 2018.[34]

Against the challenges to housing affordability, the COVID-19 disruptions to the economy and household incomes create additional complications to housing needs throughout the state. It is highly likely that the housing market, both single-family and multi-family, is likely to be unsettled for the foreseeable future, matching similar disruptions to the employment market, hospitality and retail sectors. With a state unemployment rate in May 2020 exceeding 15% for a second straight month, it is likely that a significant portion of the population is already in a precarious financial position.[35] Low-income households, which often pay more than half of their income towards rent or mortgage, are likely to be particularly insecure with regards to their living arrangements.

Currently, state and local efforts are implementing mitigation measures intended to prevent foreclosures and evictions.[36][37][38] However, households are still incurring expenses, and with a loss or reduction in future income

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[31] U.S. Census Bureau, (2018), https://data.census.gov/cedsci/
[32] University of Washington Runstad Department of Real Estate, "Housing Market Snapshot", (2018), http://realestate.washington.edu/wp-content/uploads/2018/04/2017Q4Snapshot.pdf
[33] National Low Income Housing Coalition, "Out of Reach 2019", (2019) http://nlihc.org/oor
[34] National Low Income Housing Coalition, "2019 Washington Housing Profile", (2019), https://nlihc.org/sites/default/files/SHP_WA.pdf
[35] Luhby, T. and Tappe, A., "22 million Americans have filed for unemployment benefits in the last four weeks", (2020, April 16), https://www.cnn.com/2020/04/16/economy/unemployment-benefits-coronavirus/index.html
[36] Lane, B., "Freddie Mac, Fannie Mae move to protect renters from eviction during coronavirus crisis", (2020, March 23), https://www.housingwire.com/articles/freddie-mac-fannie-mae-move-to-protect-renters-from-eviction-during-coronavirus-crisis/
[37] Consumer Financial Protection Bureau, "Guide to coronavirus mortgage relief options", (2020, April 24), https://www.consumerfinance.gov/about-us/blog/guide-coronavirus-mortgage-relief-options/
[38] Drew, J., "What happens when state's eviction moratorium ends?", (2020, March 26), https://www.thenewstribune.com/news/coronavirus/article241505591.html

to cover these outstanding obligations, a significant increase in displacements is possible.[39][40] These changes might come through forced measures, such as those indicated above, or households might make voluntary decisions in response to altered finances. During the Great Recession, a large number of young adults moved back in with parents, and elderly family members moved in with relatives. A large number of individuals chose to live with roommates who would otherwise be living alone.[41]

These dynamics can cause a contraction in the demand for new housing, resulting in the potential for stagnant or lower rental rates and depressed housing prices.[42][43]

Housing sales have decreased in the past several months. Sales of existing homes dropped by 32.1% between February and May of 2020. Between February and April, the sale of new homes dropped by 13.1%. It is unclear if this drop will persist, or if some sales volume was lost due to restrictions on in-person showings and open houses.[44][45][46][47] [48]

In some locations, housing prices could be decreasing as a result of the drop in sales volumes, but that does not appear to be happening broadly yet.[49][50] Some analysts believe that a drop might not be severe if owners decide to remain in their homes instead of selling at a lower list price.[51]

While lower interest rates might stimulate some home buying, tighter lending conditions could restrict the ability for a certain percentage of the market to move forward to purchases they otherwise might have pursued.[52][53] In addition, certain types of mortgages could be more difficult to secure.[54]

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[39] Rabouin, D., “Coronavirus is squeezing more people out of the housing market”, (2020, April 9), https://www.axios.com/coronavirus-mortgage-rates-access-1e730218-bbe5-4ba9-aa05-d12fe7c0f587.html
[40] Romero, D. “Survey” 1 in 4 unable to cover full housing bill”, (2020, April 7), https://www.nbcnews.com/health/health-news/live-blog/2020-04-07-coronavirus-news-n1178111/ncrd1178856#blogHeader
[41] Romero, D., “Coronavirus economy could burst America’s big-city rent bubble”, (2020, April 10), https://www.nbcnews.com/news/us-news/coronavirus-economy-could-burst-america-s-big-city-rent-bubble-n1179581
[42] Kelly, J., “How The Coronavirus Outbreak Will Change Careers And Lives For The Foreseeable Future”, (2020, April 9), https://www.forbes.com/sites/jackkelly/2020/04/09/the-aftermath-of-covid-19-will-cause-alarming-changes-to-our-careers-and-lives/#7ecfb7ff4e52
[43] DiMartino Booth, D., “Another U.S.-Wide Housing Slump Is Coming”, (2020, April 10), https://www.bloomberg.com/opinion/articles/2020-04-10/coronavirus-fallout-u-s-housing-prices-will-tumble
[44] Manhertz, T., “Coronavirus Impact: New Listings Fall Sharply as Spring Home Shopping Season is Set to Begin”, (2020, April 9), https://www.zillow.com/research/new-listings-fall-coronavirus-26808/
[45] The Real Deal, “Deals fall through and agents struggle to sell over coronavirus measures”, (2020, March 22), https://therealdeal.com/2020/03/22/deals-fall-through-and-agents-struggle-to-sell-over-coronavirus-measures/
[46] DeSanctis, A., “Mortgage Applications Decrease in Latest MBA Weekly Survey”, (2020, April 8), https://www.mba.org/2020-press-releases/april/mortgage-applications-decrease-in-latest-mba-weekly-survey
[47] Trading Economics, "Existing Home Sales", (2019), https://tradingeconomics.com/united-states/existing-home-sales
[48] Trading Economics, "New Home Sales", (2019), https://tradingeconomics.com/united-states/new-home-sales
[49] Chauhan, H., “Coronavirus May Have Already Triggered a U.S. Housing Market Crash”, (2020, April 11), https://www.ccn.com/coronavirus-may-have-already-triggered-a-u-s-housing-market-crash/
[50] Andrews, J., "The Economy is Tanking. So Why Aren't Home Prices Dropping", (May 21, 2020), https://www.curbed.com/2020/5/21/21264167/coronavirus-housing-market-prices
[51] Ostrowski, J. “Coronavirus pushes home sales off a cliff. When will they recover?”, (2020, April 13), https://www.bankrate.com/mortgages/coronavirus-and-home-sales/
[52] Wheeler, S., “Did non-QM just disappear from the market?”, (2020, March 20), https://www.housingwire.com/articles/did-non-qm-just-disappear-from-the-market/
[53] Das, S. “How coronavirus is already threatening the housing market”, (2020, March 21), https://www.marketwatch.com/story/how-coronavirus-is-already-threatening-the-housing-market-2020-03-18
[54] Olick, D., “Here’s why it’s suddenly much harder to get a mortgage, or even refinance”, (2020, April 13), https://www.cnbc.com/2020/04/13/coronavirus-why-its-suddenly-much-harder-to-get-a-mortgage-or-even-refinance.html

The Federal Reserve's reductions in interest rates could not be fully reflected in changes in mortgage rates.[55] Supplemental factors such as disruptions to construction supply chains and resilience within the lending community to cumulative debt losses might result in further weight on recovery in the housing market.[56]

If significant changes to demand for housing occur, the construction of new units could be drastically reduced. Between 2007 and 2010, the Washington State Office of Financial Management (OFM) recorded a 54.1% drop in residential construction.[57] While it is impossible to tell if that dynamic will recur, the percentage of workers filing for unemployment now exceeds the highest figures experienced during the Great Recession.

If there are sustained drops in the sales prices of homes and lower rental rates, the affordability of housing could not necessarily improve. This will depend upon the relative change to household income. If certain sectors of the economy, such as hospitality and retail, take an extended time to recover, then households employed in those sectors might face a significant burden securing affordable housing.

As a result of the disruptions from COVID-19, the need for new affordable rental housing and support for homeownership assistance will continue in high demand. Housing authorities could be in a strong position to help with developing units and providing assistance in the immediate future if project financing softens. If economic activity continues to reduce over a long-term, non-profit developers' ability to continue high levels of development over the coming years might be challenged similarly to the 2008 and 2009 downturn, especially if the access to, or terms of, private financing becomes restricted during an extended recession. Assistance to single-family homebuyers could provide a way to use bond cap allocations through a potential downturn.

For the moment, this scenario seems unlikely, as demand for allocations of volume cap to develop affordable housing projects is currently oversubscribed. As of July 2020, the WSHFC has 27 pending applications for volume cap, totaling over $800 million. Previous and pending allocations of cap to the WSHFC will fulfill about $500 million of that amount. This would result in over $300 million in allocations for projects that cannot be fulfilled through allocations of 2020 volume cap. As a result the amount of volume cap in 2021 for new applications to the WSHFC will likely be more limited than it has been in many years, even without any allocations to non-housing categories.

During the Great Recession, the program faced a potential oversubscription for cap, but a number of anticipated projects were cancelled as the recession intensified and the gap in allocations never materialized. Instead the WSHFC accumulated a significant amount of carryforward over several years.

It is important to note that this surplus in carryforward was eventually critical in the ability to finance projects in excess of what the annual volume cap would have supported once the recovery was underway. This allowed the WSHFC to help address the gap of new unit construction that had occurred through the overall drop in housing production by private developers through the downturn. If this scenario happens again, while delayed use of volume cap may inhibit the ability to respond to the immediate housing and economic needs created by the pandemic, such a resource could be useful once recovery is underway.

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[55] Andrews, J., “How coronavirus is impacting the housing market”, (2020, April 23), https://www.curbed.com/2020/3/6/21163523/coronavirus-economic-impact-housing-market
[56] Ackerman, A. “Mortgage Firms Brace for Wave of Missed Payments as Coronavirus Slams Homeowners”, (2020, March 23), https://www.wsj.com/articles/mortgage-firms-brace-for-wave-of-missed-payments-as-coronavirus-slams-homeowners-11585017857
[57] Washington State Office of Financial Management, “Historical estimates of April 1 population and housing for the state, counties and cities”, (2019), https://www.ofm.wa.gov/washington-data-research/population-demographics/population-estimates/historical-estimates-april-1-population-and-housing-state-counties-and-cities

Economic Development and Infrastructure

The Small Issue and Exempt Facility categories generally support expansion of economic activity and provision of utilities and infrastructure that contain a significant private sector component but also provide a qualified public benefit.

Over the previous two years, these categories have seen a significant number of issuances, including six beginning farmer rancher allocations, two small issue manufacturing allocations and two new exempt facilities issuances and supplemental funding to an additional project. The cumulative amount of bond cap allocations to small issue and exempt facilities has totaled $111.9 million between 2018 and 2019.

Two exempt facilities projects were close to submitting applications for bond cap in early 2020. However, the rapid change in economic conditions forestalled immediate progress on one of these projects while the other was delayed but ultimately was able to proceed and received an allocation of $48.0 million prior to July 1, 2020.

Some exempt facility projects could move forward later in the biennium. This seems most likely for developments oriented towards waste disposal, which has been the most common exempt facility issuance in recent program history. The first half of 2020 saw one issuance of $14.1 million for expansion of an existing wastewater facility, which was not impacted by the disruptions to the economy or financial markets. Applications for three additional projects totaling over $140 million are anticipated prior to the end of the year. In addition, initial discussions have begun on a potential large long-term project that may result in multi-year applications.

Much will depend on how many corporations or organizations are in a strong enough financial position to move forward with investments. Additionally, the terms of private activity bond financing compared to other forms of investment will influence demand for this category of bond cap.

The development of infrastructure projects through use of bond cap has been relatively rare, as most are done through public bond issuances. The nexus of a significant private component with a water, sewer or transportation facility occurs infrequently. However, the past biennium has seen two such projects move forward — one in conjunction with business and job retention at the Port of Moses Lake and the other in conjunction with a water main connecting a water district with several water supply companies. The financial positions of public entities such as ports and special districts, and demand for extension of services directly to private entities, could be strong enough that these projects might move forward even during difficult economic times. The bond cap program anticipates expanding stakeholder outreach and marketing campaigns previously developed during the Great Recession as a way to make these entities aware of potential private activity bond cap funding opportunities.

The final area of potential opportunity for use of bond cap during an economic downturn is through the Beginning Farmer Rancher program. This program, operated through the Washington State Housing Finance Commission in collaboration with the Northwest Farm Credit Service, demonstrated continuous demand through the Great Recession. It is possible that this program, which has seen the creation of 33 new farms and ranches throughout the state, could result in multiple issuances over the coming biennium.

Program Administration

During 2018 and 2019, the Bond Cap Allocation Program made progress in improving the program administration. These efforts will continue through the next biennium and will focus on creating a digital application process, providing technical assistance, memorializing program administration procedures, improving reporting on issuances, enhancing databases and other datasets, and engaging stakeholders.

Of prime importance during this period of uncertainty will be supporting efforts to maximize continued use of bond cap throughout the state. In the event not all bond cap can be used within a calendar year, the program anticipates using the same framework that was used during the Great Recession to preserve bond cap capacity. This framework involves making allocations of unused cap as carryforward to entities such as the Washington State Housing Finance Commission. This approach provides an additional three years in which the private activity cap can be used to support projects. In years when multi-family development activity is low, carryforward was designated for the Washington State Housing Finance Commission’s single-family program. Using this approach, the Bond Cap Allocation Program has been able to preserve virtually all bond cap, even through times of significant downturn and limited activity.

Partnerships with Stakeholders

The 2018 Biennial Bond Cap Report identified the potential reconvening of the Bond Cap Advisory Group. This group, which previously met from 2004 until 2008, allowed program stakeholders to learn about bond cap related trends, discuss emerging policy issues and provide guidance on program administration. The group disbanded during the Great Recession due to the reduction in demand for bond cap.

During 2019, the Bond Cap Allocation Program began efforts to reconvene the stakeholder group as envisioned in the 2018 Biennial Bond Cap Report. After discussions with stakeholders and consideration about the objectives of the group, it became clear there was limited interest in a formal reconvening of the advisory group. Instead, these deliberations indicated the need for a more informal discussion group providing the framework for meeting a number of the objectives of the advisory group without the formal structure.

The Bond Cap Allocation Program plans to convene a new Bond Cap discussion group in mid- to late-2020. Given the possibility of continued requirements for social distancing, meetings would likely occur through remote teleconferencing technology. This should allow for greater participation from stakeholders at significant distances away from a centralized meeting place, alleviating an issue previously limiting the involvement of some stakeholders in the Bond Cap Advisory Committee between 2004 and 2008.

Several items lend themselves to the initial focus of the discussion group. This group could serve as a forum on strategies for issuers of private activity bond cap, such as the Washington State Economic Development Finance Authority, Washington State Housing Finance Commission and public entities such as ports and special districts, to help potential applicants during the economic disruption of the COVID-19 pandemic. The discussion group could reconsider the process of allocation of bond cap to housing authorities in light of the likely downturn in issuances of private activity bond cap. This arrangement, started during the Great Recession, might continue to be the method of choice to preserve and use carryforward through the next biennium.

As one way to respond to economic distress, the federal government is likely to revise or expand opportunities for the use of private activity bonds. This was done during the Great Recession through "Build America Bonds,” which were created as part of the 2009 American Recovery and Reinvestment Act (ARRA). Other previous programs, such as the Qualified Energy Conservation Bonds (QECBs), might receive consideration for expansion as was done through the ARRA.

Indeed, groups such as the National Association of Bond Lenders (NABL) are already proposing ways to alter or expand private activity bond cap provisions to help respond to the economic impacts of the COVID-19 pandemic and support recovery efforts. Proposals include reinstating tax-exempt advance refunds, which were eliminated in 2017, authorizing additional types of private of private activity bonds eliminated by prior tax reform measures, and eliminating volume cap limits on single- and multi-family housing bonds for the next three years.

These new proposals from the NABL add to its previous proposals, such as the increase in the maximum amount of small issue manufacturing allocations from $10 million to $20 million, the establishment of a permanent category of disaster recovery bonds, and U.S. Senate Bill 1763, which would allow private activity bonds to be used for carbon capture projects.[58][59][60][61]

These group discussions could provide a useful forum for stakeholders to learn more about development on proposed changes to federal private activity bond cap provisions and determine their responses.

Stakeholder Survey

During the summer of 2020, Commerce conducted a survey of stakeholders. This survey was intended to gauge interest in the discussion group, evaluate measures that the discussion group could consider and identify initial actions Commerce could immediately support to address the impacts of the COVID-19 pandemic and expand the capacity of volume cap throughout the state.

In consultation with stakeholders, Commerce built the survey to identify ways to expand private bond activity without significantly compromising existing and anticipated efforts by applicants. The goal was to determine items of consensus and focus the list of potential actions to consider once the group convenes.

The survey had 12 questions and went to 56 individuals representing 31 stakeholder entities. These respondents represented a broad range of entities that have submitted applications within the past six years or represent the interests of frequent or potential applicants. These entities included:

- Council of Development Finance Authorities (national organization)
- Five law firms specializing in private activity bond issuances
- Four port authorities
- Municipal Research Services Association (state association)
- National Association of Bond Lawyers (national organization)
- One county
- One local water district
- One statewide public development authority
- Six municipal housing authorities
- State associations for cities, counties, economic development authorities, public utility districts, ports, sewer and water districts
- Two state economic development authorities/boards/councils
- Washington Economic Development Finance Authority

[58] Ibid; https://www.bondbuyer.com/news/nabl-asks-for-laws-regulations-to-deal-with-coronavirus
[59] Ibid; https://www.jdsupra.com/legalnews/nabl-pushing-for-municipal-bond-relief-61897/
[60] Horstmann, T., "NABL Pushing For Municipal Bond Relief Measures In Response To COVID-19", (2020, March 24), https://www.mcneeslaw.com/nabl-pushing-for-municipal-bond-relief-measures-in-response-to-covid-19/
[61] Wynn, S., "NABL asks Congress, Treasury for direct-pay bonds, advance refunding", (2020, April 13), https://www.bondbuyer.com/news/nabl-asks-congress-treasury-for-direct-pay-bonds-advance-refunding

- Washington State Housing Finance Commission

A total of 10 responses were received by respondents representing 10 different entities. Of the 12 items contained in the survey, three actions gained unanimous support among all respondents, and Commerce will support these measures:

- Support changes to federal provisions to increase the volume cap multiplier by $5 or $10 per capita
- Regularly convene a discussion group of stakeholders to: receive briefings on anticipated and recent bond cap issuances; identify statewide and national bond cap trends; and consider potential bond cap proposals that are of concern to stakeholders like proposed federal legislation or other factors affecting the overall use of volume cap
- Support changes to federal provisions to increase the amount of 9% Low-Income Housing Tax Credits (LIHTCs) allocated to each state by 50% over current levels

Several additional actions resulted in disagreement by one respondent. Because of expressed concerns, Commerce will refrain from supporting these actions but may consider them at a future point:

- Support changes to federal provisions to capture volume cap that goes unused by states and that would otherwise expire into a consolidated pool that is distributed by formula to all states
- Support changes to federal provisions to re-establish Qualified Energy Conservation Bonds
- Support changes to federal provisions to establish a permanent Disaster Recovery Bond independent of the volume cap
- Support changes to federal provisions to adjust the Beginning Farmer Rancher (BFR) guidelines to allow for larger issuances tied to the average (instead of median) farm size
- Support revisions to the federal tax code to provide greater flexibility, allowing housing issuers to more easily use recycled bond cap
- Support lowering the required private activity bond portion of multi-family affordable housing project financing to access the 4% LIHTCs (lowering the 50% test).

Several questions elicited opposition from more than one respondent. Commerce will work with stakeholders to determine if concerns can be resolved prior to pursuing these approaches:

- Support changes to federal provisions to re-establish American Recovery and Reinvestment Act (ARRA)-Era Bond Programs (Build America Bonds, Qualified School Construction Bonds and Recovery Zone Facility Bonds).
- Support changes to federal provisions to exempt issuances by public housing authorities that access the 4% LIHTCs from the volume cap.
- In the event that anticipated allocations fall significantly below the annual volume cap, Commerce will work with stakeholders to establish a comprehensive statewide marketing campaign to promote use of qualified private activity bonds.

Commerce staff engaged in supplemental discussions with survey respondents to gather additional input and concerns. Many concerns focused on perceived problems with implementation or the relative effectiveness of proposed actions. Respondents also indicated that changes could exacerbate existing problems or issues.

In a few cases, opposition was not strong and may potentially be resolved through discussion and deliberation with other stakeholders. This appears especially true with regard to the potential re-establishment of Qualified Energy Conservation Bonds, facilitating recycling of volume cap, lowering the 50% test for use of 4% LITHTCs, and adjusting the provisions governing Beginning Farmer Rancher issuances and establishing a statewide marketing campaign. These four survey topics would likely be strong candidates to address within the discussion group upon its re-establishment.

In addition, upon further discussions with stakeholders the primary concern expressed regarding a statewide marketing campaign centered on the need for coordination and collaboration with the efforts of existing issuers in order to minimize conflicts, confusion or duplication of efforts. This provides a supplemental area of potential action by Commerce if the concerns of established issuers can be resolved.

Expanding Program Capacity

The bond cap allocation program will consider ways to expand the influence and benefits of private activity bonds. In particular, the program is interested in considering ways in which the program can leverage a greater amount of private investment or other funding that, when combined with bond issuances, would result in a greater overall investment in improvements and projects throughout the state. In addition, while certain types of projects, such as waste management projects, affordable housing projects and manufacturing expansion, have frequently received assistance during the program's history, a number of additional potential uses for private activity bonds could receive allocations.

Historically, affordable housing projects receiving an allocation of private activity bonds also have a broad range of additional financing to support the project, including tax credits, grants, state housing trust fund, federal funding and private loans. In some projects the ratio of non-bond funds to total projects can reach nearly half of total project financing. Other small issue and exempt facility projects are sometimes supported by significant private investment or other forms of support such as tax credits. For example, 30.1% of the total project cost for small issue and exempt facility projects receiving private activity bond issuances through WEDFA over the past four years came from non-bond sources.

Other issuances, such as infrastructure projects, completed in the past several years have sometimes had no other sources of project funding. In these circumstances, the lack of additional sources of funding restrains amount of development, and public benefit, which can be supported within the limited amount of cap.

Applicants for bond cap are currently required to provide details on non-bond sources of project funding, however, the numbers reported in applications can sometimes change after issuance of the bond. This makes tracking the non-bond resources leveraged through the bond cap program difficult.

Over the next biennium, the Bond Cap Allocation Program will institute ways to improve tracking the ratio of private funding to bond cap issuances and look for ways to enhance the inclusion of non-bond funding in projects in order to expand the reach of the program.

Another method to expand the capacity of the program involves looking for potential innovative projects that could qualify for an allocation of bond cap. Recent activity around the country has seen bond cap used for the development of high-speed rail. New developments in affordable housing development include the use of cross-laminated timber and offsite construction. Community-based public-private stormwater projects might potentially qualify for private activity bonds. Projects like the exempt facility category Columbia Pulp project demonstrate the potential market for use of waste products such as hay/straw, plastic or timber/pulp.[62] Waste

[62] Nagl, K., "Plastic waste processor plans $60 million plant, 150 jobs in Livonia", (2019, September 24), https://www.crainsdetroit.com/economic-development/plastic-waste-processor-plans-60-million-plant-150-jobs-livonia

could potentially be used for projects that are partnered with pyrolysis to generate energy.[63] In addition, there may be expanded ways for small issue manufacturing bonds to be used in areas located in opportunity zones.[64] In mid-2020, the Bond Cap Program will present ways private activity bonds might be used to develop facilities that produce biofuel to the Sustainable Aviation Fuel Work Group.

It is important to note entities that serve as conduits for issuances of private activity bond cap, such as WEDFA and WSHFC, are exploring innovative ways to expand the reach of their allocations. WSHFC, in particular, has been able to use bond cap provisions to allow cap to be recycled and thus supplement annual allocations. Since 2016, recycled bond cap has provided a supplemental $261.5 million in support to development of affordable housing projects. In addition, WSHFC is developing an initiative that would pool money from private philanthropic sources to be used as supplemental funding for projects. These efforts help expand the impact of the annual bond cap allocation to maximize its public benefits to the residents and businesses of Washington state.

[63] Alexander, B. and Dickson, T., "Bioproducts are seeing major tailwinds in renewable tech", (2018, July 5), https://techcrunch.com/2018/07/05/bioproducts-are-seeing-major-tailwinds-in-renewable-tech/
[64] National Association of State Auditors, Comptrollers and Treasurers, "Understanding Financing Options Used For Public Infrastructure", (2019, January), https://www.nasact.org/Files/News_and_Publications/White_Papers_Reports/2019_PFN_Primer.pdf

Bond Cap Categories

Exempt Facilities - 20% Initial Allocation

Exempt facilities are capital projects qualifying for tax-exempt status only if issued under the bond cap because of a high level of private involvement or benefit. Exempt facilities include:

- Solid and hazardous waste disposal
- Wastewater/sewage treatment
- Water facilities
- Mass commuting facilities
- Local district heating and cooling
- Local furnishing of electricity or gas

Under federal law, the term "exempt facilities" also includes low-income rental housing. However, for purposes of distributing the state's bond cap authority among projects, Washington considers low-income rental housing in the housing category.

In the Bond Cap Allocation Program's history, tax-exempt private activity bonds in the exempt facilities category have financed innovative recycling, alternative energy and waste management projects in the exempt facilities category.

The Columbia Pulp building project has created 90 new jobs in rural Columbia County and will prevent tons of wheat straw from entering the waste stream or pollution from burning. Photo by Allan Johnson.

During 2018 and 2019, additional allocations of exempt facility bond cap were provided to the Columbia Pulp project located in eastern Washington. This project, and the Washington State Economic Development Finance Authority which issued the bonds for the project, recently won the Community Development Finance Authorities' 2019 Excellence in Development Finance Award.[65]

In addition to removing tons of waste and pollution, creating value-added consumer products, and providing power, sewer, and water facilities, exempt facilities projects have created or retained more than 3,133 jobs for Washington residents since 2007.

[65] https://columbiapulp.com/cdfa-press-release/

Housing - 42% Initial Allocation

In Washington state, the housing category includes mortgage revenue bonds, mortgage credit certificates and exempt facility bonds for qualified residential rental projects. Under IRS Code, 95% of mortgage revenue bond allocations must be used to finance residences for first-time homebuyers.

Under state law, 42% of the total cap is set-aside for housing — 80% to WSHFC (33.6% of the total cap) and 20% to local housing authorities (8.4% of the total cap).

WSHFC’s allocation can be used by its Single Family Homeownership Program or Multifamily Rental Housing Program. WSHFC’s multifamily program issues bonds for both nonprofit and for-profit affordable housing developers. Mortgage revenue bonds are used for single-family low-income homebuyer assistance.

Local housing authorities in the state issue bonds for their own projects and for nonprofit affordable housing developers. All local housing authority cap is used for multifamily rental projects.

Since 2007, housing category bond cap allocations have helped create or rehabilitate more than 45,145 units of low-income, senior and special needs housing statewide.

Alberta J. Canada Building in Tacoma's Hilltop Neighborhood was unveiled June 2019 with extensive renovations to its affordable apartments and commercial spaces, wrapped in a new exterior featuring a mosaic by artist Mauricio Robalino. The Tacoma Housing Authority used $7.5 million in private activity bond and $4.6 million from the Low- Income Housing Tax Credit Program for this project. Photo courtesy of the Washington State Housing Finance Commission and the Tacoma Housing Authority.

Small Issue - 25% Initial Allocation

A small issue project, as described in IRS Code, is an industrial development/manufacturing project with a maximum of $20 million in capital expenditures over a six-year period – three years before and three years after the issuance of the tax-exempt private activity bond. An allocation request for a single project in this category could not exceed $10 million during the six-year period. In addition to the traditional small issue manufacturing projects, the state adopted legislation in 2006 to create the Beginning Farmer/Rancher or “Aggie Bond” Program administered by WSHFC. Bonds to support new farming operations were first issued in early 2008. Since then, aggie bonds have helped 33 families establish new agricultural businesses. This program helps permanent residents who have never owned a farm (or owned one that was less than 30% of the county's median farm size) to start a farm.

Between 2009 and 2010, the American Recovery and Reinvestment Act (ARRA) authorized manufacturers of intangible properties, such as software, to use the small issue category of bond cap. Although that provision expired along with the rest of ARRA, several proposals in Congress have been made to reinstate it and make it permanent.

Aside from the Beginning Farmer/Rancher Program, activity in the small issue category has been slow since the recession. Nevertheless, since 2007, bonds issued in the small issue category helped create or retain more than 1,459 jobs in Washington communities.

The Beginning Farmer Rancher Program has resulted in the creation of 33 new farms and ranches throughout the state since the program’s creation in 2006. https://www.wshfc.org/farmranch/BeginningFarmerRancherBrochure.pdf. Photo courtesy of Adobe Stock Photo.

Student Loans - 5% Initial Allocation[66]

The student loan category is reserved for bonds issued to finance loans for students who are either enrolled in higher education within Washington or are legal residents of the state.

Washington was without a qualified student loan bond issuer for three years after the Student Loan Finance Association (SLFA) assets were sold in late 2004 to a for-profit corporation. During the 2007 legislative session, the Washington Higher Education Facilities Authority (WHEFA) was appointed to be the new authorized student loan bond issuer in the state. The authority spent the balance of 2007 setting up the program and identifying vendors for the loan services it planned to offer. However, beginning in 2008, changes in federal financial aid procedures made it difficult or unnecessary for the state to issue student loan bonds. Consequently, no bonds have been issued in this category since 2004.

Depending on student financial aid developments at the federal level, WHEFA is prepared to offer both federally insured student loans and alternative loans, increasing educational opportunities for students in a wider variety of educational settings and with more diverse economic needs.

Remainder and Redevelopment - 8% Initial Allocation

Remainder and redevelopment, hereafter referred to as “remainder,” is a miscellaneous category. It can be allocated to projects eligible under any of the other bond-use categories throughout the year as long as the initial allocation in the project’s category has been depleted or the set-aside structure or timelines limit the availability of cap for a specific project. At the beginning of each year, 8% of the state’s total bond cap authority is banked in the remainder category, providing flexibility to make more allocations earlier in the year.

In addition, state law provides that if an issuer in a category has received a large carryforward allocation from the previous year, the initial allocation in that category for the next year is reduced by the carryforward amount.[67] When this occurs, that amount is reallocated into the remainder category, providing even more flexibility to make allocations to categories with higher needs earlier in the year.

Most often, the remainder cap is used for housing category projects, particularly for local housing authority allocations over the initial set-aside. At times, remainder cap is also used for exempt facilities projects that are larger than the 30% of the initial allocation allowable for any one project early in the year.

Historical Category Use

Over the years of the program’s history, the housing category has traditionally used the largest share of the state’s total bond cap authority. From the program’s start in 1987, housing has used an average 76.8% of the state’s

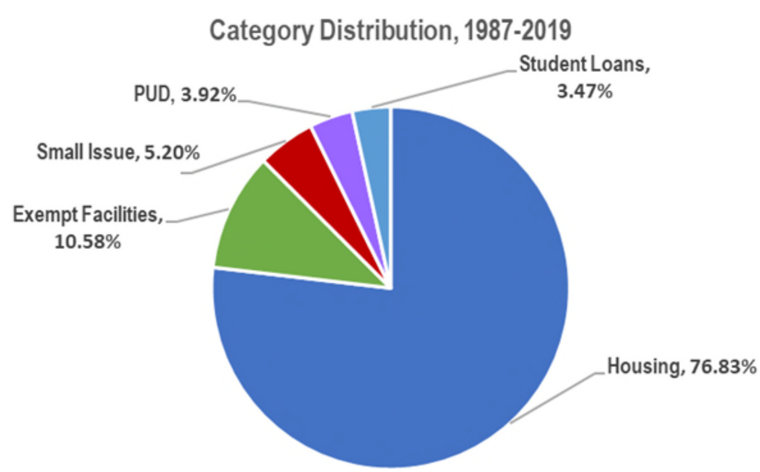

Figure 5: Bond Cap Category Distribution, 1987-2019

[66] Beginning Jan. 1, 2018, the student loan initial allocation was reduced to 5%.

[67] RCW 39.86.120

total cap. Since 2010, that amount has increased to an average of 95.1% issued as housing bonds or allocated as carryforward designated for housing purposes.

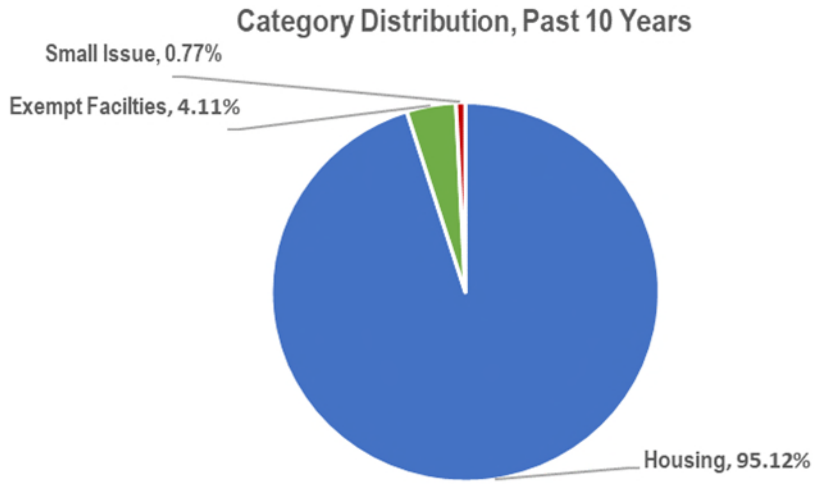

Figure 6: Bond Cap Category Distribution, Past 10 Years

A variety of factors contributes to this use pattern. Before 2007, small issue projects were restricted to $10 million in total capital expenditures, which, along with the effects of inflation, tended to limit the number of qualifying projects. After Congress raised the capital expenditures limit to $20 million in 2007, a record number of small issue projects requested allocations. However, once the full effects of the recession were felt in the state during 2008, the market for industrial development bonds again dropped. It remained relatively slow due to low interest rates on conventional loans, economic uncertainty and tighter bond underwriting standards.

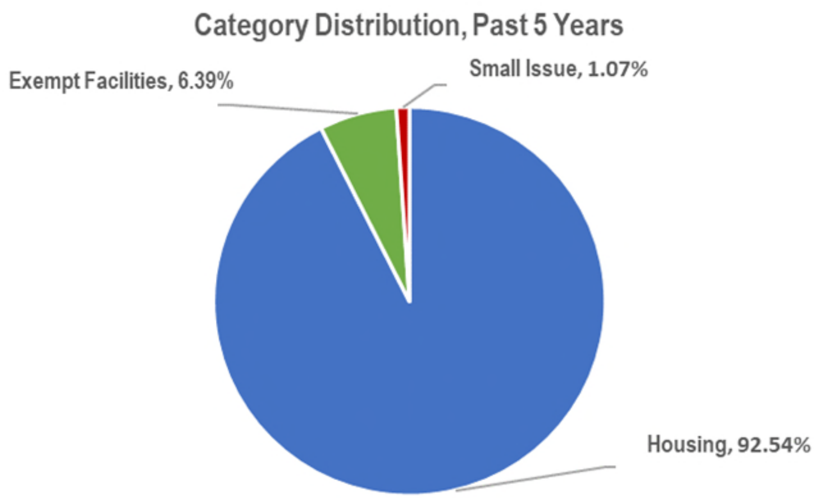

Figure 7: Bond Cap Category Distribution, Past 5 Years

As the economy improved and interest rates increased, the tax-exempt financing of a private activity bond became more attractive.

In 2017, the Washington Economic Development Finance Authority (WEDFA) issued three exempt facilities bonds totaling $178 million. They included a bond for its Columbia Pulp project, which used the largest exempt facilities allocation in Bond Cap Allocation Program history.

The allocation included $102.0 million in 2017 current-year cap and $27.7 million in 2016 carryforward, totaling $130.7 million in bond cap authority. The Columbia Pulp project obtained additional issuances in 2018 and 2019 totaling $58.2 million. There were $33.0 million in other exempt facility issuances during 2019. Small issue projects, excluding Beginning Farmer Rancher issuances, totaled $18.5 million in 2019.

Additionally, demand for bond cap to support affordable housing projects has remained strong due to the nature of the financing required. Affordable housing is not market rate by definition and, therefore, cannot qualify for conventional financing. A typical affordable multifamily rental-housing project requires financing from a combination of sources. Those sources might include low-interest loans from the state's Housing Trust Fund, housing authority equity, local grants or loan funds, federal grants, contractor concessions and low-income housing tax credits (LIHTCs). To qualify for a 4% LIHTC, the project must have an allocation of bond cap. Some 9% LIHTCs also use bond cap allocations.

2018-2019 Program Activity Summaries

Bond cap activity during 2018 and 2019 was characterized by continued high demand for housing cap and moderate demand for small issue and exempt facilities cap. While a significant number of projects received allocations from carryforward, a large number of projects used current-year cap. Affordable housing still dominated the activity, but other categories also used allocations.

2018 Bond Cap Issuances

Thirty bonds were issued in 2018, using a total of $664.6 million in bond cap authority. Of that amount, 97.7% went to housing category projects that created or rehabilitated more than 5,089 units of affordable housing. Only $1.3 million went to small issue projects. There were $14.0 million in exempt facilities bonds issued during the year.

The year began with $324.7 million in accumulated carryforward; it ended with $437.7 million, an increase of nearly 34.8%. Limited issuances in the exempt facility and small issue categories, coupled with a reduction in housing allocations from 2017, led to a net increase in carryforward capacity.

Table 1: 2018 Bond Cap Projects

Date	Issuer	Project	Bond Cap Amount[68]	Allocation Source[69]
1/19	Tacoma HA[70]	Alberta J. Canada Project – Rehab 48 units	$7,500,000	2016 CF
3/1	WSHFC	BFR – Dominic Cason and Kalli Rae Ingwaldson	$285,725	2018 Current
3/5	WSHFC[71]	Vintage at Vancouver 2 LP – Rehab 154 units	$13,983,000	2016 CF
5/3	WSHFC	Vintage at SeaTac LP – Build 170 new units	$23,000,000	2016 CF
5/10	WSHFC	Panorama Apartments LLC – Build 191 new unit	$37,000,000	2016 CF 2017 CF
5/23	WSHFC	Winter Heights LLC – Build 120 new units	$11,180,000	2017 CF
5/31	WSHFC	Rainier Court Associates IV LLLP – Build 81 new units	$14,969,131	2017 CF
6/13	Grays Harbor HA	Grays Harbor Affordable Housing Group 4 % Portfolio – Rehab 338 units	$25,800,000	2017 CF
6/20	WSHFC	MSC (Pierce Portfolio) Colvos Terrace LLC – Rehab 87 units	$5,470,000	2017 CF

68 "Bond Cap Amount" represents only the amount of the bond cap allocation used, not the entire project costs. A complete financing package for an affordable housing project includes funds from a variety of sources, some of which might be in forms other than actual dollars, such as tax credits or contractor concessions.
69 Under Allocation Source, "current" means issued from the current year's annual allocation during the calendar year; "CF" means issued from a previous year's carryforward allocation.
70 HA: Housing Authority
71 WSHFC: Washington State Housing Finance Commission

Date	Issuer	Project	Bond Cap Amount[68]	Allocation Source[69]
7/3	WSHFC	Judkins Junction LLC – Build 74 new units	$13,560,000	2017 CF
7/10	WSHFC	BFR - Sean and Greg Beale	$460,000	2018 Current
8/10	WEDFA	Exempt Facility – Columbia Pulp I	$14,000,000	2018 Current
8/30	WSHFC	MHNW 16 Family Housing LLLP Mt Baker Family Housing – Build 95 new units	$20,500,000	2017 CF
9/27	WSHFC	SHAG Affordable Senior Living Assoc. Sunset Gardens – Rehab 276 units	$18,750,000	2017 CF
10/9	WSHFC	Villas at Arlington Partners LLLP – Build 312 new units	$48,506,400	2017 CF
10/18	WSHFC	Single Family Program Bonds (Housekey)	$99,995,890	2017 CF 2018 Current
10/24	Capitol Hill HIP	CH TOD LLC, Station House – Build 110 new units	$18,000,000	2018 Current
10/25	Seattle HA	West Seattle Affordable Housing Projects – Rehab 204 units	$2,500,000 Additional Cap	2017 CF
10/25	WSHFC	Little Saigon LLLP – Build 69 new units	$13,500,000	2017 CF
11/7	WSFHC	Manor Way Apartments LLC – Build 205 new units	$40,000,000	2017 CF 2018 Current
11/8	WSFHC	Copper Mountain Apartments LLC – Build 276 new units	$24,500,000	2018 Current
11/9	WSFHC	The View by Vintage LP – Build 408 new units	$41,735,000	2018 Current
11/20	WSFHC	AMWA Cedar Pointe Fund LP – Build 255 new units	$31,000,000	2018 Current
11/21	WSFHC	Heatherstone Preservation LLC – Rehab 455 units	$43,000,000	2018 Current
11/30	WSHFC	New Cathedral Plaza LLC – Rehab 150 units	$13,500,000	2018 Current
11/30	WSHFC	New O'Malley LLC – Rehab 99 units	$8,750,000	2018 Current
12/10	WSFHC	SAG Preservation Portfolio 1, LLLP – Rehab 299 units	$22,100,000	2018 Current
12/19	WSFHC	BFR – Daniel and LaRena Draper	$533,500	2018 Current
12/19	WSFHC	Reserve at Lacey Partners LLLP – Build 241 new units	$32,519,061	2018 Current
12/20	WSFHC	FFHS Housing Partners LP, Sanford Hildebrant Towers – Rehab 372 units	$18,000,000	2018 Current
Total bond cap used			$664,597,707	

Date	Issuer	Project	Bond Cap Amount[68]	Allocation Source[69]
Carryforward				
12/31	WSHFC	Housing – Single-Family Program	$198,194,110	2018 CF
12/31	WSHFC	Housing – Multifamily Program	$239,485,351	2018 CF
Total Carryforward			$437,679,461	

2019 Bond Cap Issuances

During 2019, 42 bonds were issued, using a total of $950.1 million in bond cap authority. Of that amount, 91.9% went to housing category projects. There were $19.3 million in issuances for small issue bonds while the exempt facility category used allocations of $77.3 million. Issuances in the housing category created or rehabilitated more than 5,320 units of affordable multi-family housing and helped numerous low- to moderate-income families become homeowners.

With total issuances exceeding the annual cap, the carryforward capacity shrank from $437.7 million to $278.9 million. A significant portion, 35.6% of the carryforward at the end of 2019, was in the single-family category. As a result, carryforward in the WSHFC multi-family program was $179.5 million at the start of 2020. If issuances in 2020 exceed the annual cap as they did in 2019, it is possible there could be little or no carryforward allocation at the end of the 2020, a situation that has happened only once in the program's history at the end of 2007.

Table 2: 2019 Bond Cap Projects

Date	Issuer	Project	Amount	Allocation Source[72]
1/8	WSHFC[73]	BFR – Brandon and Emily Miller	$277,178	2019 Current
1/18	WSHFC	BFR – Andrew E. Gordon	$338,000	2019 Current
3/7	WSHFC	Riverview I LLC – Build 203 new units	$36,000,000	2018 CF
3/20	WSHFC	Single Family Program Bonds (Housekey)	$79,996,132	2018 CF
3/29	WEDFA[74]	Small Issue – Hops Extract Corporation of America	$8,488,457	2019 Current
4/12	WSHFC	2223 Yesler LLLP Frye Apartments – Rehab 234 units	$31,713,000	2018 CF
4/18	WSHFC	Traditions at Federal Way LLC – Build 200 new units	$25,800,000	2018 CF
4/19	WSHFC	Possession Sound Properties LLC – Rehab 58 units	$8,650,000	2018 CF
4/25	WSHFC	BFR – Jeff Zimmer	$237,671	2019 Current
4/30	Renton HA[75]	Renton Crest – Rehab 274 units	$46,400,000	2018 CF
5/24	WSHFC	The Farm by Vintage LLC – Build 354 new units	$75,000,000	2018 CF
5/28	WSHFC	Encore Housing LLC – Build 60 new units	$11,800,000	2018 CF
5/30	WSHFC	Coronado Springs Cottages LLP – Rehab 148 units	$22,309,000	2018 CF 2019 Current
5/31	WSHFC	April's Grove LLP – Build 45 new units	$8,622,114	2019 Current
5/31	WSHFC	River's Edge WA LLC – Build 166 new units	$25,800,000	2019 Current
6/26	Tacoma HA	1800 Hillside Terrace – Build 64 new units	$5,000,000	2019 Current
7/2	Economic Dev. Board Tacoma-Pierce	Small Issue – SeaTac Packaging Mfg. Company & GSR Investments LLC	$10,000,000	2019 Current
7/9	Lakewood Water District	Exempt Facility – Lakewood Pipeline	$23,000,000	2019 Current

72 Under Allocation Source, "current" means issued from the current year's annual allocation during the calendar year; "CF" means issued from a previous year's carryforward allocation.
73 WSHFC: Washington State Housing Finance Commission
74 WEDFA: Washington Economic Development Finance Authority
75 HA: Housing Authority

Date	Issuer	Project	Amount	Allocation Source[72]
7/17	Tacoma HA	Arlington Drive Youth Campus Apartments – Build 58 new units	$2,600,000	2019 Current
7/26	WEDFA	Exempt Facility - Columbia Pulp I	$43,060,000	2019 Current
7/31	Capitol Hill HIP	Bonanza I LLLP – Rehab 87 units	$22,277,213	2019 Current
8/28	WSHFC	Tukwila Village Phase II – Build 210 new units	$14,000,000	2019 Current
8/28	Kittitas HA	RAD Affordable Housing Portfolio – Rehab 110 units	$13,050,000	2019 Current
8/29	WSHFC	Jayne Auld Apartments LLC – Build 48 new units	$6,000,000	2019 Current
8/30	WSHFC	Pioneer Belmont I – Build 90 new units	$16,378,893	2019 Current
9/6	King County HA	Highland Village – Rehab 286 units	$2,500,000 Additional Cap	2019 Current
9/30	WSHFC	Auburn City Center Senior Living Associates LLC, Legacy Plaza – Build 166 new units	$10,000,000	2019 Current
10/3	WEDFA	Exempt Facility – Columbia Pulp I	$1,125,000	2019 Current
10/7	WSHFC	Polaris at Rainier Beach LLC – Build 306 new units	$45,000,000	2019 Current
10/30	WSHFC	College Glen Affordable Housing Partners II LLLP – Rehab 164 units	$21,880,000	2019 Current
11/7	WSHFC	Copper Gates Apartments LLC – Build 500 new units	$59,290,000	2019 Current
11/12	WSHFC	Esterra Block 6B 4% - Build 213 new units	$40,000,000	2019 Current
11/19	WSHFC	Opportunity Place Apartments – Rehab 145 units	$24,200,000	2019 Current
11/25	WSHFC	Filipino Community Village – Build 95 new units	$16,678,459	2019 Current
11/26	WSHFC	Single Family Program Bonds (Housekey)	$18,765,000	2018 CF
12/12	WSHFC	Ravenswood Apartments – Build 295 new units	$54,500,000	2019 Current
12/17	WSHFC	Willow Crossing – Build 211 new units	$29,000,000	2019 Current
12/18	WSHFC	Columbia Park – Rehab 139 units	$18,500,000	2019 Current

Date	Issuer	Project	Amount	Allocation Source[72]
12/18	WSHFC	Mirabeau Commons LLC – Build 120 new units	$15,500,000	2019 Current
12/20	Vancouver HA	Van Vista Assisted Living – Rehab 95 units	$14,820,000	2019 Current
12/23	WSHFC	Vantage II – Build 176 new units	$31,500,000	2019 Current
12/27	Grant Port District No. 10 (Port of Moses Lake)	Exempt Facility – Industrial Wastewater Facility	$10,000,000	2019 Current
Total bond cap used			$950,056,117	
Carryforward Allocated				
12/31	WSHFC	Housing – Multifamily Program	$179,500,092	2019 CF
Total carryforward			$179,500,092	

Small Issue and Exempt Facilities Job Creation and Retention

During 2018 and 2019, bond cap activity in the Beginning Farmer Rancher Program, a part of the small issue category, has exceeded the average annual issuance since the beginning of the Great Recession. Small issuance manufacturing has matched the average issuance rate over this period. The lack of resurgence in this category following the Great Recession is possibly due to the federal limitations on total small issue project costs, continuing low-interest rates on conventional loans or a combination of the two.

Following a very large issuance in the exempt facilities category in 2017, activity in this category dropped but still exceeded the 13-year average. Issuances in 2019 were particularly robust with the second largest post-recession amount.

Table 3: Small Issue and Exempt Facilities Issuances, 2007-2017

	Farmer/Rancher[76]		Small Issue Manufacturing		Exempt Facilities	
Year	Number	Par Value	Number	Par Value	Number	Par Value
2007	0	$0	10	$59,856,000	5	$103,200,000
2008	6	$1,168,800	5	$16,240,000	3	$45,000,000
2009	7	$1,543,603	1	$1,928,000	2	$54,685,000
2010	7	$1,691,000	1	$5,200,000	1	$20,980,000

[76] The Beginning Farmer/Rancher Program began issuing bonds in 2008.

	Farmer/Rancher[76]		Small Issue Manufacturing		Exempt Facilities	
2011	2	$459,500	0	$0	0	$0
2012	1	$150,000	0	$0	0	$0
2013	0	$0	0	$0	1	$26,500,000
2014	1	$200,000	1	$6,400,000	0	$0
2015	1	$215,000	1	$8,200,000	0	$0
2016	2	$750,000	1	$10,000,000	*	*
2017	0	$0	0	$0	3*	$146,716,912*
2018	3	$1,279,255	0	$0	**	$14,000,000**
2019	3	$852,849	2	$18,448,457	2**	$77,185,000**
Totals	33	$8,310,007	22	$126,272,457	19	$488,266,912

*A carryforward allocation of $28,724,180 was awarded in 2016 to WEDFA for the Columbia Pulp project. The three exempt facilities issuances in 2017 include that carryforward amount along with current-year 2017 cap for Columbia Pulp and two additional projects.

** A single allocation of $14,000,000 in 2018 and two allocations of $43,060,000 and $1,125,000 in 2019 to the Columbia Pulp project are included in the annual summary of par value but are not listed in the project count as that project is enumerated as one project in 2017.

Summary of 2018-2019 Public Benefits

Tax-exempt private activity bond issuances must, by definition, be used for projects with measurable public benefits. State law and WAC provide guidance for evaluating the public benefit of projects applying for cap and for prioritizing projects in case demand for cap exceeds the cap available.

Affordable Housing Units Created or Rehabilitated

In the case of multifamily rental housing projects, the primary public benefit criteria in statute includes:

- Amount of housing to be made available
- Population within the jurisdiction
- Need for a particular type of affordable housing in the community
- Coordination with other applicable federal and state housing programs
- Likelihood of implementing the financing during that calendar year
- Consistency with WSHFC's plan

Bond cap authority used for affordable multi-family housing development typically leverages at least as much in other project financing as the amount of bond cap allocated. In particular, a bond cap issuance is needed to qualify for federal 4% low-income housing tax credits (LIHTCs). To qualify for these tax credits, 50% of the project's financing must come from the tax-exempt bond cap issuance. During 2018 and 2019, 10,409 units of affordable multifamily rental housing were created or rehabilitated using tax-exempt private activity bonds (bond cap) as part of the financing package, representing a 23.7% decrease from the 13,651 units developed during the previous two-year period.

Table 4: Affordable Multifamily Rental Housing Units Created or Rehabilitated, 2018-2019

A. WSHFC/Local Housing Authority (LHA)	B. Housing Units	C. Bond Cap Used	D. Average. Bond Cap/Unit = C ÷ B
WSHFC	8,932	$1,183,921,271	$132,548
Local Housing Authorities	1,477	$120,125,000	$81,330
Totals	10,409	$1,304,046,271	$125,281

Homeownership Assistance Benefits

As part of its Single-Family Program, WSHFC uses bond cap allocations to provide down-payment assistance and tax credits for qualifying homebuyers. During 2018 and 2019, WSHFC issued more than $198.8 million in Single-Family Program bonds for its Housekey program, which helps single-family homes buyers. Of that amount, 80% came from previous years' carryforward.

The Housekey program served 500 households in 2018 and 1,137 in 2019.

WSHFC traditionally chose to direct some of its bond cap to mortgage credit certificates (MCCs), particularly during recession years. The placement of carryforward into the MCC program during recession years prevented any carryforward from expiring before it could be used. This practice has ended as low-income multi-family projects and Housekey assistance have rebounded. This biennium did not see any issuances of MCCs.

MCCs are tax credits moderate-income homebuyers can use to reduce their income tax liability for several years after purchasing a home in specific disadvantaged census tracts. MCCs enable homebuyers to afford homes that might otherwise be out of reach. The program additionally promotes improvements and development in the homes' neighborhoods.

Estimated job creation impacts of affordable multifamily rental housing development serves several functions. It provides the public benefits of creating and maintaining rental housing, helping low-income homebuyers, and providing job creation benefits in the construction, property management and social services industries.

The U.S. Bureau of Economic Analysis and the National Association of Home Builders (NAHB) have published data on the estimated job benefits of housing construction due to increased economic activity in a local area, including both new construction and rehabilitation of existing buildings.

NAHB data show that the estimated one-year impacts (that is, during the first year after construction begins) of building 100 new rental apartments in a typical local area include:

- $11.7 million in local income
- $2.2 million in taxes and other revenue for local governments
- 161 temporary construction jobs[77]

Job creation estimates for the first year after construction begins are calculated by multiplying NAHB's 161-jobs-per-100-units estimate by the number of units in hundreds.

In addition to one-year impacts, construction of every 100 multifamily rental housing units provides recurring community impacts, including:

- $2.6 million in local income
- $503,000 in taxes and other revenue for local governments annually
- 44 permanent local jobs[78]

Permanent job creation impacts of construction of new affordable housing are calculated by multiplying NAHB's 44-jobs-per-100-units estimate by the number of units in hundreds.

Table 5: Estimated Job Creation Impacts of Construction of New Multifamily Housing, 2018-2019

WSHFC/LHA[79]	New Housing Units	Estimated Temporary Construction Jobs 161 jobs x 100 New Housing Units	Estimated Permanent Jobs 44 jobs x 100 New Housing Units
WSHFC	6,065	9,765	2,669
LHA	122	196	54
Totals	6,187	9,961	2,723

77 National Association of Home Builders (NAHB); The Economic Impact of Home Building in a Typical Local Area – Income, Jobs, and Taxes Generated; April 2015; https://www.nahb.org/-/media/NAHB/news-and-economics/docs/economics/economic-impact/economic-impact-local-area-2015.pdf, page 2
78 NAHB, page 3
79 40 WSHFC: Washington State Housing Finance Commission; LHA: Local Housing Authorities

In addition to jobs created by construction of new multifamily housing, year-one construction jobs are also created by rehabilitating existing housing units. The study assumes that rehabilitation creates construction jobs only during year one and has no ongoing annual job creation impacts.[80] According to the NAHB research, one-year local community impacts of each $1 million spent on residential remodeling (rehabilitation) include:

- $841,000 in local income
- $71,000 in taxes and other revenue for local governments
- 11.5 temporary construction jobs[81]

To calculate jobs created by rehabilitating affordable multifamily housing, an estimate of total project costs is needed. Under federal law, the proceeds of the bond cap-authorized bond must finance at least 50% of project costs for a housing project to be considered tax-exempt and for it to qualify for 4% low-income housing tax credits. However, because bond proceeds are usually the most expensive portion of the financing for an affordable housing project, it is unusual for the proceeds of the bond cap-authorized bond to finance much more than 50% of total project costs. Therefore, for the purpose of estimating job impacts, total project costs are assumed to be twice the amount of the bond cap allocation.

Table 6: Estimated Jobs Created by Rehabilitation of Affordable Multifamily Housing, 2018-2019

WSHFC/ LHA	Units Rehabilitated	Bond Cap Used	Estimated Total Project Costs Bond Cap Used x 2	Estimated Year-One Temporary Construction Jobs Created (11.5 per $1
WSHFC	2,867	$270,805,000	$541,610,000	6,229
LHA	1,355	$134,802,213	$269,604,425	3,100
Totals	4,222	$405,607,213	$811,214,426	9,329

Job Creation Impacts of Small Issue and Exempt Facilities Projects

During 2018 and 2019, small issue and exempt facilities projects created 36 permanent jobs and retained another 1,100 such jobs. Another 109 temporary construction jobs were identified by applicants. In addition, first-time farmer/rancher "aggie" bond issuances in 2018 and 2019 created six additional new agricultural jobs. These numbers represent actual jobs created or retained in specific Washington businesses, as indicated on the projects' applications for bond cap authority. These figures do not account for indirect jobs creation or retention.

[80]NAHB, page 3
[81] NAHB, page 3

2018-2019 Bond Cap Project Highlight

Hops Extract Corporation of America

Using an allocation from the private activity bond cap program's small issue category to the Washington Economic Development Finance Authority (WEDFA), the Hops Extract Corporation of America (HECA) has been able to expand its hops extraction facility in Yakima by adding eight new extractors. The extractors take either leaf hops or hops pellets and extract the usable components, which have a longer shelf life than either leaf or pellets. Approximately $8.5 million in private activity bonds were issued in March, 2019 to support the HECA project. In conjunction with $1.9 million in private financing, this project will help retain 50 jobs at HECA's production plant near downtown Yakima. In addition, three new jobs will be directly created. But just as important as the project's direct impacts are the indirect supports it provides to a unique component of the state's economy.

The Hops Extract Corporation of America project was financed in part with a bond issued by the Washington Economic Development Finance Authority. Photo courtesy of Adobe Stock.

Washington state's hops industry, primarily located in the Yakima valley, is the nation's leader in hop production with almost 74% of all domestic production coming from our state.[82] This local hops production is a key component in the state's craft beer business, recently estimated to support 6,300 jobs and to contribute $1.4 billion in impact to the state economy.[83]

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[82] https://www.spokesman.com/stories/2018/jun/10/washington-hops-bring-the-flavor-to-booming-craft-/
[83] https://www.brewbound.com/news/washingtons-craft-brewing-industry-contributes-1-4-billion-to-state-economy

2020 Initial Allocations

For 2018, the IRS increased the per capita multiplier to $105, which remains the multiplier for 2020. According to official U.S. Census Bureau population estimates, Washington's population grew to 7,614,893, increasing the total cap available to the state to $799.6 million.

In 2017, the Legislature reduced the student loan category initial allocation to 5% and increased the housing category initial allocation to 42%. The housing category allocation is further divided – 80% (33.6% of the total cap) to WSHFC and 20% (8.4% of the total cap) to local housing authorities.[84]

Table 7: Bond Cap Initial Allocations for 2020

Population of 7,614,893 x $105 per capita = $799,563,765 total bond cap		
Category	Initial Allocation % (per RCW 39.86.120)	Amount of Initial Allocations
Exempt Facilities	20%	$159,912,573
Housing – WSHFC	33.6%	$268,653,426
Housing – Local Housing Authorities	8.4%	$67,163,356
Small Issue	25%	$199,890,941
Student Loans	5%	$39,978,188
Remainder	8%	$63,965,101
Total	100%	$799,563,765

[84] RCW 39.86.120 allows Commerce to reduce the initial allocation of a category by an amount equal to the amount of carryforward that category received from the previous year. When a category's initial allocation is reduced because of a carryforward allocation, the initial allocation is moved into the remainder category. Although WSHFC has received a large amount of carryforward every year for several years, due to the high demand for housing cap and the overall low amount of activity in the other bond cap categories, Commerce has not used this provision since 2006. If demand for remainder cap early in the calendar year were to increase beyond the supply, Commerce could potentially meet the need by moving some or all of WSHFC's initial allocation into the remainder category.

Long-Term Bond Cap Data and Trends

Total Annual Bond Cap

Each year in late December, the U.S. Census Bureau releases official population estimates to calculate bond cap. Since Congress established the tax-exempt private activity bond ceiling in the mid-1980s, the population of Washington state has increased almost 70%. With the population increase and the adjustment of the per capita rate for inflation, the total cap available has increased at almost twice that rate (140%) during the program's history.

The year 1987 was very different from subsequent years because it was the first full year after both the federal regulations and the Washington state bond cap statutes were adopted. The per capita multiplier was $75 for the program's first year, in accordance with the federal Tax Reform Act. Beginning in 1988, the per capita rate was established at $50, where it remained through 2000. In 2001, cost-of-living increases in the per capita rate began. The rate has historically been adjusted about every two to three years since then. However, it has remained steady in recent years due to a very low rate of inflation. Each year in November, the IRS publishes the multiplier for the following year.[85]

Use of the cap among the categories – as well as the percentage of the cap used annually – has also varied over the years. For example, in the program's first year, only 5% of the cap was initially allocated to the housing category under state law, compared with today's initial allocation of 42%. In 2000, the category divisions were adjusted closer to the current configuration. Additional updates occurred in 2007, after the public utility district (PUD) special allocation for hydroelectric facilities was used up, and in 2017, when 10% of the total cap was transferred from the student loan category to the housing category.

Table 8: Annual Bond Cap Calculation, 1987-2020

Year	Washington State Population	Per Capita Multiplier	Total State Private Activity Bond Cap[86]
1987	4,444,333	$75	$333,325,000
1988	4,538,000	$50	$226,900,000
1989	4,619,000	$50	$230,950,000
1990	4,660,700	$50	$233,035,000
1991	4,761,000	$50	$238,050,000
1992	5,018,000	$50	$250,900,000
1993	5,136,000	$50	$256,800,000
1994	5,255,000	$50	$262,750,000
1995	5,343,000	$50	$267,150,000
1996	5,343,000	$50	$267,150,000

85 Internal Revenue Bulletins; https://apps.irs.gov/app/picklist/list/internalRevenueBulletins.html
86 The total of the state's allocations does not equal the total amount of bond cap used. Abandoned or expired cap is rare in Washington, but small amounts have occasionally been lost, at times due to changes in federal law.

Year	Washington State Population	Per Capita Multiplier	Total State Private Activity Bond Cap[86]
1997	5,532,939	$50	$276,646,950
1998	5,610,362	$50	$280,518,100
1999	5,689,263	$50	$284,463,150
2000	5,756,361	$50	$287,818,050
2001	5,894,121	$62.50	$368,382,563
2002	5,987,973	$75	$449,097,975
2003	6,068,996	$75	$455,174,700
2004	6,138,183	$75	$460,363,692
2005	6,213,682	$75	$466,026,165
2006	6,294,460	$80	$503,020,720
2007	6,395,798	$85	$543,642,830
2008	6,468,424	$85	$549,816,040
2008 HERA[87]	–	–	$202,541,072
2009	6,549,224	$90	$589,430,160
2010	6,664,195	$90	$599,777,550
2011	6,724,540	$90	$638,831,300
2012	6,830,038	$95	$648,853,610
2013	6,897,012	$95	$655,216,140
2014	6,971,406	$100	$697,140,600
2015	7,061,530	$100	$706,153,000
2016	7,170,351	$100	$717,035,100
2017	7,288,000	$100	$728,800,000
2018	7,405,743	$105	$777,603,015
2019	7,535,591	$105	$791,237,055
2020	7,614,893	$105	$799,563,765
Total			$16,044,163,302

Overall Bond Cap Use Trends, 2007-2019

Nationwide, bond cap issuances in 2013 were at their lowest point following the recession. According to the Council of Development Finance Agencies' 2015 analysis of bond cap trends, nationwide bond cap issuances finally began to trend upward in 2014 after trending downward since 2008.[88] In Washington, however, issuances had already started an upward trend by 2013.

[87] In October 2008, an additional $202.5 million was the state's portion of extra bond cap authority created by the federal Housing and Economic Recovery Act (HERA) to be used for housing purposes.

[88] Council of Development Finance Agencies; CDFA Annual Volume Cap Report; An Analysis of 2014 Private Activity Bond & Volume Cap Trends; July 2015; https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=201507-2014VolumeCapReport.html

The state saw its lowest percentage use of available capacity, 19.5%, in 2012. In the same year, only $150,000 of current-year cap was used; all remaining 2012 current-year bond cap was carried forward.

The lowest use of total capacity occurred in 2013, when only 24.6% of the state's $2.2 billion in total capacity for the year was used to issue $346.9 million in bonds and elect $200.0 million for Mortgage Credit Certificates (MCCs). Once elected for MCCs, the bond cap authority does not expire. So this election by WSHFC during the years of large accumulations of carryforward allowed the state to avoid having to lose any bond cap authority.

The beginning of 2014 saw the largest total capacity at $2.4 billion. Its high total was a result of unusually low volume of issuances over the previous six years and, therefore, the large accumulation of carryforward. The turnaround in bond cap use began that year and has continued since. Using $480.0 million of the accumulated carryforward for MCCs each year helped drive the turnaround.

In 2017, an all-time high total volume of $1.3 billion in bond cap authority was used in Washington state. All of it was in the form of issued bonds (no bond cap authority was diverted into MCCs), representing 79.1% of the $1.6 billion in available capacity. In 2016, $964.9 million in issued bond cap bonds used 53.9% of the $1.79 billion in available capacity (also without using MCCs).

After the record high levels of bond cap bonds issued in 2016 and 2017, the state went into 2018 with $1.102 billion in total capacity; $324.7 million was carryforward, primarily from 2017. In other words, the state's total capacity at the start of the year was less than the total volume of bonds issued in 2017.

Total current-year use dropped in 2018 to $339.9 million while total issuances were $664.6 million, which was less than the total cap available for 2018. As a result, carryforward increased to $437.7 million. In 2019, total issuances surged to $951.7 and far exceeded the total cap available for 2019. As a result, carryforward dropped and at the beginning of 2020 was $278.9 million.

Figure 8: Total Capacity, 2007-2019

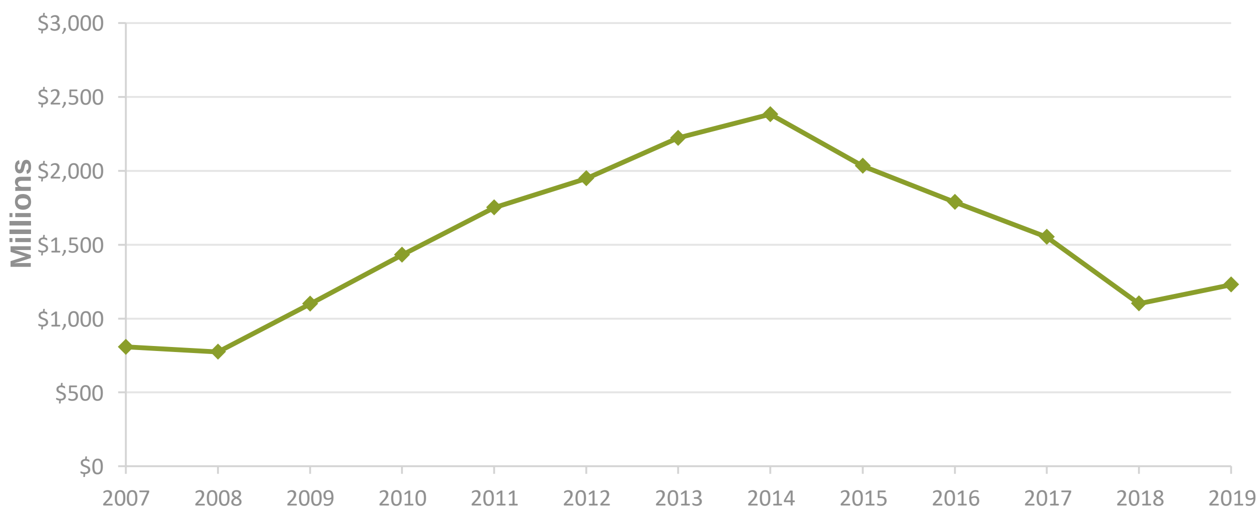


Figure 9: Percent of Total Capacity Used, 2007-2019

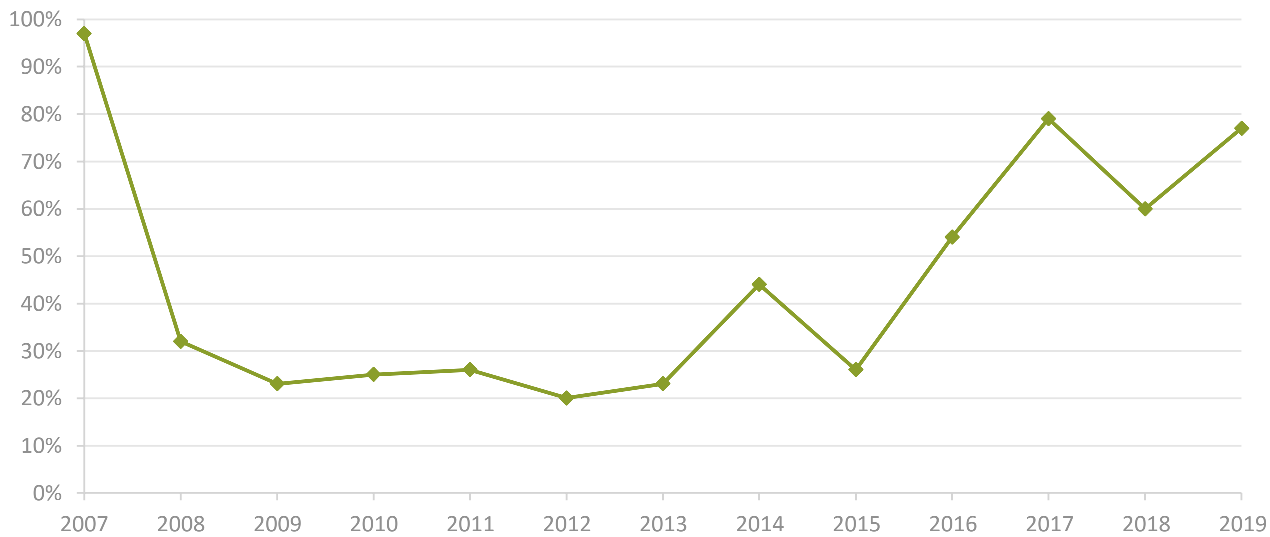
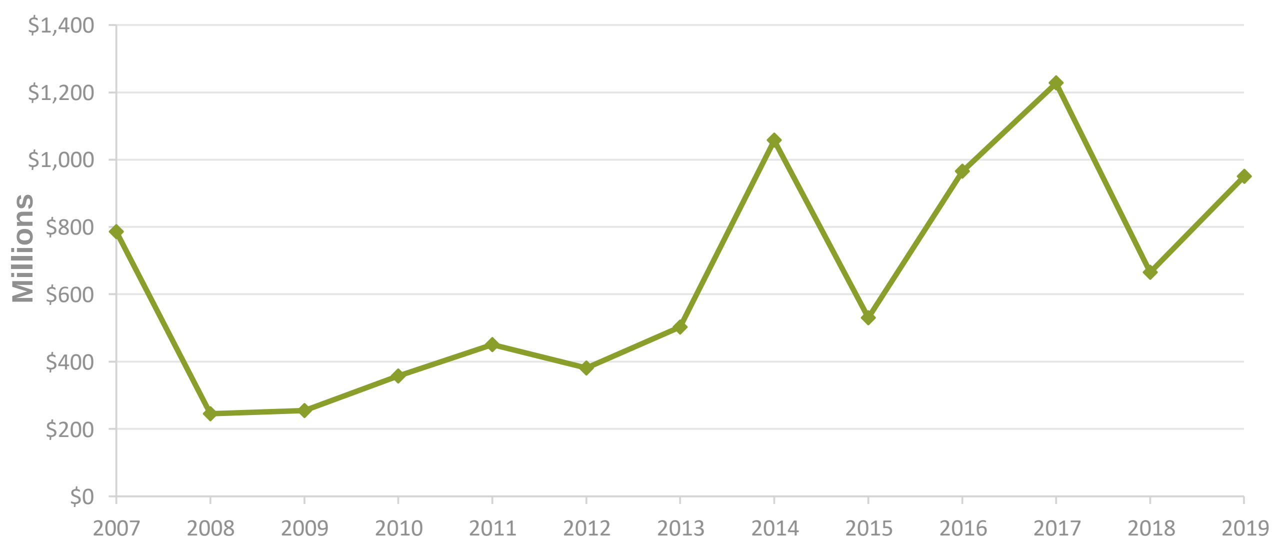


Figure 10: Total Volume Issued, 2007-2019



Category Distribution

Increasing levels of bond cap going to housing projects over the program's history have skewed the ratio of initial allocations to actual usage for all the categories. Every category has had individual years in which more cap was used than the initial allocation. However, on average, all the categories except housing have gone underused compared to the initial allocation percentages in statute.

Housing has consistently been the most-used category. Only in 1990 and 1992, when just $24.5 million and $47.7 million, respectively, in housing bonds were issued, did the housing category trail behind other categories. The percentage of total cap allocated to housing has trended upward over the years. Use of the state's total cap allocation for the housing category has averaged:

- 76.8% overall since the program began in 1987
- 95.1% over the past 10 years

Over the past several years, the housing category percentage has somewhat decreased due to the beginnings of recovery in the small issue and exempt facilities categories. In 2018, the percentage for housing rose to 97.7% but fell in 2019 to 91.2%.

Figure 11: Housing Percentage of Total Annual Cap, 2007-2019

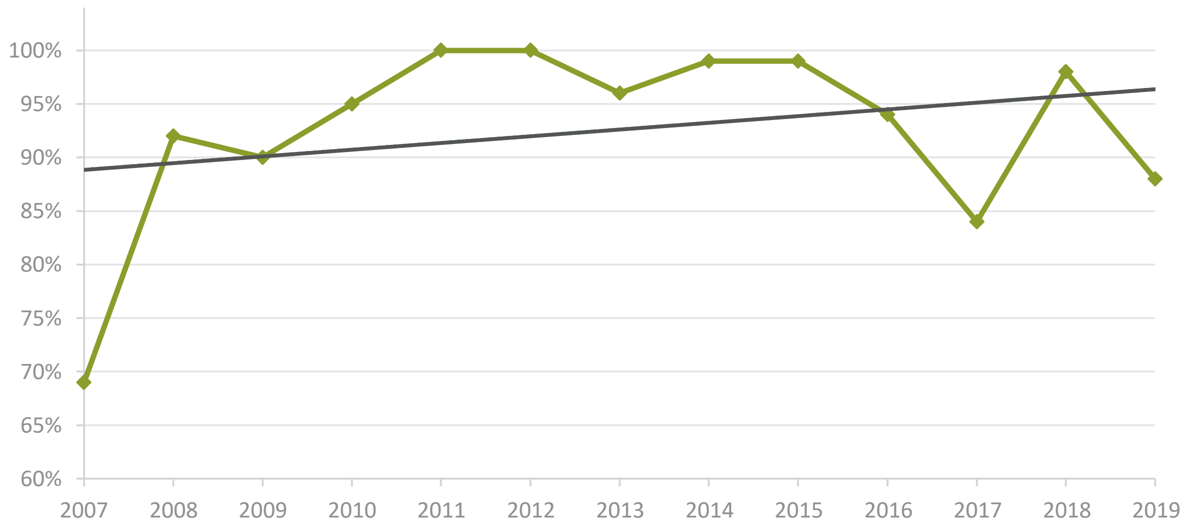


Table 9: Average Actual Category Use Compared with Initial Allocations

Category [89]	Average % of Total Cap Used 2010-2019	Average % of Total Cap Used, 2018-2019	Initial Allocation[90] 2010-2016	Initial Allocation Beginning 2017
Exempt Facilities	4.11%	5.81%	20%	20%
Housing	95.12%	92.88%	32%	42%
Small Issue	0.77%	1.31%	25%	25%
Student Loans	0%	0%	15%	5%
Remainder	N/A	N/A	8%	8%

[89] The Public Utility District (PUD) allocation was specified in federal law to be used only for environmental enhancements of certain hydroelectric facilities and had a lifetime limitation of $750 million. The maximum allocation was used up in 2007. So beginning in 2008, that category no longer existed. During the period when the remaining balance of the PUD lifetime allocation was less than the 10% initial allocation, the Bond Cap Allocation Program calculated the initial allocations by first subtracting the remaining PUD balance from the total cap and then using the "Alternative Allocation" percentages to divide the rest of the annual total.
[90] The "Alternative Allocation" was created in statute to be used at whatever point the $750 million PUD lifetime maximum allocation was expended.

Housing aside, exempt facilities and the PUD category before its expiration have come the closest to using their initial allocations. Exempt facilities used 52.9% of its initial allocation over the program's history, and PUDs averaged over half of the initial allocation before 2008.

The student loan category has not always had an authorized issuer. Between 1988 and 1997 and since 2004, student loans had no issuances. The category has nevertheless averaged 3.47% of the total cap over the program's history. During the 2007 legislative session, the Washington Higher Education Facilities Authority was appointed as the new student loan bond issuer. But federal student loan changes have altered the viability of the student loan category and have thus far prevented an issuance of student loan bonds in the state since the beginning of the recession.

Only in 1990 and 1996 did the small issue category exceed its 25% initial allocation. Overall, the small issue category has used only 5.2% of the total cap. An increase in the capital expenditures allowance for small issue projects from $10 million to $20 million occurred over six years. That increase made more projects eligible for allocations and caused a surge in small issue bonds in 2007 before the recession again reduced the demand.

Even with the capital expenditures increase, the limit on capital expenditures and the $10 million bond size restriction reduced the number of manufacturing projects taking advantage of bond cap financing. Following the 2007 capital expenditures increase, 2009's American Recovery and Reinvestment Act (ARRA) temporarily added intangible properties – such as computer software – to the definition of manufacturing for small issue bonds in 2009 and 2010. However, that did not increase the use of small issue bond authority post-recession. No manufacturers of intangible products applied for a bond cap allocation during that period. Proposals have been made in Congress to:

- Increase the bond size limitation to $20 million
- Increase the capital expenditures limit to $30 million
- Make manufacture of intangible properties a permanent part of the small issue category

Throughout the program's history, Washington state has almost always used its entire cap allocation, whether issued during the year or as carryforward within three years of allocation. Only very small amounts of cap have been lost. And a minimal amount of cap (less than $20,000) has been lost through expiration since the state began allocating all carryforward on a program basis, primarily to WSHFC.

Table 10: Bond Cap Category Allocations, 1987-2019

Year	Housing	Small Issue	Exempt Facilities	Student Loans	PUD[91]	Annual Total
1987	$195,755,000	$34,100,000	$0	$50,000,000	$53,470,000	$333,325,000
1988	$172,000,000	$31,900,000	$0	$0	$23,000,000	$226,900,000
1989	$150,200,000	$68,800,000	$0	$0	$12,000,000	$231,000,000
1990	$24,465,000	$60,350,000	$79,875,000	$0	$68,345,000	$233,035,000

[91] The PUD category, which was specific to certain kinds of environmental enhancements of hydroelectric facilities, had a lifetime limitation in federal law. Washington's lifetime limitation was $750 million. The state's hydroelectric facilities used the last of that lifetime cap in 2007. So beginning in 2008, that category no longer exists in the state. PUD hydroelectric bonds include $107.1 million issued in 1986; that issuance is not reflected in the above table because it occurred before the 1987 adoption of the balance of the bond cap category structure.

Year	Housing	Small Issue	Exempt Facilities	Student Loans	PUD[91]	Annual Total
1991	$120,045,000	$15,660,000	$77,910,000	$0	$24,435,000	$238,050,000
1992	$47,725,000	$14,350,000	$138,455,000	$0	$50,370,000	$250,900,000
1993	$62,965,000	$1,800,000	$149,355,000	$0	$42,680,000	$256,800,000
1994	$217,325,000	$15,125,000	$30,300,000	$0	$0	$262,750,000
1995	$40,061,000	$44,680,000	$182,409,000	$0	$0	$267,150,000
1996	$140,483,000	$76,852,000	$21,600,000	$0	$26,715,000	$265,650,000
1997	$151,602,000	$58,385,000	$19,000,000	$0	$47,660,000	$276,647,000
1998	$127,682,000	$64,786,000	$0	$60,000,000	$28,050,000	$280,518,000
1999	$173,368,000	$28,100,000	$50,850,000	$0	$32,145,000	$284,463,000
2000	$149,034,000	$39,425,000	$49,359,000	$50,000,000	$0	$287,818,000
2001	$151,252,563	$22,195,000	$60,915,000	$68,400,000	$65,620,000	$368,382,563
2002	$201,347,975	$17,520,000	$77,475,000	$107,850,000	$0	$404,192,975
2003	$251,609,700	$16,820,000	$46,365,000	$123,700,000	$16,680,000	$455,174,700
2004	$387,739,400	$3,191,141	$30,935,000	$68,650,000	$0	$490,515,541
2005	$338,374,187	$14,400,000	$44,850,000	$0	$98,678,853	$496,303,040
2006	$410,445,720	$28,290,000	$64,285,000	$0	$0	$503,020,720
2007	$372,581,129	$59,719,365	$103,200,000	$0	$8,142,336	$543,642,830
2008[92]	$688,948,312	$18,408,800	$45,000,000	$0	$0	$752,357,112
2009[93]	$518,021,631	$3,472,203	$54,685,000	$0	$0	$576,178,834
2010[94]	$562,886,550	$6,891,000	$20,980,000	$0	$0	$590,757,550
2011	$638,371,800	$459,500	$0	$0	$0	$638,831,300
2012	$648,703,610	$150,000	$0	$0	$0	$648,853,610
2013	$628,716,140	$0	$26,500,000	$0	$0	$655,216,140
2014	$690,540,600	$6,600,000	$0	$0	$0	$697,140,600
2015	$697,753,000	$8,415,000	$0	$0	$0	$706,168,000
2016	$677,560,920	$10,750,000	$28,724,180	$0	$0	$717,035,100
2017	$610,807,083	$0	$117,992,912	$0	$0	$728,799,995
2018	$762,323,790	$1,279,225	$14,000,000	$0	$0	$777,603,015

[92] Housing totals from 2008 include an additional $202,541,072 in cap authorized by the Housing and Economic Recovery Act of 2008 (HERA).

[93] The actual total of 2009 bond cap was $589,430,160. An IRS rule change in December 2010 caused two 2009 local housing authority draw-down bonds to revert a portion of their 2009 cap that was originally recorded as having been issued in 2009. The portion of those bonds that had not yet been drawn down by the end of 2009 is reflected in this table as $13,251,326 in abandoned 2009 cap. The same amount in 2010 carryforward was allocated to those projects to cover the shortfall in cap authority

[94] The actual total of 2010 bond cap was $599,777,550. An exempt facilities allocation late in 2010 reverted $9,020,000 after the carryforward amounts were allocated; the reverted amount was abandoned.

Year	Housing	Small Issue	Exempt Facilities	Student Loans	PUD[91]	Annual Total
2019	$695,014,598[95]	$19,025,128	$77,185,000	$0	$0	$791,224,726
Totals	$11,705,708,708	$791,595,009	$1,612,205,092	$528,600,000	$597,991,189	$15,236,404,351
%	76.83%	5.20%	10.58%	3.47%	3.92%	100.00%

[95] $12,329 in 2019 Bond Cap expired due to a clerical error

Qualified Energy Conservation Bonds

Qualified Energy Conservation Bonds (QECBs) were originally created by a Tax Extenders Act in 2008, with a nationwide cap of $800 million. In early 2009, the American Recovery and Reinvestment Act (ARRA) increased the QECB cap to $3.2 million nationwide. It stated the funds were to be distributed to states and then to municipalities with populations greater than 100,000, using a formula based on population. Washington's share of the QECB cap was $67.9 million. Most of the original allocations under the population formula went to 17 large cities and counties and a small amount to the state's tribes. Only 30% of the state's total was allowed to be used for private activities, or about $20.4 million of the state's $67.9 million total.

The Tax Cuts and Jobs Act of 2017 eliminated all unused QECB authority as of Jan. 1, 2018.[96] As a result, $8.4 million of QECB authority was lost. Two authorities had retained unused QECB authority:

- Skagit County's $1.2 million original allocation
- WSHFC balance of $7.1 million

QECBs were issued for a variety of energy conservation purposes, such as energy retrofits of government facilities, research and community education programs. QECB issuers or users could receive either tax credits or a direct interest rate subsidy from the U.S. Treasury Department; issuers typically chose the interest rate subsidy option. Under the federal law, at least 70% of the state's QECB allocation had to be used for governmental purposes, and no more than 30% could be used for private activities. Unlike other economic stimulus bond authorities, QECBs did not originally have an issuance deadline in federal law. That distinction changed with the passage of the Tax Cuts and Jobs Act of 2017.

Allocating, Reallocating and Aggregating QECB Authority

Even though QECBs were originally allocated by a population-based formula, they were allowed to be reallocated to the state or to other issuers. Because many of the original allocations were small, Commerce coordinated with WSHFC to aggregate into useable amounts QECB authority from originally awarded localities that did not intend to use their allocation or whose allocations were too small to be useful. This strategy allowed several large energy efficiency projects to move forward.

Significantly, more than the required 70% of the state's total QECB authority was used to retrofit government facilities for energy efficiency. Most QECB projects went forward using reallocated authority aggregated by WSHFC. Many of the first QECB project developers included smaller local governments that would not have been able to take advantage of the bond authority without reallocations and WSHFC's aggregation efforts.

[96] https://www.energy.gov/eere/slsc/qualified-energy-conservation-bonds

Table 11: Qualified Energy Conservation Bond Issuances

Date	Issuer	Amount	Government or Private	Project Description
9/22/2010	Yakima County	$2,430,000	Government	Energy conservation upgrades for the county courthouse
11/9/2010	Thurston County	$2,040,000	Government	Energy conservation measures for several county buildings, including installation of geothermal and solar energy systems
12/1/2010	King County	$5,825,000	Government	New HVAC equipment in two county buildings; energy efficient boilers and other energy improvements for the courthouse and correctional facility
12/28/2010	Kitsap County	$1,110,000	Government	Energy efficiency upgrades for the county's sewer system
4/27/2011	City of Bellingham	$6,480,000	Government	Energy efficiency upgrades in 20 city buildings
12/19/2012	King County	$6,020,000	Government	New HVAC equipment for the county correctional facility
12/27/2012	WSHFC	$9,000,000	Private	McKinstry/Swauk wind farm project
4/18/2013	City of Longview	$3,560,000	Government	Green Communities Program; energy improvements for city facilities, infrastructure and vehicles
7/1/2013	City of Renton	$3,200,000	Government	Green Communities Program; streetlight LED conversion
7/30/2013	City of Centralia	$1,100,000	Government	Energy upgrades for city facilities; streetlight LED conversion; Borst Park lighting; new HVAC equipment in several city buildings
9/5/2013	Okanogan County	$1,115,000	Government	Energy upgrades for courthouse, jail, and juvenile services buildings; geothermal heat pump installation; new controls and systems to connect heat pump to buildings; replacement of courthouse windows
10/2/2013	City of Blaine	$1,670,000	Government	Green Communities Program; energy upgrades for city facilities, including energy efficient streetlights, HVAC, and lighting; energy upgrades for wastewater treatment plant
12/10/2013	Mason County	$1,620,000	Government	Energy improvements to the county jail utilities, roof, HVAC and water systems
3/6/2014	WSHFC	$1,150,000	Private	Town & Country Markets Project; energy-efficient refrigeration equipment
5/4/2016	WSHFC	$2,802,964	Government	Energy retrofits and renovation for the Seattle Art Museum as part of King County's Green Communities Initiative

Date	Issuer	Amount	Government or Private	Project Description
9/22/2016	King County Housing Authority	$10,464,529	Government	Energy efficiency retrofits for several low-income rental housing projects owned by the housing authority
Total QECBs Issued		$59,587,493		

2018-2019 Allocation Procedures and Criteria

Bond Cap Allocation Applications

State law and Washington Administrative Code (WAC) provide criteria with which to evaluate individual projects' eligibility for bond cap allocations and to prioritize among eligible projects when competition exists for available cap. Competition often surfaces early in the year when the set-asides are in place or during times of high demand, such as in 2007 and early 2008.

Under statute, once the program has received a completed application, the bond cap manager has 15 days to review an application and approve or deny an allocation. The application review includes a threshold assessment that consists of confirming the application form is filled out completely and all the required documents plus the application fee are attached. Commerce could also request any additional information necessary to conduct a thorough review of the application.[97]

In addition to ensuring all the required pieces are in place, the bond cap manager conducts an assessment of the public benefit of each project using criteria in statute and WAC. Industrial development projects, which fall in the exempt facilities and small issue categories, are assessed for:

- Number of jobs created and retained
- Ratio of bond cap authority to jobs created and retained
- Degree to which the project provides jobs to low-income residents
- Need for jobs in the community based on the local unemployment rate compared to state and national averages

Exempt facilities projects are also assessed for the degree to which the project reduces environmental pollution or diverts solid waste into value-added products or the energy, water or sewage capacity the project will produce.

Housing applications are assessed for:

- Number of affordable housing units constructed or rehabilitated
- Ratio of bond cap authority to housing units
- Income levels or special needs of the population served
- Need for additional affordable housing units in the local community

In addition to category-specific criteria, applicants are asked to describe the project's need to issue tax-exempt private activity bonds and the cost and availability of alternative financing options. State law also indicates that readiness and likelihood to issue bonds before the issuance deadline are important criteria for all categories of applications.[98]

Once eligibility and priority are established, the bond cap manager approves the allocation and prepares an official allocation certificate and cover letter. The original documents, which a Commerce assistant director signs, are sent to the applicant, and copies are provided to the bond counsel. Once the bond is issued, the

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[97] RCW 39.86.140(2)(e)

98 RCW 39.86.140(6)(a)

issuer provides Commerce with a Notification of Issuance form within three days of issuance, and the transaction is complete.

Figure 12: Important Dates in the Bond Cap Allocation Process

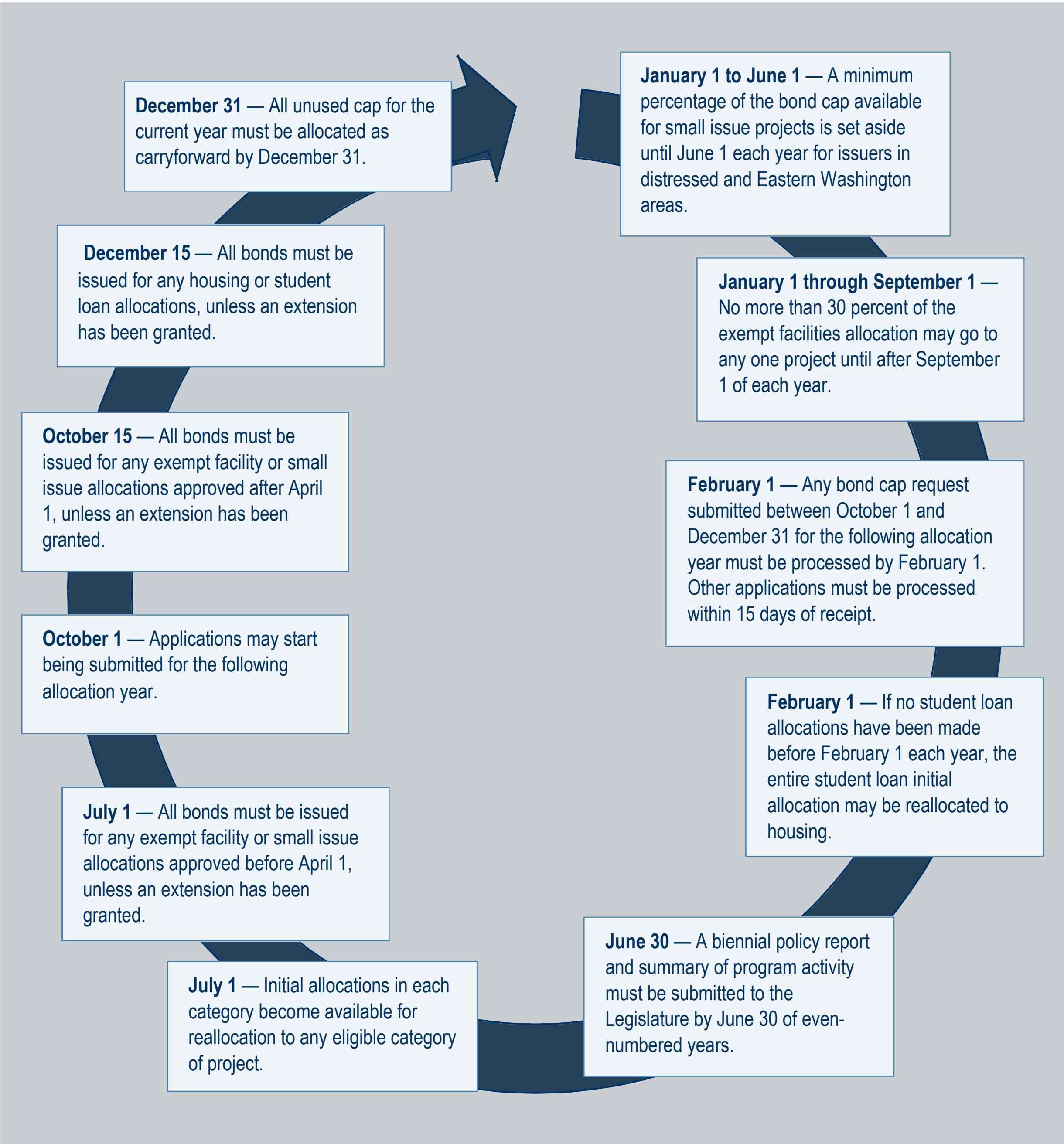
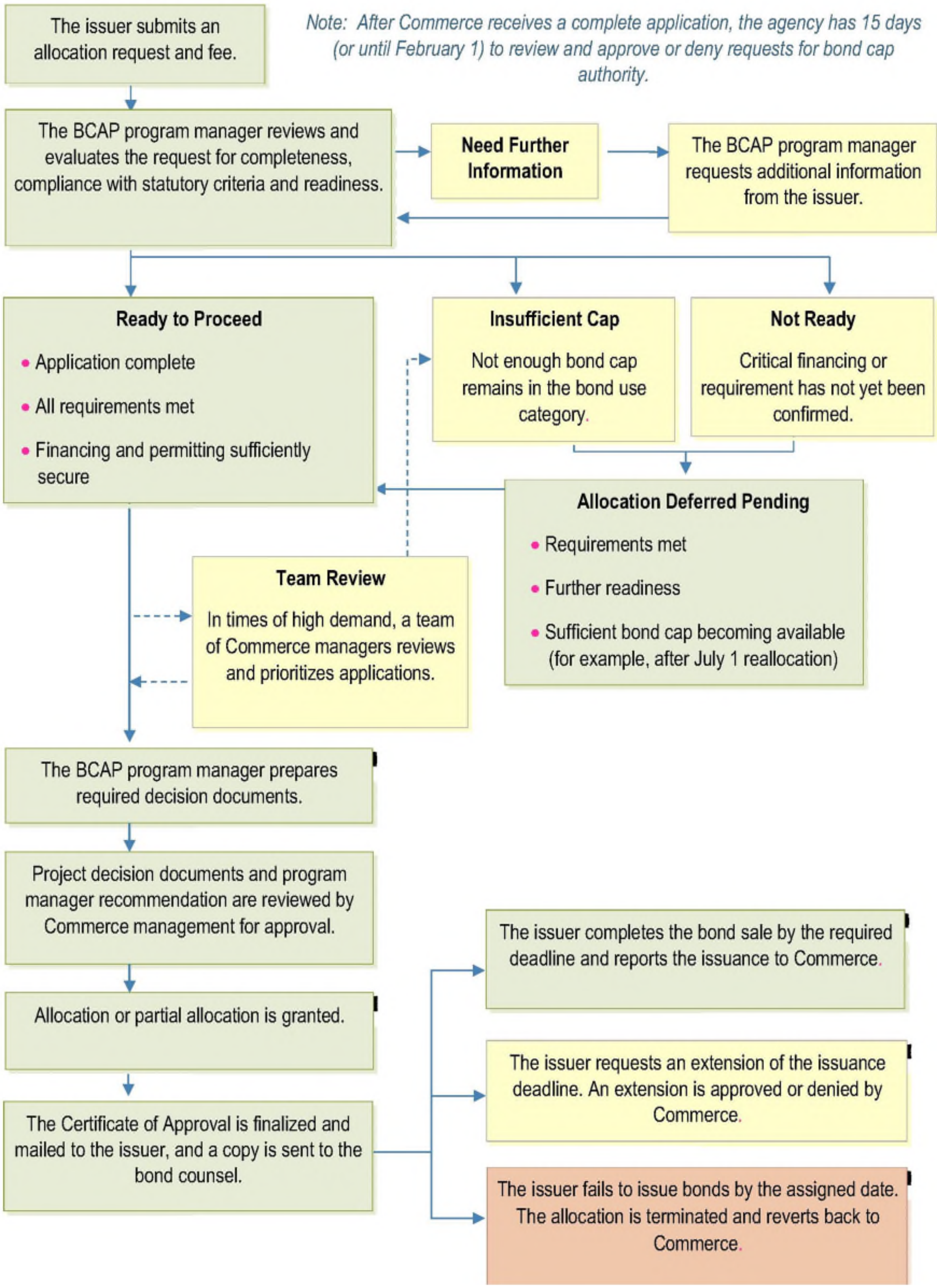


Figure 13: Bond Cap Allocation Flowchart



Carryforward

"Carryforward" is the allocation of unused bond cap authority during the calendar year and is "carried forward" for use in following years. Under IRS Code, the state must allocate any carryforward amounts to specific issuers before Dec. 31. Otherwise, the bond cap authority is no longer available. Carryforward allocations must be used within three calendar years.

Under federal law, carryforward must be allocated only in the housing, student loan and exempt facilities categories. Carryforward must be allocated to a specific project or program and, once allocated, is not transferrable to another project or type of program.

Allocating Carryforward to Programs Rather Than Projects

Allocating carryforward to a specific project carries the risk the cap will be lost if a project hits a snag and is unable to issue a bond within the time limit. Washington state has chosen to allocate nearly all carryforward on a program basis rather than to individual projects to avoid the potential loss of cap. During most years, carryforward amounts have been allocated to WSHFC because it is able to use carryforward on a program basis and is a sub-allocating agency of Commerce; that means it might reallocate housing cap to other issuers, such as local housing authorities. However, those reallocations must be within the same bond cap category for which WSHFC received the carryforward. For example, under federal law, carryforward allocated to WSHFC for multifamily rental housing can only be reallocated to other issuers of multifamily rental housing bonds.

In the past, the state's student loan issuer used carryforward amounts several times.

Carryforward was allocated in the exempt facilities category in unique circumstances but generally hasn't been because of the risks associated with allocating to specific projects. For most years, including 2018 and 2019, Commerce allocates carryforward to WSHFC.

Timelines for Allocating Carryforward

Toward the end of the calendar year, the bond cap manager keeps in close touch with issuers who have outstanding allocations to ensure bonds are issued by the deadline or allocations are reverted to Commerce to be allocated as carryforward. Final carryforward amounts are calculated after Commerce has received Notification of Issuance forms or reversion acknowledgements for all outstanding allocations, typically during the last two weeks of December each year.

Reducing Initial Allocations by Carryforward Amounts

State law says when an issuer has received a carryforward allocation, the issuer's initial allocation for the following year is reduced by the amount of the carryforward received and those amounts moved into the remainder category.[99] This allows additional flexibility in making allocations outside the set-aside structure early in the year.

Several times in the history of the program, WSHFC's initial allocation was reduced by carryforward amounts. That enabled local housing authorities and exempt facilities projects to get the cap they needed without having to wait for the category set-asides to be released Sept. 1 (before 2010) or July 1 (since 2010).

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[99] RCW 39.86.120(2)

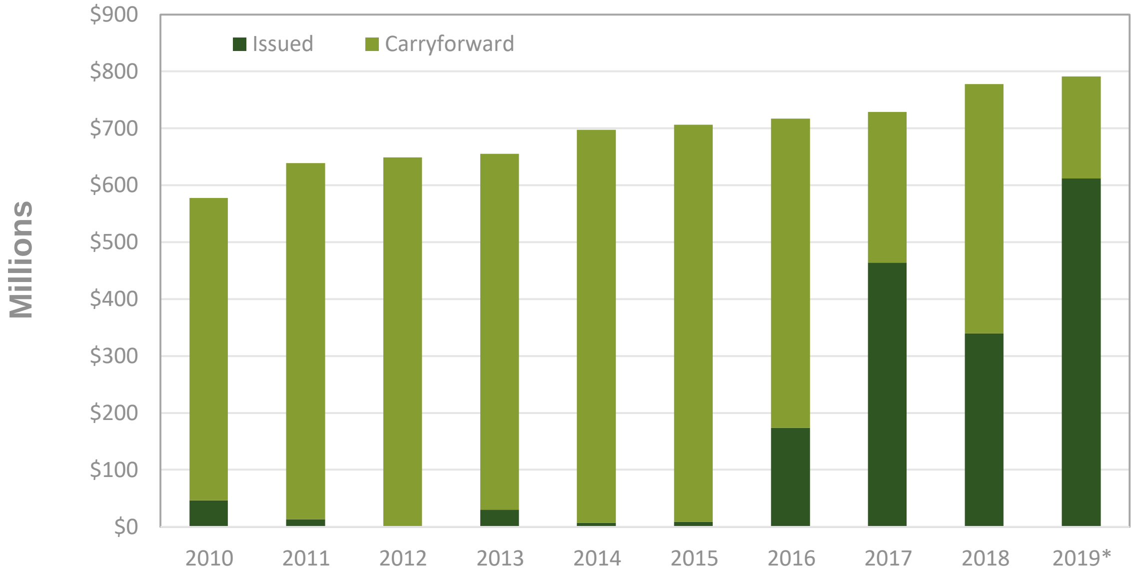
Carryforward Amounts

The percentage of the annual bond cap used during the year varies depending on market factors, such as interest rates and economic growth, as well as changes in federal policy. In slow economic times, less cap tends to be used during the year and more is carried forward into future years.

In 2007, demand for current-year cap in all categories was at an all-time high. Additionally, more projects became eligible due to the change in federal law allowing small issue projects to have $20 million in capital expenditures instead of $10 million. These factors combined to cause, for the first time since 1990, the entire annual cap to be used in the same year.

For numerous years after 2008, economic factors, including low interest rates on conventional financing, caused more cap to be carried forward than used during each allocation year. In 2014, only $6.6 million of the current year’s allocation was issued as bonds during the year. In 2015, only $8.2 million was used. A turnaround began in 2016. In 2018, $339.9 million in current cap was used, and in 2019 that amount increased to $611.7 million. With economic uncertainty related to impacts of the COVID-19 pandemic, it is unclear whether the trend toward increased demand for bond cap allocations, resulting in smaller carryforward amounts, will continue.

Figure 14: Current-Year Allocations Issued During the Year and Carried Forward, 2010-2019



**2019 includes $12,329 of unusued/expired cap*

Since 2008, when the Great Recession began, housing category activity has occurred primarily, and in several years exclusively, using carryforward from previous years. And a total of $5.3 billion of bond cap activity (bonds plus Mortgage Credit Certificates) occurred in the housing category using carryforward cap. During 2008 through 2010, extra housing cap from the 2008 Housing and Economic Recovery Act (HERA) was also available. From 2009 through 2015, no current-year cap was used for housing purposes. Recovery in the affordable housing arena finally began in 2014, which saw more than twice the housing cap use as the previous year. In 2016 and 2017, in addition to substantial carryforward activity, a total of $509.9 million in current-year cap was also used. That increased during 2018 and 2019 to $951.7 million in current-year cap used. In 2019, use of current-year cap surged to $611,736,963.

Using Carryforward For Local Housing Authority Projects

Due to the large accumulation of carryforward following the recession, Commerce arranged with WSHFC to refer local housing authorities to WSHFC to receive bond cap authority from carryforward rather than using current-year cap. This arrangement preserved as much cap authority as possible as far into the future as possible, benefitting all state issuers of tax-exempt private activity bonds. Using this strategy proved beneficial as the affordable housing market began to recover.

Using the oldest carryforward first – before the current-year cap or any other carryforward amounts – allowed each year's carryforward to be added to the pool with an expiration date an additional year into the future. This allowed the state to minimize losing any cap authority and insured as much as possible against another situation like that of 2007, when too little cap was available to meet the need. Without this strategy, 2014's highest-ever demand for housing cap could have resulted in many affordable housing projects not moving forward.

Accumulations of carryforward resulting from low demand during the recession have decreased since 2014's banner year. Local housing authorities continue to apply to WSHFC for allocations from the current-year cap.

Cap Guarantees for Local Housing Authority HUD Applications

Using WSHFC to bank carryforward allocations, regardless of recessionary patterns, allows WSHFC to provide guarantees of cap to housing authorities applying for funding from the U.S. Department of Housing and Urban Development (HUD). This federal agency requires a guaranteed reservation of cap for projects applying to some of its grant programs.

Unlike WSHFC, Commerce is unable to guarantee the cap will be available for a specific project on a specific date in a future year for two reasons.

First, the amount of cap authority available in a given year cannot be calculated until after the IRS releases the multiplier annually in November and the U.S. Census Bureau releases the new population estimates in late December.

Second, even though a housing authority could need a cap reservation for its HUD application, it might not be planning to issue a bond using the cap reservation until two or three years in the future. Under state law, Commerce might not receive applications for bond cap earlier than Oct. 1 of the year before the January release of the annual cap. This statutory timeline does not allow Commerce to promise a future year's cap to a project.

Using carryforward allocated to WSHFC for future cap reservations solves both the federal and state timeline issues.

Appendix A: Required Bond Cap Application Documentation

Applications to the Bond Cap Allocation Program are intended to provide Commerce the information needed to apply the criteria in statute and WAC, assess the public benefit of each project, compare relative merits of competing projects, and determine whether projects are ready to issue bonds. Each category has its own application form providing guidance for applicants to address the specific criteria pertaining to their project types.

Application Form Contents

Allocation application forms include questions designed to provide a detailed description of each project, including:

- Primary project contacts
- Project location
- Legislative district
- Detailed project budget, including sources of financing and total project costs
- List of permits with dates (or anticipated dates) of issue
- Project development timeline

For exempt facilities and small issue applications:

- Local unemployment rate
- Job creation and retention information, including type of positions and pay range
- Estimated number and type of spinoff jobs (such as construction jobs)

For exempt facilities applications, the extent to which the project:

- Removes solid waste from the waste stream
- Manufactures waste into value-added products
- Provides locally distributed heat or electricity
- Has environmental benefits
- Provides water or sewer service

For housing applications:

- Site control information
- Information on the relationships among the developing parties

Required Attachments

Additional attachments to the application are required, primarily to document the readiness of the project to issue and involvement of financing team members (for example, underwriter, bond counsel, etc.).

- An allocation fee of 0.000277 times the requested allocation amount (or $500, whichever is greater)
- A signed Bond Counsel Statement of Intent form
- A signed Underwriter Statement of Intent form
- An Employment Form signed by at least the employer but preferably signed by both the employer and an Employment Security Department representative

- An official copy of an inducement resolution from the issuer’s governing board
- A copy of an Environmental Impact Statement or Mitigated Determination of Non-Significance (new construction only)
- A statement of the local government priority (if submitting more than one application)
- A letter from the local planning jurisdiction indicating consistency with the local comprehensive plan
- An architect’s certification (new construction only)

Finally, the bond cap manager is statutorily authorized to request any additional information needed to thoroughly evaluate an application and make an allocation decision.

Appendix B: Acronyms and Definitions

Acronyms

Below is a list of acronyms common to the Bond Cap Allocation Program.

ARRA – American Recovery and Reinvestment Act of 2009

BCAP – Bond Cap Allocation Program

CDFA – Council of Development Finance Agencies

CFR – Code of Federal Regulations

EDC – Economic Development Corporation

FTE – Full-Time Equivalent (2,080 staff hours per year)

HAI – Housing Affordability Index

HERA – Housing and Economic Recovery Act of 2008

IDB – Industrial Development Bond

IDC – Industrial Development Corporation

IRB or IDRB – Industrial (Development) Revenue Bond

IRC – Internal Revenue Code

IRS – Internal Revenue Service

LHA – Local Housing Authority

LIHTC – Low-Income Housing Tax Credits

LLC – Limited Liability Company

LP – Limited Partnership

MCC –Mortgage Credit Certificate

NABL – National Association of Bond Lenders

OFM – Office of Financial Management (state)

PAB – Private Activity Bond

PUD – Public Utility District

QECB – Qualified Energy Conservation Bond

RCW – Revised Code of Washington

WAC – Washington Administrative Code

WEDFA – Washington Economic Development Finance Authority

WHEFA – Washington Higher Education Facilities Authority

WSHFC – Washington State Housing Finance Commission

Definitions

Allocation: For bond cap purposes, the total dollar amount of bond issuing authority available to the state during a calendar year for any bond type limited or "capped" under federal law; or the amount available in a specific bond use category that is awarded to a specific project or issuer.

Bond counsel: An attorney specializing in advising clients on bond issuances, especially on the Internal Revenue Code (IRC) and tax implications of bond issuances. The bond counsel provides a legal opinion on whether a particular project meets the criteria in federal law for a specific type of bond issuance as established in the IRC and the Revised Code of Washington (RCW).

Bond use category: There are four categories of activities that could use tax-exempt private activity bond financing, plus a "remainder" category that might be used if the initial allocation in another category is depleted. The four categories are housing, student loans, small issue and exempt facility. A fifth category, public utility district, was officially retired after 2007.

Cap: The ceiling, or limit, on the total dollar amount of specific bond types that can be issued in the state during a calendar year as defined in federal law (also "bond cap").

Carryforward: Any portion of the cap that is not used during the allocation year but instead is carried forward into subsequent years. Carryforward amounts expire after three years or as specified for the bond type in federal law. Once expired, a carryforward cap is no longer available for use.

Exempt facilities: Certain types of transportation, solid-waste management, energy and environmental facilities as described in the Internal Revenue Code. Some exempt facilities must be owned by a governmental entity to qualify for tax-exempt private activity bonds.

Housing: In Washington state, for the purposes of the bond cap allocation, housing includes mortgage revenue bonds for homebuyer assistance, Mortgage Credit Certificates (a type of tax credit) and exempt facilities bonds for multifamily rental housing.

Initial allocation: The percentage of the state's total annual tax-exempt private activity bond cap set aside for each bond use category at the beginning of the calendar year.

Issuer: The state, any agency of the state, any political subdivision or any other public entity authorized to issue private activity bonds under state law.

Mortgage Credit Certificate (MCC): A federal tax credit for homebuyers who purchase homes in specific disadvantaged census tracts. These homebuyers can deduct the amount of the MCC from their income taxes.

Original allocation: An allocation granted by formula in federal law to a specific city or county for Recovery Zone Economic Development Bonds, Recovery Zone Facility Bonds or Qualified Energy Conservation Bonds.

Originally awarded locality: A unit of local government granted an allocation by a formula in federal law for Recovery Zone Economic Development Bonds, Recovery Zone Facility Bonds or Qualified Energy Conservation Bonds.

Private activity: Any activity that has significant private involvement. The Internal Revenue Code describes three tests to determine whether a project has significant private involvement for the purpose of a tax-exempt bond issuance. A project needs to meet one of two tests to be considered a private activity:

1. It meets both of the private business use tests:

- a. Greater than 10% of its proceeds are used for any private business purpose, AND
- b. Greater than 10 % of its proceeds are either secured by property used for private business purposes or are to be repaid from private business sources.

2. OR, it meets the private loan financing test:

- a. Greater than 5% (or $5 million, whichever is less) of its proceeds are used for loans to persons other than governmental entities.57

Reallocation: When an initial allocation goes unused or an original allocation has been returned to Commerce and Commerce has distributed it to another issuer.

Small Issue Aggie: Also known as the Beginning Farmer/Rancher Loan Program. Created by the Legislature in 2006, this program provides loans for first-time farmers and ranchers to establish their businesses. Bonds in this category are issued by the Washington State Housing Finance Commission, and individual farmers or ranchers apply to it for financing. Aggie bonds are in the small issue category. Federal law currently limits individual loans under the program to $552,500 per family as of Jan. 1, 2020.[100]

Small issue manufacturing: Industrial development projects that have capital expenditures of $20.0 million or less during a six-year period – three years before and three years after the issuance of the tax-exempt private activity bond. Small issue allocations are limited to $10.0 million per project.

Tax-exempt: Bond investors (who purchase the bonds, thus providing project financing) are not required to pay federal taxes on interest earned on the bonds, which can be attractive to investors and might at times make the bonds easier to sell. Tax-exempt bonds qualify for lower interest rates, which means lower costs for the user of the bond proceeds.

Underwriter: A financial or investment institution, usually a large bank, that guarantees the purchase of a full issue of bonds.

User: The governmental entity, business, or individual who is the primary beneficiary of the bond proceeds.

[100] https://www.stateagfinance.org/types-of-state-ag-loan-programs