Department of Commerce

Bond Cap Allocation Program

The 2018 Biennial Policy Report and Activity Summary

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Report to the Legislature
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Executive Summary

Overview

Since its inception in 1987, the Bond Cap Allocation Program has approved more than $13.6 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. It 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.

During 2016 and 2017, projects financed with bond cap allocations created or rehabilitated 13,651 units of rental housing for the state's low-income residents, seniors and individuals with disabilities. This resulted in 25,485 short-term construction jobs and 2,931 permanent positions. Small Issues and Exempt Facilities projects resulted in an additional 191 new jobs and the retention of 150 other positions. Allocation of the cap is guided by the provisions of RCW 39.86. This statute was amended in 2016 to alter initial set-asides for bond cap categories, including housing, student loans, small issue and exempt facilities. These changes shifted more initial allocation to housing, which has used the vast share of recent allocations. In addition, the amendment allowed the student loan category to be re-designated to another category if it was unused by February 1, which has been the case for many years.

Background

Private activity bonds are ordinarily not eligible for tax-exempt status if the proceeds benefit businesses or individuals, according to the federal Tax Reform Act of 1986. 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 that may be issued annually in each state.

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

- Reviews project applications to ensure conformance 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 set-asides in some categories that encourage development in eastern and distressed areas of the state.

It is important to note the nature of the resources the Bond Cap Allocation Program allocates. The program authorizes the issuance of bonds under the federal bond volume cap. The program does not directly fund or finance projects. Funds used for projects receiving authorization to issue these bonds come from private investors who purchase the bonds, not from governmental entities.

The Bond Cap Allocation Program's authorizing statute, RCW 39.86.190, states "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 2018.

Key Policy Issues

As Washington's economy rebounded from the last recession, housing prices began to climb to prerecession levels and surge ahead of those valuations in some areas. The recovery of economic and financial markets allowed affordable housing projects to move forward to help address the growing statewide need for these resources. In addition, a variety of industrial projects fitting within the small issue and exempt facilities category also moved forward.

This surge in development activity has placed a significant demand on bond cap resources and created a variety of issues for the program.

Housing Affordability

Both rental and ownership affordability have seen marked decreases over the past few years. The Runstad Department of Real Estate at the University of Washington (UW) calculates a Housing Affordability Index for first-time homebuyers.[1] This index dropped by 16 percent between the start of 2016 and the end of 2017. The UW analysis shows that, for first-time homebuyers, purchasing a home is out of reach in 29 of the state's 39 counties.

The National Low Income Housing Coalition estimates that household income would need to exceed $26.87 per hour to afford an average rent for a two-bedroom apartment in the state.[2] This jumps to more than $50 per hour in some metropolitan locations, such as downtown Seattle and Bellevue. This demand is fueling significant efforts to create affordable housing options. Bond cap projects have helped create 13,651 affordable rental units during the past two years.

[1] Runstad Department of Real Estate at the University of Washington; http://realestate.washington.edu/research/wcrer/housing-reports/
[2] National Low Income Housing Coalition; http://nlihc.org/oor

The accelerating demand for affordable housing is likely to increase demand for allocations from the Bond Cap Allocation Program for projects aimed at addressing this statewide need. See page 29 for charts illustrating the increase in demand for bond cap allocations to address affordable housing.

First-Time Homeownership

The Washington State Housing Finance Commission (WSHFC) offers assistance to qualified first-time homebuyers through the Mortgage Credit Certificates (MCCs) and House Key loan programs. A significant amount of carryforward was dedicated to MCCs and provided assistance to 2,806 households during 2016 and 2017.

These funds are now exhausted, and assistance is transitioning to the House Key loan program, which provides assistance to a broader spectrum of households. Use of Home Key loans increased 215 percent between 2016 and 2017 and assisted almost 700 households during this period.

Further growth in the Home Key loan program is likely and would result in requests for continuing allocations from the annual volume cap.

Re-emergence of Exempt and Small Issue Bonds

The small issue and exempt facility categories saw a massive drop in use between 2007 and 2015. From 2007 to 2009 these categories averaged more than $93 million per year in issuances. After 2010, this dropped to less than $10 million per year, with no projects occurring during 2011 and 2012.

The past two years have seen new life in these categories. Four projects moved forward, including the Columbia Pulp project, which received a $130.7 million exempt facility allocation. The three other projects used another $26 million. Future activity in these categories looks promising with the Washington State Economic Development Finance Authority predicting $20 million to $30 million in projects on an annual basis going forward. Issuances by other entities could further boost this volume.

If current rates of requests for bond cap are sustained, these anticipated projects might face competition from affordable housing projects to secure future bond cap resources.

Effect of Tax Reform on Pricing of Tax Credits

The Tax Cuts and Jobs Act of 2017 resulted in changes to corporate and individual tax rates that, among other adjustments, have caused financial markets to recalibrate the value of tax-exempt bonds. As a result, the value of these bonds has effectively dropped. Since the start of 2016, the impact of private activity bond financing has decreased from approximately $1 per dollar of tax credit to approximately $0.90 per dollar. This significantly impacts the development of affordable housing with an equivalent allocation amount resulting in the production of fewer affordable housing units than it did one year ago. Other factors, such as rising interest rates and changes in tariffs, are causing supplemental volatility in the pricing of tax credits. It is likely that this reduction in the value of tax credits will persist for the foreseeable future.

To continue producing affordable housing at the same rate as previous years, developers will likely need an increase in the amount of bond cap dedicated to affordable housing production.

Re-establishment of the Bond Cap Advisory Committee

A wide range of factors makes it likely that a competitive environment will exist for the allocation of bond cap in the next few years. These factors include:

- Recent calendar year issuances exceeding the annual volume cap authorization by using carryforward amounts
- Probable exhaustion of carryforward in 2018
- Increasing demand for affordable housing development
- Continued interest in first-time homebuyer assistance
- Revival of small issue and exempt facilities
- Continued softness in the pricing or value of tax credits

This scenario makes re-establishment of the Bond Cap Advisory Committee important. The advisory committee, which previously met regularly until 2008, provided an important venue to discuss the growing demand on the annual volume cap.

In addition, the re-established group will help facilitate communication with stakeholders and obtain guidance on policy and program administration issues.

Update of Program Application Processes and Rules

If a long-term competitive environment for bond allocations were to develop, the tradition of first-come, first-served bond cap project authorization might need to be reconsidered. Even though the Washington Administrative Code (WAC) provides criteria for evaluation of projects, no robust framework exists for conducting a competitive process.

The update of the WAC provisions relating to bond cap would be a likely subject of discussions for a newly revived advisory group.

Local Housing Authority Application Process

Because of the need to maximize use of carryforward during the recession, the Bond Cap Allocation Program, WSHFC and local housing authorities informally agreed to refer housing authority applications for carryforward allocations to WSHFC beginning in 2010. Commerce continues to use this process. For a full discussion of carryforward, please see page 34.

A proposal has been made to continue the process even after allocations from the current-year cap resume. All stakeholders would need to evaluate such a proposal and, if adopted, formalize it. That adoption would need to include amending the Bond Cap Allocation Program statute.

A newly re-established advisory group would be the appropriate venue to address this question and determine a long-term answer.

Datasets to Support Bond Cap Allocation Program Objectives

As the Bond Cap Allocation Program moves toward a potentially competitive environment for annual allocations, it will be important to have information that can be used to evaluate statewide need and guide procedures for prioritizing projects. WSHFC and Commerce are developing resources. The Bond Cap Allocation Program has identified a range of additional potential research topics.

Advisory group guidance would help set priorities in the development of these datasets and help inform how to maximize the availability and usefulness of this work.

Program Activity Highlights

The Bond Cap Allocation Program authorized $2.19 billion in issuances during 2016 and 2017 through 91 projects located throughout the state. This bond cap activity exceeds the annual volume cap for these years by $746 million, or slightly more than the 2017 annual volume cap. This activity was possible only because of unused volume cap from previous years that was preserved through designation as carryforward.

Housing projects comprised 93 percent of all bond cap projects by dollar amount. Four nonhousing projects used $157 million in volume cap, with one large exempt facility project comprising 83 percent of that amount.

As noted, a key policy issue for the Bond Cap Allocation Program is the high use of the bond cap for affordable housing. During 2017, more than $2 billion in bond cap was used for housing, including $1.79 billion to create 13,651 units of multifamily rental housing and $238 million for low-income, first-time homebuyer assistance. Additional home-buying assistance for moderate-income residents was created using the $960 million in carryforward set aside for Mortgage Credit Certificates in 2014 and 2015.

The state's allocation of Qualified Energy Conservation bonds, authorized by a Tax Extenders Act from 2008, has almost been exhausted. Only about $8.4 million of the state's $67.9 million share of the nationwide authorization remains, with almost half of that amount slated for issuance in late 2018.

The ongoing spend-down of carryforward is another highlight of the past two years. Very large balances of carryforward accumulated during the recession, and the large volume of recent affordable housing construction has allowed that carryforward to be used rather than expire.

In the program's history, Washington has almost always succeeded in using its entire cap allocation, whether issued during the year or as carryforward within three years of allocation. Only small amounts of cap (less than $10 million in bond cap allocation authority) have ever been lost, and no cap has been lost through expiration since the state began allocating all carryforward on a program basis, primarily to WSHFC. For more detail on carryforward use and trends, see page 34.

Conclusion

Thanks to carryforward amounts from the Great Recession, the state has been able to issue more tax-exempt private activity bonds each year than the IRS annually authorized. Construction of affordable housing is seeing historically high volume, and notable demand exists in the small issue and exempt facility categories.

The annual amount of volume cap continues to increase due to population growth and a recent IRS adjustment to the per capita multiplier. However, if demand for volume cap were to continue at the current rate, the program might face challenges in coming years. With carryforward balances almost exhausted, it is possible the program would see competition for future allocations. Re-establishing the advisory group would help guide the program through this potential challenge and also address other policy issues.

Introduction

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 may 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.[3]

The Bond Cap Allocation Program has authorized approximately $13.6 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

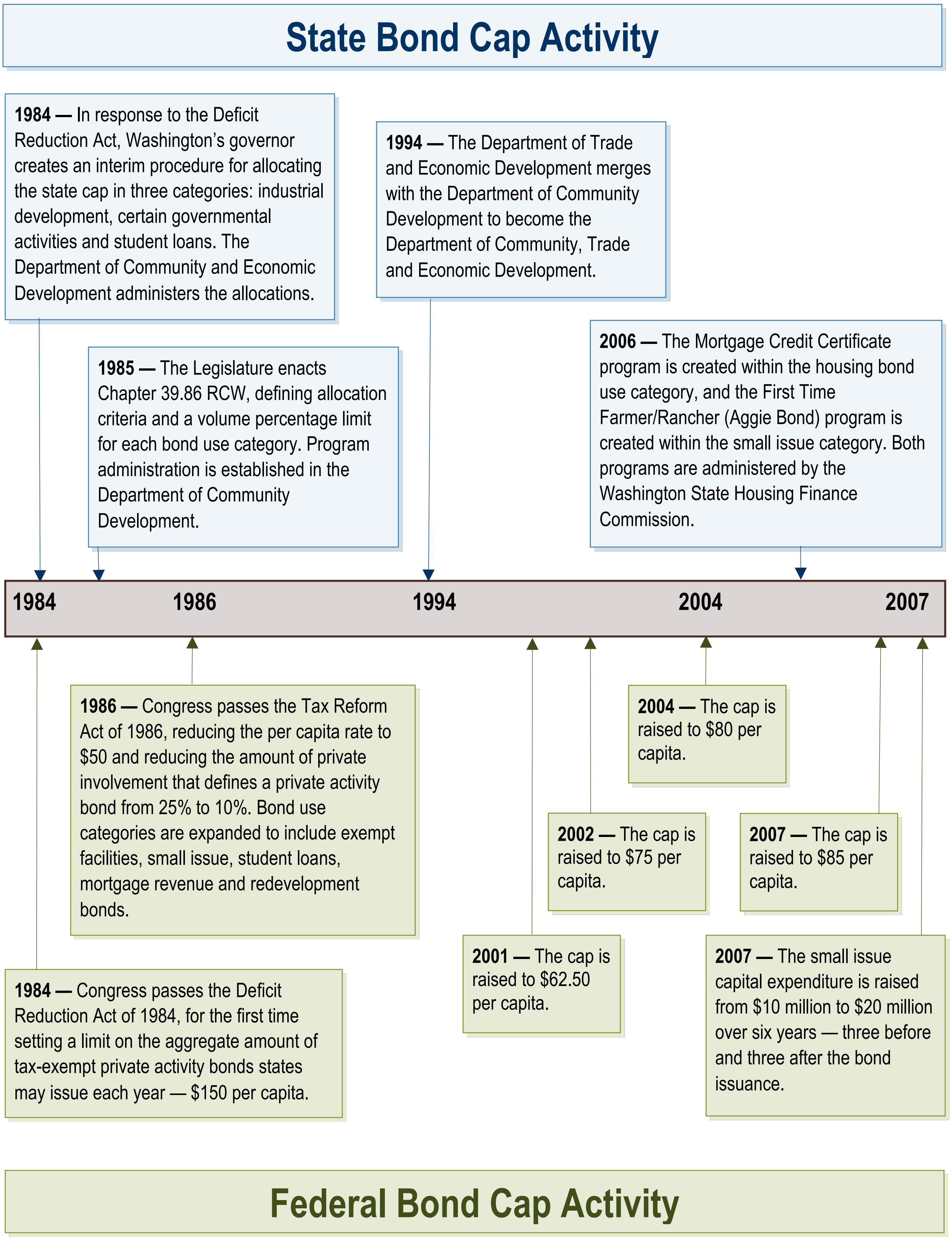
How Much Cap Authority Is Available?

The total amount of tax-exempt private activity bond authority each state is allowed 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 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 January 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. For calendar year 2018, the multiplier was raised to $105, resulting in a total of $777.6 million in bond cap authority available in Washington state for the current calendar year. Cap authority is divided among the eligible categories by percentages described in Washington statute.[4]

[3] RCW 39.86

[4] RCW 39.86.120

Figure 1: Bond Cap History Timeline



State Bond Cap Activity

2007 — The Legislature appoints the Washington Higher Education Facilities Authority as the new student loan bond cap issuer.

2009 — The Department of Community, Trade and Economic Development becomes the Department of Commerce.

2012 — The Department of Commerce begins working with the Washington State Housing Finance Commission to aggregate the state's Qualified Energy Conservation Bond allocation and make it available statewide.

2017 — The Legislature amends the bond cap statute to raise the initial allocations housing category to 42% and reduce the initial allocation for the student loan category to 5%. Student loan bonds have not been issued since 2004.

2007 2008 2009 2012 2014 2017

2008 — The Housing and Economic Recovery Act of 2008 provides $202 million in additional housing cap for Washington state.

2009 — The American Recovery and Reinvestment Act of 2009 provides three new bond types subject to volume caps — Qualified Energy Conservation Bonds, Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds. Recovery Zone bond authority expires at the end of 2010.

2009 — The cap is raised to $90 per capita.

2011 — The cap is raised to $95 per capita.

2014 — The cap is raised to $100 per capita.

2017 — The cap is raised to $105 per capita for 2018.

2017 — $13.6 billion in bond-cap-authorized bonds have been issued since 1987.

Federal Bond Cap Activity

What Is a 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 may 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 percent of its proceeds are used for any private business purpose, AND
    b. Greater than 10 percent 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 percent (or $5 million, whichever is less) of its proceeds are used for loans to persons other than governmental entities.[5]

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.

[5] *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)

- **Small issue:** Industrial development projects needing less than $20 million in capital expenditures over six years. Bonds are limited to $10 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.

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. Any cap authority that is unused at the end of the year may 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.

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. After the 2007 expiration of the PUD category and through 2017, the initial allocations included:

- Exempt facilities: 20 percent
- Housing: 32 percent, divided between:
    - WSHFC: 80 percent (that is, 25.6 percent of total cap)
    - Local housing authorities: 20 percent (that is, 6.4 percent of total cap)
- Small issues: 25 percent
- Student loans: 15 percent
- Remainder: 8 percent

In 2017, the Legislature amended the category distribution, reducing the student loan category to 5 percent and increasing the housing category to 42 percent, beginning with the 2018 allocation year.

During the calendar year, timelines apply to some of the category set-asides in either RCW or WAC. No exempt facilities projects may receive more than 30 percent of the total exempt facilities set-aside before Sept. 1 each year.[6] Prior to June 1, portions of the small issue set-aside are reserved for Eastern Washington distressed counties, eastern non-distressed counties, and Western Washington distressed counties.[7] After July 1, unused cap from any category may be reallocated to any other category. However, 50 percent of any unused cap is prioritized for housing.[8]

The authority in the remainder category may 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 may 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.

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[6] WAC 365-135-070
[7] WAC 365-135-060
[8] RCW 39.86.120

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 billion nationwide in additional cap authority for housing through the Housing and Economic Recovery Act of 2008 (HERA). Washington's share totaled $202 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 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 may use the carryforward for its own 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 may 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 avoided losing any cap authority by expiration because of this strategy as well as WSHFC's ability to designate a portion of single-family program carryforward for the purpose of 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. Until 2017, little current-year cap has been used during the year it was originally allocated. Current-year cap usage began to turn around in 2016, when $174.2 million – 24 percent – of the current-year cap was used during the year. In 2017, $464.5 million – 64 percent – of the current-year cap was used during the year, significantly reducing the amount of cap being carried forward. Going into 2018, the available carryforward was $324.7 million, down from a high of $1.6865 billion going into 2014.

If 2016 and 2017's bond cap trend were to continue, it might again be necessary in 2019 to institute a competitive allocation process for housing category allocations. With interest rates for conventional bank loans increasing, demand for bond cap in the other categories also has increased. In 2017, $118 million in bonds in eligible categories other than housing were issued. If demand for exempt facilities and small issue bonds continues to increase, or if federal student loan regulations again make state student loan bonds needed, competition for bond cap among categories would become likely, as well as within the housing category. A Bond Cap Advisory Committee could provide an appropriate forum to help guide this competitive process.

Bond Cap Policy Issues

Re-establishment of the Bond Cap Advisory Committee

From the late 1990s until 2008, the Bond Cap Allocation Program regularly convened an advisory group composed of about 20 members. This group provided updates to stakeholders on bond-cap-related trends, such as changes in student loan issuer status and federal expenditure limits for small issue projects. It also offered guidance on emerging policy issues and program administration, such as development of a statewide marketing plan. In 2007, the advisory group discussed having the board adopt priorities for allocations and assist with evaluating projects in years when bond cap demand exceeded supply.

The advisory committee did not have statutory responsibilities and, therefore, could not reimburse members for expenses. Because of this, no stakeholders from outside the Puget Sound region ever attended advisory committee meetings, and attendance was irregular even for those located in the region.

When the Great Recession significantly reduced the amount of projects receiving allocations, the committee no longer needed to meet. Although discussions to resurrect the group have occurred during the intervening years, no action has been taken.

As the Bond Cap Allocation Program moves back into an era of heavy use, and the program faces new issues that require stakeholder input, the need to restart the advisory group has become significant. The Bond Cap Allocation Program intends to reconvene an advisory group and will work to establish a scope of duties that could include:

- Discussing the method for allocating bond cap for housing authorities
- Evaluating the selection criteria for projects
- Guiding the development and integration of datasets and other informational resources
- Establishing a competitive application process
- Responding to federal legislation pertaining to bond cap
- Revising Washington Administrative Code

Housing Affordability

The Housing Affordability Index (HAI) measures whether a typical family earns enough income to qualify for a mortgage loan on a typical home at the national and regional levels. The measurement is based on the most recent price and income data.[9] A value of 100 means that a family with a median income has exactly enough income to qualify for a mortgage on a median-priced home, assuming a 20 percent down payment. An index above 100 means that a family earning the median income has more than enough income to qualify for a mortgage loan on a

[9] National Association of Realtors (NAR); https://www.nar.realtor/research-and-statistics/housing-statistics/housing-affordability-index

median-priced home.[10] The further below 100, the less affordable a typical home is to an average family.

Compared with the nation as a whole, home-buying in Washington remains relatively affordable – but only for homebuyers who have previously owned homes. In fourth-quarter 2017, using the National Association of Realtors' definition, homeowners experienced a statewide HAI of 118.2. However, the University of Washington's (UW) Runstad Department, which calculates HAI for first-time homebuyers in the state, saw a different trend. Its affordability rating dropped 16 percent from an already unaffordable 81.7 in the first quarter of 2016 to an even less affordable 68.3 in the fourth quarter of 2017.[11] UW's HAI methodology assumes a less-expensive home, lower down payment and income lower than that of homebuyers who are not first-time homebuyers. For first-time homebuyers in 29 of the state's 39 counties, purchasing a home is out of reach.

Measures of affordability – including for currently renting, potential first-time homebuyers as well as low-income residents – indicate the need for construction of new affordable housing. Kitsap County is Washington's only high-population county that has affordable homes for first-time homebuyers. Some of the state's rural counties are less affordable than its urban counties. Franklin County, for example, has a first-time HAI of 38.1, and Wahkiakum County has a first-time HAI of 38.4. Among the state's rural counties, 22 have first-time HAIs lower than 100; nine have HAIs greater than 100.

This rural phenomenon impacts more than first-time homebuyers. Average monthly rent in Chelan County for a one-bedroom apartment is $1,217, the highest in the state outside Puget Sound, according to a UW study.[12] The Chelan County median household income is $51,845 annually, or $26,109 per capita.[13] Meanwhile, the state's median household income is $62,848 annually, or $32,999 per capita.[14] The average one-bedroom apartment, which is inadequate for a family, would cost a median household about 30 percent of its monthly income or an individual 60 percent of earnings.

A concerted effort is needed to improve housing affordability in the state. Participants in that effort would need to include the Bond Cap Allocation Program, Housing Trust Fund at Commerce, WSHFC, local housing authorities and service providers for the state's low-income populations. Once reconvened, Bond Cap Advisory Committee meetings would be an appropriate venue to begin the discussion.

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[10] NAR; https://www.nar.realtor/research-and-statistics/housing-statistics/housing-affordability-index/methodology

[11] Runstad Department of Real Estate at the University of Washington; http://realestate.washington.edu/wp-content/uploads/2018/04/2017Q4Snapshot.pdf

[12] Ibid; http://realestate.washington.edu/wp-content/uploads/2018/05/2018SpringApartmentMarketReport.docx.pdf

[13] U.S. Census Bureau; https://www.census.gov/quickfacts/fact/table/chelancountywashington/PST045217

[14] U.S. Census Bureau; https://www.census.gov/quickfacts/fact/table/wa/PST045217

First-Time Homeownership

Between 2010 and 2016, homeownership in Washington state fell from 63.9 percent to 62.4 percent.[15] This parallels the national trend of decreasing ownership rates. Nationally, the ownership rate fell from 65.1 percent to 63.6 between 2010 and 2016.

In Washington, this decrease happened against a backdrop of steadily increasing home prices. The statewide median home price increased 27.9 percent, from $246,300 to $314,900 during this same period.[16] Meanwhile, incomes increased at a much slower rate of 15.2 percent. As a result, housing affordability statewide decreased.

Calculations by UW's Runstad Department show a decrease in the statewide affordability index from 149.4 at the end of 2010 to 105.4 in mid-2018.[17] Meanwhile, the affordability index for first-time buyers slipped from 83.6 to 61.2 during the same period. Low-income first-time homebuyers are assumed to have an even lower HAI.

Even though first-time homebuyers faced a challenging market nationally in the past few years, recent research by Genworth Mortgage Insurance indicates that the first-time homebuyer market was on the upswing in 2017.[18] Historically, first-time buyers have accounted for 35 percent of home sales. This rate increased to 38 percent last year. This same report indicates that 79 percent of first-time buyers relied on low down payment mortgage products in 2017. While we cannot be sure that these trends are matched within Washington, statistics show that qualified first-time homebuyers still have a significant need for assistance within the state.

WSHFC uses bond cap to provide assistance to qualified first-time homebuyers within the state. In the past two years, WSHFC provided assistance to more than 3,500 first-time homebuyers using private activity bond cap. This assistance was provided through Mortgage Credit Certificates (MCCs) and House Key loans. The past biennium (2016 and 2017) saw a 215 percent increase in the use of House Key loans compared to the previous biennium. The use of MCCs dropped 23 percent during the same period. However, Lisa DeBrock of WSHFC indicated that this change was due to an intentional move away from MCCs to the House Key loans, which better serve a "whole spectrum of low- to moderate-income borrowers and is a better tool to help with affordability."

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[15] ibid

[16] Office of Financial Management, State of Washington: https://www.ofm.wa.gov/washington-data-research/statewide-data/washington-trends/economic-trends

[17] Runstad Department of Real Estate at the University of Washington; http://realestate.washington.edu/wp-content/uploads/2018/05/2018SpringApartmentMarketReport.docx.pdf

[18] Genworth Mortgage Insurance; https://miblog.genworth.com/wp-content/uploads/2018/05/FTHBMarketReport.0518.Final_.pdf

Re-emergence of Exempt and Small Issue

Between 2007 and 2009, exempt and small issue certificates averaged $93.6 million per year, with no year having less than $56.6 million in allocations from annual bond cap. From 2010 through 2015, these categories averaged $9.6 million per year, with no issuances from current-year cap occurring in 2011 and 2012. This significant change was due in large part to upheaval in banking, economic and financing conditions during the Great Recession.

The past two years saw a significant increase in issuances in these two categories as economic and financing conditions continued to improve. An allocation of $10 million was granted in the small issue manufacturing category during 2016. Projects combining current-year cap and carryforward resulted in the issuance of $146.7 million of volume cap for exempt facilities.

Most of the exempt facility amount was associated with the Columbia Pulp project via an issuance through the Washington Economic Development Finance Authority (WEDFA) using $130.7 million in bond cap authority. This project stands out as the largest individual issuance in the exempt facility category in the history of the program.

Looking forward, Rodney Wendt, WEDFA executive director, indicated that future small issue and exempt facility issuance demand should result in average issuance volume of $25 million to $50 million per year. This is due to and based on the assumption of continuing strength in Washington's economy, particularly in the agriculture and aerospace sectors. Increasing interest rates might further escalate demand for these types of bond issues.

Other entities, such as the Port of Bellingham and the Economic Development Board for Tacoma-Pierce County, which have received allocations in the past, might supplement the requests for small issue and exempt facilities. As a result, these categories are likely to continue to see projects surface.

Effect of Tax Reform on Pricing of Tax Credits

The Tax Cuts and Jobs Act of 2017 resulted in numerous changes to corporate and individual tax rates. It indirectly impacted the pricing of tax credits for affordable housing development and the cost of financing through private activity bonds. Since the 2016 presidential election, the promise and subsequent implementation of tax cuts have driven the impact of private activity bond financing down from about $1 for every dollar of tax credit to about $0.90 per dollar. As a result, an equivalent amount of financing now results in fewer units being developed. Novogradac & Co. conducted an analysis of the impact of the tax legislation. It estimated that, nationwide, about 235,000 fewer affordable units will be built in the next decade as a result of the changes to tax statutes.[19]

[19] Novogradac & Company; https://www.novoco.com/notes-from-novogradac/observational-study-corroborates-lower-lihtc-unit-production-due-lower-corporate-tax-rate

Cuts to corporate tax rates made purchase of tax-exempt bonds less attractive. These purchasers, primarily banks and insurance companies, are estimated to make up about 23 percent of the municipal-bond-buyer base, according to Standish Municipal Bond Team's analysis of the 2018 reform. Concurrent changes to the allowance of deduction of state and local taxes somewhat offset this impact. These changes make tax-exempt bonds more attractive to people in states and municipalities where local taxes exceed $10,000, which impacts 18 states but not the state of Washington. Additional impacts not related to the tax legislation – such as federal interest rates, changes in tariffs and increasing federal deficits – create further instability that affect the purchasing power derived from tax-exempt private activity bonds.

Volatility in pricing for private activity bonds is likely to continue for a couple of reasons, including:

1. Ongoing deliberations on a national infrastructure program
2. The likelihood of future budget negotiations that impact affordable housing, infrastructure and economic development

Because of the numerous factors affecting bond rates, it is difficult to determine the exact impacts of tax reform. The long-term impact of this legislation on affordable housing production will likely not be clear for a number of years, and it is possible that it might never be isolated. To truly get a sense of impact, it will be necessary to look at all affordable housing funding sources and the number and type of units produced using those sources. The Bond Cap Allocation Program will continue to monitor research being conducted regarding this question to determine whether program outcomes might be altered over the long term.

Datasets to Support Bond Cap Allocation Program Objectives

The Bond Cap Allocation Program, WSHFC, ports, economic development councils and a wide range of other issuers need detailed information to determine how to best use private activity bond cap.

WSHFC has recently undertaken an effort to develop these information sources. It is soliciting bids for a new database to track affordable housing projects statewide. This is a continuation of an initial effort by the Affordable Housing Advisory Board to look at affordable housing data statewide through the Affordable Housing Needs Assessment completed in 2015.

Additional work Commerce recently completed through the Puget Sound Mapping Project provides a dataset covering the 12 counties bordering the Puget Sound and the Strait of San Juan de Fuca and all cities within those counties. Maps prepared for this effort depict standardized 2012 zoning and annual housing development from 2000-2017.[20]

[20] Department of Commerce, Puget Sound Mapping Project; https://www.commerce.wa.gov/serving-communities/growth-management/puget-sound-mapping-project/

These types of resources can help private developers, issuers and policymakers identify where emerging needs are and how best to create projects that address those gaps. Datasets that would additionally aid these efforts include:

- Brownfield sites that could be used for affordable housing development
- County assessors' data indicating current land use and date of structure development
- Depiction of employment trends using Employment Security Department data
- Depiction of Growth Management Act growth targets and buildable land capacity analysis
- Expansion of the Puget Sound Mapping Project layers from 12 counties to statewide
- Identification of Urban Growth Areas currently relying on septic systems
- Map of infrastructure projects supported by the Public Works Board, Community Development Block Grants and the Infrastructure Assistance Coordinating Council
- Surplus property sites that could be used for affordable housing development

Update of Program Application Processes and Rules

State law and administrative code provide criteria the program can use to evaluate applications for bond cap allocations and choose among qualifying projects. In 2007 and 2008, the program saw demand in allocations potentially exceeding available cap, and a competitive review process was initiated. Due to the economic downturn, this process was not completed.

Given current trends, it appears likely that in the near future, the program might need to process applications for all categories on a competitive rather than first-come, first-served basis. The program's 2007 and 2008 competitive housing processes model a workable approach. If that situation were to occur, some criteria would need to be reviewed and possibly updated.

If high demand continues in the housing category, the program might need additional direction on how to prioritize low-income homebuyer assistance and the need for multifamily rental housing projects by the WSHFC and housing authorities. WSHFC's authorizing statute, RCW 43.180, provides a level of guidance. If the need for a competitive process continues over the long term, Commerce might request legislative feedback on the state's current most pressing housing needs.

WAC 365-135-035 establishes that after the release of the category initial allocations, "Housing programs and projects will be given priority for the first 50 percent of the annual tax exempt private activity bond cap available after September 1 each year." This WAC needs to be updated to read "after July 1 each year" to correspond to the recent change in the RCW that releases the initial allocations. Defining "priority" more explicitly might also be appropriate.

In addition, the criteria for small issue applications in WAC 365-135-060 have not been reviewed or updated since 1997. Paragraph 1 specifies set-asides within the initial allocation for projects in eastern distressed, western distressed and eastern nondistressed communities.

Paragraph 2 of that same section creates bond cap per-job-created priority levels for projects in distressed and nondistressed communities on each side of the state. In recent years, many projects exceeded those bond cap per-job standards. That indicates a need for the standards to be updated to reflect inflationary impacts, or that other criteria might need to be weighted higher than bond cap per dollar or eastern/western and distressed/nondistressed characteristics of projects.

Local Housing Authority Application Process

As described previously, each year following the Great Recession until 2014, carryforward amounts accumulated. At one point, they reached $1.6 billion. The Bond Cap Allocation Program collaborated with WSHFC and local housing authorities to refer the housing authorities to WSHFC for allocations from previous years' carryforward rather than from a current year's allocation. The strategy made sense under the unusual circumstances of so much carryforward. It also allowed the pot of carryforward authority to be refreshed with new authority each year, preventing the older carryforward from being lost to expiration after three years. This benefited all bond cap issuers in the state. It freed current-year cap to be used for projects unable to receive carryforward allocations and ensured enough cap for the unprecedented levels of demand between 2014 and 2018.

At the time of this report's publication, the agreed-upon procedure was still in place. Having WSHFC make local housing authority allocation decisions seems to serve the bond cap statute's requirement that all housing projects applying for allocations comply with WSHFC's plan for housing, which is established in RCW 43.180.070. However, this approach is not consistent with current statutes for both bond cap and WSHFC.

A re-established advisory committee, or a subset of the committee, would be an appropriate entity to facilitate a discussion of this arrangement and identify future steps to address outstanding issues, such as potentially conflicting RCW provisions.

Bond Cap Categories

Exempt Facilities – 20 Percent Initial Allocation

Exempt facilities are capital projects that qualify 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 within 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 project in 2017 constituted the largest exempt facility allocation in Bond Cap Allocation Program history. Accomplishing this allocation required cap from more than one pot, including current-year 2017 cap from the exempt facilities initial allocation, 2016 carryforward and additional cap from the remainder category.

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 2,100 jobs for Washington residents since 2007.

Photo by Allan Johnson

When finished, the Columbia Pulp building project will create 83 new jobs in rural Columbia County and will prevent tons of wheat straw from entering the waste stream or pollution from burning.

Housing – 42 Percent Initial Allocation[21]

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 percent of mortgage revenue bond allocations must be used to finance residences for first-time homebuyers.

Under state law, 42 percent of the total cap is set-aside for housing — 80 percent to WSHFC (that is, 25.6 percent of the total cap) and 20 percent to local housing authorities (that is, 6.4 percent of the total cap).

WSHFC's allocation is divided between its Single Family Homeownership Program and Multifamily Rental Housing Program. WSHFC's multifamily program issues bonds for both nonprofit and for-profit affordable housing developers. In addition to issuing mortgage revenue bonds for low-income homebuyer assistance, WSHFC also uses portions of its single-family

[21] Beginning January 1, 2018, this category was allocated 42 percent of the state's total bond cap allocation. The 80/20 split between WSHFC and local housing authorities remained the same.

program cap authority to issue Mortgage Credit Certificates (MCCs). Those provide tax credits for homebuyers who purchase and rehabilitate homes in certain distressed areas of the state.

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 34,736 units of low-income, senior and special needs housing statewide.

Photo courtesy of [Seattle Housing Authority]

A bird's eye view shows the scope of Seattle Housing Authority's Yesler Terrace redevelopment. The project includes affordable housing, market-rate housing, retail, arts space, and a variety of other community amenities. Seattle Housing Authority bond issuances, facilitated by allocations of housing category bond cap authority, have contributed to the financing of the affordable housing portions of the project.

Small Issue – 25 Percent 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 may not exceed $10 million during that 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 29 families establish new agricultural businesses.

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. Even though 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 1,350 jobs in Washington communities.

Photo courtesy of [Commencement Bay Corrugated]

Roll stock is pictured at Commencement Bay Corrugated. This 2016 project, financed in part with a bond issued by the Washington Economic Development Finance Authority, retained 150 jobs and added 10 new ones in Orting, a rural community in Pierce County.

Student Loans – 5 Percent Initial Allocation[22]

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

[22] Beginning January 1, 2018, the student loan initial allocation will be reduced to 5 percent.

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 Percent Initial Allocation

Remainder and redevelopment, hereafter referred to as "remainder," is a miscellaneous category. It may 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 percent 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 may be reduced by the carryforward amount.[23] When this occurs, that amount may be reallocated into the remainder category, providing even more flexibility to make allocations to categories with higher needs earlier in the year.

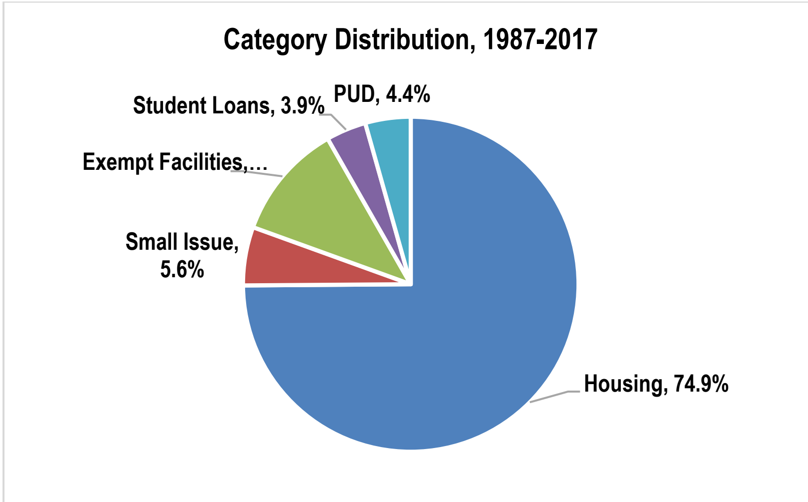
Most often, the remainder cap is used for housing category projects, particularly for local housing authority allocations over the initial set-aside. At times, remainder cap is also used for exempt facilities projects that are larger than the 30 percent of the initial allocation allowable for any one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

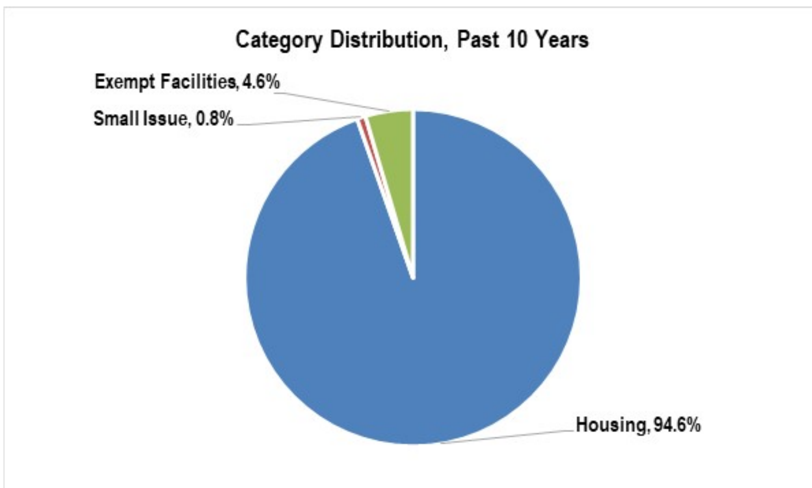
Historical Category Use

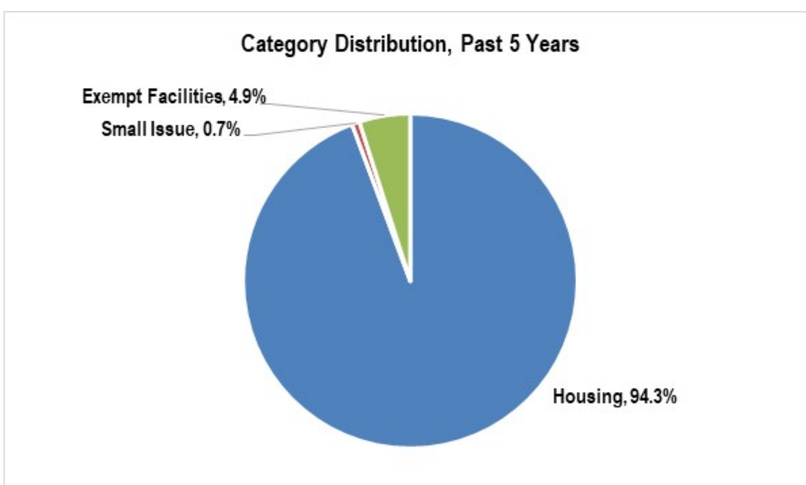
Over the years of the program's history, the housing category has traditionally used the largest share of the state's total bond cap authority. From the program's start in 1987, housing has used an average 74.9 percent of the state's total cap. Since 2008, that amount has increased to an average of 94.6 percent issued as housing bonds or allocated as carryforward designated for housing purposes.

[23] RCW 39.86.120(2)

Figure 3: Bond Cap Category Distribution Over Time







A variety of factors contributes to this use pattern. Before 2007, small issue projects were restricted to $10 million in 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 began to be felt in the state during 2008, the market for industrial development bonds again dropped off. It remained relatively slow due to low interest rates on conventional loans, economic uncertainty and tighter bond underwriting standards.

Small signs suggest this might be changing. Interest rates have increased, making the tax-exempt financing of a bond cap bond more attractive, and the economy as a whole has improved. In 2017, the Washington Economic Development Finance Authority (WEDFA) issued three exempt facilities bonds totaling $177,992,912. 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 $101,992,912 in 2017 current-year cap and $27,724,000 in 2016 carryforward, totaling $130,716,912 in bond cap authority.

Additionally, demand for bond cap to support affordable housing projects remains 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 grant or loan funds, federal grants, contractor concessions and low-income housing tax credits (LIHTCs). To qualify for a 4 percent LIHTC, the project must have an allocation of bond cap. Few affordable housing projects are feasible without either a bond cap allocation plus 4 percent LIHTCs or 9 percent LIHTCs, some of which also use bond cap allocations.

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 that the application form is filled out completely and that 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. [24]

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 the:

- 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 with 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 the:

- 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

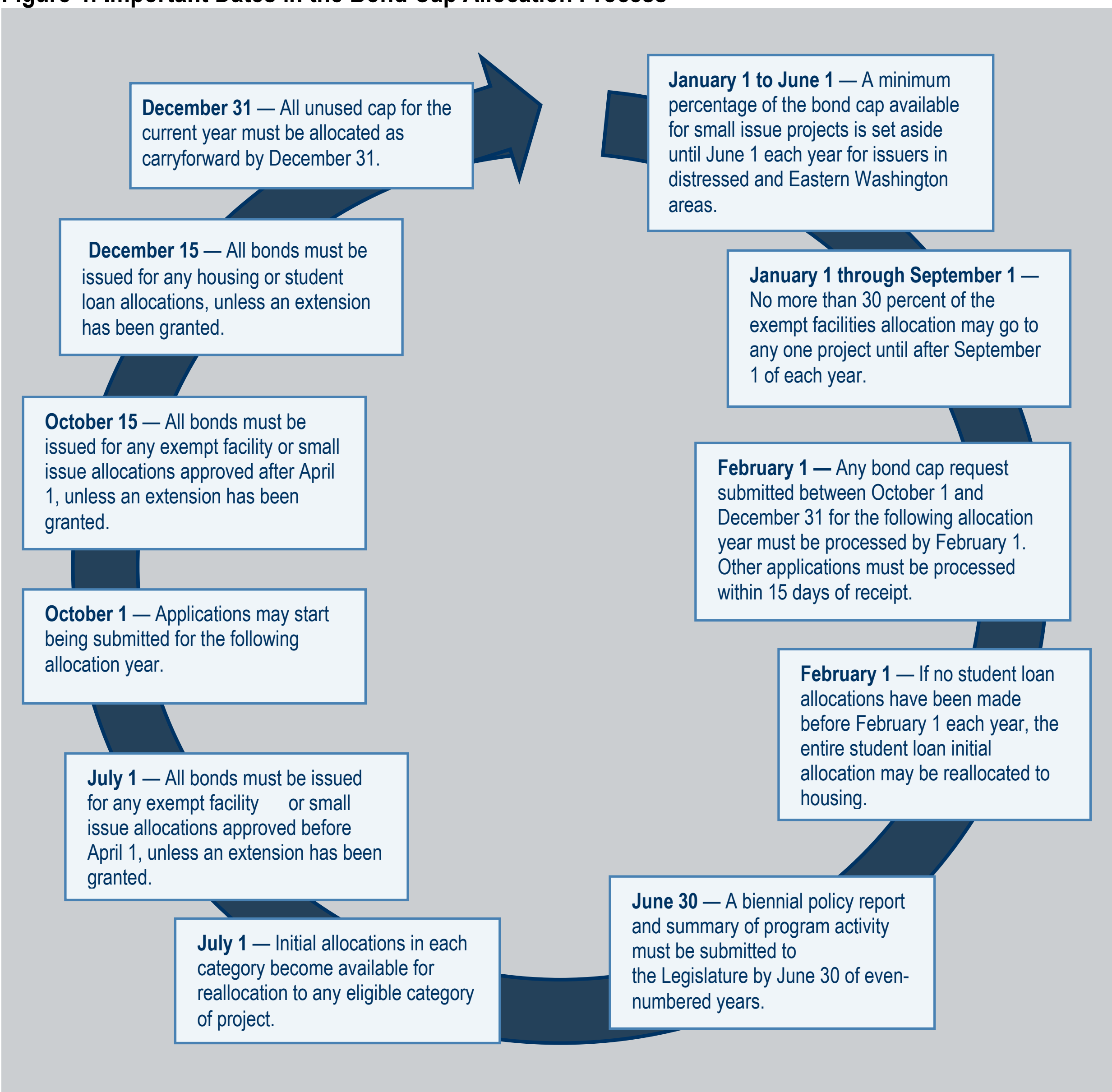
In addition to category-specific criteria, applicants are asked to describe the project's need to issue tax-exempt private activity bonds and the cost and availability of alternative financing

[24] RCW 39.86.140(2)(e)

options. State law also indicates that readiness and likelihood to issue bonds before the issuance deadline are important criteria for all categories of applications.[25]

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

Figure 4: Important Dates in the Bond Cap Allocation Process



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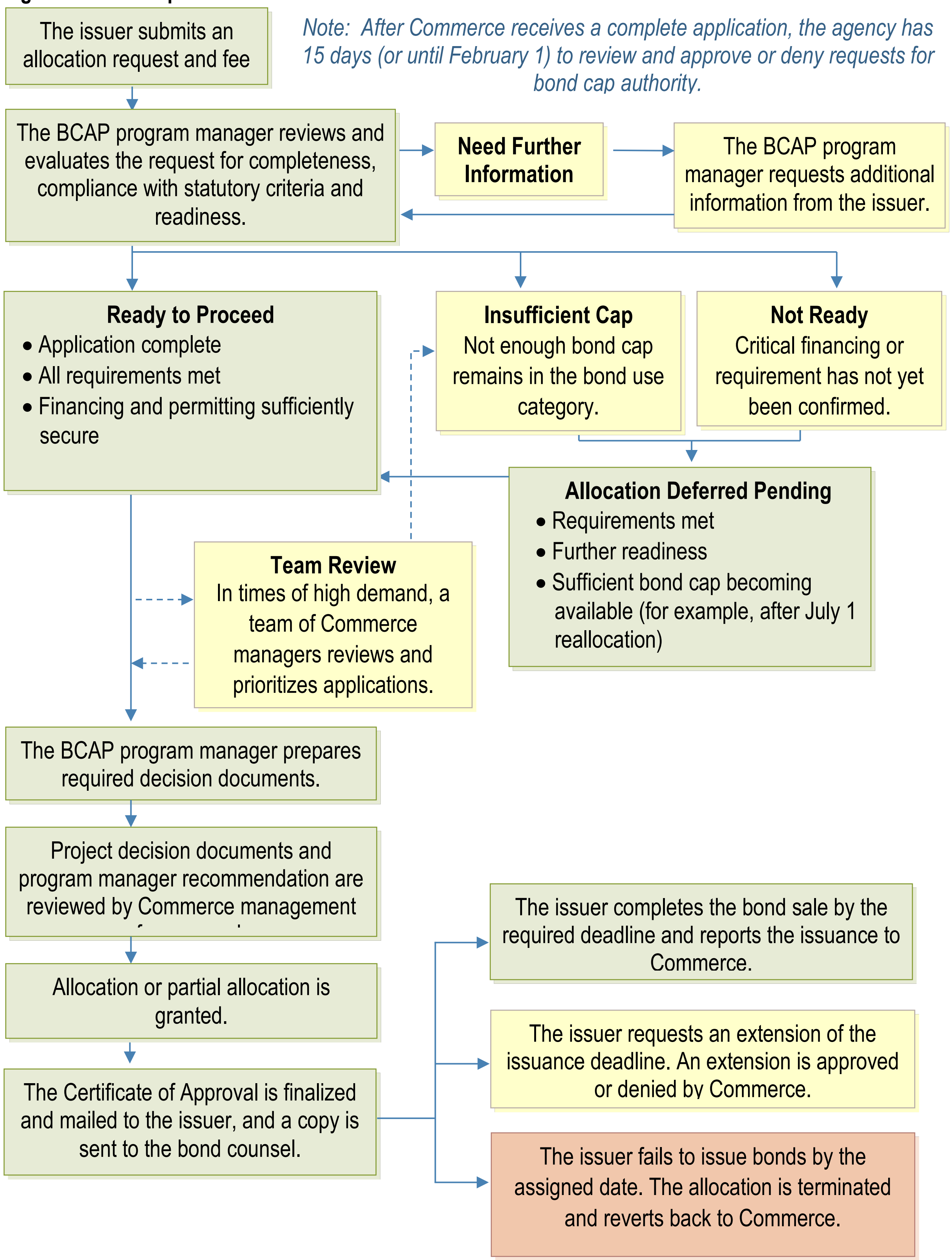
[25] RCW 39.86.140(6)(a)

Figure 5: Bond Cap Allocation Flowchart



Carryforward

"Carryforward" is the allocation of bond cap authority that went unused during the calendar year that 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 may 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 that the cap will be lost if that 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. Most carryforward amounts in the state 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 may 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 may 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 twice – in 1992 and 1994 – but hasn't been since because of the risks associated with allocating to specific projects. For many years, Commerce allocated carryforward to WSHFC only. But in 2016, the agency allocated $28 million to WEDFA to facilitate an early issuance of a large exempt facilities bond the following year.

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 that bonds are issued by the deadline or that 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 that when an issuer has received a carryforward allocation, the issuer's initial allocation for the following year may be reduced by the amount of the carryforward received and those amounts moved into the remainder category.[26] 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).

Carryforward Trends

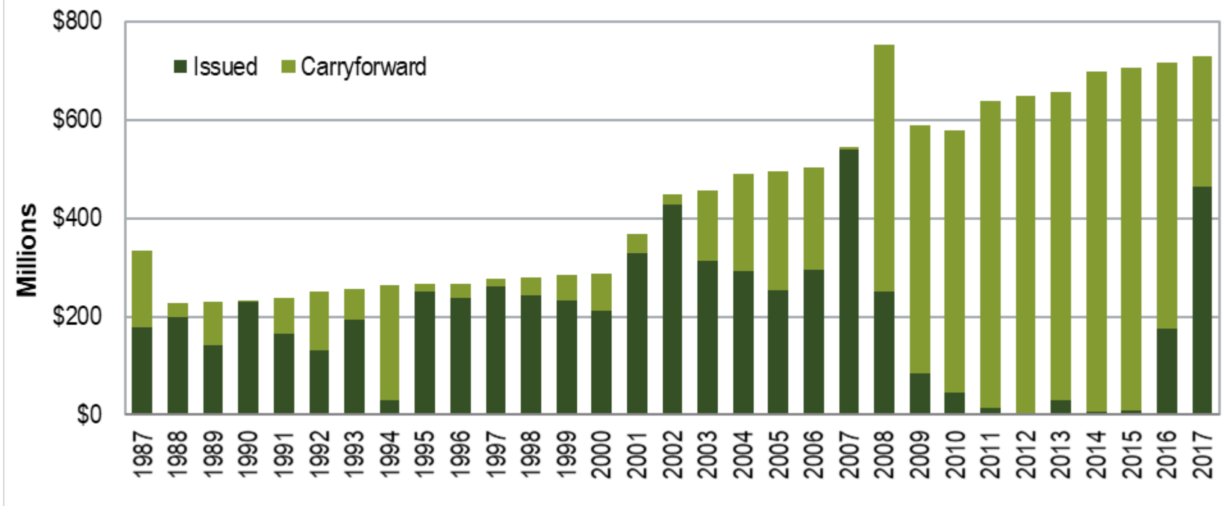
The percentage of the annual bond cap used during the year varies depending on market factors, such as interest rates and economic growth, as well as changes in federal policy. In slow economic times, less cap tends to be used during the year and more is carried forward into future years.

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 that allowed 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 that year.

However, since 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 occurred in 2016 and 2017. But it is too soon to tell whether a trend toward increased demand for bond cap allocations, resulting in smaller carryforward amounts, will continue.

[26] RCW 39.86.120(2)

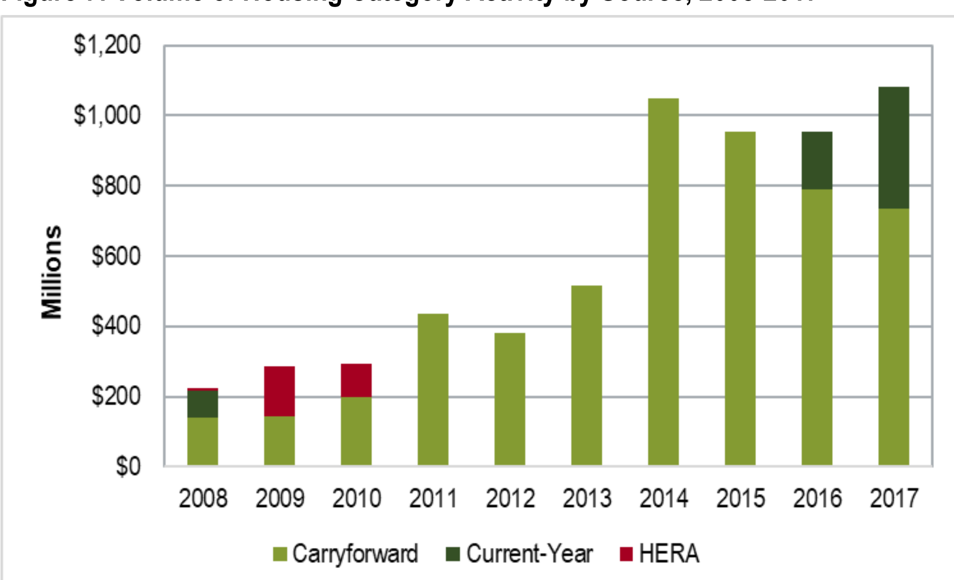
Figure 6: Current-Year Allocations Issued During the Year and Carried Forward, 1987-2017



Note: 2008 amounts include extra cap for housing under the Housing and Economic Recovery Act of 2008 (HERA)

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 $5.34 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.

Figure 7: Volume of Housing Category Activity by Source, 2008-2017



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 over the past four years 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 new year's carryforward to be added to the pool with an expiration date an additional year into the future. This allowed the state to avoid 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. And in 2016 and 2017, allocations from current-year cap were once again needed. From a high of $1.6 billion in accumulated carryforward at the beginning of 2014, 2017 ended with only $324.7 million remaining – even after the allocation of the 2017 carryforward. If demand continues at a rate similar to the past four years, by 2019, local housing authorities would likely return to applying to Commerce for allocations from 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 that 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 may 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.

Qualified Energy Conservation Bonds

Background

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 that 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 percent of the state's total could be used for private activities, or about $20.4 million of the state's $67.9 million total.

QECBs could be 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 percent of the state's QECB allocation had to be used for governmental purposes, and no more than 30 percent could be used for private activities. Unlike other economic stimulus bond authorities, QECBs did not have an issuance deadline in federal law.

Allocating, Reallocating, and Aggregating QECB Authority

Even though QECBs were originally allocated by a population-based formula, they could be reallocated to the state or to other issuers. Because many of the original allocations were unusably 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 percent 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. The $8.367 million balance of QECB authority consists of:

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

Of the state's $8.367 million balance, the private activity allowance remaining is $7.4 million. As of this report's publication, WSHFC has planned a $4.1 million issuance for late August 2018 for the Walk, a 52-unit housing development in the City of Bainbridge Island, which is part of Kitsap County's Green Communities Initiative.

Table 1: 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

Date	Issuer	Amount	Government or Private	Project Description
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
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**		

2016-2017 Program Activity Summaries

Bond cap activity during 2016 and 2017 was characterized by continued high demand for housing cap and the beginning return of demand for small issue and exempt facilities cap. Compared with the previous two-year period when nearly all bond cap activity – more than 99 percent – used previous years' carryforward allocations, significant portions of the current-year cap were used in 2016 and 2017. Affordable housing still dominated the activity, but other categories also used allocations.

2016 Bond Cap Issuances

During 2016, 48 bonds were issued, using a total of $964.9 million in bond cap authority. Of that amount, 98.9 percent went to housing category projects that created or rehabilitated more than 7,292 units of affordable housing. Only $10.75 million went to small issue projects. No exempt facilities bonds were issued during the year.

The year began with more than $1.071 billion in accumulated carryforward; it ended with only $280.4 million remaining. Nearly 74 percent of the carryforward from previous years was used during the year, along with 24 percent of the 2016 current-year allocation. After the 2016 carryforward was allocated, carryforward going into 2017 amounted to $823.3 million – 77 percent of the carryforward amount coming into 2016.

Table 3: 2016 Bond Cap Projects

Date	Issuer	Project	Bond Cap Amount[27]	Allocation Source[28]
1/29	Spokane HA[29]	Parsons Project – Rehab 94 units	$3,800,000	2013 CF
2/1	King County HA	Spiritwood Manor – Rehab 128 units	$24,000,000	2013 CF
2/1	King County HA	Corinthian Apartments – Rehab 95 units	$5,500,000	2013 CF
2/5	Everett HA	EHA Senior Housing – Rehab 200 units	$15,970,000	2013 CF
2/9	WSHFC[30]	Beaver Cove Apartments – Rehab 118	$17,050,000	2013 CF
2/24	WSHFC	Promenade Apartments – Build 294 new units	$54,000,000	2013/2014 CF
2/25	WSHFC	Estates at Hillside Gardens – Build 127 new units	$15,400,000	2014 CF

[27] "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.

[28] 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.

[29] HA: Housing Authority

[30] WSHFC: Washington State Housing Finance Commission

Date	Issuer	Project	Bond Cap Amount[27]	Allocation Source[28]
3/4	WSHFC	Vintage at Bellingham – Rehab 94 units	$10,000,000	2014 CF
3/4	WSHFC	The Meadows Apartments – Rehab 101 units	$13,300,000	2014 CF
3/4	WSHFC	The Timbers Apartments – Rehab 134 units	$20,300,000	2014 CF
3/4	WSHFC	Vintage at Arlington – Rehab 100 units	$10,950,000	2014 CF
3/10	WSHFC	Hopesource Portfolio Projects – Rehab 146 units	$7,390,000	2014 CF
3/11	WSHFC	Lynnwood City Center Senior Living – Build 308 new units	$39,576,000	2014 CF
3/25	King County HA	Summerfield Apartments – Rehab 52 units	$10,000,000	2014 CF
4/19	Tacoma HA	Bay Terrace Phase II/2500 Court G – Build 74 new units	$3,725,000	2014 CF
4/19	Tacoma HA	Renew Tacoma Housing – Rehab 456 units	$45,000,000	2015 CF
4/21	Yakima HA	Glenn Acres and Naches – Rehab 88 units	$7,000,000	2014 CF
5/4	WSHFC	Madison Way Apartments – Build 180 new units	$27,500,000	2014/2015 CF
5/6	WSHFC	Beginning Farmer/Rancher Program – Keith and Ashley Luft	$455,000	2016 Current
5/26	WSHFC	Single-Family Program Bonds (Homeownership)	$35,014,409	2014 CF
6/28	WSHFC	LARC at Kent Station – Build 131 new units	$14,250,000	2015 CF
6/30	WSHFC	Vintage at Holly Village Project – Rehab 149 units	$23,500,000	2015 CF
7/1	Vancouver HA	Orchard Glen Apartments – Rehab 80 units	$6,570,550	2015 CF
8/5	WSHFC	Vintage at Mill Creek – Build 216 new units	$27,500,000	2015 CF
8/5	WSHFC	SHAG Affordable Housing Portfolio – Rehab 433 units	$22,480,888	2015 CF
8/5	Walla Walla HA	Scattered Sites/Emerald Family Properties – Rehab 84 units	$7,400,000	2015 CF
8/10	WSHFC	Wright House Park Project – Rehab 54 units	$9,200,000	2015 CF
9/1	HA of Snohomish County (HASCO)	Westend Apartments – Rehab 133 units	$18,000,000	2015 CF
9/8	WSHFC	Southside by Vintage Apartments – Build 298 new units	$55,000,000	2015 CF
9/17	WSHFC	Copper River Apartments – Build 240 new units	$17,000,000	2015 CF
9/26	WSHFC	Villas at Auburn Project – Build 295 new units	$48,175,000	2015 CF
9/29	WSHFC	Reserve at Auburn – Build 297 new units	$44,868,700	2015 CF

Date	Issuer	Project	Bond Cap Amount[27]	Allocation Source[28]
9/29	King County HA	Corinthian Apartments – Rehab 95 units	$7,000,000	2015 CF
10/6	Seattle HA	New Holly Phase 1 – Rehab 305 units	$22,340,000	2015 CF
10/19	WSHFC	Copper Wood Apartments – Build 228 new units	$24,220,000	2016 Current
10/21	Seattle HA	Anchor Flats/1511 Dexter – Build 71 new units	$11,600,000	2015 CF
10/25	Seattle HA	University District Apartments – Build 80 new units	$15,321,346	2016 Current
11/3	WSHFC	Linden Flats Apartments – Build 170 new units	$25,550,000	2016 Current
11/9	Walla Walla HA	WW Senior Housing Properties – Rehab 80 units	$6,000,000	2016 Current
11/16	WSHFC	Beginning Farmer/Rancher Program – Jacob and Rachel Reister	$295,000	2016 Current
11/30	WEDFA[31]	Small Issue – Seattle Box Company/Pacific Container	$10,000,000	2016 Current
12/1	WSHFC	Basalt Ridge Apartments – Build 240 new units	$21,070,000	2016 Current
12/2	WSHFC	Single-Family Program Bonds (Homeownership)	$53,311,478	2014 CF
12/16	WSHFC	Copper Valley Apartments – Build 220 new units	$21,152,300	2016 Current
12/21	WSHFC	Baker Apartments – Rehab 84 units	$7,900,000	2016 Current
12/21	WSHFC	Puget Park Apartments Project – Build 256 new units	$42,200,000	2016 Current
12/21	Seattle HA	Cambridge Apartments – Rehab 157 units	$24,922,437	2015 CF
12/21	Seattle HA	Security House – Rehab 107 units	$12,142,162	2015 CF
		Total bond cap used	**$964,900,270**	
Carryforward Allocated				
	WEDFA	Exempt Facility – Columbia Pulp Project	$28,724,180	2016 CF
	WSHFC	Housing – Multifamily Program	$514,147,274	2016 CF
		Total carryforward	**$542,871,454**	

2017 Bond Cap Issuances

During 2017, 43 bonds were issued, using a total of $1.23 billion in bond cap authority. Of that amount, 88 percent went to housing category projects. Those projects created or rehabilitated more than 6,359 units of affordable housing and helped numerous low- to moderate-income families become homeowners. No small issue projects used allocations during 2017.

[31] Washington Economic Development Finance Authority

However, four exempt facilities projects used a total of $146.7 million, more than 100 percent of the category's initial allocation. The total included an allocation of 2016 carryforward and additional allocations from the remainder category. A single large project, the Columbia Pulp project, constituted the majority of the category's total allocation, using $130.7 million. That dollar amount included $101.9 million from the 2017 current-year allocation and $28.7 million from 2016 carryforward. The last time exempt facilities used its entire initial allocation was in 1995, when exempt facilities used 68.3 percent of the state's total allocation.

If usage trends continue at the same rate through 2018, little carryforward would be available by the beginning of 2019. In that scenario, 2007's competition for allocations could return.

Table 4: 2017 Bond Cap Projects

Date	Issuer	Project	Amount	Allocation Source[32]
2/28	WSHFC[33]	Chehalis Apartments Project – Build 60 new units	$5,835,000	2015 CF
2/28	WSHFC	Parkside Preservation – Build 202 new units	$40,000,000	2015 CF
3/8	WSHFC	Boulevard Place – Build 291 new units	$30,109,600	2015 CF
3/10	WSHFC	Polaris ID Apartments/Thai Binh – Build 249 new units	$40,000,000	2015 CF
3/31	WSHFC	Trailside Village Apartments – Rehab 250 units	$35,000,000	2015/2016 CF
4/17	WSHFC	Mount Baker Village Apartments – Rehab 107 units	$32,473,671	2016 CF
4/21	WSHFC	Avaire/Casino-Westmont Apartments – Rehab 96 units	$11,008,000	2016 CF
4/21	WSHFC	Evergreen Village Apartments – Rehab 180 units	$44,000,000	2016 CF
4/27	WSHFC	Single-Family Program Bonds (Homeownership)	$55,026,388	2014/2015 CF
5/19	Seattle HA[34]	Red Cedar – Build 119 new units	$35,000,000	2016 CF
5/19	WSHFC	Royal Hills/Renton Preservation Apartments – Rehab 284 units	$46,000,000	2016 CF

[32] 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.

[33] WSHFC: Washington State Housing Finance Commission

[34] HA: Housing Authority

Date	Issuer	Project	Amount	Allocation Source[32]
5/26	WSHFC	Ridpath Club Apartments – Rehab 206 units	$10,000,000	2016 CF
7/6	WSHFC	Lake City/30th NE Family Housing – Build 70 new units	$11,000,000	2016 CF
7/21	WSHFC	Tukwila Villa Phase I Senior Living – Build 193 new units	$27,900,000	2016 CF
7/25	Renton HA	Sunset Court – Build 50 new units	$5,000,000	2016 CF
7/27	WSHFC	Sea-Mar Vancouver Housing – Build 70 new units	$11,500,000	2017 Current
8/1	Everett HA	Wiggums Park Place – Rehab 80 units	$12,700,000	2016 CF
8/2	WSHFC	LARC at Burien – Build 160 new units	$21,350,000	2017 Current
8/4	WSHFC	Waterview Crossing Apartments – Build 326 new units	$65,000,000	2017 Current
8/9	WSHFC	Santos-Sandpoint/SPH Two – Rehab 69 units	$6,020,000	2017 Current
8/10	WEDFA[35]	Exempt Facility – Columbia Pulp	$130,716,912	2016 CF/ 2017 Current
8/10	WSHFC	Vintage at Bremerton – Rehab 143 units	$13,500,000	2017 Current
8/15	WSHFC	K-West Apartments – Build 192 new units	$18,500,000	2017 Current
8/16	WSHFC	McKinley Terrace Portfolio – Rehab 233 units	$21,380,000	2017 Current
8/31	Capitol Hill Housing Improvement Project (CHHIP)	Union & 24th/Liberty Bank Project – Build 115 new units	$16,500,000	2016 CF
9/6	WEDFA	Exempt Facility – Waste Control	$3,990,000	2017 Current
9/8	WSHFC	YWCA Snohomish Portfolio – Rehab 220 units	$34,400,000	2017 Current
9/14	Spokane HA	Wilbur and Cook Portfolio – Rehab 379 units	$33,350,000	2016 CF
9/21	WSHFC	Building 9 South Apartments – Build 108 new units	$24,625,000	2017 Current
9/28	WSHFC	Single-Family Program Bonds (Homeownership)	$29,997,216	2015 CF

[35] WEDFA: Washington Economic Development Finance Authority

Date	Issuer	Project	Amount	Allocation Source[32]
10/12	WSHFC	Redmond Place – Build 109 new units	$21,000,000	2017 Current
11/21	WSHFC	Homestead Apartments Portfolio – Rehab 66 units	$10,383,000	2016 CF
12/11	WSHFC	Spokane 2 Apartments Portfolio – Rehab 169 units	$12,500,000	2016 CF
12/12	Seattle HA	West Seattle Affordable Housing – Rehab 204 units	$25,000,000	2017 Current
12/12	Renton HA	Golden Cedars – Rehab 369 units	$58,000,000	2017 Current
12/13	WSHFC	Gateway by Vintage Apartments – Build 216 new units	$30,830,000	2016 CF
12/14	WSHFC	Crossroads Senior Living Project – Build 185 new units	$25,364,100	2016 CF
12/15	King County HA	Highland Village – Rehab 76 units	$25,000,000	2016 CF
12/15	King County HA	Somerset Gardens – Rehab 198 units	$20,000,000	2016 CF
12/18	Bellingham/Whatcom County HA	Bakerview Redevelopment – Rehab 94 units	$10,000,000	2016 CF
12/19	WSHFC	Watermark Apartments – Build 221 new units	$40,432,000	2016 CF/ 2017 Current
12/22	WEDFA	Exempt Facilities – Basin Disposal	$12,010,000	2017 Current
12/28	WSHFC	Single-Family Program Bonds (Homeownership)	$65,023,303	2015 CF 2017 Current
		Total bond cap used	**$1,227,424,190**	
		Carryforward Allocated		
12/31	WSHFC	Housing – Single-Family Program	$60,000,000	2017 CF
12/31	WSHFC	Housing – Multifamily Program	$204,324,153	2017 CF
		Total carryforward	**$264,324,153**	

Small Issue and Exempt Facilities Job Creation and Retention

During 2016 and 2017, bond cap activity in the small issue category was low. After a burst of activity in 2007, the number of small issue bonds has stayed low despite the economic recovery from the recession that began in 2008. Based on levels of activity since the recession, the low level of activity might be due to the federal limitations on total small issue project costs, continuing low-interest rates on conventional loans or a combination of the two.

In 2017, however, exempt facilities sprang back in a big way, seeing three bond cap issuances, including one very large issue. The 2017 exempt facilities activity alone amounted to 37 percent of the total exempt facilities par value since 2007.

Table 6: Small Issue and Exempt Facilities Issuances, 2007-2017

	Farmer/Rancher[36]		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
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*
Totals	**27**	**$6,177,903**	**20**	**$107,824,000**	**15**	**$397,081,912**

*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.

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

Bond Cap Project Highlight – Columbia Pulp

Photo by Allan Johnson

The Columbia Pulp project was financed in part with a bond issued by the Washington Economic Development Finance Authority, the largest exempt facilities bond in Bond Cap Allocation Program History.

The Columbia Pulp project under construction in Columbia County will process 140,000 tons of wheat straw annually. Slated to open in 2019, Columbia Pulp will employ 83 people. About 70 percent of the total project cost of $190 million was financed with exempt facilities bond cap. The project will yield a range of benefits from job creation to waste reduction.

In 2017, Washington was the third-largest wheat-producing state in the country, with 143 million bushels, or about 6 percent of the national total.[37] Once this wheat is harvested, vast amounts of waste straw are plowed into the soil, used for animal bedding or burned. In 2014, the Washington State Department of Ecology estimated that burning agricultural residue releases about 45,000 tons of ash, particulates, carbon monoxide and carbon dioxide each year throughout the state. Additionally, farmers pay millions of dollars annually in permit fees to burn the straw.

[37] Agricultural Marketing Resource Center; https://www.agmrc.org/commodities-products/grains-oilseeds/wheat

The Columbia Pulp project will reduce this burning by converting waste straw into three product streams, including sugars that can be used as animal feed, a product to inhibit runoff at construction sites and nonwood fiber that can be used like wood pulp in the production of paper towels and tissue products. The project will reduce emissions and petrochemical demand related to wood-fiber processing because the process used to break down the waste straw is not sulfur-based. Supplemental products resulting from straw processing will be used for animal feed and runoff control. It is anticipated that pulp the factory produces will be shipped primarily to producers throughout the Pacific Northwest.

Public Benefits of Bond Cap

Tax-exempt private activity bond issuances must, by definition, be used for projects with measurable public benefits. State law and WAC provide Commerce with 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 include:

- 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 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 percent low-income housing tax credits (LIHTCs). To qualify for these tax credits, 50 percent of the project's financing must come from the tax-exempt bond cap issuance. During 2016 and 2017, a total of 13,651 units of affordable multifamily rental housing were created or rehabilitated using tax-exempt private activity bonds (bond cap) as part of the financing package. That's a 92 percent increase from the 7,093 units developed during the previous two-year period.

Table 5: Affordable Multifamily Rental Housing Units Created or Rehabilitated, 2016-2017

A. WSHFC/Local Housing Authority (LHA)	B. Housing Units	C. Bond Cap Used	D. Average. Bond Cap/Unit = C ÷ B
WSHFC	9,588	$1,309,643,259	$136,492
Local Housing Authorities	4,063	$486,841,495	$119,823
Totals	**13,651**	**$1,796,484,754**	**$131,601**

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 2016 and 2017, WSHFC issued more than $238 million in Single-Family Program bonds for down-payment assistance for low-income families. Of that amount, $19 million came from 2017 current-year bond cap and the balance from previous years' carryforward.

WSHFC has traditionally chosen to also direct some of its bond cap to Mortgage Credit Certificates (MCCs), particularly during recession years. 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.

During 2016 and 2017, WSHFC did not direct any allocations into MCCs. In part, this was because of the large amounts – a total of $960 million – in MCCs that WSHFC directed carryforward to over the previous two years. Those amounts kept the MCC program running during 2016 and 2017 and prevented any carryforward from expiring before it could be used.

Estimated Job Creation Impacts of Affordable Multifamily Rental Housing

Affordable housing development serves several functions in communities. It provides the public benefits of creating and maintaining rental housing, assisting 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[38]

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

[38] 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/Sites/NAHB/economic-studies/REPORT_state.ashx?la=en&hash=515677E280D55E50B66D6F31D6689736F54F3EB0, page 2

- $503,000 in taxes and other revenue for local governments annually
- 44 permanent local jobs[39]

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 6: Estimated Job Creation Impacts of Construction of New Multifamily Housing, 2016-2017

WSHFC/LHA[40]	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	6,152	9,905	2,706
LHA	509	819	224
Totals	**6,661**	**9,392**	**2,931**

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.[41] 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[42]

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 percent of project costs for a housing project to be considered tax-exempt and for it to qualify for 4 percent 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 percent 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.

[39] NAHB, page 3

[40] WSHFC: Washington State Housing Finance Commission; LHA: Local Housing Authorities

[41] NAHB, page 3

[42] NAHB, page 3

Table 7: Estimated Jobs Created by Rehabilitation of Affordable Multifamily Housing, 2016-2017

WSHFC/ LHA	Units Rehabilitated	Bond Cap Used	Estimated Total Project Costs Bond Cap Used x 2	Estimated Year-One Temporary Construction Jobs Created
WSHFC	3,436	$418,735,559	$37,471,118	9,631
LHA	3,554	$399,695,149	$799,390298	9,193
Totals	**6,056**	**$818,430,708**	**$1,636,861,416**	**18,824**

Job Creation Impacts of Small Issue and Exempt Facilities Projects

During 2016 and 2017, small issue and exempt facilities projects created 189 permanent jobs and retained another 150 such jobs. Two first-time farmer/rancher "aggie" bond issuances in 2016 created 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.

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 67 percent. With the population increase and the adjustment of the per capita rate for inflation, the total cap available has more than doubled during the program's history.

Because it was the first full year after both the federal regulations and the Washington state bond cap statutes were adopted, 1987 was very different from subsequent years. 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.[43]

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, the housing category was initially allocated only 5 percent of the cap under state law, compared with today's 42 percent initial allocation. 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 percent of the total cap was scheduled for transfer from the student loan category to the housing category, which is slated to be implemented in 2018.

[43] Internal Revenue Bulletins; https://apps.irs.gov/app/picklist/list/internalRevenueBulletins.html

Table 8: Annual Bond Cap Calculation, 1987-2018

Year	Washington State Population	Per Capita Multiplier	Total State Private Activity Bond Cap[44]
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
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[45]	–	–	$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
Total			**$14,453,362,482**

[44] 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.
[45] 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.

Overall Bond Cap Use Trends, 2007-2017

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.[46] The 2007 nationwide, pre-recession high usage rate was 100 percent of current-year cap and 58 percent of the total available capacity.[47] That year, Washington used 99.4 percent of current-year cap and 91.7 percent of accumulated carryforward, issuing $782.7 million in bonds, or 96.9 percent of that year's $807.9 million available capacity.[48]

Nationwide, bond cap issuances in 2013 were at their lowest point following the recession. But in Washington, they had already started an upward trend. In 2008, the state saw its lowest total value of issuances – $245 million. In 2012, it saw its lowest percentage use of available capacity – 19.5 percent. That year, only 0.02 percent of current-year cap was used; all 2012 current-year bond cap except $150,000 was carried forward.

In 2017, an all-time high total volume of $1.227 billion in bond cap authority was used in Washington state. All of it was in the form of issued bonds (that is, no bond cap authority was diverted into MCCs). That represented 79 percent of the $1.552 billion in available capacity. In 2016, $964.9 million in issued bond cap bonds used 53.9 percent of the $1.788 billion in available capacity (also without using MCCs).

The beginning of 2014 saw the largest total capacity at $2.384 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 million of the accumulated carryforward for MCCs each year helped drive the turnaround. The lowest use of total capacity occurred in 2013, when only 24 percent of the state's $2.223 billion in total capacity that year was used to issue $346.9 million in bonds and elect $200 million for 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.

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[46] 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

[47] "Available capacity" equals the current year's annual allocation plus any unused carryforward from previous years.

[48] The 2008 current-year data and 2009 carryforward data include additional housing cap authorized by the October 2008 Housing and Economic Recovery Act (HERA). Of the HERA cap, Washington's share was $202.5 million. By the end of 2009, all the state's HERA cap allocations had been used up.

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 $125 million less than the total volume of bonds issued in 2017. If current trends were to continue, the state could experience shortages of bond cap authority.

Figure 8: Total Capacity, 2007-2017

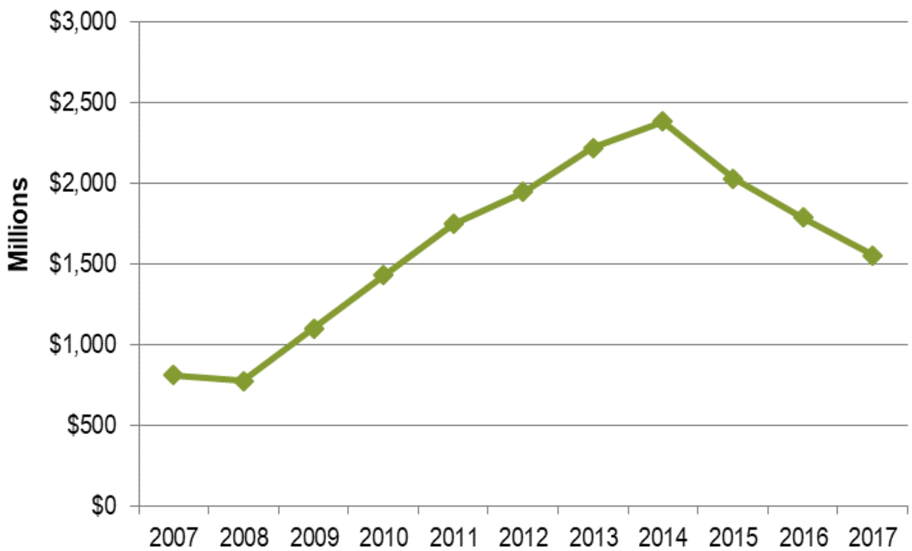


Figure 9: Percent of Total Capacity Used, 2007-2017

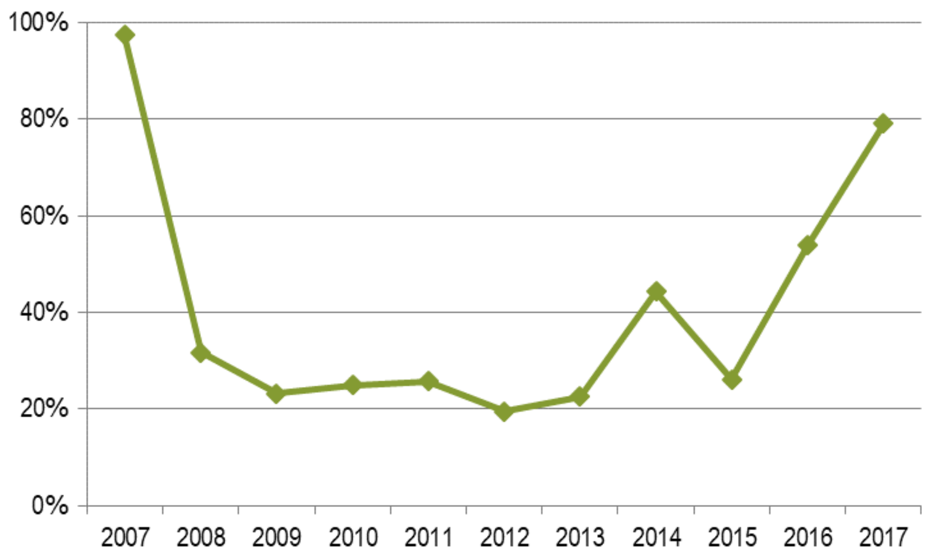
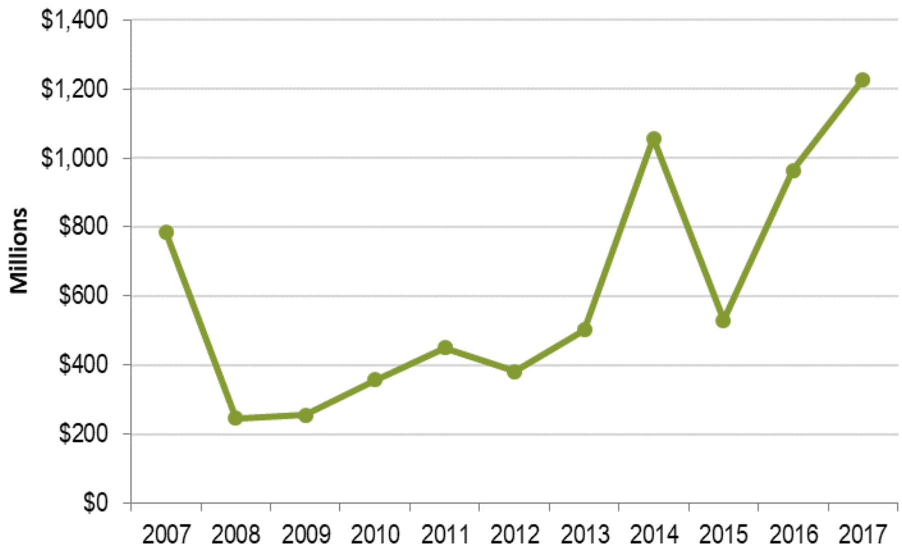


Figure 10: Total Volume Issued, 2007-2017



Category Distribution

A trend toward more bond cap going to housing projects over the program's history has 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 with the initial allocation percentages in statute. However, in 2017 exempt facilities used $146.7 million, more than its $145.7 million initial allocation.

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. In addition, 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:

- 75 percent overall since the program began in 1987
- 84.1 percent since 2000
- 94.8 percent over the past 10 years
- 99.98 percent in 2012 – the most ever

Since the 2012 high, the housing category percentage has somewhat decreased due to the beginnings of recovery in the small issue and exempt facilities categories. In particular, the percentage of the total current-year cap that went to housing dropped from 94.5 percent in 2016 to 83.8 percent in 2017.

Figure 11: Housing Percentage of Total Annual Cap, 1987-2017

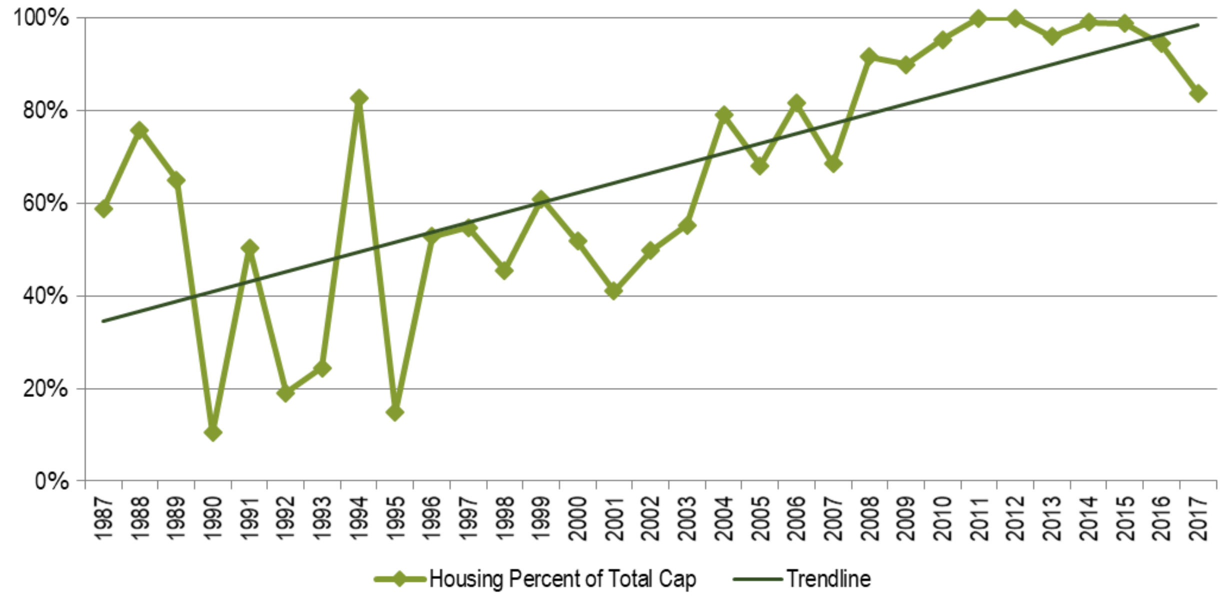


Table 9 shows the average use per category in the state.

Table 9: Average Actual Category Use Compared with Initial Allocations

Category	Average % of Total Cap Used 1987-2017	Average % of Total Cap Used, 2008-2017	Initial Allocation 2002-2007	"Alternative Allocation"[49] 2008-2017	Initial Allocation Beginning 2018
Exempt Facilities	11.13%	0.82%	19%	20%	20%
Housing	74.98%	94.8%	30%	32%	42%
Public Utility District[50]	4.38%	0%	10%	0%	0%
Small Issue	5.65%	4.38%	24%	25%	25%
Student Loans	3.87%	0%	14%	15%	5%
Remainder	N/A	N/A	3%	8%	8%

[49] The "Alternative Allocation" was created in statute to be used at whatever point the $750 million PUD lifetime maximum allocation was expended.

[50] 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.

Housing aside, exempt facilities and the PUD category before its expiration have come the closest to using their initial allocations. Exempt facilities averaged about half its initial allocation over the program's history, and PUDs averaged 81 percent of their initial allocation prior to 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 3.78 percent of the total cap over the program's history, compared with its 15 percent initial allocation. Before the loss of the state's original student loan issuer in 2004, the category had averaged 18.8 percent, 25 percent more than its 15 percent initial allocation. 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 percent initial allocation. Overall, small issue has used only 6.96 percent of the total cap, 28 percent of the category's initial allocation. 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 reduce the number of manufacturing projects that can take 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 the purpose of small issue bonds for 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. Efforts are underway 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

Over the course of 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 no cap 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, 1987-2017

Year	Housing	Small Issue	Exempt Facilities	Student Loans	PUD[51]	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
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[52]	$688,948,312	$18,408,800	$45,000,000	$0	$0	$752,357,112
2009[53]	$518,021,631	$3,472,203	$54,685,000	$0	$0	$576,178,834

[51] 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.

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

[53] 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

Year	Housing	Small Issue	Exempt Facilities	Student Loans	PUD[51]	Annual Total
2010[54]	$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
Totals	**$10,248,370,320**	**$771,595,009**	**$1,521,020,092**	**$528,600,000**	**$597,991,189**	**$13,667,576,610**
%	**74.98%**	**5.65%**	**11.13%**	**3.87%**	**4.38%**	**100.00%**

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.

[54] 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.

2018 Initial Allocations

For 2018, the IRS increased the per capita multiplier to $105. According to official U.S. Census Bureau population estimates, Washington's population grew to 7,405,743, increasing the total cap available to the state to $777,603,015.

In 2017, the Legislature reduced the student loan category initial allocation to 5 percent and increased the housing category initial allocation to 42 percent. So the initial allocations for those two categories are significantly different from previous years.[55] The housing category allocation is further divided – 80 percent (that is, 33.6 percent of the total cap) to WSHFC and 20 percent (that is, 8.4 percent of the total cap) to local housing authorities.[56]

Table 11: Bond Cap Initial Allocations for 2018

Population of 7,405,743 x $105 per capita = $777,603,015 total bond cap		
Category	**Initial Allocation % (per RCW 39.86.120)**	**Amount of Initial Allocations**
Exempt Facilities	20%	$155,520,603
Housing – WSHFC	33.6%	$261,274,613
Housing – Local Housing Authorities	8.4%	$65,318,653
Small Issue	25%	$194,400,754
Student Loans	5%	$38,880,151
Remainder	8%	$62,208,241
Total	**100%**	**$777,603,015**

[55] 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.

[56] RCW 43.180.200

Appendix A: 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)

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

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 may use tax-exempt private activity bond financing, plus a "remainder" category that may 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 may 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 percent of its proceeds are used for any private business purpose, AND
   b. Greater than 10 percent 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 percent (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 state 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 $533,500 per family as of Jan. 1, 2018.

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

Small issue manufacturing: Industrial development projects that have capital expenditures of $20 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 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.

Appendix B: 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 that provides guidance for applicants to address the specific criteria that pertain 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 that might be needed to thoroughly evaluate an application and make an allocation decision.