

February 23, 1998

**BILL ANALYSIS**

**TO:** Members, Committee on Trade and Economic Development

**FROM:** Kenny Pittman, Research Analyst (786-7392)

**RE:** **SJM 8019 - Requesting federal funds for housing finance.**

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**BACKGROUND:**

In the federal Tax Reform Act of 1986, Congress set limits on the amount of tax-exempt private activity bonds that may be issued by each state. A state's Bond Cap is the maximum level of tax-exempt private activity bonds that can be issued in the state for a given year and is based on the population of the state, not to exceed \$50 per capita per calendar year. While the Bond Cap increases with the growth in the state's population, there are no provisions for inflationary adjustments.

A private activity bond is used to fund projects or programs that contain more than 10 percent private participation. Bonds that are considered private activity bonds are those with private financial backing and are for purposes that include industrial development, housing, student loans, and, in some cases, such traditional governmental activities as solid waste management, water distribution, provision of electricity or gas, mass commuting, and disposal of wastewater or hazardous waste.

The Department of Community, Trade, and Economic Development (DCTED) is responsible for administering the private activity bond allocation for the state of Washington. In 1997, the state of Washington was authorized to issue approximately \$276 million in private activity bonds. According to the DCTED, the supply of tax-exempt private activity bond volume is inadequate to meet the demands of the state. The demand for any one category, such as housing or local government projects, often exceeds the total allocation available on a state-wide basis.

The federal Tax Reform Act of 1986, also created a program to encourage the production of low-income rental housing through the use of tax credits. The low-income housing tax credit program provides a tax credit that may be claimed by owners of multi-family residential

rental property used for low-income housing. The credit is targeted to new construction and rehabilitation of eligible projects and is claimed annually, generally for a period of ten years. The amount of tax credit available on a state-wide basis is based on the population of the state and is limited to \$1.25 per capita per calendar year. Similar to the private activity bond limits, the amount of available low-income housing tax credit grows with the state's population, there are no provisions for inflationary adjustments.

The Washington State Housing Finance Commission (WSHFC) administers the low-income housing tax credit program. In 1996, the state of Washington's limit for low-income housing tax credits was approximately \$6.6 million. The number of applications for low-income housing tax credits received by the WSHFC is generally about three times the state's limit.

Currently, Congress is considering legislation to increase both the private activity bond cap amount and the low-income housing tax credits by amounts approximately equal to the loss in purchasing power over the past ten years. Proposed legislation would also provide for future inflationary adjustments. Approximately eight states have so far enacted memorials requesting that Congress restore the purchasing power of private activity bonds and low-income housing tax credits, and index future increases to inflation.

#### **SUMMARY:**

The United State Congress is requested to immediately increase the tax-exempt private activity bond cap volume and the allocation of low-income housing tax credits available to each state, including Washington, to levels that would fully restore purchasing power to January 1, 1988 levels. It is further requested that the tax-exempt private activity bond volume cap and the low-income housing tax credit limits both be indexed to increases in inflation for future years.

Appropriation: None.

Fiscal Note: Not requested.