

SENATE BILL REPORT

SB 5676

As of February 22, 1999

Title: An act relating to private activity bond allocation ceilings.

Brief Description: Adjusting private activity bond allocation ceilings.

Sponsors: Senators Shin, Prentice, Winsley and Franklin; by request of Housing Finance Commission.

Brief History:

Committee Activity: Commerce, Trade, Housing & Financial Institutions: 2/23/99.

SENATE COMMITTEE ON COMMERCE, TRADE, HOUSING & FINANCIAL INSTITUTIONS

Staff: Dave Cheal (786-7576)

Background: The federal Tax Reform Act of 1986 limits the dollar value of tax-exempt private activity bonds that may be issued by a state in any given year. The cap for each state is \$50 per state resident. In 1998, the cap for Washington was \$280,518,100. "Private activity bonds" are defined by federal tax law as those used to fund projects that contain more than 10 percent private participation. The interest paid to the purchasers of these bonds would ordinarily be taxable because of their private interest. However, if the project the bonds finance falls in one of the categories identified by federal tax law and can demonstrate public benefit, the bonds may be designated tax-exempt through an allocation of a portion of the state's bond cap.

In Washington the Department of Community, Trade, and Economic Development (CTED) administers the Bond Cap Allocation Program. Under state law, there are six categories for the initial allocation: housing, student loans, exempt facility, public utility, small issue, and remainder and redevelopment. In September of each year CTED may reallocate unused portions of the state allocation that have not been used. Prior to the end of the calendar year the agency may reallocate unused allocation to any issuer or issuers as "carryforward" to be used within three years.

The "small issue" category is reserved for industrial development projects which under federal law means bonds for manufacturing facilities.

The "exempt facility" category is reserved for local government projects that have been classified as having a level of private activity that makes them subject to the state bond cap. These include mass commuting and local furnishing of electricity or gas.

Housing bonds issued by the Washington State Housing Finance Commission and local housing authorities have usually used their full allocation as well as significant amounts of reallocation and carryforward.

Summary of Bill: The current initial allocation formula of:

Categories	Current	Changed to
Housing	25 percent	35 percent
Student loans	15 percent	15 percent
Exempt facilities	20 percent	
Public utilities	10 percent	10 percent
Small issue	25 percent	
Remainder and redevelopment	5 percent	5 percent
* Small issue/exempt facilities		35 percent

The housing allocation is increased by 10 percent.

* Small issue and exempt facilities are lumped together as one category and their combined total is reduced by 10 percent.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.