

SENATE BILL REPORT

SB 6589

As Reported by Senate Committee On:
Financial Institutions, Housing & Insurance, February 3, 2010

Title: An act relating to the creation of a workforce housing program.

Brief Description: Creating a workforce housing program.

Sponsors: Senators Kauffman, Berkey, Hargrove, Pridemore and Kohl-Welles.

Brief History:

Committee Activity: Financial Institutions, Housing & Insurance: 1/27/10, 2/02/10, 2/03/10 [DP-WM, DNP].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Berkey, Chair; Hobbs, Vice Chair; Franklin and McDermott.

Minority Report: Do not pass.
Signed by Senators Benton, Ranking Minority Member; Parlette and Schoesler.

Staff: Alison Mendiola (786-7483)

Background: The Bond Cap Allocation Program (BCAP) at the Department of Commerce (Commerce) authorizes the issuance of the state's bond cap. Bond cap is the tax-exempt private activity bonds issued by state issuers pursuant to Congressional authorization. The BCAP reviews and approves bond issuances for projects to ensure compliance with federal and state law and to ensure that the state does not exceed its tax-exempt issuance ceiling.

Bond cap is the maximum amount of tax-exempt private activity municipal bonds that can be issued by state issuers for a given year. The federal Tax Reform Act of 1986 identifies the amount of bond cap allocated to each state, which is currently \$90 per capita. The Tax Reform Act of 1986 defines private activity bonds as bonds used to fund projects or programs that include more than 10 percent private participation, or where more than 5 percent of the proceeds are used for loans to private business or individuals.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The categories of tax-exempt bonds that receive allocations of bond cap in Washington are housing, student loans, small issue (also known as Industrial Development Bonds or IDBs and Industrial Revenue Bonds or IRBs), exempt facility, redevelopment, and remainder.

The Washington State Housing Finance Commission (HFC) was created by the Legislature in 1983. The HFC is not a state agency, it does not receive or lend state funds, and its debt is not backed by the full faith and credit of the state. The HFC acts as a conduit of a federal allocated bond cap. It issues both tax-exempt and taxable bonds to provide below market-rate financing to nonprofit and for-profit housing developers that set aside a certain percentage of their units for low-income individuals and families. The HFC also acts as a conduit issuer of bonds for nonprofit facilities and beginning farmers and ranchers.

Bond cap is also issued through other state issuers, including the State Higher Education Facilities Authority, the Washington Economic Development Finance Authority, local governments, ports, and economic development authorities.

Summary of Bill: The HFC's debt limit is increased from \$6 billion to \$7 billion. One billion dollars of their outstanding debt is for the implementation of the Workforce Housing Program to increase opportunities for nonprofit organizations and public agencies to purchase, acquire, build, and own real property used for affordable housing if state subsidies are available.

The purpose of the program is to provide financing for affordable housing that meets the following income and rent restrictions:

- during the period of time before the bonds are retired:
 1. at least 20 percent of the units must be rented to households earning less than 50 percent of the area median income, and an additional 31 percent of the units must be rented to households earning less than 80 percent of the area median income; or
 2. 40 percent of the units must be rented to households earning less than 60 percent of the area median income, and an additional 11 percent of the units must be occupied by households earning less than 80 percent of the area median income.
- after the bonds issued for a project are retired, the amount charged for rent must be adjusted to sufficiently pay reasonable operation and maintenance expenses, and make reasonable deposits into a reserve account to provide affordable housing to very low or low income households for the remaining useful life of the property.

If no state subsidies are available to make financing feasible, the HFC may authorize the portion of the \$1 billion available for the Workforce Housing Program to support its other bond programs until the \$1 billion is issued or state subsidies are available.

The HFC must enter into a recorded regulatory agreement to ensure that the property will meet the income and rent restrictions established in the bill.

Bond allocations and reallocations of bond cap, except tax exempt private activity bond cap, must be determined by Internal Revenue Service code or by Commerce rule.

If no allocation requests are made from the student loan category by April 1 each year, the initial allocation must be transferred to the housing category.

The date for which available initial allocations may be allocated or reallocated to an issuer within the same bond use category, except for the remainder category, is changed from prior to September 1 to prior to July 1.

The dates are changed for requests and reversions for bond cap use for all bond categories except housing.

Out-of-date references to the Community Economic Revitalization Board and the public utility issuers are removed, the private activity bond allocation ratification section of law is repealed, and the references to the federal Internal Revenue Service code are revised.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: Workforce housing was a big issue before the economic meltdown, and in some parts of the state the demand for workforce housing has not decreased. Allowing bonds to be issued for non-profits and public agencies to develop workforce housing will create jobs and allow people to live where they work. This will provide non-profits with the equity they need to compete for the bond program, creating permanent affordable housing. The timeline of applying for the bond program and completion of construction is about two years, so it would be wise to continue to address this gap in affordable housing now. Reallocating the bond cap and moving up the deadlines will help the issuance of bonds to be more timely and efficient. The housing category has been the largest consumer of the bond cap allocation program.

Persons Testifying: PRO: Senator Kauffman, prime sponsor; Liz Green-Taylor, Commerce; Kim Herman, Washington State Housing Finance Commission.