

# HOUSE BILL REPORT

## HB 2585

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**As Reported by House Committee On:**  
Community Development, Housing & Tribal Affairs

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

**Brief Description:** Concerning private activity bond allocation.

**Sponsors:** Representatives Robinson, Walsh and McBride; by request of Washington State Housing Finance Commission.

**Brief History:**

**Committee Activity:**

Community Development, Housing & Tribal Affairs: 1/26/16, 1/28/16 [DPS].

**Brief Summary of Substitute Bill**

- Adjusts the initial allocation of state tax-exempt private activity bond limit to give the housing category 42 percent of state limit.

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### HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Ryu, Chair; Robinson, Vice Chair; Wilson, Ranking Minority Member; Zeiger, Assistant Ranking Minority Member; Appleton, Hickel and Sawyer.

**Staff:** Sean Flynn (786-7124).

**Background:**

The federal tax code allows states and local governments to issue tax-exempt private activity bonds for certain purposes, including housing, student loans, exempt facilities, small issue, public utilities, and redevelopment. The code sets a ceiling on how much a state can finance with tax-exempt bonds in a year.

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*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.*

Each state may enact its own method of allocating the annual state ceiling among each category of use. The state ceiling may be reallocated throughout the year. An allocation can carryforward up to three years for a dedicated project.

The Department of Commerce (Department) manages the tax-exempt private activity bond allocation for the state. The initial allocation of the state ceiling by category is set in statute as follows:

- Housing - 32 percent;
- Small Issue - 25 percent;
- Exempt Facilities - 20 percent;
- Student Loans - 15 percent;
- Public Utilities - 0 percent; and
- Remainder and Redevelopment - 8 percent.

The Department can reallocate the initial allocation among categories based on state priorities and other criteria. If bonds allocated in one category are not issued by a certain date, then they revert to the Department for reallocation to another category. The Department must report to the Legislature in February every two years on the use of bond allocation proceeds and concerns for future uses.

The Housing Finance Commission (HFC) receives the state ceiling allocation for the housing category. The HFC is authorized under state law to issue revenue bonds in its own name, but its debt is not backed by the full faith and credit of the state. The HFC may use funding in coordination with federal, state, and local housing programs for the new construction and rehabilitation of single or multiple family homes, including the refinancing of debt and home purchases. The HFC may purchase mortgages or mortgage loans, including down payment assistance loans, from mortgage lenders.

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### **Summary of Substitute Bill:**

The initial allocation of the tax-exempt private activity bond state ceiling is adjusted to move 10 percent of the student loan category into the housing category. The housing category receives 42 percent of the state ceiling allocation and the student loan category receives 5 percent. The other categories are not changed. If the Department does not grant any allocations for student loans by February 1, the entire allocation for that category may be reallocated to the housing category. The Department's biennial reporting requirements are changed from February to June.

### **Substitute Bill Compared to Original Bill:**

The substitute bill makes minor technical corrections to the provision regarding the reporting requirement to the Legislature.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The state cannot feasibly issue student loan bonds due to recent changes in federal law that no longer guarantee student loan bonds, which changes the credit rating and makes financing too high. Student loan financing is currently made directly by the federal government.

The HFC uses tax-exempt bonds to finance housing development and mortgage assistance. Bond financing is an important tool for affordable housing development. The shift in the allocation reflects historic trends in the allocation of the state ceiling and better aligns state policy to address current priorities. Tax-exempt bonds are important for local affordable housing developers that use bond financing.

(Opposed) None.

**Persons Testifying:** Representative Robinson, prime sponsor; Kim Herman, Washington State Housing Finance Commission; Allan Johnson, Department of Commerce; and Megan Hyla, Association of Washington Housing Authorities.

**Persons Signed In To Testify But Not Testifying:** None.