

SENATE BILL REPORT

SB 6342

As Reported by Senate Committee On:
Financial Institutions & Insurance, February 3, 2016

Title: An act relating to private activity bond allocation.

Brief Description: Concerning private activity bond allocation.

Sponsors: Senators Miloscia and Hobbs; by request of Housing Finance Commission.

Brief History:

Committee Activity: Financial Institutions & Insurance: 1/27/16, 2/03/16 [DPS].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: That Substitute Senate Bill No. 6342 be substituted therefor, and the substitute bill do pass.

Signed by Senators Benton, Chair; Angel, Vice Chair; Mullet, Ranking Minority Member; Fain, Hobbs, Litzow, Nelson, Pedersen and Roach.

Staff: Shani Bauer (786-7468)

Background: The Bond Cap Allocation Program (BCAP) at the Department of Commerce (Commerce) authorizes the issuance of the state's bond cap. 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.

The categories of tax-exempt bonds and their respective allocations of the bond cap in Washington are:

Housing	32.0%
---------	-------

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.

Small Issue - also known as Industrial Development Bonds (IDBs)	25.0%
Exempt Facility	20.0%
Student Loans	15.0%
Redevelopment and Remainder	8.0%

The BCAP may reallocate unused bond cap allocations within any of the five categories to other categories after July 1 and before the end of the calendar year, and may reallocate unused allocations to one or more issuers as carry-forward to be used within three years.

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 for 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.

Prior to 2010, federal student loans originated through a commercial lender and were guaranteed by the federal government. These loans were often purchased by state and local governments through the use of private activity bonds to generate more capital for loans. In 2010, the federal government reverted to issuing student loans directly rather than through commercial lenders. Although private activity bonds are still sometimes used for state supplemental loans or refundings of pre-2010 loans, there is no longer a need to issue bonds to purchase federal loans from commercial lenders. As a result, the federal allocated bond cap for student loans is generally not being utilized.

Summary of Bill (Recommended Substitute): The bond cap allocation for housing is increased to 42 percent and the bond cap for students loans is decreased to 5 percent.

In any calendar year for which no allocation for student loan bonds has been granted by February 1 of that year, the entire initial allocation for student loans may be reallocated to housing at that time.

Time periods are adjusted for Commerce to submit biennial reports summarizing the usage of bond allocation proceeds and policy concerns for future bond allocations.

EFFECT OF CHANGES MADE BY FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE (Recommended Substitute): Language in Section 3 is corrected to clarify that reports are to be submitted to the Legislature.

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 on Original Bill: PRO: The most significant thing this bill does is move the initial allocation of bond cap from student loans to housing to reflect traditional usage. Housing uses 67 percent of the bond cap, but has to wait until July 1 until BCAP can reallocate unused portions. The possibility is retained to use the student loan allocation in the future if it should become relevant. The housing allocation is very important to creating affordable housing. In June 2015, the commission used \$475 million to assist 2081 families obtain housing through the use of private activity bonds. The previous two years it used \$244 million to finance construction and rehabilitation of hundreds of units of affordable housing for those at 30-60 percent of median income. The student loan allocation is not used because the federal government no longer guarantees student loans and the state does not have the resources to enter the market due to the default rate. Student loan bonds require a debt-loss reserve account of 20-28 percent or require a full state guarantee.

Persons Testifying on Original Bill: PRO: Kim Herman, WA State Housing Finance Commission; Allan Johnson, Bond Cap Allocation Program Manager, Dept of Commerce.

Persons Signed In To Testify But Not Testifying on Original Bill: No one.