HOUSE BILL REPORT
HB 2753

As Reported by House Committee On:
Capital Budget

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

Brief Description: Creating a workforce housing program.

Sponsors: Representatives Orwall, Springer, Maxwell, Jacks, Nelson, Simpson, Conway, Ormsby, Chase and Santos.

Brief History:
Committee Activity:
Capital Budget: 1/19/10, 1/21/10 [DPS].

Brief Summary of Substitute Bill

- Increases the Housing Finance Commission's debt limit from $6 billion to $7 billion.
- Requires $1 billion of outstanding debt to be used for implementing 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.
- Requires federal bond allocations to the state be determined by Internal Revenue Service code or by Department of Commerce rule.
- Adjusts the dates by which allocations to a state issuer may be made.
- Removes student loans from the state bond cap allocation, and moves the 15 percent student loan allocation to housing.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Dunshee, Chair; Ormsby, Vice Chair; Blake, Chase, Jacks, Maxwell, Morrell, Orwall and White.

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.

Minority Report: Do not pass. Signed by 6 members: Representatives Warnick, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Anderson, Hope, McCune and Smith.

Staff: Nona Snell (786-7153).

Background:

The Bond Cap Allocation Program (BCAP) at the Department of 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 more than 5 percent of the proceeds are used for loans to private business or individuals.

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 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 Substitute 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 Department of Commerce rule.

The student loan bond cap allocation is removed, and the 15 percent allocation for student loans is moved 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 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.

Substitute Bill Compared to Original Bill:

The meaning of nonprofit organizations participating in the Workforce Housing Program is clarified to be those materially participating as a managing member or general partner of a partnership, limited liability company, or equivalent organization.

The student loan bond cap allocation category is removed. The 15 percent allocation for student loans is moved to housing, making the allocation to the housing category 47 percent.

References to the federal Internal Revenue Code are changed.

Appropriation: None.

Fiscal Note: Not requested.

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) Workforce housing is in demand all around the state. The subprime crisis affected the housing market and caused the price of houses to fall in many areas of the state; however, the cost of housing in some areas did not fall. In these areas, families are paying a large portion of their incomes for housing. High house prices and a low rental vacancy rate will return as the economy recovers. The bill addresses these problems.

Equity in affordable housing projects is necessary for nonprofit and public agencies to develop properties before bond proceeds are applied to the project. The equity will help nonprofit organizations and public agencies to be more competitive for bonds, and the program does not diminish access to bond cap for for-profit developers

The HFC received $10 million for equity that leveraged a 3:1 ratio that does not include Housing Trust Fund moneys.

The federal government sets the bond cap allocation rate and requirement for states, but states determine the distribution of bond cap to the allowable categories.

Releasing student loan bond cap and moving other allocations dates forward allows housing to use the cap as needed.

Housing is the biggest user of bond cap in the state. Federal income limits are the minimum required, and the state has additional set-aside requirements for affordable and low income housing. The bill requires the minimum income requirements be met during the time debt is outstanding, and then rents will be adjusted after the debt is retired.

Nonprofits are experienced in providing quality, affordable housing, and they have confidence in the HFC to implement the program.

In some areas, market rate housing is available and low income housing exists, but housing that accommodates incomes in between is lacking. The people in between are teachers, police officers, and others.

(Opposed) None.

Persons Testifying: Representative Orwall, prime sponsor; Ray Rieckers, Spokane Neighborhood Action Programs; Kim Herman, Washington State Housing Finance Commission; Harry Hoffman, Housing Development Consortium Seattle-KC; Hyeok Kim, InterIm Community Development Association; and Liz Green-Taylor, Department of Commerce.

Persons Signed In To Testify But Not Testifying: None.