

# Bond Cap Allocation Program



2022 biennial policy report and activity summary, per  
RCW [39.86.190](#)

**BOND CAP ALLOCATION  
PROGRAM**

June 30, 2022

Report to the Legislature

**Director Lisa Brown**

# Acknowledgments

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# Executive summary

## Overview

Since its inception in 1987, the Bond Cap Allocation Program (BCAP, or program) has approved more than \$16.9 billion in tax-exempt private activity bond issuing authority for a variety of economic and industrial development, housing, hydroelectric power, exempt capital facility projects and student loans in Washington state. The Washington State Department of Commerce (Commerce) administers the program.

BCAP authorizes the issuance of bonds under the federal bond volume cap but does not directly fund or finance projects. Funds used for projects receiving permission to issue tax-exempt private activity bonds come from private investors who purchase the bonds, not from governmental entities.

Every two years, the program must prepare a biennial report to the Legislature summarizing usage of the bond allocation proceeds and any policy concerns for future bond allocations under the provisions of [Revised Code of Washington \(RCW\) 39.86](#), which guides the annual allocations of the private activity bond volume cap that are made on a calendar year basis. This is the report for the 2020-2021 biennium.

## 2020-2021 allocations

BCAP authorized \$1.8 billion in issuances through 60 projects located throughout the state during the most recent biennium. These issuances of private activity bond volume cap (alternatively known as "bond cap," "volume cap" or "cap") exceeded the annual volume cap for these years by \$125.9 million. This excess activity was possible because of unused volume cap from previous years, preserved through designation as carryforward.

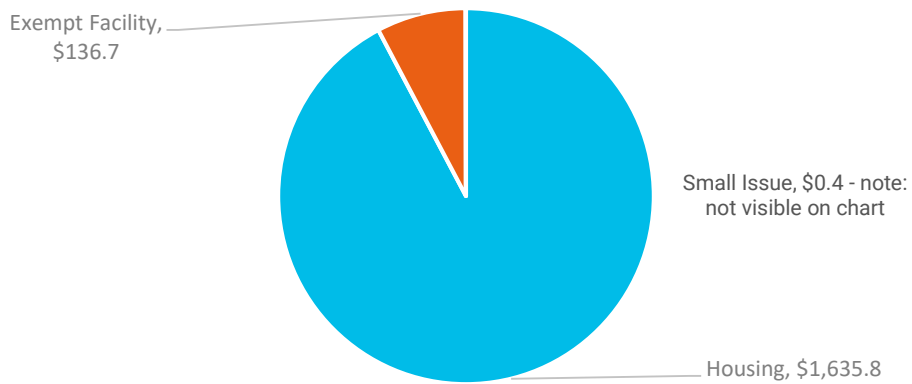
Between 2020 and 2021, Housing category projects used approximately 89% or \$1.6 billion in bond cap, including:

- \$1.5 billion to create or preserve 9,530 units of affordable multifamily rental housing
- \$99.4 million for low-income, first-time homebuyer assistance that helped 735 first-time homebuyers

Housing category construction resulted in an estimated 15,343 short-term construction jobs and 4,193 permanent positions.

Non-housing category projects used \$137.1 million in volume cap, with one Exempt Facility category project comprising 37% of that amount. Small Issue category and Exempt Facility category projects resulted in an additional 215 new permanent positions, the retention of 409 existing positions, and the creation of an undetermined number of temporary/construction jobs as reported by applicants.

**Figure 1: Category Distributions for 2020-2021, in Millions**



During 2020 and 2021, all carryforward (the allocation of volume cap not used within the current year to a qualified issuer) was allocated to the Washington State Housing Finance Commission (WSHFC) for affordable housing.

## 2022-2023 allocations

A total of \$851.3 million in new cap is available for 2022. An additional \$151.9 million in multifamily cap was carried forward at the beginning of the year. The volume cap for 2023 will not be determined until December 2022.

Anticipated demand for cap currently exceeds the new cap and carryforward amounts. However, based upon similar circumstances in recent years, it is likely that a portion of allocated cap will not be issued before the end of the year because typically some projects that are scheduled to close their bond sale late in the year face delays and need to be moved to early in the next year. Cap that is allocated but not used by the end of the year is then designated as carryforward to cover early bond sales the next year. Recent carryforward designations have almost exclusively been made to the WSHFC.

Strong ongoing demand for volume cap is due in large part to issuances by the WSHFC and housing authorities for Housing category projects, although multiple Exempt Facility category applications have resulted in significant supplemental demand in recent years. Small Issue category applications have been limited primarily to Beginning Farmer/Rancher projects in recent years.

While the first phase of the COVID-19 pandemic affected the timing and amount of project closings during the last biennium, there has been no significant impact to the total number of Housing category and Exempt Facility category projects receiving allocations over the past two years. There were relatively few Small Issue category projects immediately prior to this biennium, so the pandemic does not seem to have altered issuances in that category thus far.

## Policy discussion

The state continues to be challenged with significant affordable housing, economic development, and infrastructure needs. The pandemic and other disruptive factors have exacerbated these demands over the past two years. Demand for volume cap continues to significantly exceed supply. To meet this demand and respond to increased needs, Commerce will continue to:

- Work with our congressional delegation to increase the per-capita multiplier used to establish the annual volume cap and increase the amount of 9% Low Income Housing Tax credits (LIHTCs) allocated to each state.

Commerce will proceed with rule-making to:

- Ensure consistency between the Revised Code of Washington (RCW) and the Washington Administrative Code (WAC).
- Allow Exempt Facility category projects to secure more than 30% of the initial set-aside prior to July to let projects in this category have the opportunity to fully utilize the initial set-aside established in the RCW.

In addition, Commerce will continue to work with stakeholders to:

- Convene a discussion group to strengthen partnerships, track bond cap trends, evaluate increases in construction costs on projects, monitor economic conditions, discuss proposed federal legislation, and investigate potential innovations or other measures such as bond cap recycling, new Exempt Facility subcategories and innovative uses.
- Conduct discussions with stakeholders regarding the accelerating demand for affordable housing, accelerating costs of housing development and the impact of inflation and labor shortages on the ability of developers to meet the increasing demand in order to identify possible responses and maintain, or stretch, the ability of allocations to respond to these needs.
- Expedite use of annual cap (and preserve any unused cap through carryforward) to maximize resources available to address affordable housing, economic development, and infrastructure needs.

## Program overview

Private activity bonds are not usually eligible for tax-exempt status if the proceeds benefit businesses or individuals. However, when issued under the authority of the bond cap allocation, many projects financed by private activity bonds can access lower-cost, tax-exempt bond financing if the projects have substantial public benefits.

This report contains many acronyms and technical terms that may be unfamiliar. For reference, see Appendix F.

### What is the bond cap?

The “cap” is a federal limit on the total volume of these tax-exempt private activity bonds issued annually in each state.

The Internal Revenue Code allows states to determine how to distribute cap authority among five categories of projects: Exempt Facility, Housing, Public Utility Districts (for specific hydroelectric projects), Small Issue and Student Loans. Washington state law sets percentages for each category, criteria for allocation within the categories, and timelines for bond cap that is set aside in some categories to encourage development in Eastern Washington and distressed areas of the state.

The Bond Cap Allocation Program has authorized approximately \$16.9 billion in tax-exempt private activity bond issuances since its inception. These bonds have contributed to:

- The development of thousands of affordable housing units and new jobs in Washington’s communities
- Industry, infrastructure, and clean energy production across the state
- Low-cost student loans to educate thousands of Washington’s residents

### How much cap authority is available?

The total amount of tax-exempt private activity bond authority for each state is calculated using a per capita formula. During the 2018-19 biennium, the multiplier, as established by the Internal Revenue Service, increased from \$100 to \$105. For calendar year 2021, the multiplier increased from \$105 to \$110 per Washingtonian. Based on annual population estimates provided by the U.S. Census Bureau, a total of \$846.3 million in bond cap authority was available in Washington in 2021. The multiplier remained at \$110 per resident in 2022. Bond cap authority is divided among the eligible categories by percentages described in state statute.<sup>1</sup>

### What is a tax-exempt private activity bond?

A bond is a means for an investor to lend money to a corporate or governmental entity that borrows the funds for a defined period at a specified interest rate. Because the bond investor is not required to pay federal taxes on interest earned on tax-exempt bonds, these bonds can qualify for lower interest rates than conventional financing, thus saving the borrower money.

For projects with benefits that are considered essentially public – for example, roads and most infrastructure – tax-exempt bonds can be issued without cap authority. Bonds for projects with a high level of private benefit or

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<sup>1</sup> RCW 39.86.120

participation are not tax-exempt unless they meet specific IRS criteria and are issued under the authority of the bond cap allocation. A bond is considered a private activity bond if it meets one of two tests:

1. **Both** of the private business use tests:

- Greater than 10% of its proceeds are used for any private business purpose **and**
- Greater than 10% of its proceeds are secured by property used for private business purposes or are to be repaid from private business sources

2. **Or**, it meets the private loan financing test:

- Greater than 5% (or \$5 million, whichever is less) of its proceeds are used for loans to persons other than governmental entities.<sup>2</sup>

## What types of projects are eligible?

The Tax Reform Act of 1986 established five categories of projects eligible to issue bonds under cap authority:

- **Exempt Facility:** Certain types of capital transportation, waste management, energy and environmental facilities as defined in the Internal Revenue Code. Multifamily low-income rental Housing category projects are included in the Exempt Facility category under federal law. However, for the purposes of distribution, Washington state law separates multifamily rental housing from the rest of the Exempt Facility category and places it into a separate Housing category along with single-family homeownership projects, which are not considered an Exempt Facility by federal law.
- **Housing:** In Washington, this includes both affordable multifamily rental housing and single-family homeownership projects.



The Alberta J. Canada Building in Tacoma's Hilltop Neighborhood (2019), a housing project completed by the Tacoma Housing Authority. *Photo courtesy of the Washington State Housing Finance Commission and the Tacoma Housing Authority.*

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<sup>2</sup> Federal Taxation of Municipal Bonds Deskbook; Third Edition; November 2017; LexisNexis, Newark, New Jersey; page 12; Referring to 26, U.S.C Section 141, Paragraph 2.01(a) and (b)



- Small Issue: Industrial development projects needing less than \$20 million in capital expenditures over six years. Bonds are limited to \$10 million in par value (the stated value or, in other words, the bond or the amount that the bond issuer(s) agree to repay the purchaser(s) at the bond's maturity).
- Student Loans: Higher education loans for qualifying students that are either studying at private or public institutions in the state or are state residents studying at an institution outside of the state. These loans can be used to pay for tuition, books, housing, food, utilities, equipment, and other education related expenses.
- Public Utility District (PUD): Efficiency and environmental enhancements for certain hydroelectric facilities. Each state's PUD volume cap was further limited in federal law, with Washington's limited to a lifetime maximum of \$750 million. In 2007, Washington's PUDs used the last of the \$750 million cap, so the PUD category no longer exists in the state.

## How does Commerce decide which projects get cap allocations?

[RCW 39.86.120](#) establishes a formula for initial allocations – set-asides of cap authority – for each category. Since 2017, the initial set-aside allocations have been:

- Exempt Facility: 20%
- Housing: 42%, divided between:
  - WSHFC: 80% (that is, 33.6% of total cap)
  - Local housing authorities: 20% (that is, 8.4% of total cap)
- Small issues: 25%
- Student loans: 5%
- Remainder: 8%

Commerce is responsible for taking applications, evaluating projects, authorizing bond issuances under the cap and ensuring the state does not exceed its cap authority. The application period opens 90 days prior to the start of the calendar year (October 3) and applicants may submit applications at any time during the year, although the ability to obtain an issuance may be constrained by the amount of volume cap remaining and the ability to close the bond sale prior to the designation of carryforward in late December.

State statutes and the Washington Administrative Code (WAC) establish timelines for some of the category set-asides, and set restrictions to allocations for Exempt Facility category projects that exceed 30% of the initial category set-aside. This per project restriction allows for multiple projects to apply, but historically only one or two projects apply and need more bond capacity than the 30% limit. Exempt Facility category projects that request amounts that exceed the 30% limit can only receive amounts in excess of this limitation after July 1 if there is sufficient cap available to fully or partially fulfill the request.

During the last biennium, Commerce completed a WAC change to move the date at which this restriction ended from September 1 to July 1. This change was made to ensure the WAC was consistent with provisions in the RCW that were changed through [Engrossed Substitute House Bill 2753](#) in 2010 but were never adjusted in the administrative rules.

A further change to the WAC, to move this date from July 1 to May 1, is being pursued during 2022 through negotiated consensus. This change will allow Exempt Facility category applications to secure more than 30% of the initial set-aside before the general release date. This will allow projects in that category to fully utilize the

initial set-aside established in [RCW 39.86.120](#) and move forward to completion without an administrative delay.

After July 1, unused cap from any category can be reallocated to any other category. Under [WAC 365-135-035](#), 50% of any of this unused cap is prioritized for the Housing category. The authority in the Remainder category can be used for any eligible project category at any time, thus creating flexibility in the program early in the year.

Each category has a set of basic eligibility criteria in the Internal Revenue Code, state statute and WAC that guides allocation decisions. These criteria help Commerce prioritize projects for allocations by assessing the public benefit of each project.

Generally, projects that apply for an allocation of volume cap that meet all requirements will receive a full or partial allocation if there is Remainder category, initial set-asides (subject to restrictions) or released amounts. As a result, the program often makes allocations based upon the order in which it receives a valid application.

## Who applies for cap authority?

Private activity bonds help finance projects with a significant non-governmental component and a qualified public benefit. Private entities that use volume cap can include for-profit businesses or nonprofit charities, including housing authorities. Nonprofit providers of affordable housing use a significant amount of cap every year to expand housing opportunities throughout the state.

Companies can use up to \$10 million in private activity bonds to support qualified industrial development projects that do not exceed \$20 million in total project cost. This allocation can create or expand manufacturing businesses to support economic development.

Depending upon the category and type of project, up to 100% of the project cost may be covered by private activity bond sale proceeds. Most multifamily Housing Category projects developed by private or nonprofit entities must utilize private activity bond sale proceeds to cover at least 50% of their project cost in order to access federal housing tax credits.

In addition, businesses such as waste management companies or private water purveyors can utilize private activity bonds to provide utility services such as water lines, expand waste collection capacity, or to reduce waste streams through the creation of value-added products. An allocation of cap can be used if a public entity such as a port or municipality (a city, county, or special district) is expanding infrastructure to specific businesses, rather than the public at large.

## How does a project apply for cap authority?

Project developers work with an authorized state- or local-level government (or quasi-governmental entity such as the WSHFC or WEDFA) to serve as their conduit bond issuer. The conduit bond issuer and project developer make arrangements to finance the project through full or partial use of private activity bond proceeds. The conduit bond issuer then applies to Commerce for authorization to issue the private activity bond. In certain cases, the conduit issuer might also be the project developer (this often occurs, for example, with housing authorities).

Applicants access information and application forms through the [Bond Cap Allocation Program website](#). The application must contain detailed information about the project such as location, project cost, supplemental funding, and development timeline. Each category has a unique application and information requirements.

Completed applications are submitted to Commerce along with required fees which are the greater of 0.000277 of the requested amount, or \$500. During the last biennium, Commerce switched to an electronic submittal process to help expedite the review process.

Upon receipt of an application, Commerce has 15 days to make a determination on issuance. This determination is primarily based upon compliance with: application requirements; the terms of RCW 39.86; the provisions of WAC 365-135; and the availability of cap. Compliance with federal requirements is affirmed through attestation of the applicant's legal counsel and issuer. Projects in compliance with these requirements will receive a full or partial allocation granted through a certificate from Commerce if sufficient cap is available. An application may be deferred, denied in full or denied conditionally, but in such circumstances the reasons must be articulated to the proponent with options identified for immediate rectification or resubmittal at a later date.

Projects typically receive allocations on a "first come, first served" basis within the framework of the initial set-asides and release dates. Allocations are made until all annual volume cap has been issued. In some circumstances, an applicant may return the allocation to Commerce. In this case, the amount can be reallocated to any projects that have not received a full or partial allocation.

The program works prior to annual application windows with potential applicants, WSHFC, Commerce programs, and economic development organizations to educate about opportunities to apply.

## How does Commerce allocate carryforward?

Allocating carryforward to a specific project carries the risk the cap will be lost if a project hits a snag and cannot issue a bond within the time limit. Washington state has chosen to allocate nearly all carryforward on a program basis, rather than to individual projects, to avoid the potential loss of cap. During most years, carryforward amounts were allocated to WSHFC because it is able to use carryforward on a program basis. As a sub-allocating agency of Commerce, it can reallocate Housing category cap to other issuers, such as local housing authorities. However, those reallocations must be within the same bond cap category for which WSHFC received the carryforward. For example, under federal law, carryforward allocated to WSHFC for affordable multifamily rental Housing category can only be reallocated to other issuers of multifamily rental Housing category bonds.

Carryforward is rarely allocated in the Exempt Facility category in unique circumstances because of the risks associated with allocating to specific projects. For most years, including 2020 and 2021, Commerce allocated carryforward to WSHFC.

## Reducing initial allocations by carryforward amounts

When an issuer receives a carryforward allocation, the issuer's initial allocation for the following year can be reduced by the amount of the carryforward received and those amounts moved into the Remainder category.<sup>3</sup> This allows additional flexibility in making allocations outside the set-aside structure early in the year.

WSHFC's initial allocation was reduced by carryforward amounts several times in the history of the program. That enabled local housing authorities and Exempt Facility category projects to get the cap they needed without waiting for the release of category set-asides on July 1.

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<sup>3</sup> RCW 39.86.120(2)

In a recent adjustment to program administration, BCAP determined that reductions to the initial set-asides based upon a designation of carryforward would only occur when multiple projects in separate categories submitted complete applications prior to the start of the calendar year. This determination was made to ensure predictability and consistency in application of this provision.

# Bond cap policy issues

At the time of development of the previous biennial report, BCAP was facing significant uncertainty regarding the impacts of the COVID-19 pandemic on the utilization of tax-exempt private activity bonds. In addition, there were important questions about the pandemic's impact on housing affordability, unemployment and financial markets. However, during the initial phase of the pandemic, which for the purposes of this report is considered to correspond with the term of the 2020 and 2021 biennium, the use of bond cap remained similar in many ways to the period immediately preceding.

The second phase of the pandemic, which for the purposes of this report is considered to correspond with the biennium beginning in 2022, had supply chain delays, tight labor supply, price increases and shortages of some building materials, in tandem with accelerating demand for housing, among other factors. This continues to create an environment that is significantly altered from pre-2020 conditions. Applications for bond cap allocations in 2022 indicate demand for an even higher amount of cap than in 2020 and 2021. This may be due to increases in project costs. In this new environment, the program is currently focused on best responding to these policy concerns.

## Overview

The last biennium (2020 and 2021) saw overwhelming change both nationally and in Washington. Some of the factors were pandemic related and others were not: supply chain issues, increasing homelessness, soaring inflation, rent increases, rising home prices, and a surge in gasoline prices. The employment sector was marked by high levels of volatility — two years ago, there was a massive increase in unemployment, while unemployment rates at the end of the biennium were near historic lows. Many areas and industries, including construction and specialty trade, are experiencing labor shortages.

Requests for allocations of bond cap in 2022 remain as strong or stronger in terms of request amounts as it was in the spring of 2020. Demand for private activity bonds outpaces the amount of annual cap. The Housing category consumes the most allocations of bond cap, and a steady flow of projects are proposed and completed. The Exempt Facility category continues to require allocations, especially for projects for recycling and repurposing solid waste streams. The Small Issue category continues to experience low utilization compared to its initial set-aside, with only one Beginning Farmer/Rancher issuance during the most recent biennium.

Some recent changes affected the program and its administration. In late 2021, the federal Infrastructure Investment and Jobs Act was passed which created two new subcategories in the Exempt Facility category that are partially subject to the volume cap (Broadband and Carbon Capture). Other proposed changes to federal statutes remain largely stuck in Congress.

At the state level, Commerce initiated a change in 2021 to [WAC 365-135](#) to bring it into conformance with a 2010 change to the RCW. In addition, a change to the WAC in 2022 proposes to adjust the date when an Exempt Facility category project can receive more than 30% of the initial set-aside from July 1 to May 1.

The Bond Cap Discussion Group was revived in a remote attendance format and two meetings were conducted thus far.

At the start of the 2020-2021 biennium, we knew there were significant challenges and questions that the program would face. The outlook at the beginning of the 2022-2023 biennium is much more obscure. There

are conflicting predictions about the intensity and duration of current trends in factors such as inflation, interest rates, gas prices, labor shortages, and the cost and availability of construction materials.

Any of these, or some combination of them, could result in changes to demand of the volume cap. And yet, at the start of the last biennium, there were significant signs that volume cap would be affected by the pandemic, but we experienced little change in overall demand and usage.

There is uncertainty if this could be the case again – where there is little change during the biennium in the volume and type of bond cap projects – or whether we could see a new recession or other disruptions to financial markets and construction capacity that results in a drop in usage of volume cap.

Because of this uncertainty, the program will need to remain vigilant and respond, as needed, to any marked drops in utilization of volume cap. The previous biennial report concluded with a commitment by Commerce to expedite the use of annual cap and preserve any unused cap through carryforward, maximizing resources available to address affordable housing, economic development, and infrastructure needs. This approach remains essential as the state continues to be challenged with unmet needs in these important policy areas.

## Housing category discussion

The largest share of Washington’s bond cap authority has always gone to affordable housing, and in recent years the amount of the state’s total bond cap used for affordable housing has approached or exceeded 90%. This is largely due to the considerable unmet need for affordable housing, and to the unique way in which affordable housing projects are dependent on bond cap allocations.

### **Housing affordability**

Housing affordability is a fundamental challenge for most of the state’s low-income residents.

According to the National Low Income Housing Coalition (NLIHC), 70% of extremely low-income households (defined by NLIHC as 30% area median income [AMI] or poverty level, whichever is higher) in Washington are severely cost-burdened. Data from the Washington Department of Social and Human Services (DSHS) indicates a household with four individuals meets this income threshold if their annual earnings do not exceed \$32,450 in 2022. This group, which comprises 21% of households within the state, pays more than half their incomes for rent or mortgage. Just over half of residents in this category are seniors, disabled or currently attending school. Another 35% are in the labor force but have limited earnings.

Residents earning 50% or less than area median income also face significant housing challenges, with more than one-third paying more than half their income for housing. The state’s most recent HUD Consolidated Plan estimates that more than one quarter of households earn 50% or less than AMI which DSHS data identifies as \$54,084 for a family of four in 2022.

### **Housing development**

Approximately 160,000 new affordable units need to be constructed to meet the housing needs of state residents at affordable levels. Housing production, in general, has been a challenge over the years, especially in the greater Seattle metropolitan area. A recent report determined that an additional 225,000 housing units

should have been constructed statewide between 2000 and 2015 to keep up with housing demand.<sup>4</sup> This supply shortage is one factor exacerbating housing affordability.

Some of the shortage is attributable to a drop in housing production during the Great Recession. Between 2001 and 2008, an average of roughly 46,000 housing units were constructed on an annual basis. In 2011 and 2012, the state averaged just over 17,000 new units per year. The state did not recover to production levels exceeding 46,000 units per year until 2020. A variety of factors likely resulted in this drop in production, including tightening lending standards, shortages in skilled/construction labor, and drops in median household income.

While preliminary data from the U.S. Census Bureau on building permits for residential construction indicate new production in 2021 exceeds 2020 levels, there are indications that housing production is slowing again. This is attributed to several factors, including the shortages in concrete and lumber/timber products, increases in cost of labor, shortages of labor (especially in highly skilled trades), increases in mortgage rates, and delays in supply chains. These factors appear to be substantially increasing the price of construction.<sup>5 6 7 8</sup>

The state's population continues to grow, rising by approximately 124,000 residents over the last two years. As a result, there is significant need for continued production of a high number of housing units that are affordable to the state's lowest income households. Affordable housing projects receiving an allocation of volume cap are a significant component of this response. This report finds that bond cap Housing category projects created or preserved over 9,500 affordable units in the most recent biennium.

### **Home ownership**

While housing production has lagged and housing prices have increased, it is interesting to note that homeownership rates have held relatively steady. Between 2019 and 2021, homeownership in Washington state decreased only slightly, from 63.8% to 63.4%.<sup>9</sup> However, the University of Washington's Washington Center for Real Estate Research calculates the Housing Affordability Index (HAI) for homebuyers in the state fell slightly between 2020 and 2021 after rising between 2019 and 2020.<sup>10</sup>

Both state and local governments have made significant efforts to broaden the range of housing types that can be constructed. These efforts to support "missing middle" housing can result in expanded opportunities for homeownership through condominiums, townhouses, tiny homes, and prefabricated units that provide choices beyond conventional large detached single-family homes. Data over the next biennium will help reveal whether these changes are resulting in an expansion of homeownership opportunities.

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<sup>4</sup> Up for Growth, "New Report Details Washington's 225,000 Home Shortage," (January 10, 2020), <https://www.upforgrowth.org/news/new-report-details-washingtons-225000-home-shortage>

<sup>5</sup> National Association of Home Builders, "Supply Chain Issues Continue to Slow Housing," (February 17, 2022), <https://www.nahb.org/blog/2022/02/supply-chain-issues-continue-to-slow-housing/>

<sup>6</sup> Ads Intelligence Marketing, "Supply Chain Disruptions Hamper Housing Market," (March 22, 2022), <https://adsintelligence.marketing/2022/03/22/supply-chain-disruptions-hamper-housing-market/>

<sup>7</sup> ForConstructionPros.com, "2022 State of Construction: New Year Brings More Uncertainty with Supply Chain and Labor Concerns," (March 21, 2022), <https://www.forconstructionpros.com/equipment/article/21993023/2022-state-of-construction-new-year-brings-more-uncertainty-with-supply-chain-and-labor-concerns>

<sup>8</sup> MultiHousing News, "The Labor Shortage's Impact on Multifamily Development," (November 8, 2021), <https://www.multiphasingnews.com/how-the-labor-shortage-impacts-multifamily-development/>

<sup>9</sup> Federal Reserve Bank of St. Louis, "Homeownership Rate for Washington," (March 15, 2022), <https://fred.stlouisfed.org/graph/?id=WAHOWN>

<sup>10</sup> University of Washington Center for Real Estate Research, "Washington Market Highlights: Fourth Quarter 2021", (January 2022), <https://wcrer.be.uw.edu/wp-content/uploads/sites/60/2022/03/2021Q4MarketReport.pdf>

### **Affordable housing need for bond cap**

While Exempt Facility category and Small Issue category projects can benefit from lower interest rates created by using a bond cap allocation, most can still go forward without bond cap – by using either a taxable bond, conventional bank financing, supplemental private equity, or a combination thereof. Affordable housing projects, on the other hand, usually require bond cap allocations to be feasible. Affordable housing projects provide housing at rents or prices that are below that offered in the private market, and therefore do not supply market rate rental revenue with which a housing developer could repay a lender. As a result, they do not qualify for conventional financing.

To qualify for 4% Low Income Housing Tax Credits (LIHTCs), a project is required to have an allocation of bond cap authority, which must comprise at least 50% of the project's total cost. Federal Department of Housing and Urban Development (HUD) grants or loans typically require a project to have a cap allocation guaranteed, usually several years in advance of planned ground-breaking.

In addition, single-family homeownership assistance, whether in the form of mortgage revenue bonds or mortgage credit certificates (a form of tax credit), also requires bond cap allocations under federal law. Without a bond cap allocation, most affordable housing efforts – whether multifamily rental projects or single-family homeownership programs – cannot go forward.

As of April 2022, 11 potential affordable Housing category projects may not be able to move forward this year due to a lack of sufficient bond cap. These projects, which would create or preserve 1,565 units across the state, need approximately \$320 million in additional cap authority to proceed to closing and construction.

The WSHFC utilizes creative ways to help close this gap in funding through measures such as bond cap recycling. But there remains a possibility that some affordable Housing category projects could miss construction windows, lose other time-sensitive sources of financing, or experience cost increases. Construction projects across the state are currently experiencing significant increases in costs due to increases in material costs, construction/skilled trade wages, and interest rates. It is unclear if these impacts will remain a factor affecting housing project cost and development in the upcoming biennium. But there is a distinct possibility that rising costs will reduce the number of Housing category units that can be developed or preserved with equivalent allocations of bond cap.

### **Affordable Housing Legislation**

Several federal proposals currently under consideration in Congress contain a key method to expand the availability of bond cap allocations to support affordable housing development. Among the proposals, the methods that hold the most promise for allowing proposed affordable Housing category projects to move forward are:

- Increase the annual per capita multiplier at the federal level, which would result in an overall expansion in annual cap for all categories including the Housing category
- Increase the amount of 9% Low Income Housing Tax Credits allocated annually to each state, resulting in expansion of the state's capacity for affordable Housing category development
- Reduce the threshold of funding required through bond cap allocations to 25% of a project's total funding, which could create an additional 1.4 million new affordable housing units nationwide over the next 10 years, according to estimates from Novoco in 2020.<sup>11</sup>

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<sup>11</sup> Novogradac, "Novogradac Analysis for NCSHA", (May 15, 2020), <https://www.novoco.com/news/novogradac-analysis-ncsha-reduction-50-percent-bond-test-could-result-14-million-additional-homes>



The first two approaches are supported by stakeholders based on results of the 2020 Stakeholder Survey outlined in the [2020 Biennial Bond Cap Report](#). The third option did not gather consensus at that time.

The [Build Back Better Act \(HR 5376\)](#), [Decent Affordable Safe Housing for All Act \(S 2820\)](#), and the [Affordable Housing Credit Improvement Act \(S 1136\)](#) all contain provisions that would effectively increase the capacity of bond cap to support affordable Housing category development and preservation. Currently, these pieces of legislation do not appear to be moving forward to final consideration. A survey of program stakeholders conducted in 2020 revealed a mixture of support and opposition to these proposals, and if these proposals begin to advance, the program will resolicit input to determine if perspectives have changed.

### **Maximizing bond cap utilization**

A shift in the ratio of new affordable multifamily projects, affordable multifamily preservation projects, and low-income homebuyer assistance could help minimize the gap in housing affordability, in addition to changes in federal legislation. This initiative is beyond the reach of the Bond Cap Program and falls under the purview of the WSHFC, housing authorities, affordable housing developers, and others.

## Small Issue category and Exempt Facility category discussion

The Small Issue and Exempt Facility categories support qualified infrastructure and economic development projects. These continue to be significant areas of need, especially in certain parts of the state.

### **Total employment**

Washington's economy faced a significant decline during the initial phase of the pandemic, losing 430,000 jobs between February and May of 2020. Over the past two years, total employment in the state has slowly rebounded and is now just 32,000 jobs short of the pre-pandemic high. Unemployment rates have returned to relatively low levels in most parts of the state, although these rates vary significantly – from 2.5% in King County to 10.6% in Ferry County. The statewide average is 4.2%, slightly higher than the national average of 3.6% and the pre-pandemic low of 3.9%.<sup>12</sup>

### **Manufacturing and agricultural employment**

Manufacturing continues to experience a gradual decrease statewide. In 1980, manufacturing jobs comprised 17.8% of total employment. By 2019, this slipped to 8.5%, and in 2021, manufacturing jobs accounted for 8% of the state labor force.<sup>13</sup> Agriculture employment, conversely, has gradually increased, moving from just over 80,200 jobs in 2010 to 95,400 in 2020.

While automation and relocation of manufacturing functions is a long-term trend, disruptions related to logistics and supply chains also appear to have compromised manufacturers' ability to operate at full capacity.

### **Exempt Facility category projects need for bond cap**

Qualified facilities, including water furnishing facilities, mass commuting facilities, sewage facilities, private solid waste disposal facilities, local electric energy or gas furnishing facilities, local district heating and cooling facilities, and qualified hazardous waste facilities, are eligible for bond cap allocations. Other categories

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<sup>12</sup> Statistics are current as of May 2022.

<sup>13</sup> Office of Financial Management, "Manufacturing employment as a percent of total," (July 2, 2021), <https://ofm.wa.gov/washington-data-research/statewide-data/washington-trends/economic-trends/washington-and-us-wage-salary-manufacturing-employment/manufacturing-employment-percent-total>

partially subject to volume cap include private high-speed intercity rail facilities, and as of the passage of the Infrastructure Investment and Jobs Act, private broadband projects and qualified carbon capture facilities.

Within the past five years, water, sewage, and solid waste facilities have applied for bond cap. The solid waste category is an area where significant innovation is occurring to repurpose many parts of the waste stream into recycled products or biofuels. The program has made allocations or responded to inquiries for projects that would repurpose straw, plastic, cardboard, and wood waste. These types of projects provide an array of benefits, including decreased demands on landfills, job creation, and reductions in environmental impacts.

### **Exempt Facility category legislation**

The Infrastructure Investment and Jobs Act of 2021 allowed for further innovation in the provision of critically needed infrastructure by expanding the Exempt Facility category. The new allowances require projects to obtain an allocation of 25% of their par value to receive tax exempt bonds, greatly leveraging the impact of the Bond Cap Allocation Program. As a result, a \$100 million qualified carbon capture project or broadband project would only need an allocation of \$25 million of bond cap to make a tax-exempt bond sale covering the full amount.

However, not all types of improvements will qualify under the Exempt Facility category. For example, a criterion for a qualified non-public broadband project is to provide new service to areas showing lack of adequate service, and that the project will meet targets for businesses and residences to access 100/20 megabytes per second (mbps) service.

Washington's Climate Commitment Act in 2021 reinforced the state's commitment to cap or reduce carbon emissions. In addition, the state recently passed the Statewide Broadband Act to improve internet access throughout the state.

The COVID-19 pandemic increased demand for and awareness of the importance of reliable high-speed internet for all residents, businesses, and governments for education, economic, public service, and other needs. A recent statewide survey indicated 6% of residents have no internet access and 41% have download speeds slower than 10 megabytes per second (mbps),<sup>14</sup> well below the 25 mbps download speeds the Federal Communications Commission defines as the minimum standard for high-speed internet.

Several proposed pieces of legislation would adjust how the Exempt Facility and Small Issue categories operate and are utilized. These bills include the [Build Back Better Act \(HR 5376\)](#) and the [Modernizing American Manufacturing Bond Act \(HR 1115\)](#). These proposals would fundamentally expand the eligibility of projects that qualify for private activity bonds. One provision would increase the maximum industrial development bond size from \$10 million to \$30 million. Another proposal would add electric vehicle charging stations to the list of Exempt Facility category projects subject to the volume cap. However, as with the federal legislation related to the Housing category, these pieces of legislation do not appear to be moving forward at this time. A survey of program stakeholders conducted in 2020 revealed a mixture of support and opposition to these proposals. If these proposals begin to advance, the program will resolicit input to determine if perspectives have changed.

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<sup>14</sup> KCPQ Channel 13 Fox News, "Digital Divide: Washington families struggle to get internet access," (January 13, 2022), <https://www.q13fox.com/news/digital-divide-washington-families-struggle-to-get-internet-access>

### **Administrative rule changes**

Two changes to the Washington Administrative Code (WAC) were completed in 2021 and 2022. One adjustment allows large Exempt Facility category projects to receive allocations exceeding 30% of the initial set-aside amount on May 1, instead of July 1. This change builds upon amendments made to the WAC in 2021 that brought the administrative rules into conformance with changes made to RCW 39.86 in 2010. The WAC changes in 2021 and 2022 were conducted through expedited rulemaking allowed when consensus has been reached among stakeholders.

### **Small Issue category concerns**

The Small Issue category will not see substantial allocations of volume cap unless there are changes to the federal regulations. The Community Development Finance Authority's most recent Annual Volume Cap Report shows that national issuances in this category have been minimal since 2012. This mirrors trends seen in the statewide utilization of this category, due to low interest rates, limitations on overall project size, and the expiration of allowed uses (such as intangible assets) after the Great Recession. During this most recent biennium, the only Small Issue category allocation was for a Beginning Farmer/Rancher project. The Beginning Farmer/Rancher program was effectively suspended after the conclusion of an arrangement between the WSHFC and the Northwest Farm Credit Service. A new issuer was established in 2021, and the Beginning Farmer/Rancher issuances may see a resurgence during the next biennium.

## **Program administration issues**

The program continues to improve stakeholder engagement, administrative processes, and program guidelines.

### **Adjustment to application submittal, review and approval/denial**

Due to remote work operations, the program now receives bond cap allocations solely through electronic submittals. This accelerates the beginning of the review process and creates a more straightforward "time stamp" indicating when an application is received. This is important as the program largely operates on a first-come, first-served basis.

The program has not yet received more than one application simultaneously, but it is possible this could occur in the future. Electronic submittal makes this occurrence more likely, especially on days such as the first date allowed for early submissions. During the next biennium, the program will solicit stakeholder involvement to determine if adjustments are needed for applications that arrive on the same calendar day. For example, applications received outside of normal business hours be counted as received at 8 a.m. on the next business day? Should the priority of applications received at the exact same minute, or perhaps even on the same business day, be determined randomly? Does the electronic submittal process disadvantage applicants with lower broadband speed, who might submit a proposal at the exact same time as an applicant with more robust internet service?

### **Stakeholder outreach**

One of the key recommendations of the previous Biennial Report was to convene the stakeholder group. The Bond Cap Advisory Group has since met twice, in 2020 and 2021. The program anticipates hosting two or more meetings per year during the next biennium.

During the next biennium, the Bond Cap Allocation Program will take actions to include perspectives from outside the immediate bond cap stakeholder community. It will invite groups representing statewide interests such as the Association of Washington Cities, Washington State Association of Counties, and Municipal

Research and Services Center. The discussion group will reevaluate the results of the 2020 stakeholder survey to determine if perspectives have changed.

With the resumption of annual conferences, the Bond Cap Allocation Program anticipates participating and making presentations at events previously used to conduct stakeholder outreach. These efforts include involvement in annual gatherings of the Association of Washington Cities, Infrastructure Assistance Coordinating Council, and Housing Washington.

### **Changes to rules, regulations and procedures**

While no WAC or statute changes are proposed for consideration in 2023, the Bond Cap Stakeholders Group may begin gathering input on the relevance of WAC provisions that are rarely or never used. An example of this type of rule is [WAC 365-135-060](#), which sets geographic limits on the issuance of Small Issue category industrial revenue bonds. This requirement has never been used and is an example of extraneous criteria that may cause confusion or inhibit a potential applicant from utilizing the program.

During the next biennium, the stakeholder group might consider the arrangement to make allocations to housing authorities through the WSHFC. This approach appears to have worked well and can provide advantages to housing authorities that need advanced assurances of cap allocations. If stakeholders express support, the program will propose formalizing the current arrangement.

Finally, the Attorney General's Office issued an administrative determination at the end of 2021 regarding the designation of carryforward and calculation of initial set-asides. [RCW 39.86.120](#) allows the initial set-aside to be reduced by the amount of a carryforward designation completed at the end of the prior year. This allowance was only utilized when competition exists for an allocation of volume cap. As a result, reductions occur in years when competing applications for an allocation of bond cap are submitted prior to the start of the year. This occurred at the end of 2021. As a result, the 2022 initial allocations were adjusted to reflect the 2021 carryforward allocation made to the Housing category. Per the provisions of the RCW, this amount was added to the Remainder category set-aside and was available for immediate allocation to the first application received for 2022 volume cap.

# Bond cap categories

## Housing category - 42% initial allocation

In Washington state, the Housing category includes mortgage revenue bonds, mortgage credit certificates, and Exempt Facility category bonds for qualified residential rental projects.

Under state law, 42% of the total cap is set aside for the Housing category – 80% to WSHFC (33.6% of the total cap) and 20% to local housing authorities (8.4% of the total cap).

WSHFC’s allocation can be used by its Single-Family Homeownership Program or Multifamily Rental Housing Program. WSHFC’s multifamily program issues bonds for both nonprofit and for-profit affordable housing developers. The Single-Family Homeownership Program’s mortgage revenue bonds are used for single-family low-income homebuyer assistance. Under IRS Code, 95% of mortgage revenue bond allocations must be used to finance residences for first-time homebuyers.

Local housing authorities issue bonds for affordable multifamily rental projects – both their own projects and to nonprofit developers of affordable housing.

Since 2007, bond cap allocations in the Housing category helped create or rehabilitate more than 54,675 units of low-income, senior, and special needs housing statewide.

## Small Issue category - 25% initial allocation

A Small Issue category project, as described in IRS Code, is an industrial development/manufacturing project with a maximum of \$20 million in capital expenditures over a six-year period – three years before and three years after the issuance of the tax-exempt private activity bond. Allocation requests for a single project in this category cannot exceed \$10 million during the six-year period.

The state adopted legislation in 2006 to create the Beginning Farmer/Rancher, or “aggie bond,” Program, a subset of the Small Issue category administered by WSHFC. Bonds to support new farming operations were first issued in early 2008. Since then, aggie bonds have helped 34 families establish new agricultural businesses. This program helps permanent residents start farms if they've never owned one or previously owned a farm that was less than 30% of the county's median farm size.



The [Beginning Farmer/Rancher Program](#) resulted in the creation of 33 new farms and ranches throughout the state since its creation in 2006. *Photo courtesy of Adobe Stock Photo.*

Aside from the Beginning Farmer/Rancher Program, activity in the Small Issue category has been slow since the recession. Nevertheless, since 2007, bonds issued in the Small Issue category helped create or retain more than 1,460 jobs in Washington communities.

## Exempt Facility category - 20% initial allocation

Exempt Facility category projects are capital developments qualifying for tax-exempt status only if issued under the bond cap because of a high level of private involvement or benefit. Exempt Facility category projects include:

- Solid and hazardous waste disposal
- Wastewater/sewage treatment
- Water facilities
- Mass commuting facilities
- Local district heating and cooling
- Local furnishing of electricity or gas

Under federal law, the term “Exempt Facility” also includes low-income rental housing. However, for purposes of distributing the state’s bond cap authority among projects, Washington considers low-income rental housing in the Housing category.



The Columbia Pulp project prevents tons of wheat straw from entering the waste stream or pollution from burning by turning straw into feed, pulp and erosion control. *Photo by Allan Johnson.*

In the Bond Cap Allocation Program’s history, tax-exempt private activity bonds in the Exempt Facility category have financed innovative recycling, alternative energy and waste management projects in the Exempt Facility category, such as the Columbia Pulp Project.

In addition to removing tons of waste and pollution, creating value-added consumer products, and providing power, sewer, and water facilities, Exempt Facility category projects have created or retained more than 3,756 jobs for Washington residents since 2007.

## Student Loans category - 5% initial allocation

While the state issued bonds in this category before 2005, the issuance was suspended after the Student Loan Finance Association (SLFA) assets were sold in late 2004 to a for-profit corporation. The Washington Higher Education Facilities Authority (WHEFA) was appointed the new authorized Student Loans category bond issuer in the state. Beginning in 2008, changes in federal financial aid procedures made it difficult or unnecessary for the state to issue Student Loans category bonds. Depending on student financial aid developments at the federal level, WHEFA is prepared to offer both federally insured Student Loans category loans and alternative loans.

## Remainder and Redevelopment category - 8% initial allocation

The Remainder and Redevelopment category, hereafter referred to as “Remainder category,” is a miscellaneous category. It can be allocated to projects eligible under any of the other bond-use categories throughout the year, as long as the initial allocation in the project’s category has been depleted or the availability of cap for a specific project is limited by program timelines. At the beginning of each year, the program reserves at least 8% of the state’s total bond cap authority for the Remainder category, providing flexibility to make more allocations earlier in the year.

If bond issuers submit applications in separate categories before the start of the calendar year, initial set-asides may be reduced by the amount of carryforward designated in the prior year. This amount is then added to the Remainder category.

Most often, the Remainder category cap is used for Housing category projects, particularly for local housing authority allocations over the initial set-aside. At times, Remainder category cap is used for Exempt Facility category projects that are larger than the 30% of the initial allocation allowable for any one project early in the year.

## 2020-2021 program activity summaries

2020 and 2021 bond cap activity was characterized by continued high demand for Housing category cap, moderate demand for Exempt Facility cap, and limited demand for Small Issue cap. While a significant number of projects received allocations from carryforward, a large number of projects used current-year cap. Affordable housing received the majority of bond cap issuances.

### 2020 Bond Cap issuances

The program approved private activity bond sales for 29 projects in 2020, using a total of \$900.8 million in bond cap authority. Of that amount, 93.1% went to Housing category projects that created or rehabilitated more than 5,192 units of affordable housing and assisted 374 homeowners through the Single-Family Bond program. There were \$62 million in Exempt Facility category bonds issued in 2020. No Small Issue category projects received bond cap during the year.

The year began with \$278.9 million in accumulated carryforward; it ended with \$177.7 million, a decrease of 36%. Increased issuances in the Housing and Exempt Facility categories led to a net decrease in carryforward capacity going into 2021.

For details on specific issuances during 2020, refer to [Appendix A](#).

### 2021 Bond Cap issuances

The program approved private activity bonds for 31 projects in 2021, using \$872 million in bond cap authority. Of that amount, 91.4% went to Housing category projects. A total of \$433,500 was allocated for Small Issue category bonds, while the Exempt Facility category used allocations of \$75 million. Issuances in the Housing category created or rehabilitated more than 5,320 units of affordable multifamily housing and helped 361 low-to moderate-income families become homeowners.

With total issuances exceeding the annual cap, the carryforward capacity shrank from \$177.7 million to \$151.9 million. At the end of 2021, all of the carryforward for the single-family category was expended. As a result, carryforward in the WSHFC multifamily program comprised all available carryforward going into 2022. If issuances in 2022 exceed the annual cap, as they did in 2021, it is possible there could be little or no carryforward allocation at the end of the 2022. This situation has happened only once in the program's history, at the end of 2007.

For details on specific issuances during 2021, refer to [Appendix B](#).

### Biennium summary

The program approved private activity bonds for 60 projects, using \$1.8 billion in bond cap authority during the biennium. There was one issuance of \$433,500 for a Beginning Farmer/Rancher project. There were \$136.7 million issued for Exempt Facility category projects, and \$1.64 billion issued for Housing category projects.

For details on specific issuances during this biennium, refer to [Appendices A or B](#).



## 2020-2021 Bond Cap project highlights

Among the multiple projects that received allocations of bond cap over the last two years, several stand out for their innovation, public benefits, community enhancement, and strength of partnership.

### Longview: North Pacific Paper Company

Responding to a surge in the availability of wastepaper, the North Pacific Paper Company (NORPAC) is in the midst of significantly expanding and modifying its Longview paper recycling and processing facilities.

In support of this expansion project, the Washington Economic Development Finance Authority awarded NORPAC a nearly \$48 million issuance of tax-exempt private activity bonds in 2020. The remainder of the total project cost of \$66 million was provided through private equity.

The company is making varied modifications to the plant, and the most substantial is the purchase and installation of a new piece of machinery called a drum pulper. “It’s the critical element of the whole process,” said NORPAC Project Manager Todd Brooks.

When bales of wastepaper arrive at the plant, they are fed into one end of the pulper – a long rotating cylinder. As the drum slowly turns, the paper inside is agitated by tumbling. Aided by the addition of water, it begins to separate into small fibers.

These fibers are collected into a mixture called a pulp slurry, which can be used to create recycled paper products after additional cleaning steps. Contaminants like plastic and glass are screened out.

“It’s almost like a horizontal washing machine at the laundromat,” said Brooks, describing the function of the pulper.

While some of the machinery is new, the recycling process it supports is not. The Longview plant, which has been in operation for over 30 years, was originally designed to recycle newspaper. It was retooled several years ago to produce cardboard packaging instead of newsprint.

The new drum pulper, which should be ready to make its first production runs in mid-August 2022, will nearly triple the amount of wastepaper the plant can process every year.

This increase in recycling capacity comes at a particularly important time for Washington state. Following years of increasing restrictions on recycling imports, China issued a prohibition on the import of wastepaper in December 2020, leading to a corresponding increase in the supply of that raw material, which NORPAC saw as an opportunity.

“The timing was just about perfect for us to get started in the market with the availability of mixed-waste paper,” said NORPAC Engineering and Maintenance Manager Nick Busch.

The expanded plant will give new life to a large quantity of recycled paper that would otherwise have ended up as garbage. “With this new facility, we’ll be consuming about 1,700 tons per day,” continued Busch. “Most of that would’ve ended up in the landfill.”

The expansion project has brought tangible economic benefits for the surrounding community as well, creating 122 new jobs and preserving 336 existing jobs at the plant. These jobs provide higher-than-average wages in an area that has faced greater employment challenges than other parts of the state.

In September 2020, the local unemployment rate was over 9%, compared to a state unemployment rate just under 8%.

Providing a combination of environmental and economic benefits, the expansions to the NORPAC plant will have an impact from the City of Longview and across the Northwest region, as a greatly increased amount of wastepaper from several states will be recycled into useful products.



The North Pacific Paper Product project is intended to prevent tons of cardboard from entering the waste stream. Photos provided by North Pacific Paper Product Company and the Washington State Economic Development Finance Authority.

## Seattle: Africatown Community Land Trust, Community Roots Housing

Feeling the impacts of gentrification and rising housing costs in the historic heart of Seattle's Black community, residents of the city's Central District have been active in advocating and organizing for more affordable housing to address the displacement of the area's most marginalized residents.

Those efforts met with considerable success on the Africatown Plaza project, an affordable housing partnership between nonprofits Africatown Community Land Trust (ACLT) and Community Roots Housing.

Just acquiring the land where the building will be constructed, at the corner of 23rd Avenue and East Spring Street, required a concerted community effort. Before ACLT purchased it, the property, along with adjacent parcels on the same block, had an uncertain future.

The entire block was first put up for sale in June 2015. Several tentative deals with various developers fell through against a background of growing community concern over the displacement of existing residential and commercial tenants, and a strong community desire for any future development on the site to include affordably priced housing.

After a combination of public advocacy, extended negotiations, and assistance from outside partners, ACLT acquired three parcels at the south end of the block in early 2017, securing the promise of additional affordable housing units in the Central District.

"I think it's a truly historic moment that community process, community organizing can lead to results," said ACLT VP of Real Estate Muammar Hermanstyne of the effort to gain ownership of the land.

In 2021, ACLT received an allocation of \$30 million in private activity bonds through the Washington State Housing Finance Commission to develop Africatown Plaza in collaboration with Community Roots Housing. This allocation covers approximately half of the total development cost of \$60 million. Other sources of

funding include municipal grants and low-income housing tax credits. The building will offer 126 new units of affordable housing available to residents making up to 50% of area median income.

In addition to 59 studio and 36 one-bedroom apartments, Africatown Plaza will feature 18 two-bedroom and 13 three-bedroom apartments – more than similar projects have typically included. The nearby Liberty Bank Building – another affordable housing partnership between ACLT and Community Roots Housing completed in 2019 – contains only 15 two-bedroom apartments and no three-bedroom apartments among its 115 total units.

Africatown Plaza will also offer residents over 4,000 square feet of common areas and will provide a satellite office space for ACLT.

According to Hermanstyne, Afrocentric design and context informed the building’s architecture, and many elements of its physical construction are meant to convey symbolic meaning.

“The design of the building was very community-focused,” said Jeremy Wilkening, vice president of real estate development for Community Roots Housing. “A lot of the design elements are representative of the pan-African community.”

In addition to providing much-needed affordable housing in the Central District, Hermanstyne hopes that Africatown Plaza, and the story of the land acquisition that made it possible, will serve as a model of community-driven development that others can follow.

“As long as that building gets built, it’s a testimony to communities organizing and pushing forward to do great things,” he said.



The Africatown housing project will provide affordable housing and community facilities in Seattle. *Photos provided by Africatown Community Land Trust, Community Roots Housing and the Washington State Housing Finance Commission.*

## Walla Walla: Housing Authority Preservation Project

Maintaining and upgrading existing units is an important part of providing high-quality affordable housing for as many people as possible.

A 2021 allocation of \$7 million in private activity bonds by the Washington State Housing Finance Commission to the Walla Walla Housing Authority (WWHA) will help support the preservation of 96 of the authority’s existing affordable housing units.

Those units are spread across three WWHA properties: Belmont Apartments, Marjorie Terrace, and Rosehaven Cottages. The Belmont Apartments serve populations that require additional assistance, and Marjorie Terrace and Rosehaven Cottages are both set aside to house people 55 years of age or older.

Planned improvements and maintenance include upgraded energy efficiency in all units, new sewer lines and cabinets at Marjorie Terrace, fresh interior and exterior paint in all units, and exterior maintenance on the Belmont Apartments. To improve the energy efficiency of the three buildings, WWAHA will replace roofs at the Rosehaven Cottages, and upgrade hot water tanks, toilets, lighting and appliances across all three properties.

This round of upgrades and maintenance began with a \$500,000 housing preservation grant in 2019 from the Washington State Housing Trust Fund to make improvements to the Belmont Apartments.

WWAHA Executive Director Renee Rooker said that the goal of the project is for these 96 units to remain a high-quality affordable housing option for the next 30 years. With around 600 total units in the authority’s inventory, this preservation effort represents a significant investment in the future of affordably priced housing in Walla Walla.

When describing the state of affordable housing in the city, Rooker summed it up in one word: “Terrible.” She cited significant challenges like high rents – up to \$2,000 a month for a one-bedroom apartment in a new private development – as well as a lack of dedicated affordable housing and difficulty accessing sufficient funding for constructing new affordable housing.

In the face of those challenges, however, Rooker said the authority remains committed to providing as much high-quality affordable housing as it can, a commitment she feels is reflected in this housing preservation project.

“The feedback I get from the community is that they’re proud of the units we produce and how we maintain them,” she said. “That’s very important to us.”



The Walla Walla Housing Preservation Project will provide upgrades to affordable housing assets in the community. *Photos provided by the Walla Walla Housing Authority and the Washington State Housing Finance Commission.*

## Everett: DevCo Four Corners

The former site of a defunct Kmart in Everett will soon be home to a new affordable housing development with 430 apartments and amenities like a recreation center and swimming pool.

In 2020, DevCo – the developer building the Four Corners Apartments – received a \$71.5 million allocation of private activity bonds from the Washington State Housing Finance Commission. An additional \$17.9 million in recycled volume cap and 4% tax credits provided by the Commission will also be used to the \$154 million project.

Standing on an over nine-acre lot, Four Corners will offer 150 one-bedroom, 115 two-bedroom, 80 three-bedroom, 70 four-bedroom, and 15 five-bedroom apartments across five buildings. The development will

feature a mix of surface and underground parking, in addition to ground floor bike storage in each building and two outdoor bike shelters.

Located at the major crossroads of Evergreen Way and the Boeing Freeway, the site was an ideal location for an affordable housing project, said DevCo President of Development David Ratliff.

“It was clear that there was a ton of need in this particular area,” he said. “This represented a better location for anyone who already lived in the neighborhood because of its proximity to transit on Highway 99, to Evergreen Middle School, and to Cascade High School. It’s all walking distance right there.”

After over two years spent working out contract terms and price, DevCo acquired the property for around \$18 million in 2020, seven years after Kmart shut its doors.

The property could also see the construction of additional apartments in the future, if Sound Transit builds a light rail station nearby. Ratliff emphasized, however, that DevCo has no imminent plans for an expansion. An existing dialysis facility that would be replaced by additional apartments has a long-term lease on its building.

Four Corners will feature five-over-one construction – five wood-framed floors over one concrete floor – which is a style often used when the relative costs of concrete and land are such that it is more cost-effective to expand a development up, opposed to out. DevCo has only been using this style of construction on affordable projects for about three years, said Ratliff. The change was made possible by an increase in general financial feasibility for higher density projects.

According to Ratliff, DevCo is expecting the first residents to move into Four Corners in the summer of 2023, and all units will be available by the end of that year. Residents of the development will average no more than 60% of area median income.

More housing in this rental range is an important need in the community. The City of Everett’s draft 2020 Analysis of Impediments to Fair Housing estimated that the city will need over 3,500 new units available for households making 51-80% of area median income by 2035.

With its 430 units, Four Corners will make a dent in that need, although Ratliff underscored that demand for housing in the area continues to outstrip supply and developers have struggled to match the pace of that demand with new construction.

Given the development’s proximity to Evergreen Middle School and Cascade High School, as well as the high number of larger units, Ratliff hopes that Four Corners will be particularly impactful for families and people who provide important local services.

“At the 60% income band we’re housing city employees, firefighters, nurses, and their families,” he said. “It’s a lot of essential service providers in the community that need housing.”



The DevCo Four Corners project will result in 430 new affordable housing units and new community facilities. *Photos provided by DevCo, the Washington State Housing Finance Authority, Everett Herald and James Vogel.*

## Summary of 2020-2021 public benefits

Tax-exempt private activity bond issuances must be used for projects with measurable public benefits. State law and WAC provide guidance for evaluating the public benefit of projects applying for cap and for prioritizing projects in case demand for cap exceeds the cap available.

### Affordable housing units created or rehabilitated

One of the primary ways bond cap has been used historically is for the creation or rehabilitation of affordable multifamily housing.

Bond cap authority used for affordable multifamily housing development typically leverages at least as much in other project financing as the amount of bond cap allocated. In particular, a development needs a bond cap issuance to qualify for federal 4% low-income housing tax credits (LIHTCs). To qualify for these tax credits, at least 50% of the project's financing must come from the tax-exempt bond cap issuance.

During 2020 and 2021, financing packages using tax-exempt private activity bonds created or rehabilitated 9,530 units of affordable multifamily rental housing.

This amount represents an 8.4% decrease from the 10,409 units developed during the previous two-year period.

**Table 1: Affordable Multifamily Rental Housing Units Created or Rehabilitated, 2020-2021**

A. WSHFC/Local Housing Authority (LHA)	B. Housing units	C. Bond Cap used	D. Average. Bond Cap/Unit = C ÷ B
WSHFC	7,407	\$1,103,223,917	\$148,943
Local Housing Authorities	2,123	\$433,117,028	\$204,012
<b>Totals</b>	<b>9,530</b>	<b>\$1,536,340,945</b>	<b>\$161,211</b>

### Homeownership assistance benefits

As part of its Single-Family Program, WSHFC uses bond cap allocations to provide down payment assistance and tax credits for qualifying homebuyers.

WSHFC issued a total of \$99.6 million in down payment assistance and tax credits for qualifying homebuyers in 2020 and 2021. WSHFC's first-time homebuyer program, Housekey, served 374 households in 2020 and 361 in 2021. All Single-Family Program bonds issued during these years came from 2018 carryforward.

WSHFC traditionally directs some of its bond cap to mortgage credit certificates (MCCs), particularly during recession years. The placement of carryforward into the MCC program during recession years prevented any carryforward from expiring before it was used. This practice has ended as low-income multifamily projects and Housekey assistance have rebounded. This biennium did not see any issuances of MCCs.

## Housing related job creation

Affordable multifamily rental housing development creates jobs in the construction, property management, and social services industries, in addition to other public benefits.

The U.S. Bureau of Economic Analysis and the National Association of Home Builders (NAHB) published data on the estimated job benefits of housing construction due to increased economic activity in a local area, including both new construction and rehabilitation of existing buildings.

NAHB data show that the estimated one-year impacts (that is, during the first year after construction begins) of building 100 new rental apartments in a typical local area include:

- \$11.7 million in local income
- \$2.2 million in taxes and other revenue for local governments
- 161 temporary construction jobs<sup>15</sup>

The Bond Cap Allocation Program calculates estimates of job creation for the first year after construction begins by multiplying NAHB’s 161-jobs-per-100-units estimate by the number of units.

In addition to one-year impacts, construction of every 100 multifamily rental housing units provides recurring community impacts, including:

- \$2.6 million in local income
- \$503,000 in taxes and other revenue for local governments annually
- 44 permanent local jobs<sup>16</sup>

The program calculates the recurring job creation impacts of construction of new affordable housing by multiplying NAHB’s 44-jobs-per-100-units estimate by the number of units.

**Table 2: Estimated job creation impacts of construction of new multifamily housing, 2020-2021**

WSHFC/LHA <sup>17</sup>	New housing units	Estimated temporary construction jobs 161 jobs x 100 new housing units	Estimated permanent jobs 44 jobs x 100 new housing units
WSHFC	7,407	11,925	3,259
LHA	2,123	3,418	934

15 National Association of Home Builders (NAHB); The Economic Impact of Home Building in a Typical Local Area – Income, Jobs, and Taxes Generated; April 2015; <https://www.nahb.org/-/media/NAHB/news-and-economics/docs/economics/economic-impact/economic-impact-local-area-2015.pdf>, page 2

<sup>16</sup> NAHB, page 3

<sup>17</sup> 40 WSHFC: Washington State Housing Finance Commission; LHA: Local Housing Authorities

WSHFC/LHA <sup>17</sup>	New housing units	Estimated temporary construction jobs 161 jobs x 100 new housing units	Estimated permanent jobs 44 jobs x 100 new housing units
Totals	9,530	15,343	4,193



In addition to jobs created by construction of new multifamily housing, year-one construction jobs are also created by rehabilitating existing housing units. According to NAHB, the local community impacts of each \$1 million spent on residential remodeling (rehabilitation) include:

- \$841,000 in local income
- \$71,000 in taxes and other revenue for local governments
- 11.5 temporary construction jobs<sup>18</sup>

Under federal law, the proceeds of the bond cap-authorized bond must finance at least 50% of project costs for a housing project to qualify for tax-exempt status and 4% low-income housing tax credits. Because bond proceeds are usually the most expensive portion of the financing for an affordable housing project, it is unusual for the proceeds of the bond cap-authorized bond to finance much more than 50% of total project costs. Therefore, to estimate job impacts, the total project costs are assumed to be twice the amount of the bond cap allocation.

**Table 3: Estimated jobs created by rehabilitation of affordable multifamily housing, 2020-2021**

WSHFC/ LHA	Units rehabilitated	Bond Cap used	Estimated total project costs Bond Cap used x 2	Estimated year-one temporary construction jobs created (11.5 per \$1 million)
WSHFC	7,407	\$1,103,223,917	\$2,206,447,834	25,374
LHA	2,123	\$433,117,028	\$866,234,057	9,962
<b>Totals</b>	<b>9,530</b>	<b>\$1,536,340,945</b>	<b>\$3,072,681,891</b>	<b>35,336</b>

## Job creation impacts of Small Issue category and Exempt Facility category projects

During 2020 and 2021, Exempt Facility category projects created 214 new permanent jobs and retained another 409 jobs, in addition to creating many temporary construction jobs. In addition, a Beginning Farmer/Rancher bond issuance in 2021 created one additional new agricultural job. These numbers represent actual jobs created or retained in specific Washington businesses, as indicated on the projects' applications for bond cap authority. These figures do not account for indirect jobs creation or retention.

Following a very large issuance in the Exempt Facility category in 2017, activity in this category dropped but still exceeded the 13-year average. Issuances were \$62 million in 2020 and \$75 million in 2021, continuing the trend of robust bond cap activity in this category since 2019.

For a full list of annual Small Issue category and Exempt Facility category issuances, refer to [Appendix C](#).

<sup>18</sup> NAHB, page 3

## 2022 initial allocations

For 2021, the IRS increased the per capita multiplier to \$110, which remains the multiplier for 2022. According to official U.S. Census Bureau population estimates, Washington’s population grew to 7,738,692, increasing the total cap available to the state to \$851.2 million for 2022.

In 2017, the Legislature reduced the Student Loan category initial allocation to 5% and increased the Housing category initial allocation to 42%. The housing category allocation is further divided – 80% (33.6% of the total cap) to WSHFC and 20% (8.4% of the total cap) to local housing authorities.<sup>19</sup>

**Table 4: Bond Cap initial allocations for 2022**

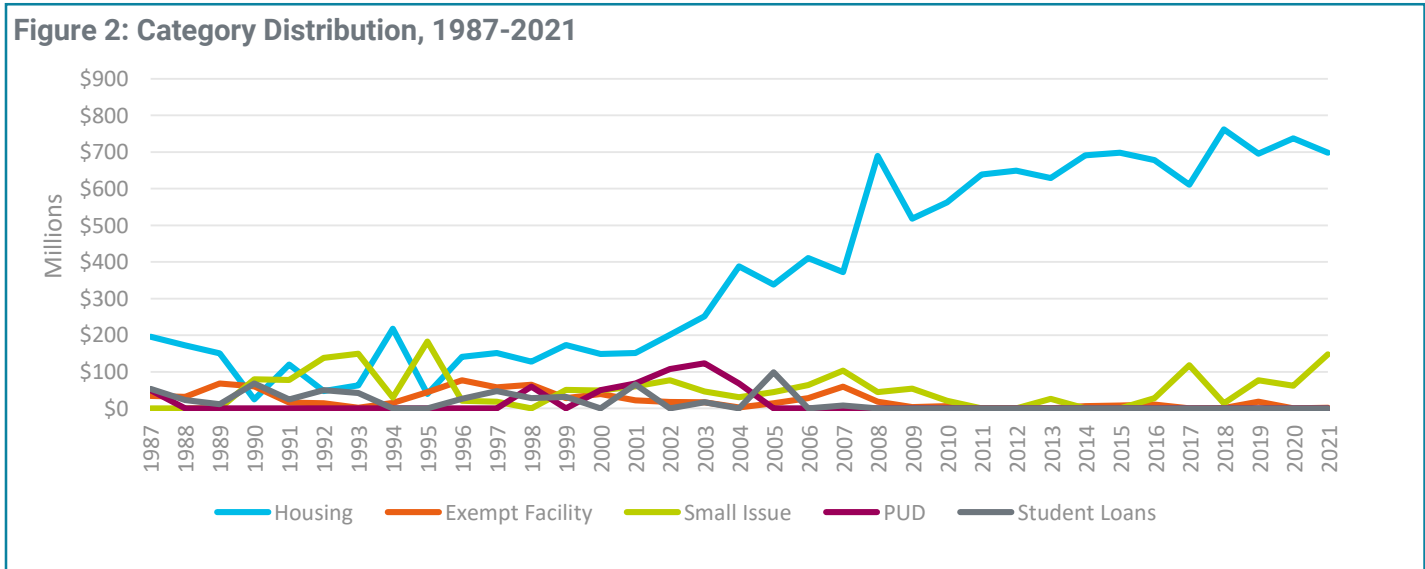
State population of 7,738,692 x \$110 per capita = \$851,256,120 total bond cap		
Category	Initial allocation percent (per RCW 39.86.120)	Amount of initial allocations
Exempt Facility	20%	\$170,251,224
Housing – WSHFC	34%	\$134,106,364
Housing – Local Housing Authorities	8%	\$71,505,514
Small Issue	25%	\$212,814,030
Student Loans	5%	\$42,562,806
Remainder	8%	\$220,016,182
<b>Total</b>	<b>100%</b>	<b>\$851,256,120</b>

For a full list of annual initial volume cap amounts, refer to [Appendix D](#).

<sup>19</sup> RCW 39.86.120 allows Commerce to reduce the initial allocation of a category by an amount equal to the amount of carryforward that category received from the previous year. When a category’s initial allocation is reduced because of a carryforward allocation, the initial allocation is moved into the remainder category. Although WSHFC has received a large amount of carryforward every year for several years, Commerce has not used this provision since 2006 due to the high demand for housing cap and the overall low amount of activity in the other bond cap categories. If demand for remainder cap early in the calendar year were to increase beyond the supply, Commerce could potentially meet the need by moving some or all of WSHFC’s initial allocation into the remainder category.

# Bond Cap trends

Throughout the program’s history, the Housing category has traditionally used the largest share of the state’s total bond cap authority. From the program’s start in 1987, the Housing category has used an average of 77.8% of the state’s total cap. Since 2012, that amount has increased to an average of 92.9%, either in authorization certificates through the course of a year or allocated as carryforward designated for Housing category purposes at the end of a calendar year. The mixture of housing authority, nonprofit, and qualified for-profit housing development results in a consistently high level of demand for allocations of cap. During this biennium, the Housing category utilized 87.1% of the total cap, a slight decrease compared to the previous eight years. However, in terms of dollar amount, this biennium was similar to total issuances in recent years. Figure 2 depicts issuances by category in dollar amounts.



Limitations on project size, interest rates, and relative competitiveness with commercial loan rates affect the Small Issue category, which nonetheless has occasionally experienced significant amounts of allocation activity. In addition, this category is vulnerable to downturns in the economy, such as the Great Recession. The biennium saw one Small Issue category project in 2021, a Beginning Farmer/Rancher issuance totaling \$443,500. This single project represented only a fraction of a percent of the total, well below the historical average of 4.7%.

After several years of low or no issuances, the Exempt Facility category experienced a resurgence starting in 2017 when the Washington Economic Development Finance Authority (WEDFA) issued three Exempt Facility category bonds totaling \$178 million. The trend of significant issuances in the Exempt Facility category continued, with \$62 million issued in 2020 and \$74.6 million issued in 2021, for a total of \$136.7 million in bond cap authority used during the biennium. This represents 12.7% of the total available cap, above the historical average of 10.8% for this category.

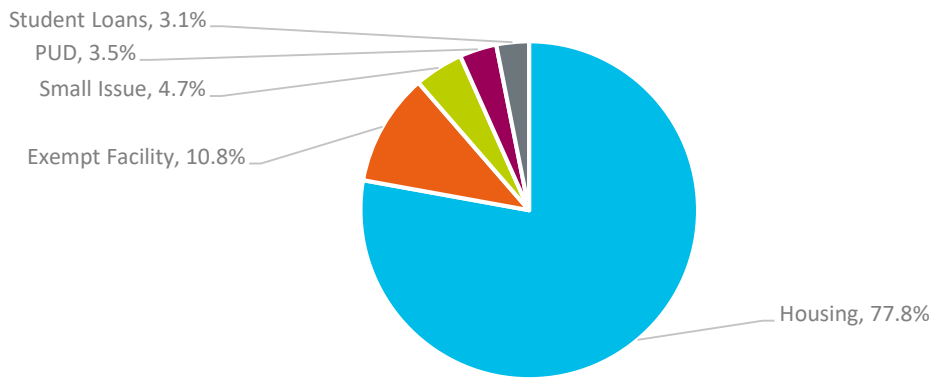
For details on the annual issuances by category, refer to [Appendix E](#).

During the 2020-2021 biennium, the Housing category accounted for just over 92% of total issuances, an amount higher than the average proportion of bond cap allocated to that category over the program’s history (see Figure 3). It is similar to the ratio allocated over the last 10 years (see Figure 4), but slightly higher than the percentage of total issuances of the last five years (see Figure 5).

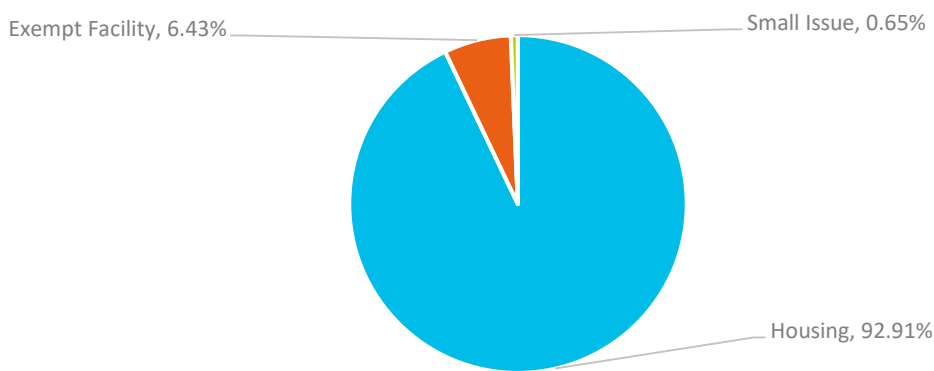
Exempt Facility category issuances composed 7.7% of issuances during the past two years. This amount is similar to the 10-year average for that category, but less than the most recent five-year period.

Lastly, as in recent years, there were no issuances in other categories.

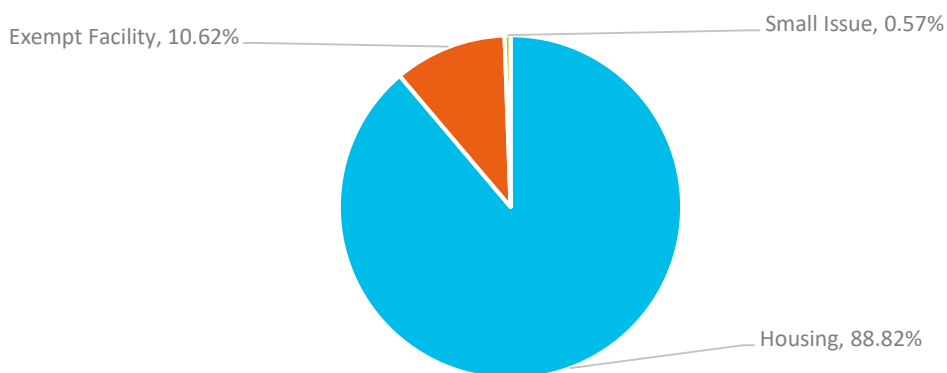
**Figure 3: Bond Cap category distribution, 1987-2021**



**Figure 4: Bond Cap category distribution, past 10 years**



**Figure 5: Bond Cap category distribution, past five years**



## Trends in total annual bond cap

Each year, the bond cap is derived using a multiplier supplied by the Internal Revenue Service in November and an annual population estimate provided by the U.S. Census Bureau in December.

Starting in 2001, the IRS began adjusting the multiplier based on cost-of-living increases. The rate has been adjusted about every two to three years since. Over that time, the multiplier has increased 76%, from \$62.50 per resident in 2001 to \$110 per resident at the end of this biennium. This increase exceeds the 58.7% increase in inflation over this period provided by the Bureau of Labor Statistics Consumer Price Index (CPI) inflation calculator. Meanwhile, population has increased by 30.5% over the same period. This has resulted in a 129.7% increase in volume cap over a 20-year period (or about 6.5% annually).

In 2021, the multiplier increased from \$105 per capita to \$110 per capita. This resulted in a sizable increase of 5.8% in total cap between 2020 and 2021.

The population of the state continues to grow, however in 2021 the rate of growth slowed from just over 1% annually to approximately 0.6%. As a result, the total cap increased at the same rate (there was no change in the multiplier in 2022).

Between 2019 and 2021, the total amount of volume cap increased by 7%, about half the average rate experienced over the past two decades. Most of this increase was due to adjustments in the multiplier.

## Trends in overall bond cap use

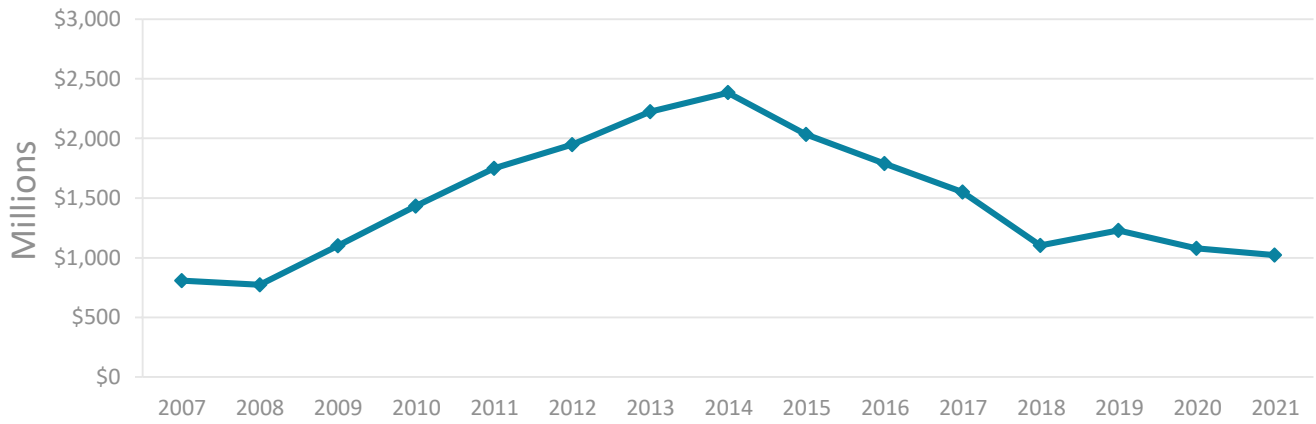
The use of the cap among the categories – as well as the percentage of the cap used annually – has varied over the years. For example, in the program's first year, only 5% of the cap was allocated to the Housing category under state law provisions for initial set-asides, compared with today's initial allocation of 42%. In 2000, the Legislature adjusted the category divisions closer to the current configuration. Additional updates occurred in 2007, after the completion of the public utility district (PUD) special allocation for hydroelectric facilities, and in 2017, when the Legislature transferred 10% of the total cap from the Student Loans category to the Housing category.

Coming out of the Great Recession, the state had low annual utilization of volume cap with an all-time low in 2013. Multiple years of large carryforward resulted in large initial amounts of cap available at the start of each year. In 2014, there was \$2.4 billion in cap available, an all-time high. The next few years saw a surge in issuances due to the use of carryforward for Mortgage Credit Certificates (MCCs) and Housing category projects by a mix of housing authorities, housing nonprofits and for-profit housing developers. In 2017, Washington state used an all-time high total volume of \$1.3 billion in bond cap authority.

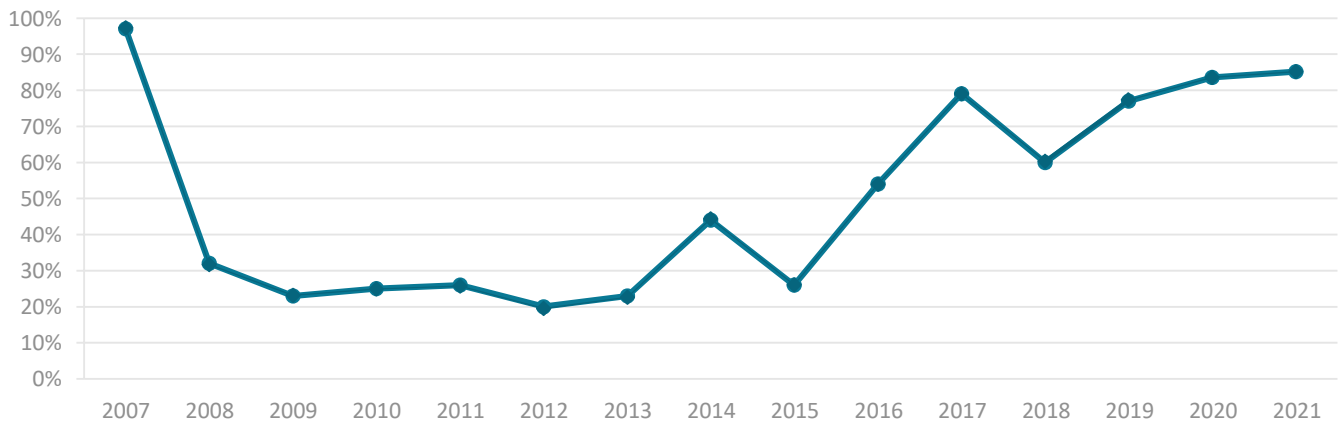
Total current-year use dropped in 2018 to \$339.9 million while total issuances were \$664.6 million, which was less than the total cap available for 2018. As a result, carryforward increased to \$437.7 million. In 2019, total issuances surged to \$951.7 million and far exceeded the total cap available. As a result, carryforward was reduced to \$278.9 million at the beginning of 2020.

Total current-year use increased in 2020 to \$699.7 million with total issuances of \$900.8 million, exceeding the total available cap of \$799.6 million. Accordingly, carryforward for 2021 decreased to \$177.7 million. In 2021, the program exceeded the available annual cap of \$846.3 million with total issuances of \$872 million. Carryforward going into 2022 further decreased to \$151.9 million.

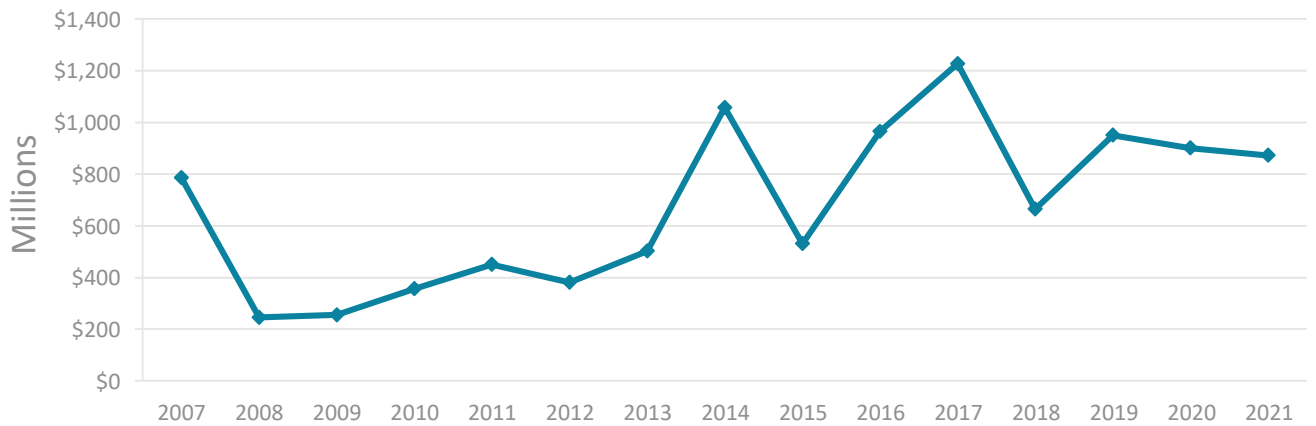
**Figure 6: Total capacity, 2007-2021**



**Figure 7: Percent of total capacity used, 2007-2021**



**Figure 8: Total volume cap issued, 2007-2021**

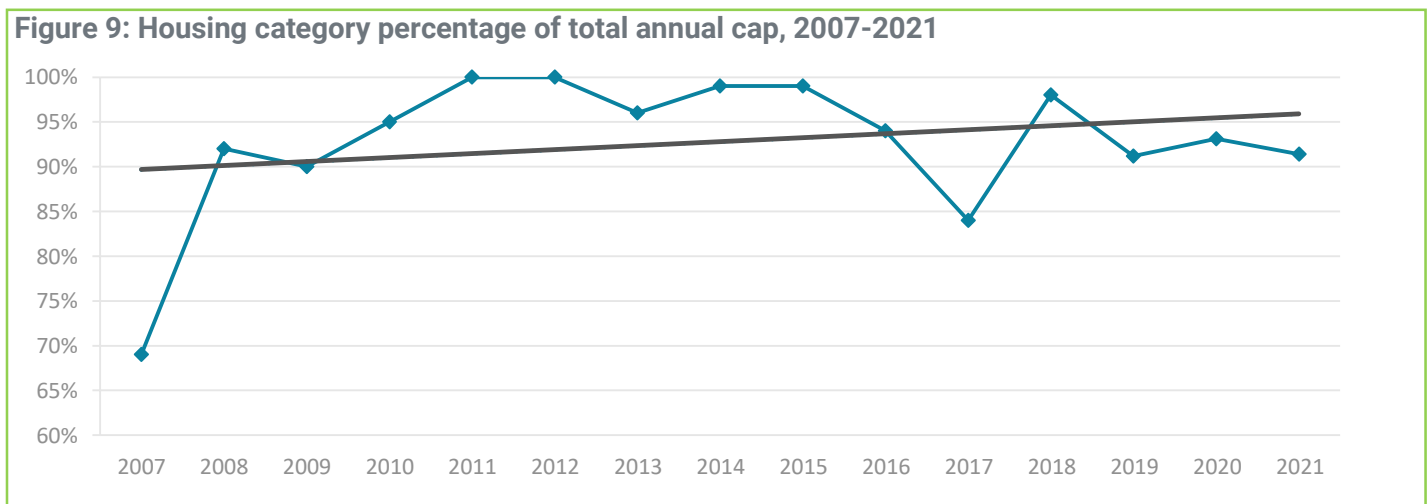


## Trends in category distribution

The Housing category has consistently been the most-used category for allocations of bond cap. Only in 1990 and 1992 did the Housing category trail behind other categories. In addition, the percentage of total cap allocated to housing has generally trended upward over the years. Use of the state's total cap allocation for the Housing category has averaged:

- 77.8% since the program began in 1987
- 92.9% over the past 10 years

However, over the past several years, the Housing category percentage has somewhat decreased, due primarily to the recovery in the Exempt Facility category. In 2018, the percentage for the Housing category rose to 97.7%, but fell in 2019 to 91.2%. 2020 saw a modest increase to 93.1% in Housing category allocation as a proportion of total annual cap. In 2021, Exempt Facility category projects took a higher share of total bond cap allocation, with Housing category allocations accounting for 91.4% of bond cap activity.



The Housing category aside, the Exempt Facility category (and the PUD category before its expiration) have come the closest to using their initial allocations. Exempt Facility category projects have used 54% of initial allocations over the program's history. During this biennium, the Exempt Facility category accounted for 12.7% of bond cap utilization, a significantly lower percentage than the historical average.

Only in 1990 and 1996 did the Small Issue category exceed its 25% initial allocation. Overall, the Small Issue category has used only 5.2% of the total cap. An increase in the capital expenditures allowance for Small Issue category projects from \$10 million to \$20 million occurred over six years beginning in 2007. That increase made more projects eligible for allocations and caused a surge in Small Issue category bonds in 2007 before the recession reduced demand.

Since 2004, federal changes to the Student Loans category have prevented an issuance of Student Loans category bonds in the state.

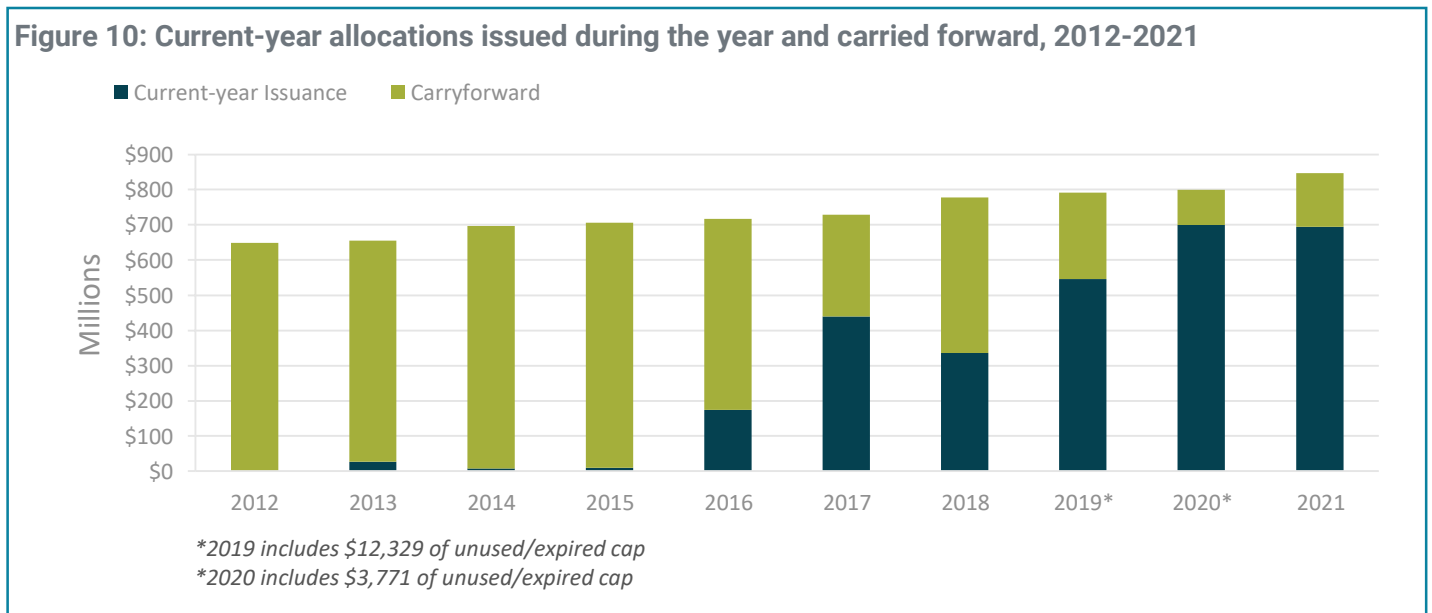
Throughout the program's history, Washington state has almost always used its entire cap allocation, whether issued during the year or as carryforward within three years of allocation. Only very small amounts of cap have been lost. Once the state began allocating all carryforward on a program basis, primarily to WSHFC, only a minimal amount of cap has been lost through expiration.

## Trends in carryforward amounts

The percentage of the annual bond cap used varies depending on market factors, such as interest rates and economic growth, as well as changes in federal policy. In slow economic times, less cap is used and more is carried forward into future years.

For several years after 2008, economic factors, including low interest rates on conventional financing, caused more cap to be carried forward than used during each allocation year. In 2014, only \$6.6 million of that year's allocation was issued as bonds during the year, and in 2015, only \$8.2 million was used. A turnaround began in 2016. In 2018, \$339.9 million in that year's cap was used, and in 2019 that amount increased to \$611.7 million. This biennium, the Bond Cap Allocation Program issued nearly \$700 million in current-year cap per year (\$699.7 million in 2020 and \$694.4 million in 2021).

In 2019, there was only \$12,329 of unused/expired cap. In 2020, there was \$3,771 of unused/expired cap.





## Further information

The [Bond Cap Allocation Program webpage](#) is available online.

The webpage includes links to the Revised Code of Washington (RCW) and Washington Administrative Code (WAC) sections that guide governance of the program. Links to previous biennial reports are also available, which contain supplemental background information.

The program webpage provides answers to Frequently Asked Questions (FAQs), updates on annual initial allocations amounts, upcoming Bond Cap Discussion Group information, application forms, and contact information for the program manager. It also includes historical records on program administration and statistics.

Finally, multiple appendices are included in this report to provide additional detail and figures.

## Appendix A: 2020 Bond Cap issuances

Date	Issuer	Project	Bond Cap Amount	Allocation Source
3/12/2020	Commission	The Confluence	\$20,577,000	2019 Carryforward
3/31/2020	Commission	La Madera Apartments	\$6,630,000	2019 Carryforward
4/14/2020	Renton Housing Authority	Sunset Oaks	\$14,500,000	2020 Cap
4/28/2020	Commission	Holly Ridge Apartments	\$19,450,000	2019 Carryforward
5/8/2020	Commission	Cedar Crossing	\$48,500,000	2019 Carryforward
5/21/2020	Commission	Polaris at SeaTac	\$61,000,000	2019 Carryforward
5/28/2020	WSHFC	Single-Family Bond	\$21,624,978	2020 Cap and 2018 CF
5/29/2020	Commission	Othello Park Apartments	\$17,943,092	2019 Carryforward
5/29/2020	Commission	Othello Park Apartments	\$56,908	2020 Cap
6/5/2020	Commission	The Orchard	\$5,400,000	2019 Carryforward
6/10/2020	Vancouver Housing Authority	Anthem Columbia Portfolio	\$36,996,144	2020 Cap
6/18/2020	Port of Sunnyside	Exempt Facility - Sewage Project	\$14,058,000	2020 Cap
6/30/2020	Commission	Station by Vintage	\$35,940,000	2020 Cap
6/30/2020	WEDFA	Exempt Facility - Norpac	\$47,970,000	2020 Cap
7/16/2020	Seattle Housing Authority	Hinoki Apartments	\$42,755,901	2020 Cap
7/22/2020	Commission	Pointe by Vintage	\$31,770,000	2020 Cap

Date	Issuer	Project	Bond Cap Amount	Allocation Source
7/29/2020	King County Housing Authority	Abbell Portfolio	\$48,999,697	2020 Cap
7/29/2020	Commission	Fort Vancouver Terrace	\$20,974,000	2020 Cap
7/29/2020	King County Housing Authority	Woodland North	\$21,999,462	2020 Cap
8/6/2020	Commission	Quinn by Vintage	\$46,810,000	2020 Cap
8/28/2020	Commission	South Wilbur Manor Apartments	\$5,370,860	2020 Cap
9/29/2020	Commission	Madison/Boylston - 4%	\$29,643,810	2020 Cap
9/29/2020	Commission	Madison/Boylston - 4%	\$23,735,190	2020 Cap
11/3/2020	Commission	Northaven Three	\$14,650,000	2020 Cap
11/24/2020	Vancouver Housing Authority	Miles Terrace	\$7,800,000	2020 Cap
12/3/2020	Commission	Auburn Court Apartments	\$1,592,998	2020 Cap
12/3/2020	Commission	Auburn Court Apartments	\$33,532,002	2020 Cap
12/4/2020	Commission	Meridian Court Apartments	\$27,175,000	2020 Cap
12/8/2020	Commission	Polaris at Lake City	\$43,000,000	2020 Cap
12/9/2020	Commission	Four Corners	\$71,500,000	2020 Cap
12/16/2020	Commission	Polaris at Together Center	\$38,100,000	2020 Cap
12/17/2020	Commission	The Maddux	\$40,750,000	2020 Cap
Total bond cap used			\$900,805,042	

Date	Issuer	Project	Bond Cap Amount	Allocation Source
Carryforward Allocated				
12/31/2020	Commission	Housing - Multifamily Program	\$99,880,022	2020 CF
12/31/2020	Commission	Housing – Single-Family Program	\$77,808,000	2018 CF
Total Carryforward			\$177,688,022	2018 CF and 2020 CF

## Appendix B: 2021 Bond Cap issuances

Date	Issuer	Project	Bond Cap Amount	Allocation Source
4/9/2021	Commission	Uncle Bob's Place	\$24,492,000	2020 Carryforward
4/27/2021	Vancouver Housing Authority	Plum Meadows	\$22,500,000	2020 Carryforward
4/29/2021	Housing Authority of the City of Everett	Baker Heights Legacy Apartments	\$22,000,000	2021 Cap
4/29/2021	Commission	Mirabeau Place LLC	\$35,000,000	2021 Cap
5/17/2021	Community Roots	Yesler Family Housing	\$41,500,000	2021 Cap
5/18/2021	WEDFA	Exempt Facility - Columbia Pulp	\$23,864,269	2021 Cap
5/18/2021	WEDFA	Exempt Facility - Pacific Northwest Renewable Energy	\$0	2021 Cap
5/26/2021	Peninsula Housing Authority	Public Plaza LLLP	\$21,000,000	2020 Carryforward
5/27/2021	Commission	Garten Haus Apartments	\$7,000,000	2021 Cap
5/27/2021	WSHFC	Single-Family Bond	\$30,000,000	2021 Cap and 2018 CF
5/28/2021	Commission	Ovation at Meeker Apartments	\$32,000,000	2021 Cap
6/8/2021	WSHFC	Small Issue - Beginning Farmer/Rancher - Colton D. Miller	\$433,500	2021 Cap
7/13/2021	WEDFA	Exempt Facility - Mura Cascade	\$50,775,000	2021 Cap
7/27/2021	Seattle Housing Authority	Lam Bow Apartments	\$21,066,128	2021 Cap
7/28/2021	Commission	2021 Watermark - Supplemental Loan	\$2,271,600	2021 Cap
7/28/2021	Commission	Admiralty Apartments	\$8,500,000	2021 Cap

Date	Issuer	Project	Bond Cap Amount	Allocation Source
7/28/2021	Commission	Rose Street II	\$42,520,000	2021 Cap
8/10/2021	Commission	Polaris at Eastgate 4%	\$31,888,022	2020 Carryforward
8/10/2021	Commission	Polaris at Eastgate 4%	\$36,111,978	2021 Cap
8/26/2021	Walla Walla Housing Authority	WWHA Housing Preservation Project	\$7,000,000	2021 Cap
8/31/2021	Commission	Ethiopian Village	\$15,450,000	2021 Cap
8/31/2021	Commission	Solera Apartments	\$61,500,000	2021 Cap
10/7/2021	Commission	Columbia Gardens	\$20,750,000	2021 Cap
10/7/2021	WEDFA	Exempt Facility - Pacific Northwest Renewable Energy (Supplemental)	\$0	2021 Cap
10/25/2021	Community Roots	Pride Place Senior Housing	\$23,400,000	2021 Cap
10/29/2021	Housing Authority of the City of Bellingham	Samish Commons Family Housing	\$13,700,000	2021 Cap
11/23/2021	Commission	Nesbit Family Housing	\$19,225,000	2021 Cap
11/30/2021	Seattle Housing Authority	Sawara Apartments	\$37,899,696	2021 Cap
11/30/2021	WSHFC	Single-Family Bond	\$47,808,000	2021 Cap and 2018 CF
12/9/2021	Vancouver Housing Authority	Fourth Plain Commons	\$20,000,000	2021 Cap
12/15/2021	Commission	192 Shoreline	\$47,414,457	2021 Cap
12/15/2021	Commission	Linden	\$37,500,000	2021 Cap
12/22/2021	Commission	Midvale Village	\$12,000,000	2021 Cap

Date	Issuer	Project	Bond Cap Amount	Allocation Source
12/23/2021	Community Roots	Africatown Plaza	\$30,000,000	2021 Cap
12/23/2021	Commission	Elizabeth Thomas Homes	\$25,500,000	2021 Cap
Total bond cap used			\$872,069,650	
Carryforward Allocated				
12/31/2021	Commission	Housing - Multifamily Program	\$151,915,692	2021 CF
Total Carryforward			\$151,915,692	

## Appendix C: Small Issue category and Exempt Facility category issuances 2007-2021

Year	Farmer/Rancher		Small Issue Manufacturing		Exempt Facility	
	Number	Par Value	Number	Par Value	Number	Par Value
2007	0	\$0	10	\$59,856,000	5	\$103,200,000
2008	6	\$1,168,800	5	\$16,240,000	3	\$45,000,000
2009	7	\$1,543,603	1	\$1,928,000	2	\$54,685,000
2010	7	\$1,691,000	1	\$5,200,000	1	\$20,980,000
2011	2	\$459,500	0	\$0	0	\$0
2012	1	\$150,000	0	\$0	0	\$0
2013	0	\$0	0	\$0	1	\$26,500,000
2014	1	\$200,000	1	\$6,400,000	0	\$0
2015	1	\$215,000	1	\$8,200,000	0	\$0
2016	2	\$750,000	1	\$10,000,000	*	*
2017	0	\$0	0	\$0	3*	\$146,716,912*
2018	3	\$1,279,255	0	\$0	**	\$14,000,000**
2019	3	\$852,849	2	\$18,448,457	2**	\$77,185,000**
2020	0	\$0	0	\$0	2	\$ 62,028,000.00
2021	1	\$433,500	0	\$0	3	\$ 74,639,268.75**
<b>Totals</b>	<b>34</b>	<b>\$8,743,507</b>	<b>22</b>	<b>\$126,272,457</b>	<b>17</b>	<b>\$387,032,268.75</b>

\*A carryforward allocation of \$28,724,180 was awarded in 2016 to WEDFA for the Columbia Pulp project. The three exempt facilities issuances in 2017 include that carryforward amount along with current-year 2017 cap for Columbia Pulp and two additional projects.

\*\* A single allocation of \$14,000,000 in 2018 and two allocations of \$43,060,000 and \$1,125,000 in 2019 to the Columbia Pulp project are included in the annual summary of par value but are not listed in the project count as that project is enumerated as one project in 2017.



## Appendix D: Annual bond cap 1987-2022

Year	Washington state population	Per capita multiplier	Total state private activity volume/bond cap <sup>20</sup>
1987	4,444,333	\$75	\$333,325,000
1988	4,538,000	\$50	\$226,900,000
1989	4,619,000	\$50	\$230,950,000
1990	4,660,700	\$50	\$233,035,000
1991	4,761,000	\$50	\$238,050,000
1992	5,018,000	\$50	\$250,900,000
1993	5,136,000	\$50	\$256,800,000
1994	5,255,000	\$50	\$262,750,000
1995	5,343,000	\$50	\$267,150,000
1996	5,343,000	\$50	\$267,150,000
1997	5,532,939	\$50	\$276,646,950
1998	5,610,362	\$50	\$280,518,100
1999	5,689,263	\$50	\$284,463,150
2000	5,756,361	\$50	\$287,818,050
2001	5,894,121	\$62.50	\$368,382,563
2002	5,987,973	\$75	\$449,097,975
2003	6,068,996	\$75	\$455,174,700
2004	6,138,183	\$75	\$460,363,692
2005	6,213,682	\$75	\$466,026,165

<sup>20</sup> The state's total allocations do not equal the total amount of bond cap used. Abandoned or expired cap is rare in Washington, but small amounts have occasionally been lost, at times due to changes in federal law.

Year	Washington state population	Per capita multiplier	Total state private activity volume/bond cap <sup>20</sup>
2006	6,294,460	\$80	\$503,020,720
2007	6,395,798	\$85	\$543,642,830
2008	6,468,424	\$85	\$549,816,040
2008 HERA <sup>21</sup>	–	–	\$202,541,072
2009	6,549,224	\$90	\$589,430,160
2010	6,664,195	\$90	\$599,777,550
2011	6,724,540	\$90	\$638,831,300
2012	6,830,038	\$95	\$648,853,610
2013	6,897,012	\$95	\$655,216,140
2014	6,971,406	\$100	\$697,140,600
2015	7,061,530	\$100	\$706,153,000
2016	7,170,351	\$100	\$717,035,100
2017	7,288,000	\$100	\$728,800,000
2018	7,405,743	\$105	\$777,603,015
2019	7,535,591	\$105	\$791,237,055
2020	7,614,893	\$105	\$799,563,765
2021	7,693,612	\$110	\$846,297,320
2022	7,738,692	\$110	\$851,256,120
<b>Total</b>			<b>\$17,741,716,742</b>

<sup>21</sup> In October 2008, an additional \$202.5 million was the state's portion of extra bond cap authority created by the federal Housing and Economic Recovery Act (HERA) to be used for housing purposes.

## Appendix E: Bond cap category allocations 1987-2021

Year	Housing	Small Issue	Exempt Facilities	Student Loans	PUD <sup>22</sup>	Annual Total
1987	\$195,755,000	\$34,100,000	\$0	\$50,000,000	\$53,470,000	\$333,325,000
1988	\$172,000,000	\$31,900,000	\$0	\$0	\$23,000,000	\$226,900,000
1989	\$150,200,000	\$68,800,000	\$0	\$0	\$12,000,000	\$231,000,000
1990	\$24,465,000	\$60,350,000	\$79,875,000	\$0	\$68,345,000	\$233,035,000
1991	\$120,045,000	\$15,660,000	\$77,910,000	\$0	\$24,435,000	\$238,050,000
1992	\$47,725,000	\$14,350,000	\$138,455,000	\$0	\$50,370,000	\$250,900,000
1993	\$62,965,000	\$1,800,000	\$149,355,000	\$0	\$42,680,000	\$256,800,000
1994	\$217,325,000	\$15,125,000	\$30,300,000	\$0	\$0	\$262,750,000
1995	\$40,061,000	\$44,680,000	\$182,409,000	\$0	\$0	\$267,150,000
1996	\$140,483,000	\$76,852,000	\$21,600,000	\$0	\$26,715,000	\$265,650,000
1997	\$151,602,000	\$58,385,000	\$19,000,000	\$0	\$47,660,000	\$276,647,000
1998	\$127,682,000	\$64,786,000	\$0	\$60,000,000	\$28,050,000	\$280,518,000
1999	\$173,368,000	\$28,100,000	\$50,850,000	\$0	\$32,145,000	\$284,463,000
2000	\$149,034,000	\$39,425,000	\$49,359,000	\$50,000,000	\$0	\$287,818,000
2001	\$151,252,563	\$22,195,000	\$60,915,000	\$68,400,000	\$65,620,000	\$368,382,563
2002	\$201,347,975	\$17,520,000	\$77,475,000	\$107,850,000	\$0	\$404,192,975
2003	\$251,609,700	\$16,820,000	\$46,365,000	\$123,700,000	\$16,680,000	\$455,174,700
2004	\$387,739,400	\$3,191,141	\$30,935,000	\$68,650,000	\$0	\$490,515,541
2005	\$338,374,187	\$14,400,000	\$44,850,000	\$0	\$98,678,853	\$496,303,040
2006	\$410,445,720	\$28,290,000	\$64,285,000	\$0	\$0	\$503,020,720

<sup>22</sup> The PUD category, which was specific to certain kinds of environmental enhancements of hydroelectric facilities, had a lifetime limitation in federal law. Washington's lifetime limitation was \$750 million. The state's hydroelectric facilities used the last of that lifetime cap in 2007. So, beginning in 2008, that category no longer exists in the state. PUD hydroelectric bonds include \$107.1 million issued in 1986; that issuance is not reflected in the above table because it occurred before the 1987 adoption of the balance of the bond cap category structure.

Year	Housing	Small Issue	Exempt Facilities	Student Loans	PUD <sup>22</sup>	Annual Total
2007	\$372,581,129	\$59,719,365	\$103,200,000	\$0	\$8,142,336	\$543,642,830
2008 <sup>23</sup>	\$688,948,312	\$18,408,800	\$45,000,000	\$0	\$0	\$752,357,112
2009 <sup>24</sup>	\$518,021,631	\$3,472,203	\$54,685,000	\$0	\$0	\$576,178,834
2010 <sup>25</sup>	\$562,886,550	\$6,891,000	\$20,980,000	\$0	\$0	\$590,757,550
2011	\$638,371,800	\$459,500	\$0	\$0	\$0	\$638,831,300
2012	\$648,703,610	\$150,000	\$0	\$0	\$0	\$648,853,610
2013	\$628,716,140	\$0	\$26,500,000	\$0	\$0	\$655,216,140
2014	\$690,540,600	\$6,600,000	\$0	\$0	\$0	\$697,140,600
2015	\$697,753,000	\$8,415,000	\$0	\$0	\$0	\$706,168,000
2016	\$677,560,920	\$10,750,000	\$28,724,180	\$0	\$0	\$717,035,100
2017	\$610,807,083	\$0	\$117,992,912	\$0	\$0	\$728,799,995
2018	\$762,323,790	\$1,279,225	\$14,000,000	\$0	\$0	\$777,603,015
2019	\$695,014,598 <sup>26</sup>	\$19,025,128	\$77,185,000	\$0	\$0	\$791,224,726
2020	\$737,489,994	\$0	\$62,073,771	\$0	\$0	\$799,563,765
2021	\$697,809,263	\$2,000,000	\$147,623,788	\$0	\$0	\$847,433,051
<b>Total</b>	<b>\$13,141,007,965</b>	<b>\$1,821,902,651</b>	<b>\$793,899,362</b>	<b>\$597,991,189</b>	<b>\$528,600,000</b>	<b>\$16,883,401,167</b>

<sup>23</sup> Housing totals from 2008 include an additional \$202,541,072 in cap authorized by the Housing and Economic Recovery Act of 2008 (HERA).

<sup>24</sup> The actual total of 2009 bond cap was \$589,430,160. An IRS rule change in December 2010 caused two 2009 local housing authority draw-down bonds to revert a portion of their 2009 cap that was originally recorded as having been issued in 2009. The portion of those bonds that had not yet been drawn down by the end of 2009 is reflected in this table as \$13,251,326 in abandoned 2009 cap. The same amount in 2010 carryforward was allocated to those projects to cover the shortfall in cap authority.

<sup>25</sup> The actual total of 2010 bond cap was \$599,777,550. An exempt facilities allocation late in 2010 reverted \$9,020,000 after the carryforward amounts were allocated; the reverted amount was abandoned.

<sup>26</sup> \$12,329 in 2019 Bond Cap expired due to a clerical error.

# Appendix F: Glossary

## Acronyms

Below is a list of acronyms common to the Bond Cap Allocation Program.

AMI - Area Median Income

ARRA – American Recovery and Reinvestment Act of 2009

BCAP – Bond Cap Allocation Program

CDFR – Council of Development Finance Agencies

CFR – Code of Federal Regulations

CPI - Consumer Price Index

EDC – Economic Development Corporation

FTE – Full-Time Equivalent (2,080 staff hours per year)

HAI – Housing Affordability Index

HERA – Housing and Economic Recovery Act of 2008

IDB – Industrial Development Bond

IDC – Industrial Development Corporation

IRB or IDRB – Industrial (Development) Revenue Bond

IRC – Internal Revenue Code

IRS – Internal Revenue Service

LHA – Local Housing Authority

LIHTC – Low-Income Housing Tax Credits

LLC – Limited Liability Company

LP – Limited Partnership

MCC –Mortgage Credit Certificate

NABL – National Association of Bond Lenders

NAHB - National Association of Home Builders

OFM – Office of Financial Management (state)

PAB – Private Activity Bond

PUD – Public Utility District

QECB – Qualified Energy Conservation Bond

RCW – Revised Code of Washington

SLFA - Student Loan Finance Association

WAC – Washington Administrative Code

WEDFA – Washington Economic Development Finance Authority

WHEFA – Washington Higher Education Facilities Authority

WSHFC – Washington State Housing Finance Commission

## Definitions

**Allocation:** For bond cap purposes, the total dollar amount of bond issuing authority available to the state during a calendar year for any bond type limited or “capped” under federal law; or the amount available in a specific bond use category that is awarded to a specific project or issuer.

**Bond counsel:** An attorney specializing in advising clients on bond issuances, especially on the Internal Revenue Code (IRC) and tax implications of bond issuances. The bond counsel provides a legal opinion on whether a particular project meets the criteria in federal law for a specific type of bond issuance as established in the IRC and the Revised Code of Washington (RCW).

**Bond use category:** There are four categories of activities that could use tax-exempt private activity bond financing, plus a “Remainder category” category that might be used if the initial allocation in another category is depleted. The four categories are Housing, Student Loans, Small Issue and Exempt Facility. A fifth category, Public Utility District, was officially retired after 2007.

**Cap:** The ceiling, or limit, on the total dollar amount of specific bond types that can be issued in the state during a calendar year as defined in federal law (also “bond cap”).

**Carryforward:** Any portion of the cap that is not used during the allocation year but instead is carried forward into subsequent years. Carryforward amounts expire after three years or as specified for the bond type in federal law. Once expired, a carryforward cap is no longer available for use.

**Exempt Facility:** Certain types of transportation, solid-waste management, energy and environmental facilities as described in the Internal Revenue Code. Some Exempt Facility category projects must be owned by a governmental entity to qualify for tax-exempt private activity bonds.

**Housing:** In Washington state, for the purposes of the bond cap allocation, the Housing category includes mortgage revenue bonds for homebuyer assistance, Mortgage Credit Certificates (a type of tax credit) and Exempt Facility category bonds for multifamily rental housing.

Initial allocation: The percentage of the state’s total annual tax-exempt private activity bond cap set aside for each bond use category at the beginning of the calendar year.

Issuer: The state, any agency of the state, any political subdivision or any other public entity authorized to issue private activity bonds under state law.

Mortgage Credit Certificate (MCC): A federal tax credit for homebuyers who purchase homes in specific disadvantaged census tracts. These homebuyers can deduct the amount of the MCC from their income taxes.

Original allocation: An allocation granted by formula in federal law to a specific city or county for Recovery Zone Economic Development Bonds, Recovery Zone Facility Bonds or Qualified Energy Conservation Bonds.

Originally awarded locality: A unit of local government granted an allocation by a formula in federal law for Recovery Zone Economic Development Bonds, Recovery Zone Facility Bonds or Qualified Energy Conservation Bonds.

Private activity: Any activity that has significant private involvement. The Internal Revenue Code describes three tests to determine whether a project has significant private involvement for the purpose of a tax-exempt bond issuance. A project needs to meet one of two tests to be considered a private activity:

1. It meets both of the private business use tests:
  - a. Greater than 10% of its proceeds are used for any private business purpose, AND
  - b. Greater than 10 % of its proceeds are either secured by property used for private business purposes or are to be repaid from private business sources.
2. OR, it meets the private loan financing test:
  - a. Greater than 5% (or \$5 million, whichever is less) of its proceeds are used for loans to persons other than governmental entities.<sup>57</sup>

Reallocation: When an initial allocation goes unused, or an original allocation has been returned to Commerce and Commerce has distributed it to another issuer.

Small Issue Aggie: Also known as the Beginning Farmer/Rancher Loan Program. Created by the Legislature in 2006, this program provides loans for first-time farmers and ranchers to establish their businesses. Bonds in this category are issued by the Washington State Housing Finance Commission, and individual farmers or ranchers apply to it for financing. Aggie bonds are in the Small Issue category. Federal law currently limits individual loans under the program to \$552,500 per family as of Jan. 1, 2020.<sup>27</sup>

Small Issue category manufacturing: Industrial development projects that have capital expenditures of \$20.0 million or less during a six-year period – three years before and three years after the issuance of the tax-exempt private activity bond. Small Issue category allocations are limited to \$10.0 million per project.

Tax-exempt: Bond investors (who purchase the bonds, thus providing project financing) are not required to pay federal taxes on interest earned on the bonds, which can be attractive to investors and might at times make

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<sup>27</sup> <https://www.stateagfinance.org/types-of-state-ag-loan-programs>

the bonds easier to sell. Tax-exempt bonds qualify for lower interest rates, which means lower costs for the user of the bond proceeds.

**Underwriter:** A financial or investment institution, usually a large bank, which guarantees the purchase of a full issue of bonds.

**User:** The governmental entity, business, or individual who is the primary beneficiary of the bond proceeds.