The Study Committee on Industrial Development Bond Allocations

December 2001 Report

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THE STUDY COMMITTEE ON INDUSTRIAL DEVELOPMENT BOND ALLOCATIONS

DECEMBER 2001 REPORT

COMMITTEE MEMBERS

Senator Ramón Valadez, Cochair
Senator Timothy Bee
Senator Jay Blanchard
Senator John Verkamp
Scot Butler
Margie Emmerman
Ray Lopp
Barbara Ryan
Barbara Williams

Representative Carol Somers, Cochair
Representative Ted Carpenter
Representative Richard Miranda
Representative James Sedillo
Arthur Crozier
Jaime Gutierrez
Alan Maguire
Greg Vargo
John Salgado

Enabling Legislation

Laws 2001, Chapter 338, Section 7

Purpose

To (1) review the utilization of private activity bonds for the past five years including applications for and issuance of bonds; (2) assess the projected demand for utilization of private activity bonds in future years and review the process by which prospective users of private activity bonds are selected including the current lottery process; (3) evaluate and make recommendations for future allocations and methods for selecting private activity bond recipients.

Report Requirement

The Committee must submit, on or before December 1, 2001, a written report that includes the recommendations of the Committee to the Governor, the President of the Senate, the Speaker of the House of Representatives, the Secretary of State and Director of the Arizona State Library, Archives and Public Records.

Membership

<u>House</u>

Four members of the House, not more than two from the same political party, including one from a rural county with not more than 600,000 persons, appointed by the Speaker of the House of Representatives:
Carpenter, Miranda, Sedillo, Somers (Cochairman)

<u>Senate</u>

Four members of the Senate, not more than two from the same political party, including one from a rural county with not more than 600,000 persons, appointed by the President of the Senate:
Bee, Blanchard, Valadez (Cochairman), Verkamp

<u>Other</u>

Three members of the Arizona Housing Commission, appointed by the President of the Senate:
Mr. Scot Butler, Governmental Affairs Director, Manufactured Housing Industry of Arizona
Mr. Arthur Crozier
Ms. Barbara Williams

The Director of the Department of Commerce or the Director's designee:
Ms. Margie Emmerman, Director, Department of Commerce

Four members who are representatives from a city or county industrial development authority, one of which shall be from a rural county with a less than 600,000 persons, appointed by the Speaker of the House of Representatives:

Mr. Jaime Gutierrez, Tucson IDA Board
Mr. Ray Lopp, Flagstaff City Authority President
Mr. Alan Maguire, The Maguire Company & Maricopa IDA Board
Mr. John Salgado, Phoenix IDA Board

One member who is a representative for student loan projects, appointed by the President of the Senate:
Ms. Barbara Ryan, General Council, Southwest Student Services Corp.

One member who is a representative for manufacturing projects, appointed by the Speaker of the House of Representatives:
Mr. Greg Vargo, Motorola

Committee Activity and Recommendations

The Committee met on two occasions: October 3, 2001 and December 12, 2001 (see attached minutes).

At the October 3, 2001 meeting, a series of presentations and Committee discussion on private activity bonds took place. Scott Ruby, the Bond Council for Department of Commerce provided the history of bond obligations and how the volume cap came into existence together with a recap of Arizona's current system. Barbara Ryan presented on the use of private activity bonds for student loans. Steve Capobres, the Housing Director for the Department of Commerce presented a proposal that would recommend that prior to projects going to the lottery that they be required for submission to the new Department of Housing for a review to determine sufficient market demand.

At the December 12, 2001 meeting, the Committee voted to approve the following recommendations:

1. Permanently set aside 10% of the State's Private Activity Bonds for qualified residential rental projects, 30% of which set aside for rural projects for a period of at least 180 days.
2. Have the Arizona Housing Commission create a blue ribbon committee composed of all stakeholders in multi-family and single-family for the purpose of reviewing the housing allocations and process and making recommendations on potential improvements to the system, if necessary.

ARIZONA STATE LEGISLATURE

STUDY COMMITTEE ON INDUSTRIAL DEVELOPMENT BOND ALLOCATIONS

Minutes of the Meeting
Wednesday, October 3, 2001 – 1:00 P.M.
Senate Hearing Room 1

Members Present:

Senator Ramon Valadez, Cochair
Senator Tim Bee
Senator Jay Blanchard
Scot Butler
Arthur Crozier
Ray Lopp
Barbara Ryan
Barbara Williams
Representative Carol Somers, Cochair
Representative Ted Carpenter
Representative Richard Miranda
Jaime Gutierrez
Alan Maguire
John Salgado
Greg Vargo
Margie Emmerman

Members Absent:

Senator John Verkamp
Representative James Sedillo

Staff:

Julie Szperling, Senate Commerce Research Analyst

Senator Valadez called the meeting to order at 1:15 p.m., and attendance was noted. For additional attendees, see attached Sign-In Sheet (Attachment A). Introductions of Committee members took place.

Charge of the Study Committee

Julie Szperling, Senate Commerce Research Analyst, stated that the purpose of the Study Committee includes the following:

- To review the utilization of private activity bonds for the past five years including applications for issuance of bonds.
- To assess the projected demand for utilization of private activity bonds in future years and to review the process by which prospective users of private activity bonds are selected including the current lottery process.
- To evaluate and make recommendations for future allocations and methods for selecting private activity bond recipients.

Ms. Szperling stated that the Committee is required to submit a report by December 1, 2001, to the Governor, the President of the Senate and the Speaker of the House, which will include the recommendations of the Committee. She noted that the

Committee is due to expire at the end of 2001. An informational packet prepared by the Arizona Department of Commerce (DOC) for Senate staff was distributed to Committee members for review (Attachment B).

Presentation of Private Activity Bonds – Department of Commerce

Scott Ruby, Bond Council, Gust Rosenfeld, stated his firm is known for handling public finance work and represents DOC in connection with its volume cap activities. He explained he would provide the history of bond obligations and how the volume cap came into existence together with a recap of Arizona's current system.

Mr. Ruby described the process whereby governmental entities issue bonds in order to finance capital expenditures generally related to a public purpose. When those types of bonds are issued, they bear tax-exempt interest for the holder. In exchange for the tax break, the investor accepts a lower interest rate than that provided in the normal private market for the equivalent credit risk. The federal government has viewed that process as a federal subsidy of state and local borrowing, therefore, it is interested in how those types of obligations are issued. However, the United States Constitution does not allow for the taxation of the interest. The types of obligations that governments can issue are limited.

Mr. Ruby explained that beginning in 1954 through 1968 governments were involved in issuing governmental bonds for more industrial-type purposes to finance capital facilities relating to an industrial pursuit. Those bonds were often secured and paid by the private user. In 1968 the federal government announced it was going to re-examine whether or not those types of governmental bonds were to bear tax-exempt interest. The federal government stated in 1968 that those types of industrial development bonds issued by governmental entities or subordinates would not be tax-exempt. He noted that some exceptions were allowed, such as found in current law.

Mr. Ruby commented that a number of changes subsequently took place, including the institution of a volume cap. The volume cap limits the amount of private activity bonds (formerly called industrial development bonds) that are capable of being issued in a state by political subdivisions. He noted it not only includes county and city governments, but 501c3's with a quasi-governmental purpose.

Mr. Ruby indicated that the volume cap originated for single family bonds, and subsequently for other industrial development bonds. In 1986 a single volume cap was imposed on every state at $150 million per state or $50 per head. The volume cap was recently raised to $62.50 per head. Arizona last year had a volume cap activity of $320,664,000, which allowed the issuance of private activity bonds up to that dollar volume. Each state has its own volume cap.

Mr. Ruby explained the private activity bonds that can be issued fall into four categories:

1. Exempt facility bonds, which include approximately twelve items such as airports, docks, wharves, production of electricity, water, sewer, solid waste and those types of activities.
2. Qualified residential rental projects, which are apartments that have special set-asides for low- and moderate-income people.
3. Student loan bonds that can be sold to fund a particular type of student loan.
4. Small issue exemption, which includes the ability to issue up to $10 million of bonds for manufacturing facilities.

Mr. Ruby stated that the Arizona statutes have addressed the volume cap currently as was done in 1984. He explained the methodology for allocating the volume cap at that time. As a result of that process, the volume cap was allocated for certain categories. Subsequently, when the unified cap originated in 1986, the executive order was memorialized into statute. Since that time the statute has been "tweaked" to the system currently, which divides the volume cap on January 1 of each year. He noted that the volume cap renews every calendar year.

Mr. Ruby commented that the volume cap is currently divided into six categories as follows:

1. Director's discretion receives 10% of the allocation, which is used for select projects.
2. Mortgage revenue bonds or mortgage credit certificates, which receives 35% of the pool. This pool formerly was operated on a first-come, first-served basis for qualified issuers. Currently the 35% allocation is issued to the "big four issuers": Pima County, Maricopa County, City of Phoenix and the City of Tucson in accordance with their population to the entire state's population. Additionally, a rural piece exists for the outlying areas that are available for single-family purposes.
3. Student loan bonds have 20% of the volume cap, which is accomplished through a lottery drawing. When the student loan allocation is not used, it is repooled for allocation elsewhere.
4. Manufacturing projects consist of 15% of the pool. According to federal law, those projects cannot exceed $10 million and most are less than that amount for smaller manufacturing facilities.
5. Qualified residential rental projects consist of 10% of the pool. It includes multi-family projects, which reserves a certain number of units for low- and moderate-income families.
6. All other categories receive 10% of the pool, which includes anything that was not included in the other-named categories. Examples of participants include utilities, solid waste, airports, docks and wharves.

Mr. Ruby explained those are the six categories that exist on January 1 for volume cap allocations. He noted it is a pure lottery system with the exception of Director's discretion and the mortgage revenue bonds. If there is any money left exceeding a particular project, then those funds are passed down in the order drawn. He indicated that prior to the drawing, the participant is required to go to an issuer of these types of bonds. Typically the issuers are industrial development authorities. Those authorities initially grant preliminary approval to a project. The applicants then take that preliminary approval and on January 1 are able to participate in the volume cap process. If preliminary approval is not granted, the applicants are not eligible for the volume cap process.

Mr. Ruby explained that after receiving a portion of the volume cap, the participant has 60 days to close the bond issue transaction. There is an opportunity to extend the period of time for another 60 days upon the payment of a 1% security deposit. He noted that the majority of the participants that receive a volume cap allocation on January 1 apply for the extension, which totals 120 days to issue the bonds. If a participant does not close within 120 days, the security deposit is forfeited. The funds then are allocated to the next in line in the process. The process continues until June 30. At that time if any bond issues were not closed, the remaining volume cap including single-family and all other categories with the exception of director's discretion would repool for a new lottery on July 1. On that date there are only two categories: (1) director's discretion, which includes the remainder of the pool from the beginning of the year, and (2) anything left over. In some years the repooling amount only includes Director's discretion, and nothing in the other pool because all participants had issued their bonds and everyone had utilized the volume cap in the other categories. In other years some particular projects "fall out" because of the inability to close the bonds, resulting in the repooling amount to become quite substantial. Mr. Ruby explained that the July 1 lottery is basically identical to the January 1 lottery with the exception that a 1% security deposit is posted to obtain confirmation. If a 60-day extension is requested, another 1% deposit is posted.

Mr. Ruby described the restrictions regarding confirmation as follows:

- No confirmation can exceed $20 million with the exception of single-family projects and student loan projects.
- Only one request per project is allowed for the same project. However, there is no limit on the number of applicants. Any applicant could submit more than one application covering each project of that applicant.

Mr. Ruby explained that around December 1 or 16 is the time when everyone has to close their bond issues. He indicated that federal law allows a last opportunity to allocate on a carryforward basis. An applicant then places a request for carryforward to DOC. If any volume cap is remaining, a particular project may be allowed to carryforward for a period of three years. Within that three-year period, the applicant must issue the bonds utilizing that volume cap. He noted that situation does not occur with any great amount because generally the majority of the volume cap has been used during the course of the year.

Representative Miranda referred to bonding for multi-housing units. He asked whether it is known how much money is provided per year and how many units have been built because of the bonding. He also was interested in knowing how many units were set aside for low income.

Mr. Ruby responded that the information is likely available, but he would respond in general terms today regarding that query. He commented that Sandy Brown, who administers the volume cap process for DOC, has provided data. The data indicates the following:

- Multi-family housing in 2001, $115,255,000 was allocated to 14 multi-family housing projects.
- In 2000, 8 multi-family housing projects received $49,205,000 of allocation.
- In 1999, 7 multi-family housing projects received $30,950,000 of allocation.
- In 1998, 9 multi-family housing projects received $34,540,000 of allocation.
- In 1997, 9 multi-family housing projects received $13,000,000 of allocation.

Responding to the query regarding the income levels served, he said that federal law requires the projects have a minimum of one of the two following categories:

- 40% of the units have to be set aside for individuals making 60% or less of the area median income (called the 60/40 test), or,
- 20% of units have to be set aside for individuals making 50% or less of median income (called the 50/20 test).

Therefore, all projects receiving volume cap fit into one of the two categories.

He said as far as whether any Industrial Development Authority (IDA) had any further requirements such as setting aside additional units for persons at different levels, or whether they "bumped" or "added to" the federal requirements, he is not sure without reviewing the documents. He stated that the projects receiving volume cap sometimes have additional sources of money. For example, it will often be combined with tax credits, which is another form of government subsidy that supports low-income housing. Tax credit requirements may be more severe or cause more units to be set aside for low-income persons than just the 60/40 or 50/20 tests.

Mr. Ruby stated there is a third category of multi-family housing that does not enter into the volume cap area. He referred to any 501c3, which has housing as its purpose, can issue tax-exempt bonds and does not need volume cap. He noted that one of the exempt governmental entities from this volume cap process besides true government bonds include bonds issued by 501c3's. He indicated that in the past few years a significant number of 501c3 entity-sponsored bond programs have appeared for low-income housing. Those bond programs typically follow 60/40 – 50/20 rules, and also are required under the 501c3 designation to ensure that at least 75% of the units are available for persons making 80% or less than median income. He commented that in order to obtain a fair idea of the volume of tax-exempt financing or government subsidized financing that goes to low- and moderate-income in the form of multi-family projects, a review would be appropriate for those receiving volume cap, tax credits and 501c3 sponsored activities.

Representative Miranda asked Mr. Ruby to explain the type of multi-family housing involved in that process. Mr. Ruby responded in 2001, 14 projects were financed with volume cap. He said he believes the majority of projects are in the Phoenix and Tucson metropolitan areas. He added that it is somewhat difficult to distinguish them from the newly-built projects. He commented that those which appear to be high-end projects would have to charge rents to support the kind of entity that is not conducive to those kinds of set-asides. He stated that he could probably provide information regarding the location of the projects referenced earlier.

Representative Miranda replied he would appreciate receiving that information. He referred to comments made regarding manufacturing in the rural and urban areas, and asked Mr. Ruby to discuss the actual bonding numbers for rural manufacturing projects versus urban. Mr. Ruby responded that he would have Ms. Brown provide that information. He said in 2001 there was only one manufacturing project in the amount of $6.5 million. In 2000 there were 8 manufacturing projects totaling $58,390,000; in 1999 there were 9 projects for $38,550,000; in 1998 there were 9 projects for $18,500,000, and in 1997, 7 projects for $43,650,000. He noted he would attempt to provide the location information on those projects. He added that with respect to the manufacturing pool of volume cap, the law provides that 70% of those funds is reserved for rural projects until April 1. After that date the restriction is lifted and any project could participate. Representative Miranda requested Mr. Ruby to provide information on housing projects for both rural and urban areas pertaining to location. Mr. Ruby replied he would provide the requested information.

In response to Mr. Gutierrez, Mr. Ruby explained that the categories have existed since 1992, and the only new category created two years ago is the qualified residential rental project category that receives 10% of the volume cap. It was created by deducting 5% that formerly went to director's discretion along with the 5% that went to the "all other" category, and diverted to the newly created qualified residential rental project category. Mr. Gutierrez referred to the comment regarding the 14 residential rental projects funded under the 10% category. Mr. Ruby responded that in 2001, there were 14 such projects, and the 10% represents $32+ million. Mr. Gutierrez asked for further clarification. Mr. Ruby explained that the lottery process awarded 10 projects for $75,255,338. He said he believes it included the January 1 lottery in the amount of $32 million. Further, on July 1 there was a significant amount of money, and the only applicants were multi-family projects. Therefore, the difference between those figures was utilized as well as the director's discretion pool was used for the remaining four projects in the amount of $40 million. He said the July 2001 lottery included approximately $48 million additional funds. He pointed out that the $115 million was the true dollar amount of activity of bonds for which volume cap was issued. He clarified that the 14 projects were funded in the 2001 January and July lotteries out of the "all other" category. The 10% set aside for qualified residential rental projects takes effect January 1, 2002. He stated that the "all other" category in 2001 would have been 15% or $48 million on January 1.

Senator Valadez explained that the Legislature created the 10% "set aside" during the last session, and took 5% from director's discretion allocation and 5% out of the "all other" category. He said he believes that the "set aside" begins January 1, 2002.

Mr. Ruby clarified that in 2001, there was an "all other" category of $48 million. He explained that category was utilized by multi-family. On July 1, the funds were repooled and a little less than $30 million was utilized for multi-family. In addition, there was a director's discretion of $40 million.

Mr. Gutierrez asked whether there has been any category in the past that was underutilized consistently. He referred to student loans, and said he assumes that category is being utilized 100%. He questioned whether any other categories have not been utilized in a timely manner of which Mr. Ruby is aware. Mr. Ruby replied that "consistently" is rather difficult to define, although he indicated he would be inclined to respond in the negative. He noted that student loans were not in the market for a couple of years. For example, the utilities have "ebbed and flowed" in the arena, as well as the pollution control and solid waste categories. At times the "all other" category is dominated by multi-family and not by the others. However, he believes that most of them consistently receive a demand.

Mr. Gutierrez commented that with the new change in the law, presumably the possibility of future permanent allocations will be reviewed. He asked whether it would be an Arizona public policy issue that there should be more money into residential rental projects.

Senator Valadez explained that Mr. Ruby is correct in his comment that it "ebbs and flows." He pointed out that an initial allocation is set for the initial lottery starting January for multi-family housing. At the end of the 180-day period, a second lottery pools the remaining allocation of volume cap together that allows the different projects. He noted that process is market driven depending upon the situation.

Mr. Gutierrez suggested that a chart be prepared before the next meeting to outline the allocations expended for 2000 and 2001 with the understanding that the change in the law will not "kick in," and that in July a reallocation will be conducted for the volume cap not previously utilized.

Senator Valadez responded that staff is in the process of completing that work. He indicated that the allocation received in total by multi-family housing over the last three years has exceeded 10%.

Mr. Crozier requested further information from Mr. Ruby regarding additional numbers to be included in the four major IDAs and how much of that amount was actually distributed to rural Arizona.

Mr. Ruby explained that the topic being addressed relates to single-family mortgage revenue bonds and not qualified residential rental projects, which are apartments. He indicated the bonds are single-family, which are bonds or mortgage credit certificates issued to assist the single-family household. He stated that the process prior to two years ago was "winner take all" on January 1, and the applicants were the big four because those were the entities qualified under statute to issue single-family mortgage revenue bonds. He commented that the law required that whichever entity "won" was required to make the money available to all residents in the State on an equitable basis. He noted that the dominant markets in Phoenix and Tucson absorbed most of that process. The law was changed two years ago to allocate a certain percentage of the single-family to each one of the big four issuers and preserve a rural piece. He pointed out that the director would then look to see who had a program that would originate mortgage loans in the rural areas. He explained it is a difficult area because there is not a concentrated market and lenders. He noted that there is another option becoming available beginning in January to include the newly-created Arizona Housing Finance Authority to issue single-family bonds similar to an IDA for rural Arizona only. He added that the director will no longer be required to choose one of the big four to issue the rural piece.

Mr. Ruby commented that in 2001 the size of the rural allocation was $25,558,000. He said that particular rural piece was combined with the Pima County, Tucson, IDA transaction. He said he does not have any information on the success of that effort to date because the bonds were only issued four months ago. He remarked that last year mortgage credit certificates was the product selected, which was attached to the City of Phoenix to provide for the rural piece to be issued. He noted that Jill Godfrey of DOC monitors those programs, and he would provide the Committee with the data as to specific amount of rural origination within the past two years. He said other information would need to be supplied through the IDAs of the "winner-take-all" system. He indicated that a housing task force has been convened in connection with the modification of the statute to change the allocation to give an amount to each of the big four issuers. He added that the task force would likely be able to provide that type of information.

Mr. Crozier asked for an explanation as to what happens to the remaining amount of the rural piece after the 180-day limit for disbursement. Mr. Ruby replied that the law as amended two years ago provides that the rural piece must be available for origination in the rural areas for at least 180 days. Following that period of time a program structure occurs to best serve the program. He explained the procedure involving cash flow or negative arbitrage problems that could take place. In response to Representative Carpenter, Mr. Ruby explained the complexity of negative arbitrage.

Presentation of the Use of Private Activity Bonds for Student Loans

Barbara Ryan, presented statistics regarding the financing of student loans. Her remarks included the following highlights:

- In Arizona 42% of undergraduate students and 28% of graduate students require an element of student loans to finance their education.
- Over the last ten years, tuition costs at Arizona universities have risen an average of 5% per year. Currently student in-state tuition averages over $2,000 per year.
- For fiscal year ending September 30, 2000, over 275,000 federal student loans were disbursed to students in Arizona. Of that amount, 61,000 loans came from a direct university lending program.
- The average debt with which an Arizona university student graduates is over $17,000. The average debt for a graduate student degree is $29,000.
- With tax-exempt financing, a portfolio of student loans can be financed much cheaper when bonds are issued in the marketplace.

Ms. Ryan explained that student loans pay a slightly higher rate than the rate carried by bonds, which allows for a positive arbitrage spread to allow for program expenses. She said federal law requires that any extra funds are to be paid to the federal treasury or returned to students. She indicated that as a result, students are able to receive better benefits than any other lender in the State. She said those benefits are provided to 27 schools in the State, which includes a 1% interest rate reduction immediately upon repayment. She commented that with the increase in the number of students, there is always a constant need for the money. She pointed out that the only way it is possible to allow the unique benefits to students is through tax-exempt money.

TAPE 1, SIDE B

Ms. Ryan stated that the volume projections in Arizona for the fiscal year ending September 30, 2000, is $64 million in student loans that coincides with the volume cap allocation received. She indicated projections include approximately $75 million in new loans to Arizona students in the fiscal year ending September 30, 2002, which coincides with the allocation expected.

In response to Senator Blanchard, Ms. Ryan responded the rate that a student pays could be as low as 5.39% and are reset every year on July 1. She said when loans are originated, they are paid back with taxable bonds that are more expensive. She explained that loans are originated both in and out of Arizona, however, only tax-exempt bonds are used in Arizona. She pointed out that in 1998, over $45 million in origination loans were issued in Arizona. As of September 30, 2001, the amount is estimated to total approximately $60 million with an estimation of $75 million for the next fiscal year. She explained that the demand continues to increase, and in the last fiscal year there was a total of 275,479 federal student loans originated for Arizona students.

In response to Ms. Williams, Ms. Ryan explained that nexus loans could be made on a tax-exempt bond. She noted that those loans could go to anyone attending school in Arizona. She added that under higher education regulations, if a benefit is given to a school in one state, it has to be given to all schools. She commented an attempt is made to limit the benefits to Arizona. If a benefit is given from a taxable bond, money is lost. However, with tax-exempt bonds, Arizona students are able to realize increased benefits. She explained that loans could be made to non-Arizona residents only if they attend school in Arizona. She said that loans are also made to Arizona students attending schools outside the State. She remarked that loans can be given to non-residents attending non-Arizona schools, but only with taxable funds.

Representative Carpenter asked for an explanation regarding students who may utilize the loans for programs such as physician programs in rural Arizona. Ms. Ryan replied that those students would be eligible for interest-rate reductions if they had a Phelps loan. She said continued research is being conducted for increased rate reductions for certain segments, such as nursing and teaching where there is a need in the State for that type of profession. She said it would not actually be money allocated for the students, because the funds can only be utilized in the form of an interest-rate reduction in the student loan.

In response to Ms. Williams, Mr. Ryan responded that the loan allocation to students is handled in a variety of ways. She explained that her organization is on a lender list, and approximately 50% of volume last year came from six schools including the University of Arizona. She said in addition they acquire origination loans that are treated as nexus loans through banking institutions.

General Discussion

Senator Valadez stated that the next presentation will be a proposal only, and no action will be taken at this meeting.

Steve Capolores, Housing Director, DOC, stated he would like to offer some observations and recommendations to the Committee for consideration as outlined in a handout (Attachment C). He outlined the involvement of DOC in the private activity bond process. He explained that with respect to the single-family segment, DOC has historically provided support to the IDAs to ensure that the resources are utilized. DOC has provided financial assistance with the State Housing Trust Fund to link with the bonds to provide down payment closing cost assistance to help with home purchases.

Mr. Capolores commented that on the multi-family side, there are some statutory obligations to ensure that the transactions meet certain statutory requirements regarding public policy objectives. He noted the particular statute is A.R.S.§35-726e. He pointed out it is the job of DOC to hold a hearing once the project is selected to determine if there is sufficient market demand and reason to believe that the project will occur. He said over the past two years problems have been identified with a recommendation to resolve those issues, such as market demand. He explained following the lottery process, a hearing process is conducted to determine market demand. He said often it is a disadvantage because the expectation exists on the part of the developer that the deal will be approved. He noted it sometimes results in concerns regarding overconcentration of the market, particularly as it relates to other resources such as loan-for-housing tax credits. He explained DOC would like to change the process to provide an opportunity to comment on market conditions before the projects are actually drawn in the lottery. DOC would like to recommend that prior to projects going to the lottery that they be required for submission to the new Department of Housing for a review to determine sufficient market demand.

In response to a request by Senator Valadez, Mr. Capolores explained the items as outlined on Attachment C. He noted the item on page 2 relating to fees is left blank. He added that typically developers pay a fee to cover the cost of the review and underwriting of the project. A suggested reasonable fee needs to be included to cover DOC's expenses in the process.

Mr. Butler referred to market demand, and asked why DOC does not require applicants to provide a market feasibility study. He said there is not necessarily the same market in rural Arizona for projects. Mr. Capolores responded that the process is the same for developers to present feasibility studies. He said DOC is suggesting a timing change to allow a review the market study prior to the lottery versus after the lottery. He noted that if DOC is not satisfied with the market study submitted, an independent market study will be ordered for a third-party interpretation to ensure a good market exists.

In response to a question by Mr. Maguire regarding the set aside issue, Mr. Capolores indicated that DOC has not reached an agreement on the 10% set aside. He said discussions have taken place on the process.

Ms. Emmerman indicated that the agreement is between the Director of DOC and the soon-to-be-established Housing Commission. Mr. Capolores said the set aside proposal is offered as an issue for consideration and debate at this time. Senator Valadez indicated the proposals submitted by DOC are intended to be a discussion starting point for the Committee.

Public Testimony

Audrey Adamic, representing herself, commented she is concerned with the proposal presented. She indicated she works with the IDAs and attends the IDA meetings on a regular basis both in the City of Phoenix and Maricopa County. She explained that both entities employ a review advisor who reviews the applications and makes recommendations for approval. The process includes a review of market feasibility. She referred to the 60-day closing period and indicated that it is often a very short period of time for a small builder to close the project. She also said the charge for such a review by DOC would be a concern for developers. She is concerned that DOC indicates there is an over-saturation in certain market areas. She noted that today's newspaper did not reflect the same point. She noted it appears there is a considerable demand for affordable housing in the $500/month range, which is often presented to IDAs.

Anne Morales, stated she is representing herself as a citizen of Tucson, and as a practitioner of this type of law since 1984. She commented her primary emphasis has been private activity bond law, and has been involved in many hearings on this issue with DOC. She said her major concern is the timing of the incurring of costs. She explained that in order to do a §35-726e hearing, the current cost is $12,500 in fees to DOC. In addition, there are costs for an appraisal, a feasibility study, a physical needs assessment, as well as the professional time required to create the application to DOC. She pointed out that people are willing to incur those costs because they have the volume cap and know they will be able to proceed with their projects if they meet the requirements. She emphasized that the total cost amounts to approximately $40,000 to $50,000. She said that Fannie Mae would not even allow the process to begin until volume cap is received. Consequently, developers will need to put their funds at risk before they know they will receive volume cap. She noted that developers handling affordable housing projects would be unable to proceed because of the high costs. She stressed that the intent of volume cap is to assist private developers in their projects with a reduction of the interest rate. She urged the Committee to review the current process, which appears to handle the process of market demand. She said the focus should be on the risk being placed on developers prior to whether they know they will receive volume cap.

Mr. Maguire offered the following suggestions:

1. Develop a matrix of allocation percentages for the various categories, and make comparisons with other states.
2. Develop a matrix showing the project selection process. In conjunction with that process, it would be helpful to show methodology in selecting specific projects in other states. Within that methodology, list the dates, times and filing requirements. He said it would be helpful to not only look at geographically nearby states, but also similarities in other Sunbelt and growing states.
3. Develop a way to measure demand by reviewing lottery applications by category over the last several years. It would provide a guide regarding unmet demand from various sources. He indicated it would be important to review the number of applications and projects as well as the dollar value of the applications.

Mr. Maguire pointed out that it should be an exercise to develop different models and alternative approaches that are being utilized in other states.

Mr. Gutierrez stated that an allocation survey has been prepared, and he would be pleased to share that survey with the Committee. He said he believes the survey presents a good overview of information regarding other states and how the categories are being utilized. He noted that although every state handles it differently, he said the survey would provide a very broad overview of activities by other states that would be helpful for the Committee.

Mr. Vargo referred to qualified rental projects for both low- and moderate-income people. He asked whether there is a correlation as to percentage of rents of multi-family homes in the $500 or $600 per month category in relation to the information provided.

Mr. Crozier responded that a study is currently underway with the Arizona Housing Commission and the Department of Housing and Urban Development (HUD). He indicated each incorporated community within Arizona is being reviewed as to the current housing stock, type of housing stock to current need and how they are best used in the various programs to provide that housing stock. He said although there are some difficulties in obtaining all the information, he is hopeful of completing the study by the end of this year to be available to the Committee.

Ms. Williams referred to student loans and said it would be helpful to know the segment being utilized by Arizona students attending Arizona schools as discussed, as well as out-of-state students utilizing in-state loans, and the number of loans and schools.

Schedule Next Meeting

Senator Valadez stated he would like everyone to review the proposal prior to the next meeting on October 24 at 10:00 a.m., in order to discuss it at the next meeting with the appropriate individuals.

There being no further business, the meeting adjourned at 2:46 p.m.

Respectfully submitted,

Nancy L. DeMichele

Nancy L. DeMichele, Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115)

Hearing Room No. SNKR1
Date: 10-03-01
Time: 1:00 pm.

MEETING OF COMMITTEE ON
Study Committee on Industrial Development Bond Allocations

NAME	REPRESENTING	BILL NO.
Suzanne Gilstrop	AMA	STUDY C
MITCH MENIQUE	MIDA	Study Com

Attachment A

ARIZONA STATE LEGISLATURE
Forty-fifth Legislature – First Regular Session

Interim Meeting

INDUSTRIAL DEVELOPMENT BOND ALLOCATIONS STUDY COMMITTEE

Minutes of Meeting
Wednesday, December 12, 2001
Senate Appropriations Hearing Room 109 -- 9:30 a.m.

Tape 1, Side A

Cochair Valadez called the meeting to order at 9:50 a.m. and the attendance was noted by the secretary.

Members Present

Senator Ramon Valadez, Cochair
Senator Timothy Bee
Senator John Verkamp
Scott Butler
Arthur Crozier
Margie Emmerman
Jaime Gutierrez
Representative Carol Somers, Cochair
Representative Richard Miranda
Representative James Sedillo
Barbara Ryan
John Salgado
Barbara Williams

Members Absent

Senator Jay Blanchard
Ray Lopp (excused)
Alan Maguire
Senator Ted Carpenter
Greg Vargo

Speakers Present

Julie Szperling, Senate Commerce Research Analyst

Guest List (Attachment 1)

Approval of Minutes:

Ms. Ryan pointed out corrections to the October 3, 2001 minutes:

Page 9, paragraph 2, line 5, after "benefits" insert "from AELMAC" (Arizona Educational Marketing Corporation)

Page 9, paragraph 4, line 2, delete "She said when loans are"

Page 9, paragraph 4, line 3, delete "originated, they are paid back with taxable bonds that are more expensive."

Page 10, paragraph 1, line 1, delete "on" insert "from"

Page 10, paragraph 1, line 5, after "Arizona" insert "residents"

Page 10, paragraph 2, line 3, delete "Phelps" insert FFELP"

Without objection, the minutes were approved as amended.

Julie Szperling, Senate Commerce Research Analyst, reviewed the proposed recommendations (Attachment 2):

1. Permanently set aside 10 percent of the State's Private Activity Bonds for qualified residential projects, 30 percent of which is set aside for rural projects for a period of at least 180 days.

2. Have the Arizona Housing Commission create a blue ribbon committee composed of all stakeholders in multi-family and single-family for the purpose of reviewing the housing allocations, and process, and making recommendations on potential improvements to the system, if necessary.

Mr. Butler said he assumes the first recommendation refers to qualified rental projects, otherwise it sounds like it includes single-family which is not the intent. Ms. Szperling stated that is correct.

Mr. Butler asked whether the purpose of the second recommendation is so the stakeholders in the housing area can come together and make recommendations, but if those recommendations impact other people in the allocation process, then the whole group would have to get together. Cochair Valadez concurred.

Mr. Gutierrez agreed with Mr. Butler's comments. On the second recommendation, he stated that it is important that all affected stakeholders should be involved.

Cochair Somers moved to adopt the recommendations as written in the memo dated November 21, 2001 (Attachment 2).

Mr. Gutierrez declared that Mr. Butler's recommendation to insert "rental" clarifies the meaning.

Cochair Somers amended her motion to insert "rental" before "residential" in the first recommendation. The motion carried with a roll call vote of 13-0-0-5 (Attachment 3).

Without objection, the meeting adjourned at 10:00 a.m.

Joanne Bell, Committee Secretary
December 12, 2001

(Original minutes, attachments and tape on file in the Chief Clerk's Office)

Hearing Room No. [illegible]
Date: [illegible]
Time: [illegible]

MEETING OF COMMITTEE ON

T[illegible]

NAME	REPRESENTING	BILL NO.
Suzanne Gilstrap	Az. Multihousing	

ATTACHMEN.

ARIZONA STATE SENATE
RESEARCH STAFF

JULIE SZPERLING
LEGISLATIVE RESEARCH ANALYST
COMMERCE COMMITTEE
Telepoone: (602) 542-3171
Facsimile: (602) 542-7833

TO: MEMBERS OF THE STUDY COMMITTEE ON INDUSTRIAL DEVELOPMENT BOND ALLOCATIONS

DATE: November 21, 2001

SUBJECT: Proposed Committee Recommendations

Per the request of Committee Co-Chair, Senator Ramon Valadez, provided below are the committee recommendations proposed by Senator Valadez for your review. Senator Valadez will be proposing these recommendations at the study committee meeting scheduled for Tuesday, November 27, 2001 at 9:30 a.m. in House Hearing Room 4.

Senator Valadez's recommendations:

1. Permanently set aside 10% of the State's Private Activity Bonds for qualified residential projects, 30% of which is set aside for rural projects for a period of at least 180 days.
2. Have the Arizona Housing Commission create a blue ribbon committee composed of all stakeholders in multi-family and single-family for the purpose of reviewing the housing allocations and process and making recommendations on potential improvements to the system, if necessary.

JS/mh

ATTACHMENT 2

ARIZONA STATE LEGISLATURE

Forty-fifth Legislature – First Regular Session

INTERIM COMMITTEE ROLL CALL VOTE

COMMITTEE ON Industrial Development Bond Allocations Study Committee

DATE December 12, 2001 MOTION dpa - adopt recommendation

Cochair Valadez Cochair Somers

	PASS	AYE	NAY	PRESENT	ABSENT
Senator Timothy Bee		✓			
Senator Jay Blanchard					✓
Senator John Verkamp		✓			
Representative Ted Carpenter					✓
Representative Richard Miranda		✓			
Representative James Sedillo		✓			
Scot Butler		✓			
Arthur Crozier		✓			
Margie Emmerman		✓			
Jaime Gutierrez		✓			
Ray Lopp					✓
Alan Maguire					✓
Barbara Ryan		✓			
John Salgado		✓			
Greg Vargo					✓
Barbara Williams		✓			
Representative Carol Somers, Cochair		✓			
Senator Ramon Valadez, Cochair		✓			
		13	0	0	5

Anne Self

COMMITTEE SECRETARY

APPROVED:

Ramon Valadez

COMMITTEE CHAIRMAN

ATTACHMENT 3