THE BOND BUYER

PAB fees nearly universal among conduit issuers

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Published

September 04 2019, 3:00pm EDT

Fees are nearly universal among conduit bond issuers that work with hospitals, non-profit institutions, colleges and multi-housing developers to finance their projects with tax-exempt private activity bonds.

That's the finding of a new survey by the Council of Development Finance Agencies, which recommends that conduit issuers cover their costs by imposing fees. And it showed a significant shift from a 2001 CDFA survey which found strict limits on the use of fees.

"If you are going to issue bonds in the capital markets and you are going to support economic development, you should pay yourself for the services to do that work," said CDFA President and CEO Toby Rittner. "And you shouldn't put that on the backs of communities to pay for your operational costs."

The non-scientific survey only covered 85 of the approximately 25,000 to 30,000 governmental and non-governmental conduit bond issuers around the country that account for most PAB issuances.

PABs are issued by or on behalf of governmental entities to provide low-cost financing for projects of nonprofit organizations or companies that serve a public purpose.

Most PABs, with the exception of 501(c)(3) bonds and a few other types of PABs, are issued under annual state volume caps, based on a formula published by the Internal Revenue Service. That formula uses annual U.S. Census Bureau population data and inflation estimates.

In addition, there's a $15 billion nationwide cap on highway related PABs that's subject to allocations approved by the U.S. Department of Transportation.

Rittner said his organization's survey covered "a pretty darned good list of issuers." CDFA is not releasing the names of the conduit issuers, but said 46 are state level issuers, 20 are county level, 13 are city level and six are multi-jurisdictional.

Five of the 85 issuers did not report imposing fees.

Genna Auteri, coordinator of research and technical assistance for CDFA, described them as “outliers.”

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“I don’t think they were representative issuers,” agreed Rittner. “They were kind of strange bird issuers, if you will.”

The widespread use of fees was no surprise to Emily Brock, director of the federal liaison center for the Government Finance Officers Association.

“It’s not only a standard practice but it’s also agreed upon by both parties, the issuer and the borrower,” said Brock.

CDFA’s last survey on the use of fees by conduit bond issuers was released 18 years ago.

The 2001 report found a “very immature fee structure” in which fees were often capped and very few conduit issuers imposed ongoing or annual fees for continuing disclosure and monitoring of outstanding bond issuances, Rittner said.

“It just wasn’t a practice that was used by issuers,” Rittner said. “But now they realize that fees can help sustain the organization and pay for operations.”

The new survey found 27% of conduit bond issuers receive 100% of their revenue from fees.“That means it’s at no cost to the community for this issuer to be active,” Rittner said.

Another 41% said they receive at least 70% of their revenue from fees.

The conduit issuers that participated in the survey issue PABs on behalf of non-profit 501c3s, for multifamily housing, qualified hospitals, single-family mortgage bonds, agricultural bonds, and qualified student loans.