



CDFA *Original Research*

CDFA Annual Volume Cap Report

An Analysis of 2016 Private Activity
Bond & Volume Cap Trends

Released September 2017



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Analysis of 2016 Private Activity Bond & Volume Cap Trends

For the 12th consecutive year, the Council of Development Finance Agencies (CDFA) has collected and analyzed national volume cap data as reported by managing state agencies. The results of our research are contained in the following report. The CDFA Volume Cap Report represents an important service to the development finance industry and CDFA members, as this information is critical to understanding and evaluating the efficiencies, effectiveness and cost and benefits of private activity bonds.

To compile the data, CDFA surveyed and interviewed representatives from each state's volume cap allocating authority. The data represents the best available figures as reported by each state to CDFA or as posted in the state's year-end private activity bond reports.

As a leader in the development finance industry, CDFA serves as the principal source for private activity bond volume cap data, reporting, and trends. Through CDFA's online National Volume Cap Map, comprehensive volume cap data can be found online at www.cdfa.net. Users can search, sort, and compare data from all 50 states and the District of Columbia looking back to 2005.

Due to factors outside of CDFA's control, a few states have elected not to submit complete data. CDFA will continue to request data and will update the online National Volume Cap Map accordingly.

About Volume Cap

Private activity bonds are revenue-backed bonds issued by a state or local authority on behalf of a private project, such as the expansion of a small manufacturer or hospital. When these bonds are "qualified," by being issued for one of several defined purposes, they are exempt from federal income taxes. The tax exemption enables the project to access capital at a lower interest rate than could otherwise be achieved, thereby facilitating a larger or more secure project.

The issuance of most categories of qualified private activity bonds is subject to the federally-mandated volume cap.¹ Qualified 501(c)(3) bonds are a notable exception, along with Veterans' Mortgage Revenue Bonds and some Exempt Facilities bonds. Other categories, including Small Issue Bonds, Single-Family Mortgage Revenue Bonds, and most Exempt Facilities Bonds are subject to federal volume cap.

In 2016, the volume cap for each state was equal to the greater of \$100 per capita or \$302.875 million. Each state may sub-allocate its volume cap among agencies, municipalities, or private activity bond categories as it chooses. In order to issue qualified private activity bonds in cap-subject categories, an issuer generally must apply to the appropriate agency to receive permission to use the volume cap. Cap that is not used by the end of the year may be carried forward for use in one of the next three years. A state's current volume cap can therefore generally be defined as its new allocation plus the carryforward from its last three years.

¹ For details on which bonds are subject to volume cap, see *Tax-Exempt Private Activity Bonds: Compliance Guide* by the U.S. Internal Revenue Service, available at <http://www.irs.gov/pub/irs-pdf/p4078.pdf>.



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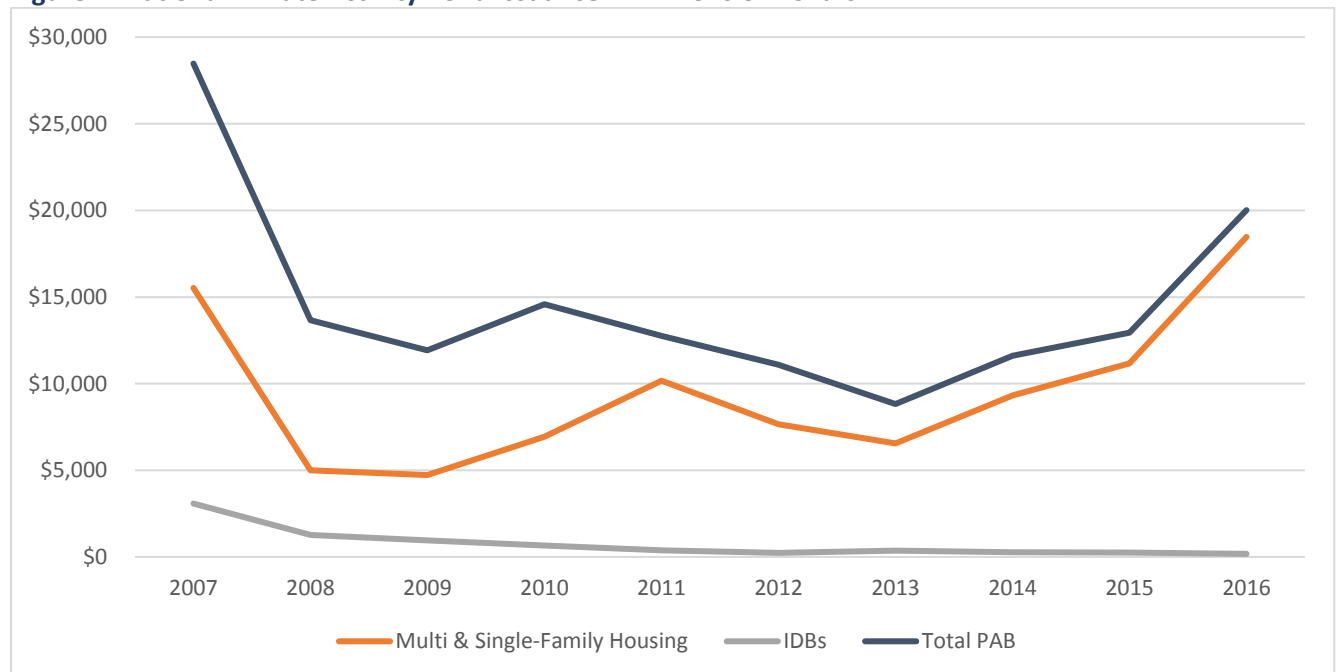
Overall Statistics and Observations

In 2016, the 50 states and the District of Columbia received \$35.14 billion in new volume cap allocation, an increase of \$263 million from 2015. Total carry-forward allocation from 2013-2015 equaled \$63.90 billion, lifting the total available capacity of national volume cap to over \$97.36 billion. Since CDFA began tracking national volume cap issuance in 2005, \$97.36 billion is the largest start-of-year volume cap capacity recorded.

Total private activity bond issuance in 2016 increased from 2015, climbing from \$12.98 billion to \$20.38 billion. With the increase in 2016 private activity bond issuance, overall issuance levels have surpassed the \$10-15 billion range that has been commonplace since 2008. Similarly, Multi and Single-Family Housing Bonds grew from \$10.91 billion in 2015 to \$18.47 billion in 2016.

Multi and Single-Family Housing Bonds continue to make up a disproportionate share of total national private activity bond issuance, as can be seen in Figure 1. In 2016, Multi and Single-Family Housing Bonds accounted for 91 percent of total private activity bond issuance, marking the third consecutive year that Multi and Single-Family Housing Bonds have accounted for more than 80 percent of all private activity bond issuance.

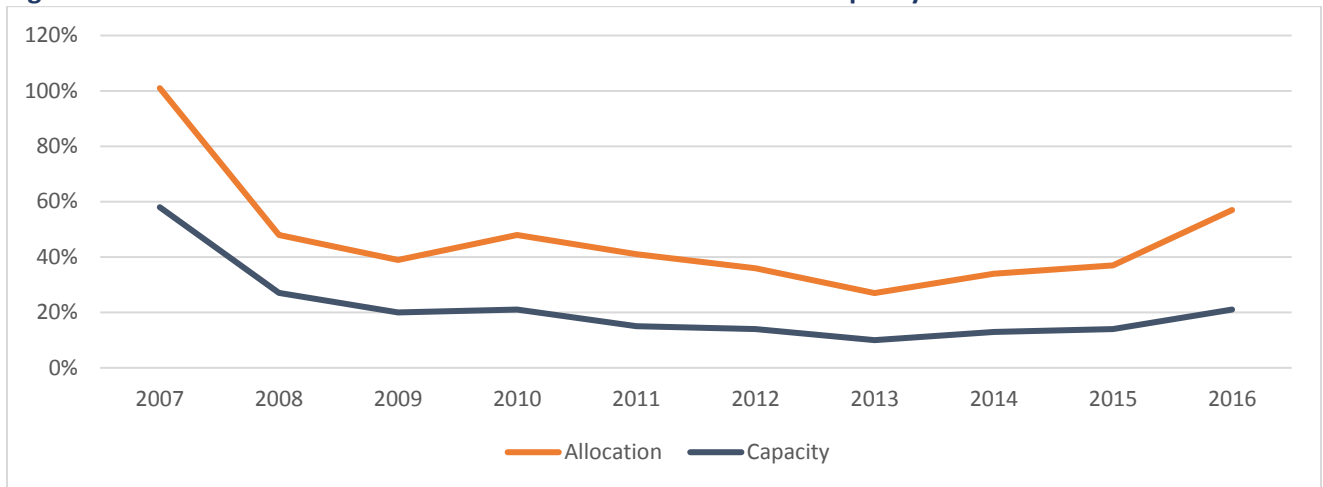
Figure 1. National Private Activity Bond Issuance in Millions of Dollars



National private activity bond issuance as a percentage of both total capacity and new allocation increased in 2016, growing from 14 percent to 21 percent, and 37 percent to 58 percent, respectively.

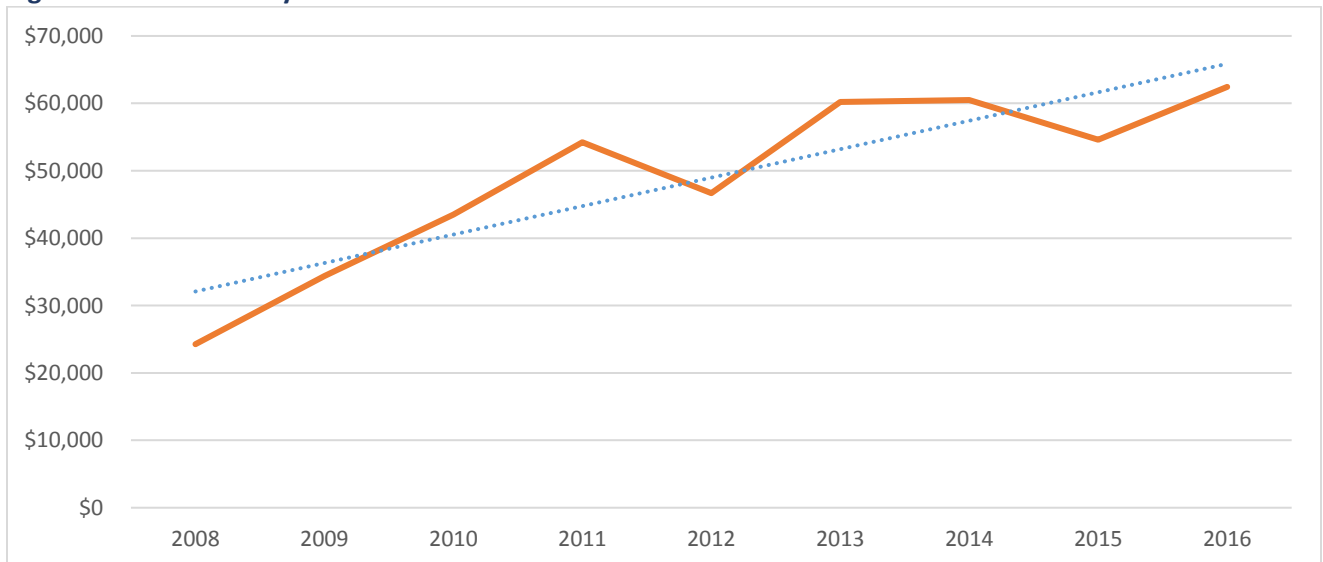
Following the step decline in overall usage rates in 2008, states have consistently used 25 percent or less of their total annual issuing capacity (see Figure 2).

Figure 2. National Issuance as Percent of New Allocation and Total Capacity



States do not carry all of their unused allocation forward from year to year, largely because unused volume cap allocation expires after four years. Additionally, volume cap allocation that is pre-assigned to certain categories of private activity bond issuance primarily - Small Issue Bonds - is prohibited from being carried forward. At the end of 2016, states abandoned a reported \$8.5 billion in unused volume cap allocation, the lowest amount since 2012.

Figure 3. National Carryforward in Millions of Dollars





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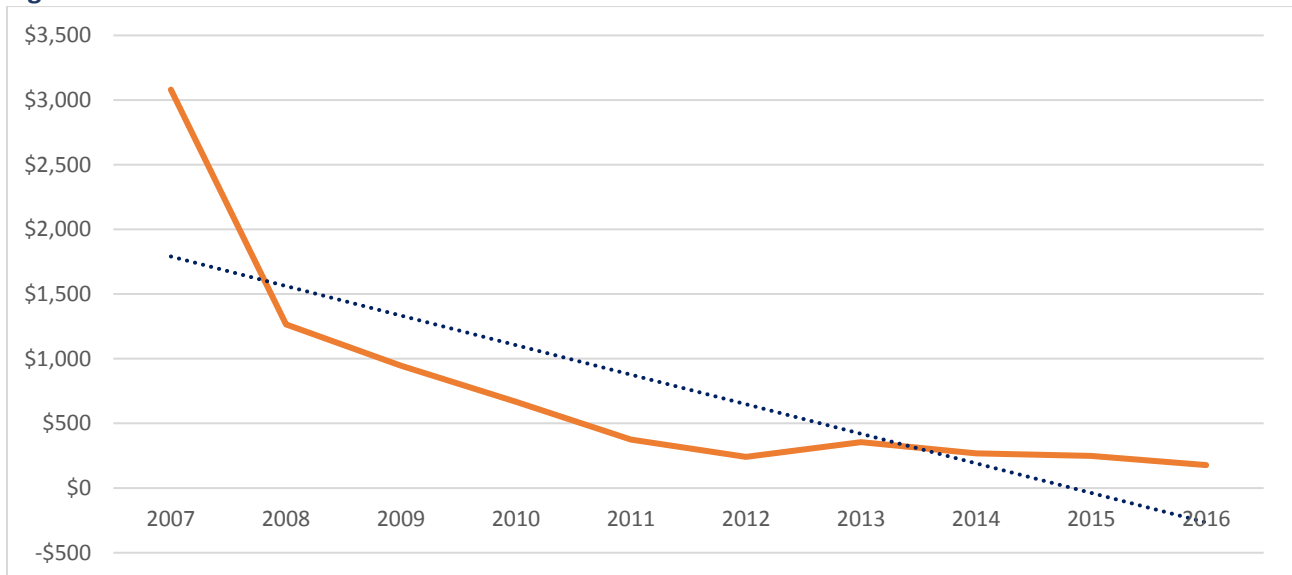
Figure 3 illustrates national carryforward trends beginning in 2008. Following a drop in 2015 total national carryforward resumed its upward trajectory in 2016, reaching \$62.44 billion. In 2017 states again have at their disposal record amounts of private activity issuing capacity.

Industrial Development Bonds

Industrial Development Bonds (IDBs), also known as Industrial Revenue Bonds, offer a critical source of low-cost financing for small manufacturers. These bonds are a type of qualified small issue bond, which are subject to volume cap. Current rules limit IDBs to \$10 million and place substantial restrictions on who can use the bonds and how proceeds can be used concerning expansion.

Issuance of IDBs in 2016 declined slightly from 2015 totals, falling from \$248.50 million to \$177.87 million. The continued decline in IDB issuance is a trend CDFA has watched closely over the last 10 years, as issuance levels today are 94 percent lower than they were in 2007.

Figure 4. National IDB Issuance in Millions of Dollars



Twelve states in 2016 issued IDBs, down from fourteen in 2015. Massachusetts issued nearly twice the amount as the next closest state, Wisconsin, and Pennsylvania and Utah each issued \$20 million. The aforementioned states are the only states in 2016 to issue more than \$10 million in IDBs (see Table 1).



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Table 1. Top States by 2016 Issuance of Industrial Development Bonds

State	IDB Issuance
Massachusetts	\$60.0M
Wisconsin	\$35.5M
Pennsylvania	\$20.1M
Utah	\$20.0M
Maryland	\$8.0M
Indiana	\$7.5M

Volume Cap & Private Activity Bond Analysis

Following the steep declines in private activity bond issuance in 2008 through 2011, and a stagnant four year stretch from 2012 through 2015, overall private activity bond issuance levels have returned to their pre-recession levels. The slow recovery of the private activity bond market can be blamed on several factors, the first and most salient of which is the poor fiscal outlook of many American cities. According to recent research conducted by the Pew Charitable Trusts, a large number of cities around the country have yet to return to their pre-recession revenue levels, limiting their ability to issue new debt.² However as the national economic outlook continues to strengthen, national issuance greater than \$20 billion will again become the norm.

To maintain the upward trajectory of private activity bonds, Congress must act to erase the uncertainty surrounding tax reform and the future of municipal and private activity bonds. Since the early part of this decade, government leaders have openly discussed their plans to overhaul the tax code. Unfortunately, several of the plans advanced in the past included the elimination of municipal and private activity bonds. Open threats to the tax exemption have hurt the municipal bond market in the past, and continue to undermine the ability of issuers to generate revenue for projects. Clearer signals from Washington, and a commitment to protecting municipal and private activity bonds would go a long way toward fortifying the strengthening bond market.

In addition to reforming the tax code at large, Congressional leaders should act to modify specific categories of private activity bonds. Several easy reforms could drastically improve the use of these bonds and thus provide affordable capital to public benefitting projects. Through CDFA's proposed *Modernizing American Manufacturing Bonds Act*, small- to mid-sized manufacturers would again be able to access low-cost capital to expand and generate quality jobs in their communities.

² "The Fiscal Landscape of Large U.S. Cities." The Pew Charitable Trusts. Accessed September 01, 2017. <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/12/the-fiscal-landscape-of-large-us-cities>.



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CDFA's Legislative Efforts on Tax-Exempt Bonds

State and local governments have been able to use tax-exempt bonds to catalyze investment in business, industry, and infrastructure for over 30 years. In 1986, Congress heavily regulated bonds and placed limitations on the types of projects eligible for tax-exempt financing. CDFA was part of the 1986 discussion, and the Council has continued to advocate for improvements to the tax-exempt bond program ever since.

Passage of CDFA legislation in 2006 to increase the capital expenditure limit from \$10 million to \$20 million for IDBs was a contributing factor to higher issuance levels in 2007 and 2008. CDFA was successful in passing new legislation to expand the definition of manufacturing to include production of intangible property for 2009 and 2010, a change that targets biotech and high-tech firms. In addition, the 25 percent limitation on directly related and subordinate facilities was eliminated for these years.

In recent years, both Congress and the Administration have threatened tax-exempt bonds. Various deficit reduction and tax reform proposals have aimed to eliminate or cap tax-exempt bonds. CDFA led the development finance industry in standing against these threats, meeting with numerous Congressional offices and publishing literature that defends the use of tax-exempt bonds as a means to provide lower-cost capital for infrastructure, manufacturers, and economic development. CDFA was successful in this effort, as the proposals to repeal or limit the tax exemption were withdrawn. CDFA will continue to lead this charge should future tax reform discussions again threaten the status of tax-exempt bonds.

To strengthen and improve the use of PABs, and particularly IDBs, CDFA has proposed the Modernizing American Manufacturing Bonds Act of 2017, which has been introduced in both the U.S. House of Representatives and the U.S. Senate. The House bill, H.R. 1115, was introduced by Reps. Randy Hultgren (R-IL), Richard Neal (D-MA), and Jim Renacci (R-OH), and was co-sponsored by Matt Cartwright (D-PA). The Senate bill, S. 773, was introduced by Sens. Sherrod Brown (D-OH) and David Perdue (R-GA). The Modernizing American Manufacturing Bonds Act, or MAMBA for short, seeks to implement four specific reforms that would make IDBs a stronger and more effective tool for small- to mid-sized American manufacturers. These reforms include raising the maximum bond size to \$30 million, doubling the capital expenditures limitation, and expanding the definition of manufacturing. With the reforms of MAMBA in place, manufacturers could again look to IDBs to access low-cost capital, enabling plant construction and expansion, and yielding new American manufacturing jobs.

CDFA will continue these efforts and more to ensure the preservation of tax-exempt bonds. You can find out more about the Council's ongoing efforts—and lend your support—at www.cdfa.net.



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Acknowledgements

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The Council of Development Finance Agencies is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing public, private and non-profit entities alike. For more information about CDFA, visit www.cdfa.net or email info@cdfa.net.

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CDFFA Annual Volume Cap Report

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2016 Volume Cap Allocation and Private Activity Bond Issuance in Millions of Dollars														
State	Allocating Agency	Start of Year Allocation			Private Activity Bond Issuance by Category							End of Year Allocation		
		New Cap	Carry-forward 2013-2015	Total Capacity	Exempt Facilities	Multifamily Housing ^a	Mortgage Revenue	IDB	Student Loans	Aggie	Total Issuance of PABs	Mortgage Credit Certificates	Carry-forward Abandoned	Carry-forward to 2017
AL	State IDA	485.90	1273.79	1759.69	0.00	0.00	15.40	0.00	0.00	0.00	15.40	436.49	0.00	1307.79
AK	State Bond Committee	302.88	NR	302.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	NR
AZ	AFA	682.81	0.00	682.81	72.14	72.14	0.00	0.00	0.00	0.00	72.14	89.00	0.00	288.80
AR	ADFA	302.88	886.99	1189.86	2.05	0.00	0.00	NR	0.00	NR	2.05	290.64	0.00	891.74
CA	CDLAC	3914.48	6096.53	10011.01	4872.44	4658.24	150.00	6.23	0.00	0.00	5028.67	1184.55	1369.51	7222.40
CO	Local Affairs	545.66	1178.70	1724.36	372.40	372.40	0.00	NR	NR	NR	372.40	64.39	26.40	NR
CT	Policy & Management	359.09	813.30	1172.40	210.00	210.00	350.10	0.00	15.60	0.00	575.70	0.00	0.00	596.70
DE	Finance	302.88	844.54	1147.41	9.51	9.51	0.00	0.00	0.00	0.00	9.51	291.88	0.00	846.03
DC	Revenue Bond Program	302.88	165.22	468.09	306.74	294.74	NR	NR	NR	NR	306.74	0.00	26.90	112.20
FL	Bond Finance	2027.13	4556.40	6583.50	517.61	457.61	92.48	2.40	0.00	0.00	612.49	688.11	1214.30	4581.90
GA	Comm. Affairs	1021.49	2586.75	3608.24	316.29	188.29	0.00	5.61	0.00	0.00	321.90	728.75	0.00	2419.37
HI	Budget & Finance	302.88	150.50	453.38	65.69	65.69	0.00	0.00	0.00	0.00	65.69	200.17	0.00	187.52
ID	Commerce	302.88	592.96	895.74	6.90	6.90	NR	NR	NR	NR	6.90	0.00	34.75	844.17
IL	GOMB	1286.00	4840.10	6128.11	NR	NR	NR	NR	NR	NR	0.00	0.00	1605.48	1972.35
IN	Finance Authority	661.97	513.40	1175.20	230.00	230.00	0.00	7.50	NR	NR	237.50	100.00	164.20	748.40
IA	Finance Authority	312.39	835.90	1148.30	52.97	7.97	132.53	NR	NR	16.10	201.60	72.41	46.73	869.51
KS	Commerce	302.88	859.65	1162.53	7.60	7.60	277.86	NR	NR	NR	285.46	0.00	285.91	851.60
KY	KPABAC	442.51	1064.60	1507.10	37.89	37.89	0.00	0.00	0.00	0.00	37.89	200.60	0.00	1273.80
LA	Office of the Governor	467.07	1270.70	1737.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	337.60	1352.10
ME	Housing Authority	302.88	571.20	874.10	0.00	0.00	178.64	0.00	0.00	0.00	178.64	0.00	182.90	512.56
MD	Commerce	600.64	1596.50	2197.10	228.90	228.90	19.50	8.00	NR	NR	256.40	0.00	308.00	1632.20
MA	Admin. & Finance	679.44	43.10	722.10	435.00	435.00	60.00	60.00	150.00	NR	705.00	0.00	0.00	17.10
MI	Treasury	992.26	2739.43	3731.68	100.25	94.00	303.34	NR	273.00	NR	676.59	100.00	392.47	2639.34
MN	Management & Budget	548.96	698.53	1247.48	413.00	413.00	789.88	NR	10.00	NR	1212.88	64.39	0.00	432.69
MS	MDA	302.88	870.08	1172.98	9.39	9.39	NR	NR	NR	NR	9.39	0.00	0.00	871.68
MO	Economic Dev.	608.37	1538.89	2147.26	64.55	64.55	205.22	NR	NR	2.64	272.41	2.36	478.61	1505.70
MT	Administration	302.88	874.80	1177.70	7.50	7.50	42.00	0.00	0.00	0.00	49.50	36.00	213.90	878.20
NE	NIFA	302.88	885.75	1188.63	51.70	51.70	197.82	5.50	NR	3.70	258.72	0.00	91.30	838.60



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		New Cap	Carry-forward 2013-2015	Total Capacity	Exempt Facilities	Multifamily Housing ^a	Mortgage Revenue	IDB	Student Loans	Aggie	Total Issuance of PABs	Mortgage Credit Certificates	Carry-forward Abandoned	Carry-forward to 2017
NV	Business & Industry	302.88	795.84	1098.74	88.56	88.56	0.00	0.00	0.00	0.00	88.56	235.00	0.00	775.17
NH	NHBFA & Housing	302.88	840.35	1143.23	11.47	11.47	0.00	5.20	NR	NR	16.67	275.00	2.81	172.10
NJ	Public Finance	895.80	684.31	1580.11	375.38	375.38	0.00	NR	574.79	NR	199.41	0.00	125.65	863.61
NM	Board of Finance	302.88	846.49	1149.37	242.38	242.38	0.00	0.00	16.50	0.00	258.88	0.00	121.25	764.24
NY	Budget	1979.58	493.53	2473.11	2127.40	2127.40	144.29	NR	0.00	NR	2271.69	0.00	0.00	198.28
NC	Commerce	1004.28	NR	NR	89.48	89.48	NR	NR	NR	NR	89.48	NR	NR	NR
ND	Governor's Office	302.88	718.70	1021.60	0.00	0.00	287.70	0.00	0.00	0.00	287.70	0.00	0.00	733.90
OH	ODSA	1161.34	3026.98	4188.32	1118.22	1118.22	NR	0.00	0.00	0.00	1118.22	0.00	1021.00	2825.00
OK	State Bond Advisor	391.13	794.80	1185.90	9.00	0.00	6.30	NR	NR	NR	15.30	15.00	331.90	823.80
OR	Treasury	402.90	1033.68	1436.58	22.75	22.75	0.00	0.00	0.00	0.00	22.75	0.00	139.82	1273.57
PA	DCED	1280.25	2483.29	3763.54	127.89	127.89	243.73	20.05	NR	5.06	396.73	0.00	0.00	3366.81
RI	Public Finance	302.88	220.00	502.88	0.00	0.00	0.00	0.00	56.69	0.00	56.69	97.90	78.30	232.89
SC	SFAA	489.61	1457.10	1946.60	95.60	95.60	300.00	0.00	0.00	0.00	395.60	0.00	7.80	1490.60
SD	Governor's Office	302.88	881.10	1183.98	NR	NR	184.48	NR	NR	0.94	185.42	301.93	106.01	794.32
TN	DECD	660.03	NR	NR	165.87	165.87	NR	NR	NR	NR	165.87	0.00	0.00	NR
TX	Bond Review Board	2746.91	3814.50	6561.42	881.72	578.83	31.51	NR	180.00	NR	1093.23	310.07	299.93	4898.19
UT	GOED	302.88	786.66	1089.47	89.82	89.82	49.66	20.00	0.00	0.00	159.48	0.00	0.00	929.99
VT	Treasurer	302.88	876.90	1179.80	17.77	17.77	59.76	1.90	29.50	NR	108.93	60.00	148.60	883.70
VA	Housing & Comm. Dev.	838.30	2139.01	2977.31	11.40	11.40	0.00	NR	NR	NR	11.40	601.75	n/a	2257.02
WA	Commerce	717.04	832.08	1549.12	865.82	865.82	0.00	0.00	0.00	0.00	865.82	0.00	0.00	692.44
WV	WVEDA & WVHDF	302.88	356.10	658.98	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	116.80	360.50
WI	WEDC & WHEDA	577.13	1583.38	2160.51	50.95	50.95	292.89	35.48	0.00	0.00	379.32	218.71	0.00	1562.49
WY	Governor	302.88	890.22	1193.10	0.00	0.00	50.00	0.00	0.00	0.00	50.00	0.00	291.88	851.22
National Totals		35,141.0	63,903.3	97,361.1	14,782.0	14,002.6	4,465.1	177.9	930.7	28.4	20,384.1	6,665.1	9,570.7	62,444.3

Notes

NR = Not Reported

^a Multifamily housing bonds are an allowable use of exempt facilities bonds, and multifamily housing issuance is also reflected in the totals for the exempt facilities category.