



CDFFA *Original Research*

CDFFA Annual Volume Cap Report

An Analysis of 2013 Private Activity
Bond & Volume Cap Trends

Released July 2014



CDFA Annual Volume Cap Report

Analysis of 2013 Private Activity Bond & Volume Cap Trends

The Council of Development Finance Agencies (CDFA) has collected 2013 private activity bond volume cap data and analyzes that data in the following report. This activity represents an important service to the development finance industry and CDFA members, as this information is critical to understanding and evaluating the costs 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 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 some Exempt Facilities bonds and Veterans' Mortgage Revenue Bonds. Other categories, including Small Issue Bonds for Manufacturing, most Exempt Facilities Bonds, and Single-Family Mortgage Revenue Bonds are subject to federal volume cap.

In 2013, the volume cap for each state was equal to the greater of \$95 per capita or \$291,875,000. 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 at 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>.



CDFA Annual Volume Cap Report

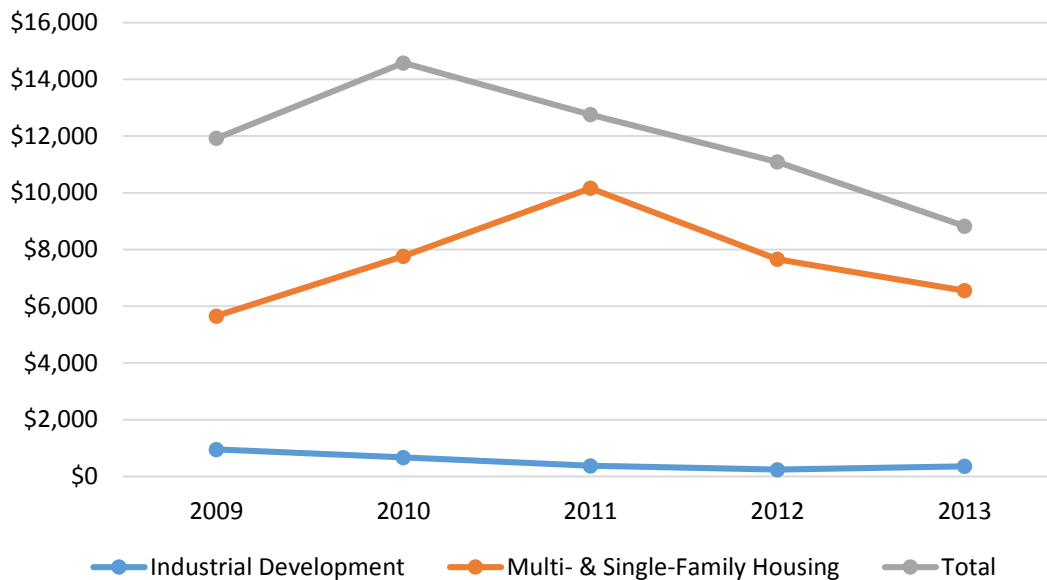
Analysis of 2013 Private Activity Bond & Volume Cap Trends

Overall Statistics and Observations

In 2013, the 50 states and the District of Columbia received \$32.7 billion in new volume cap allocation. This was added to more than \$56.4 billion in existing carryforward allocation, making the total available amount of national volume cap approximately \$90 billion. This figure continues recent years' upward trend in the total amount of available volume cap.

The total dollar amount of private activity bonds issued throughout the U.S. in 2013 decreased compared to 2012. This marked the third straight year of decline for total issuance, from a recent high point of more than \$14.5 billion in 2010 to a low point of \$8.8 billion in 2013.² The surveyed private activity bond issuance figures are in-line with the overall municipal bond market, which declined more than 12 percent in 2013.³

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



States' issuance in 2013 accounted for less than one-third of the year's new cap allocation and just 10 percent of the total available volume cap. This cap usage rate has declined significantly for several years. In 2007, the highest year for private activity bond issuance CDFA has recorded, states used 101 percent

² Some variation in the CDFA National Volume Cap Report can be attributed to states' differing participation. In 2013, for example, New Jersey did not report results. In most years, New Jersey issues approximately \$1 billion in private activity bonds. If the state participated and issued near its regular level, the size of the trend may change—although the direction would be the same.

³ The Bond Buyer. (2014). *2013 in Statistics Annual Review*. Available at: http://www.bondbuyer.com/pdfs/2013_stats_supp.pdf.



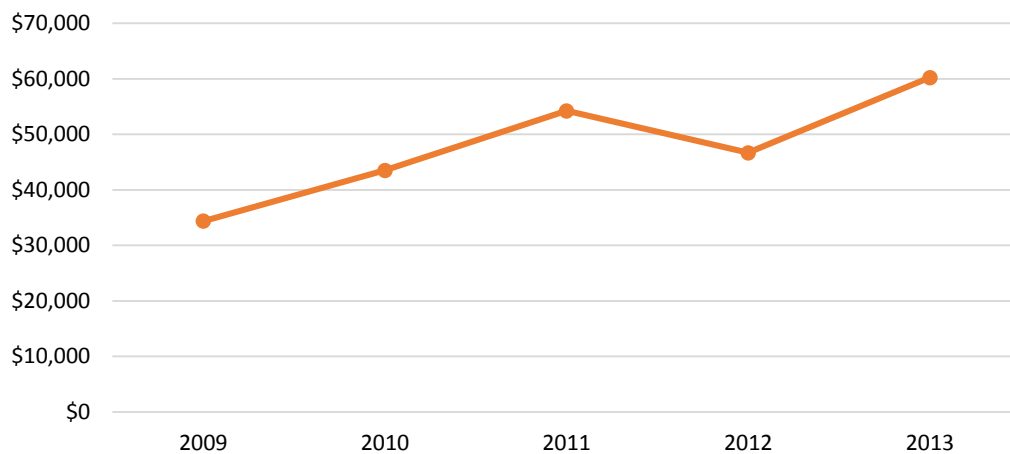
CDFA Annual Volume Cap Report

Analysis of 2013 Private Activity Bond & Volume Cap Trends

of their initial allocations⁴ and 58 percent of their total available cap. Because volume cap allocation expires after four years—and because states with billions of dollars in available allocation saw no need to file additional forms—states abandoned \$11.8 billion in unused volume cap allocation at the end of 2013. This is the first year that abandoned cap has exceeded \$10 million.

Following the 10 percent usage rate in 2013, states reported expecting to carry more than \$60 billion in volume cap allocation forward into 2014. This would make nearly \$100 billion available in total cap at the start of 2014. The increase in volume cap carryforward has been a fairly consistent trend over the past five years, as seen in Figure 2 below.⁵

Figure 2. National Volume Cap Carryforward in Millions of Dollars



Industrial Development Bonds

Qualified Small Issue Bonds, commonly known as Industrial Development Bonds (IDBs), can provide a critical source of low-cost financing for small manufacturers. These bonds are a type of qualified private activity bond that are subject to volume cap. Current rules limit these bonds to \$10 million and place significant restrictions on who can use the bonds and how proceeds can be used toward expansion.

The issuance of IDBs in 2013 did see an uptick, rising from \$240 million in 2012 to \$356 million in 2013. In 2011, issuance of IDBs was also below \$400 million, but as recently as 2009, IDBs accounted for nearly \$1 billion of private activity bond issuance. Figures for 2014 and 2015 will be necessary to determine

⁴ States can use more than 100 percent of the amount of that year's allocation because PAB issuance can be attributed to any year's volume cap that is available, whether through elected carryforward or as a new allocation.

⁵ As shown in the figure, states did report a lower volume cap carryforward at the end of 2012. However, in the 2013 survey, states reported a carryforward into the year that would have been in line with the observed trend.



CDFA Annual Volume Cap Report

Analysis of 2013 Private Activity Bond & Volume Cap Trends

whether the 2013 total represents a leveling off of the IDB market, or a true rebound of tax-exempt bond use by small manufacturers.

At the state level, there is a great variety in use of IDBs. Twenty-seven states reported issuing at least one bond for small manufacturers, and at least ten of these issued multiple IDBs (listed in Table 1).

Table 1. Top States by 2013 Issuance of Industrial Development Bonds

State	2013 IDB Issuance
Pennsylvania	\$89.8 million
Massachusetts	\$38.1 million
Michigan	\$33.7 million
Wisconsin	\$26.0 million
Missouri	\$15.7 million
New York	\$14.6 million
Idaho	\$13.8 million
Colorado	\$13.3 million
Ohio	\$10.9 million
Indiana	\$10.2 million

New England and the Midwest were the most active regions for the issuance of IDBs. In addition to the states named in Table 1, Minnesota, Iowa, New Hampshire, Vermont and Maine also issued IDBs in 2013. Other regions were less consistent, with the majority of other states not issuing any IDBs.

Volume Cap & Private Activity Bond Analysis

The continued decline in issuance of cap-subject private activity bonds is not surprising; 2013 was another year in a long-standing trend of issuance. To a certain extent, competition from alternative bond tools, including both special allocations of tax-exempt bonds and tax credit bonds, are driving the decline in issuance. As each of these vehicles takes a small slice of the private activity bond market, each piece adds up to a significant decline. Since 2009, an array of disaster bonds, clean energy bonds, recovery zone bonds, and others have been competing with private activity bonds. These programs have not necessarily been more effective programs—rather, it is in the best interest of the state and municipal authorities to issue time-limited bonds when they are able to do so.

Taxable bonds, issued at market-level interest rates, also provide competition to the tax-exempt bond market. When interest rates are low, this competition is particularly significant. The competition from low interest rates is arguably a positive from a policy standpoint. As private lenders can provide capital for socially-desirable projects, which is what private activity bonds are designed to do, federal taxpayers



CDFA Annual Volume Cap Report

Analysis of 2013 Private Activity Bond & Volume Cap Trends

can save money by not providing a tax exemption. Of course, interest rates are low while the economy is recovering. Over the next few years, market-level interest rates—and the demand for tax-exempt bonds—are likely to rise.

In addition to competition from special bond programs and low interest rates, there are a few weaknesses to private activity bonds as currently constructed. Some state and municipal authorities could do a better job of making private activity bond options known and available to projects. Better labeling of bond programs—“private activity bond” carries little meaning in and of itself—and better marketing could help get the program in front of more projects. More importantly, with private-sector credit enhancement vehicles difficult to attain, authorities could look at new programs or procedures to facilitate private activity bond issuance. By standardizing issuing documents or implementing a regular pooling program, authorities may be able to save issuance costs for borrowers. By leveraging additional funds, such as from a revolving loan fund, authorities may be able to establish their own credit enhancement program. To the extent that state and municipal authorities are interested in being proactive about private activity bond issuance, such options should be pursued.

Congress should also act to bolster specific categories of private activity bonds. Several basic modifications could significantly improve the use of these bonds and thereby provide affordable capital to socially-beneficial projects. CDFA has proposed adding renewable energy facilities as part of the Exempt Facilities category, which can currently be used toward a variety of energy projects—but not solar or wind. CDFA has also proposed multiple revisions to Qualified Small Issue Bonds for Manufacturing, or IDBs. This category has not been updated to account for inflation or the changing American manufacturing market. Unfortunately, the current IDBs rules fail to account for the 21st-Century’s definition of a “small” manufacturer. Through CDFA’s proposed *American Manufacturing Bond Finance Act*, small- to mid-sized manufacturers would again be able to access low-cost capital to expand and create quality jobs in their communities.

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 since that time.

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 for 2009 and 2010 to include production of intangible property, a change targeted at biotech and high-tech firms. In addition, the 25 percent limitation on directly related and subordinate facilities was eliminated for these years.

In 2011, tax-exempt bonds were threatened by proposals from the Administration and from Congress, including both the deficit reduction committee and tax reform. CDFA led the development finance



CDFA Annual Volume Cap Report

Analysis of 2013 Private Activity Bond & Volume Cap Trends

industry in standing tall against these threats, meeting with numerous Congressional offices and publishing *Built by Bonds*, the definitive argument for the use of tax-exempt bonds to provide lower-cost capital for infrastructure, manufacturers, and economic development. CDFA was successful in 2011, as the proposals to repeal or limit the tax exemption were withdrawn. Should future tax reform discussions could again threaten the status of tax-exempt bonds, CDFA continues to lead this charge.

To strengthen and improve the use of PABs, and particularly IDBs, CDFA has proposed the *American Manufacturing Bond Finance Act*. This legislation, which is being discussed with Congress, 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 the *American Manufacturing Bond Finance Act* 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.



CDFA Annual Volume Cap Report

Analysis of 2013 Private Activity Bond & Volume Cap Trends

2013 Volume Cap Allocation and Private Activity Bond Issuance in Millions of Dollars

State	Allocating Agency	Start of Year Allocation			PAB Issuance by Category							End of Year Allocation		
		New Cap	Carry-forward 2010-12	Total Capacity	Exempt Facilities	Multifamily Housing ^a	Mortgage Revenue Bonds	IDBs	Student Loans	Other Issuance ^b	Total PAB Issuance	Mortgage Credit Certificates	Carry-forward Abandoned	Carry-forward to 2014
AL	State IDA	458.1	1,178.6	1,636.6	7.0	7.0	4.6	10.0	0.0	0.0	21.6	365.2	0.0	1,249.9
AK	State Bond Committee	291.9	815.4	1,107.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	253.0	854.3
AZ	ACA	622.5	29.9	652.4	64.1	64.1	0.0	10.0	0.0	21.5	95.6	0.0	0.0	29.9
AR	ADFA	291.9	800.5	1,092.4	0.0	0.0	0.0	1.3	0.0	0.0	1.3	0.0	246.7	844.5
CA	CDLAC	3,613.9	7,296.5	10,910.4	1,410.1	1,137.1	0.0	3.9	0.0	0.0	1,414.0	241.1	1,754.2	7,501.1
CO	Local Affairs	492.8	1,146.2	1,639.0	147.2	142.4	40.0	13.3	0.0	0.0	200.4	191.4	18.1	1,229.1
CT	Policy & Management	341.1	467.0	808.1	2.4	2.4	0.0	0.0	24.8	0.0	27.2	0.0	0.0	783.3
DE	Finance	291.9	820.5	1,112.4	0.0	0.0	94.9	0.0	0.0	0.0	94.9	49.9	189.6	827.8
DC	Revenue Bond Program	291.9	141.5	433.4	144.7	144.7	0.0	0.0	0.0	40.0	184.7	0.0	60.0	95.1
FL	Bond Finance	1,835.2	4,734.1	6,569.3	68.7	68.7	0.0	0.0	0.0	0.0	68.7	0.0	1,305.9	4,981.1
GA	Comm. Affairs	865.9	2,157.6	3,023.5	1.1	NR	NR	5.0	0.0	0.0	6.1	NR	830.3	2,117.5
HI	Budget Finance	291.9	154.3	446.2	15.8	15.8	0.0	0.0	0.0	0.0	15.8	78.0	0.0	266.9
ID	Commerce	291.9	770.1	1,062.0	10.5	10.5	0.0	13.8	0.0	0.0	24.3	0.0 ^c	273.8	763.9
IL	Management & Budget	1,222.6	1,442.4	2,665.0	26.9	26.9	0.0	0.0	0.0	0.0	26.9	0.0	62.8	169.5
IN	IFA	621.0	911.5	1,532.5	233.5	6.0	0.0	10.2	0.0	0.0	243.7	0.0	84.5	1,181.2
IA	IFA	292.1	460.6	752.6	24.5	24.5	0.0	8.8	0.0	9.5	42.8	94.5	0.0	637.8
KS	Commerce	291.9	803.2	1,095.1	0.0	0.0	0.0	6.0	0.0	0.0	6.0	0.0	270.5	818.6
KY	KPABAC	416.1	999.5	1,415.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	176.1	1,224.5
LA	Bond Commission	437.2	1,160.0	1,597.0	6.5	6.5	0.0	0.0	0.0	0.0	6.5	0.0	268.7	1,162.7
ME	Housing Authority	291.9	793.4	1,085.3	0.0	0.0	72.1	2.5	0.0	0.0	74.6	0.0	154.6	851.8
MD	DBED	559.0	16.0	575.0	22.6	16.0	6.6	0.0	0.0	0.0	29.2	NR	NR	NR
MA	Administration & Finance	631.3	569.5	1,200.9	490.5	490.5	52.4	38.1	226.6	0.0	807.7	0.0	0.0	393.1
MI	Treasury	939.0	2,604.0	3,543.0	94.8	16.2	17.3	33.7	0.0	0.0	145.8	0.0	720.1	2,728.1
MN	Management and Budget	511.0	847.6	1,358.6	0.0	0.0	570.7	10.0	0.0	0.2	581.0	0.0	12.9	958.5
MS	MDA	291.9	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
MO	Economic Dev.	572.1	1,390.1	1,962.2	66.9	63.4	0.0	15.7	0.0	1.8	84.4	0.0	172.9	1,522.1
MT	Administration	291.9	830.5	1,112.4	0.0	0.0	67.5	0.0	0.0	0.0	67.5	24.0	182.3	848.6
NE	NIFA	291.9	807.5	1,099.4	0.0	0.0	216.1	2.7	0.0	0.0	218.8	56.0	0.0	824.6
NV	Business & Industry	291.9	547.5	839.4	15.3	13.0	0.0	0.0	0.0	0.0	15.3	50.0	375.4	585.3



CDFA Annual Volume Cap Report

Analysis of 2013 Private Activity Bond & Volume Cap Trends

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		New Cap	Carry-forward 20010-12	Total Capacity	Exempt Facilities	Multifamily Housing ^a	Mortgage Revenue Bonds	IDBs	Student Loans	Other Issuance ^b	Total PAB Issuance	Mortgage Credit Certificates	Carry-forward Abandoned	Carry-forward to 2014
NH	NHBFA & Housing	291.9	624.1	916.0	6.7	6.7	0.0	3.0	0.0	0.0	9.7	0.0	226.5	811.1
NJ	Public Finance	842.1	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
NM	Board of Finance	291.9	520.0	806.7	8.0	8.0	52.0	0.0	0.0	0.0	60.0	0.0	44.6	754.1
NY	Budget	1,859.2	499.7	2,358.9	1,728.1	1,728.1	113.9	14.6	0.0	0.0	1,856.6	0.0	0.0	502.4
NC	NC FTRAC	926.4	0.0	926.4	30.8	5.8	0.0	6.0	0.0	0.0	36.8	0.0	0.0	889.6
ND	Governor	291.9	701.3	993.2	43.4	43.4	70.9	0.0	0.0	0.0	114.3	0.0	147.9	703.0
OH	Development	1,100.0	2,913.6	4,013.6	65.7	65.7	22.0	10.9	0.0	0.0	98.6	0.0	942.9	3,000.0
OK	State Bond Advisor	362.4	1,054.0	1,416.4	5.8	5.8	0.0	0.0	0.0	0.0	5.8	14.8	352.4	1,050.2
OR	Treasury	370.4	1,032.5	1,402.9	8.4	8.4	20.0	4.1	0.0	0.0	32.5	0.0	217.4	1,003.8
PA	DCED	1,212.5	3,000.7	4,213.2	0.0	0.0	84.7	89.8	0.0	9.8	184.3	690.0	216.0	3,298.2
RI	Public Finance	291.9	742.5	1,034.4	68.9	62.9	0.0	0.0	69.3	0.0	138.2	75.0	197.7	848.3
SC	Budget & Control Board	448.8	1,407.1	1,855.9	11.3	11.3	0.0	0.0	0.0	0.0	11.3	0.0	437.8	1,454.0
SD	Governor	291.9	784.6	1,076.5	0.0	0.0	129.8	0.0	0.0	1.4	131.2	106.6	0.0	838.8
TN	Economic & Comm. Dev.	613.3	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
TX	Bond Review Board	2,475.6	2,242.2	4,717.9	213.9	173.2	0.0	1.9	143.9	0.0	359.6	675.8	1,050.3	2,632.1
UT	Economic Development	291.9	386.8	678.7	20.5	20.5	0.0	2.0	0.0	0.0	22.5	26.4	0.0	582.3
VT	Emergency Board	291.9	783.7	1,075.6	18.2	0.0	54.2	3.0	15.6	0.0	91.0	40.0	158.4	825.8
VA	Housing & Comm. Dev.	777.7	864.2	1,641.9	56.4	56.4	0.0	9.5	0.0	0.0	65.9	0.0	0.0	1,187.2
WA	Commerce	655.2	1,568.2	2,223.5	936.8	270.4	40.0	0.0	0.0	0.0	976.8	200.0	0.0	1,686.5
WV	WVEDA & WVHDF	291.8	334.4	626.2	0.0	0.0	68.5	0.0	0.0	0.0	68.5	0.0	89.5	351.5
WI	WEDC	544.0	1,454.0	1,998.0	0.0	0.0	14.0	26.0	0.0	0.0	40.0	462.5	0.0	1,496.0
WY	Governor	291.9	836.2	920.7	0.0	0.0	16.0	0.0	0.0	0.0	16.0	0.0	257.8	854.3
National Totals		32,748.3	56,445.3	87,223.5	6,076.0	4,722.3	1,828.2	355.8	480.2	84.2	8,824.3	3,441.2	11,751.6	60,220.0

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.

^b Other issuance includes redevelopment bonds, agricultural bonds, and special categories of cap-subject PABs, as reported.

^c Idaho reported \$274 million in Mortgage Credit Certificates but from their remaining allocation of additional Housing volume cap.