

2011 National Volume Cap Report



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CDFA released the 2011 National Volume Cap Report this summer. The main finding in the report—that issuance of cap-subject private activity bonds (PABs) was down \$1.8B or 13% in 2011 from 2010—was unfortunate, but also expected. At over 33%, the decrease in general municipal bond

As a result of decreased issuance, states used just 15% of the total available PAB volume cap in 2011. States therefore reported electing to carry forward a record-high \$54.2B of volume cap into 2012. The total PAB volume cap for 2012 will be approximately \$85B. Issuance of cap-subject PABs will need to increase by nearly 664% to completely utilize this capacity.

While the issuance of PABs is not going to rise this dramatically, the bond market has seen far more action in 2012. General municipal bond issuance has been up by about 67% for the year, and PAB issuance is also likely to see an increase. This is certainly welcome news to CDFA and its members.

Industrial Development Bonds

The type of PAB that CDFA tracks the closest is Industrial Development Bonds (IDBs), which are Qualified Small Issue Bonds for manufacturing. These bonds facilitate access to low-cost capital for small- to mid-sized manufacturers, and they have been the primary bond finance tool issued by Council members.

2011 saw the fourth straight year of declining IDB issuance, from a high of \$3.1B in 2007 to a low of \$373.9M in 2011. This relatively paltry sum even hinges on a surprising \$96.4M increase in IDB issuance reported by the state of Arizona. In fact, more than a dozen states bucked the national trend and increased their year-over-year issuance of IDBs.

On the whole, the plight of IDBs is impossible for our industry to ignore.

Calls for Participation

Revolving Loan Fund Program Profiles
Provide details on an economic development RLF so that it can appear in CDFA's new RLF Program database.

Tax Credit Finance Projects
Submit a project financed with federal tax credits.

To participate in any CDFA project, contact Jason or visit the Original Research Focus page at www.cdfa.net.

By the Numbers

12.8B Dollars of cap-subject private activity bonds issued in 2011.

41 Percent of total volume cap issued by states in 2011.

48 States that had committed more than \$1 of SSBCI funds through Q2Y12.

issuance from 2010 to 2011 was far more significant than for cap-subject PABs alone.

Qualified PABs are tax-exempt bonds issued by a state or local government for a qualified public purpose. PABs issued for certain purposes, such as multi-family housing or small manufacturing facilities, are subject to the federally mandated volume cap. In 2011, states had a minimum volume cap of \$95 per capita or \$277.8M.

Access to affordable capital is a crucial component of business development. Job growth in the manufacturing sector has been inconsistent at best, and negative at worst (15,000 jobs lost in August). The low-cost financing available through IDBs may be one part of the solution for this industry. CDFA's American Manufacturing Bond Finance Act seeks to strengthen IDBs and support steady growth for manufacturers. See pages 8-9 in this issue for more information.

About the National Volume Cap Report

To complete the CDFA National Volume Cap Report, the Council surveys the state offices responsible for administering the volume cap and supplements responses with publicly-available use reports published by the states. CDFA relies upon state cooperation with this voluntary process and greatly appreciates all those who respond quickly and completely. For more information on states' issuance of PABs and use of volume cap, visit the National Volume Cap Map, available through the Bond Finance Resource Center on www.cdfa.net.

STATE SMALL BUSINESS CREDIT INITIATIVE

The U.S. Dept. of Treasury's State Small Business Credit Initiative (SSBCI) provided \$1.5B to states for the purpose of launching or bolstering state lending programs that could leverage private capital at a 10:1 ratio. The first states were approved spring 2011—some as recently as the start of 2012—and the program is active through September 2017.

The SSBCI is off to a promising, albeit inconsistent, start. The program is gaining momentum: each quarter has seen increasing loan volume. Through Q3 of 2012, ten states had used at least \$10M of their allocation, and many of the states had supported enough loans to access at least their second tranche of the allocation. However, many of the states that are not

experiencing this level of success are far behind—having used less than \$1M of their allocation. A few states have yet to support a single loan through the program. Some states are clearly well on the way to utilizing their full allotment by 2017—but many states are on pace to leave thousands, if not millions, of dollars of small business lending support on the table.

To be clear, the fault does not lie entirely with the states. It is true that some entities have been less aggressive in their marketing or slower to effectively engage the banking and borrowing communities. Nonetheless, the program is facing administrative challenges, including response times from the Treasury that frequently last weeks, or even months,

and audits from the Office of the Inspector General (OIG) that have been surprisingly aggressive.

CDFA is committed to support states with the SSBCI, including by working with the states, the Treasury, and the OIG to foster better communication and increase the clarity of the administrative processes. CDFA also hosts the SSBCI Portal, which provides a list of all SSBCI programs and documentation for most programs, at www.cdfa.net.

If you have a question about the programs or performance of the Initiative in your state, contact CDFA.

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