

THE BOND BUYER

Reforms may be needed to better track state PAB volume cap allocations

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WASHINGTON – The difficulty of tracking how states are allocating private activity bonds under their volume caps begs the question of whether reforms are needed, a Council of Development Finance Agencies staffer said during a webinar on Tuesday.

"There is some question with regard to is it time for volume cap reform," Pete Mathews, CDFA's manager of research & resources, who puts together a PAB volume cap survey each year, said at a webinar on the group's 2016 report, which will not be publicly released until next week.

"There are so many variations in volume cap management among states, that it makes it kind of hard to track the issuance of volume cap," he said.

The issuance of PABs is subject to state volume caps, which are based on an Internal Revenue Service formula that takes into account population estimates and inflation. For states and territories in 2016, volume cap was the greater of \$100 per capita or \$302,875,000. The \$302.88 million figure is used by states and territories with small populations.



Mathews said that the Internal Revenue Service only keeps track of PABs on a per project basis. Issuers of tax-exempt PABs must file a Form 8038 with the IRS. But the IRS does not publicly provide any detailed aggregate information about the filings.

CDFA, like The Bond Buyer before it, tries to collect PAB information from the states each year. But as Mathews pointed out, "Each state has its own rules and procedures for allocating volume cap."

Some states allocate volume cap by category. They provide certain amounts for each category of tax-exempt PABs. They may provide one amount for exempt facility bonds, which include bonds for airport, water furnishing, sewage and

other facilities, another amount for single family housing bonds, and a separate amount for small issue industrial development bonds.

Other states sub-allocate volume cap to local governments or authorities. These states often have no idea how their PAB volume cap is allocated and issued.

There is no requirement for states to keep track of their PAB volume cap allocations and issuances, Mathews said.

Add to that, confusion among the differing terms used by federal, state and local governments, he said.

States use the term multifamily housing while the federal government calls it residential rental property. Both are used in connection with bonds issued to finance the construction or rehabilitation of housing projects where a specified portion of the units will be rented to moderate- and low-income families.

Single family bonds and mortgage revenue bonds, or MRBs, are both used to refer to bonds issued to finance mortgage loans on single family homes of first-time homeowners meeting certain income and purchase price requirements.

Industrial development bonds, industrial revenue bonds, and manufacturing revenue bonds are all used synonymously. Qualified or tax-exempt small issue bonds can refer to IDBs, IRBs, MRBs, aggie bonds, or first-time farmer bonds. IDBs are small issues of bonds sold by state or local governments that lend the bond proceeds to private users such as manufacturing companies.

PAB allocations can be carried forward for three years if not immediately used. Mathew said that states have had a lot of extra carry forward since 2008 and that the extra capacity has made it easier for them to not have to worry about tracking their allocations.

Overall PAB issuance has been increasing since 2013, fueled by housing bonds, Mathew said. IDB volume has remained at roughly \$250 million since 2013.

CDFA expects the 2016 report will show IDB volume at about \$250 million, a slight increase from 2015 when it was \$244 million, he said.