



CDFA *Original Research*

CDFA Annual Volume Cap Report

An Analysis of 2015 Private Activity
Bond & Volume Cap Trends

Released August 2016



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Analysis of 2015 Private Activity Bond & Volume Cap Trends

The Council of Development Finance Agencies (CDFA) has collected 2015 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 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 2015, the volume cap for each state was equal to the greater of \$100 per capita or \$301.52 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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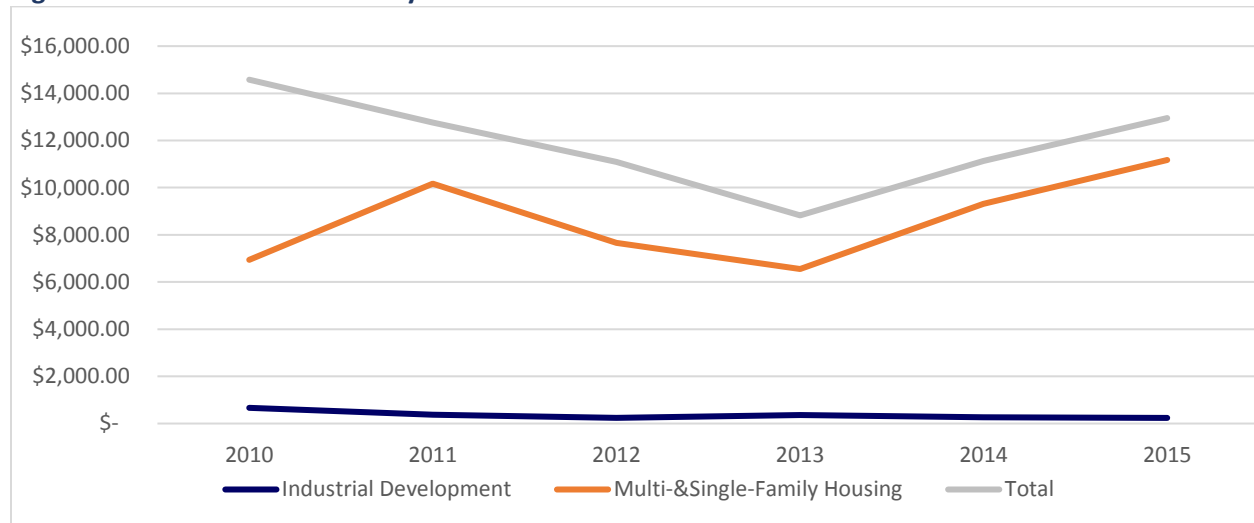
Overall Statistics and Observations

New volume cap allocation in 2015 totaled nearly \$34.88 billion for the 50 states and District of Columbia, an increase of one percent over the previous year. Combined with more than \$58.48 in existing carryforward allocation, the total accessible amount of national volume cap was approximately \$90.04 billion.

Texas' \$50.9 million or 1.92 percent increase in new allocation compared to last year was the largest increase in terms of both dollar amount and rate. All states that received the minimum allocation in 2014 saw a 1.6 percent increase in new allocation. Additionally, Mississippi received the minimum allocation in 2015, bringing the total number of states receiving the minimum to 21 states.

In 2015, the total dollar amount of private activity bonds issued throughout the nation saw a \$1.5 billion uptick over the previous year, to \$13.1 billion.² This was an increase of 13.2 percent and a five-year high.

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

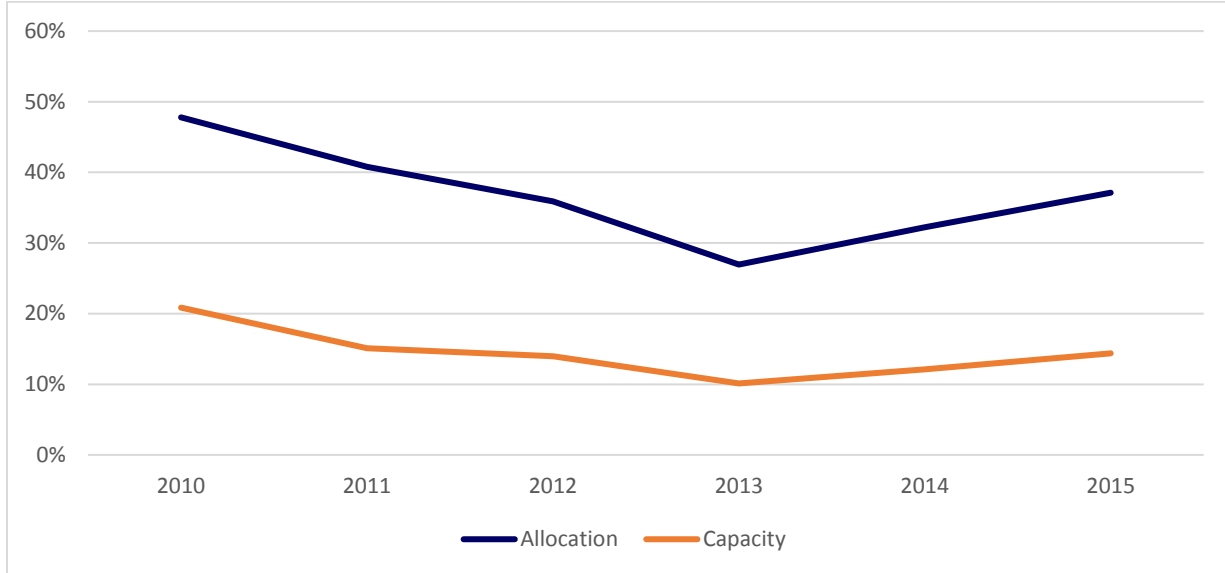


States' issuance in 2015 accounted for over a third of the year's new cap allocation and over 14 percent of the total available volume cap. The cap usage rate had been declining for several years, but 2014 showed an increasing rate of use and 2015 supported the findings with the equivalent increases in rates. In 2007, the highest year for private activity bond issuance CDFA has recorded, states used 101 percent of their initial allocations³ and 58 percent of their total available cap.

² Some variation in the CDFA National Volume Cap Report can be attributed to states' differing participation. Historically, absent data is not statistically significant. Slight size of the trend may change, but the direction would be the same.

³ 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.

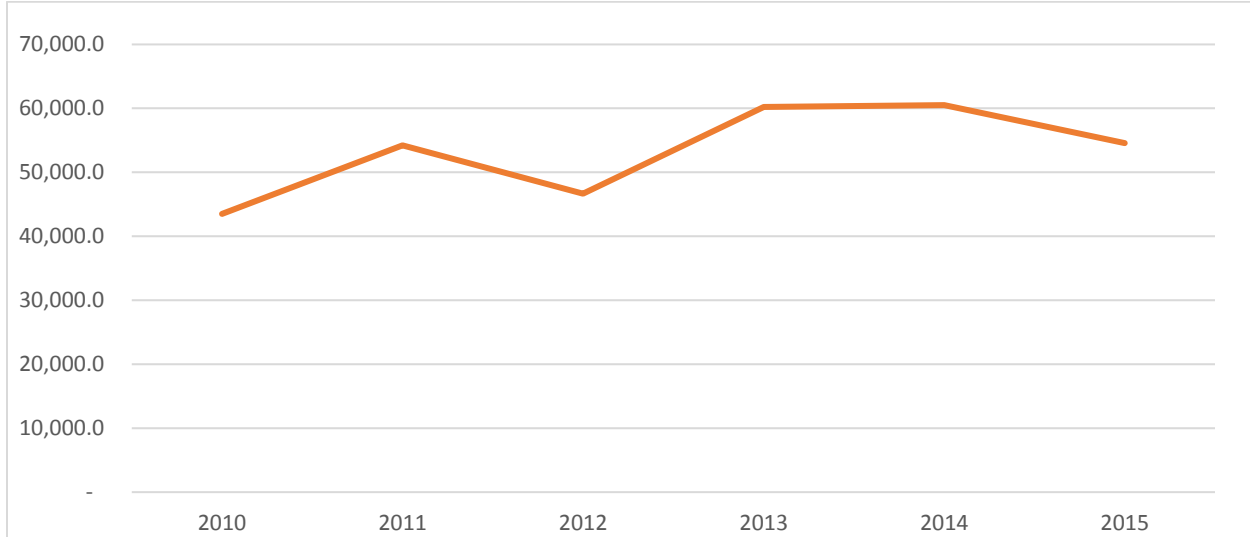
Figure 2. National Issuance as Percent of New Allocation and Total Capacity



States do not carry all of their unused allocation forward from year to year. The main reason for this is that volume cap allocation expires after four years. Another reason is that volume cap pre-assigned to certain categories of private activity bond issuance, primarily Small Issue Bonds, is prohibited from being carried forward. Some states also do not carry forward allocation simply because they choose not to do so. At the end of 2015, states abandoned \$10.5 billion in unused volume cap allocation, noticeably less than the \$12.0 billion abandoned in 2014. However, this is the third year that abandoned cap has exceeded \$10 billion. In 2011 and 2012, states abandoned around \$6.6 billion each year and the amount abandoned prior was even less.

Subsequent the leveling off of usage rate in 2014, states reported expecting to carry approximately \$6.0 billion less or \$54.6 billion in volume cap allocation forward into the ensuing year. This would generate approximately \$89.7 billion in total cap available at the start of 2016, which would be less than the total cap in 2015. The equivalent volume cap carryforward still shows a flux over the past six years, as seen in Figure 3.³

Figure 3. National Carryforward in Millions of Dollars



Industrial Development Bonds

Qualified Small Issue Bonds, commonly known as Industrial Development Bonds (IDBs), can offer 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 substantial restrictions on who can use the bonds and how proceeds can be used concerning expansion.

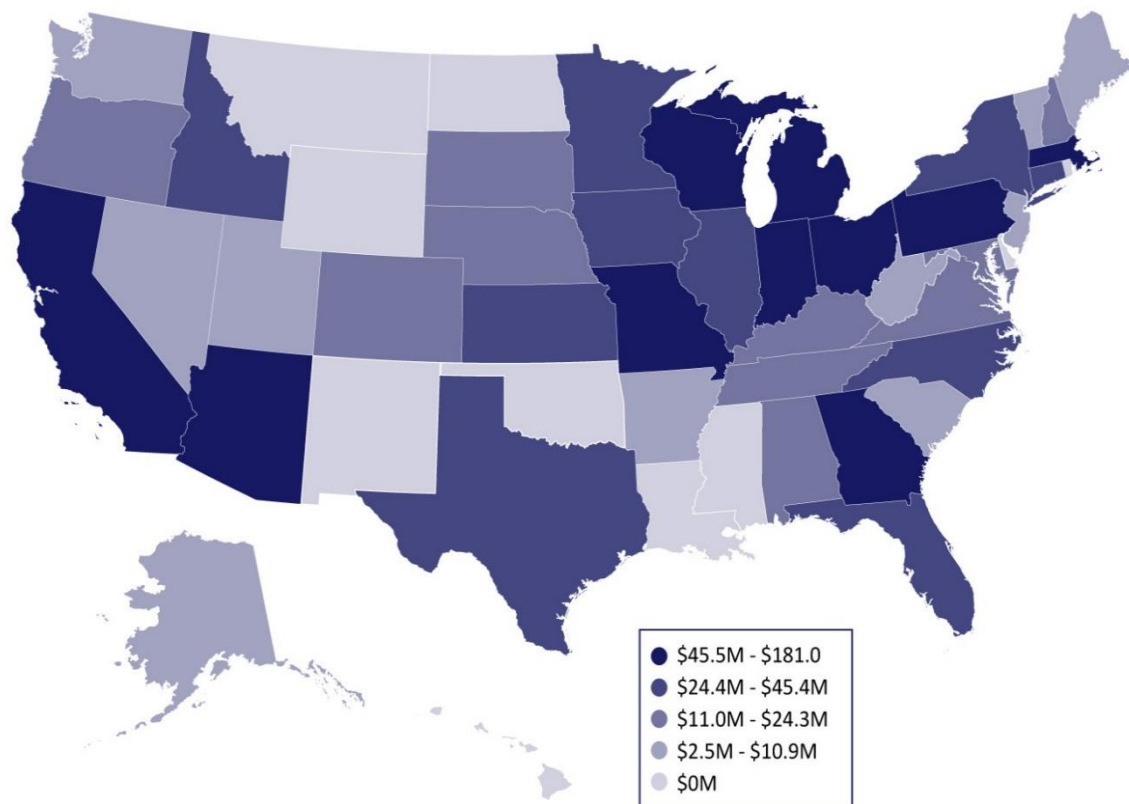
The issuance of IDBs in 2015 continued to decrease from \$270 million in 2014 to \$244 million. Since 2011, issuance of IDBs have been below \$400 million, but as recently as 2009, IDBs accounted for nearly \$1 billion of private activity bond issuance. Anecdotal reports of IDB issuance at the start of 2015 suggested that a rebound was in process. Despite this, the numbers reported do not reflect a rebound.

Table 1. Top States by 2015 Issuance of Industrial Development Bonds

| State | IDB Issuance |
|---------------|--------------|
| Wisconsin | \$43.0M |
| California | \$35.9M |
| Massachusetts | \$27.6M |
| Indiana | \$25.5M |
| Pennsylvania | \$24.3M |
| Idaho | \$21.2M |
| Connecticut | \$20.0M |
| Georgia | \$18.8M |

At the state level, there remains a great variety in use of IDBs. Fourteen states reported issuing at least one bond for small manufacturers, and at least eight of these issued multiple IDBs (listed in Table 1). Despite reporting no issuance in 2014, Pennsylvania has issued the most IDBs over the last five years by a great margin.

Figure 4. Amount of Industrial Development Bonds Issued 2011-2015



Volume Cap & Private Activity Bond Analysis

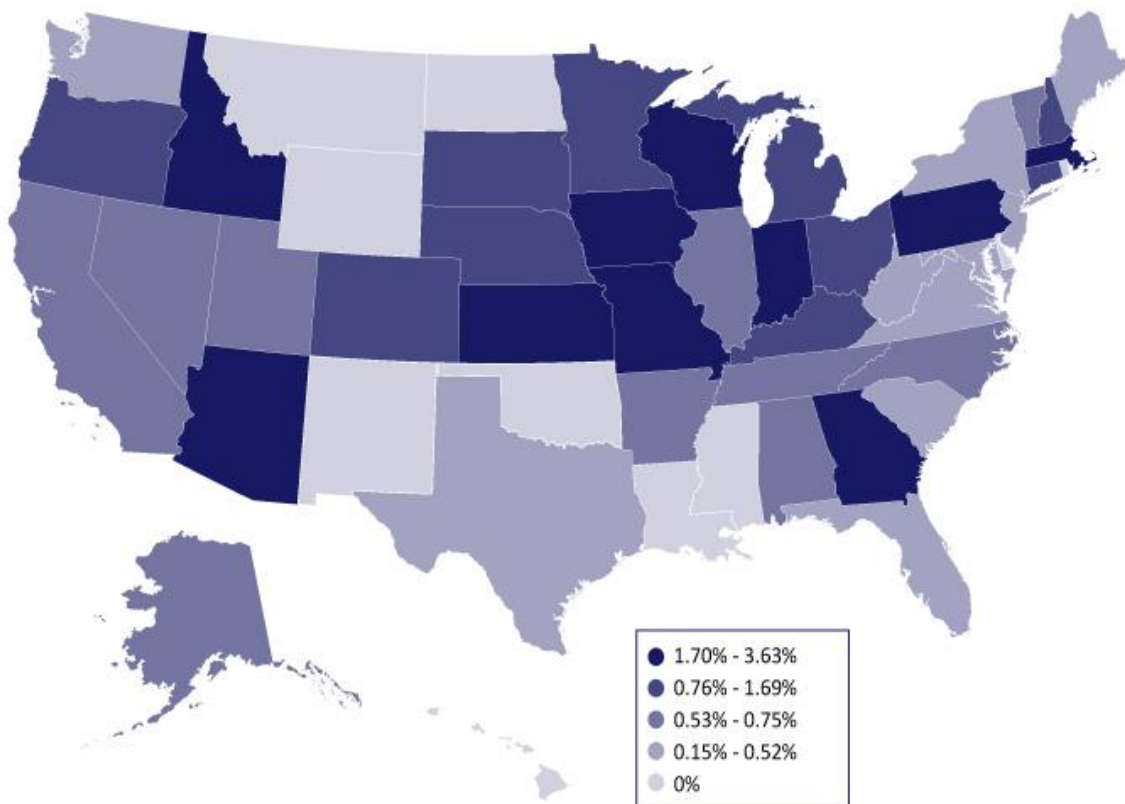
2015 showed to continue activity we saw in 2014. Cap-subject private activity bond issuance reported to CDFA continued to increase in 2015. The change in issuance seen in the past two years mirrors the change seen in the two years prior to hitting a low of \$8.8 billion in 2013⁴. This may be a trend that will continue, and a beginning of a revival of the private activity bond market. Increased tax-exempt bond issuance may be a sign that businesses are investing in more projects, or at least larger projects, than have been initiated in recent years. Certainly a variety of indicators suggest that the economy has been improving—though slowly—and private activity bond issuance may be another sign of secular stagnation.

⁴ See Figure 1.

The slight increase in issuance should not be an indication for state and municipal authorities to ignore their potential ability to expand interest in private activity bonds. Additional marketing and improved product branding could help expand reach and potential borrowers' awareness. More importantly, with collateral values remaining low and credit enhancement difficult to attain, authorities could look at new programs or procedures to expedite further private activity bond issuance. By standardizing issuing documents or establishing a private activity bond bank program, authorities may be able to reduce costs of issuance for borrowers. Authorities may be able to institute their own credit enhancement program by leveraging supplementary funds. 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 augment specific categories of private activity bonds. Several straightforward modifications could significantly improve the use of these bonds and thus provide affordable capital to public purpose 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.

Figure 5. Percentage of New Allocation Issued for Industrial Development Bonds 2011-2015





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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 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 recent years, tax-exempt bonds have been threatened by both Congress and the Administration. Various deficit reduction and tax reform proposals have aimed to eliminate or cap tax-exempt bonds. CDFA led the development finance 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 this effort, as the proposals to repeal or limit the tax exemption were withdrawn. Should future tax reform discussions, again, threaten the status of tax-exempt bonds, CDFA will continue to lead this charge.

To strengthen and improve the use of PABs, and particularly IDBs, CDFA has proposed the Modernizing American Manufacturing Bonds Act of 2015, H.R. 2890. This legislation, introduced by Rep. Randy Hultgren (R-IL) and Rep. Richard Neal (D-MA), 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.



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Acknowledgements

CDFA would like to thank all of the state staff who volunteered their time and responded to the Annual Volume Cap Survey. We greatly appreciate their efforts and could not produce this report without them.



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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| 2015 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 2012-2014 | Total Capacity | Exempt Facilities | Multifamily Housing ^a | Mortgage Revenue | IDB | Student Loans | Agriculture ^b | Total Issuance of PABs | Mortgage Credit Certificates | Carry-forward Abandoned | Carry-forward to 2016 |
| AL | Dept. of Finance | 484.9 | 848.5 | 1,333.4 | 44.9 | 7.5 | 7.3 | NR | NR | NR | 52.2 | 0.0 | 0.0 | 1,273.8 |
| AK | State Bond Committee | 301.5 | NR | 301.5 | 18.8 | 17.5 | 0.0 | 0.0 | 0.0 | 0.0 | 18.8 | 0.0 | 0.0 | NR |
| AZ | ACA | 673.2 | 25.0 | 698.2 | 38.0 | 15.0 | 0.0 | 0.0 | 15.0 | 0.0 | 53.0 | 0.0 | 0.0 | NR |
| AR | ADFA | 301.5 | 872.0 | 1,173.5 | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.0 | 284.6 | 0.0 | 887.0 |
| CA | CDLAC | 3,880.3 | 8,056.5 | 11,936.7 | 2,898.4 | 2,861.0 | 200.0 | 35.9 | 0.0 | 0.0 | 3,134.3 | 1,510.0 | 1,282.6 | 6,009.8 |
| CO | Local Affairs | 535.6 | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR |
| CT | Policy & Management | 359.7 | 859.1 | 1,218.8 | 0.0 | 0.0 | 516.5 | 20.0 | 21.5 | 0.0 | 558.0 | NR | 0.0 | NR |
| DE | Finance | 301.5 | 842.6 | 1,144.1 | 15.0 | 15.0 | 0.0 | 0.0 | 0.0 | 0.0 | 15.0 | 284.6 | 0.0 | 844.6 |
| DC | Revenue Bond Program | 301.5 | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR |
| FL | Bond Finance | 1,989.3 | 4,598.8 | 6,588.1 | 0.0 | NR | NR | NR | NR | NR | 0.0 | 200.0 | 1,300.6 | 4,556.5 |
| GA | Comm. Affairs | 1,009.7 | 2,390.3 | 3,400.1 | 68.4 | 68.4 | 0.0 | 18.8 | 0.0 | 0.0 | 87.2 | 572.3 | 0.0 | 2,590.8 |
| HI | Budget Finance | 301.5 | 176.6 | 478.2 | 51.5 | 51.5 | 0.0 | 0.0 | 0.0 | 0.0 | 51.5 | 226.8 | 93.6 | 379.4 |
| ID | Commerce | 301.5 | 779.5 | 1,081.0 | 0.0 | 0.0 | 169.3 | 21.2 | 0.0 | 0.0 | 190.5 | 64.5 | 0.1 | 825.8 |
| IL | Management & Budget | 1,288.1 | 320.9 | 1,608.9 | 0.0 | NR | NR | NR | NR | NR | 0.0 | NR | 174.8 | 405.0 |
| IN | Finance Authority | 659.7 | 1,102.5 | 1,761.6 | 208.2 | NR | NR | 25.5 | NR | NR | 233.7 | 0.0 | 275.6 | 992.0 |
| IA | Finance Authority | 310.7 | 808.1 | 1,118.8 | 0.0 | 0.0 | 40.0 | 0.0 | 37.8 | 16.9 | 94.7 | 160.6 | 18.7 | 835.9 |
| KS | Commerce | 301.5 | 834.2 | 1,135.7 | 2.6 | 2.6 | 284.2 | NR | 0.0 | 0.0 | 286.8 | 0.0 | 258.7 | 859.7 |
| KY | KPABAC | 441.4 | 1,185.9 | 1,627.2 | 0.0 | NR | NR | 4.3 | 0.0 | 0.0 | 4.3 | NR | 311.2 | 1,249.9 |
| LA | Bond Commission | 465.0 | 1,094.2 | 1,559.1 | 202.2 | 64.4 | 0.0 | 0.0 | 0.0 | 0.0 | 202.2 | 0.0 | 86.3 | 1,270.7 |
| ME | Housing Authority | 301.5 | 855.8 | 1,157.3 | 92.0 | 0.0 | 88.4 | 0.0 | 0.0 | 0.0 | 180.3 | 0.0 | 181.5 | 842.7 |
| MD | DBED | 597.6 | 1,576.0 | 2,174.0 | 0.0 | NR | 96.0 | 4.1 | 0.0 | 0.0 | 100.1 | NR | 477.0 | 1,098.0 |
| MA | Admin. & Finance | 674.5 | 330.8 | 1,005.3 | 679.5 | 429.5 | 75.0 | 27.6 | 200.0 | 0.0 | 982.1 | 0.0 | 0.0 | 0.0 |
| MI | Treasury | 991.0 | 2,759.9 | 3,749.9 | 207.1 | 104.6 | 7.8 | 8.0 | NR | NR | 222.8 | NR | 717.6 | 2,739.4 |
| MN | Management & Budget | 545.7 | 932.2 | 1,477.9 | 0.0 | 0.0 | 739.9 | 0.0 | 35.0 | 0.5 | 775.3 | 7.2 | 0.0 | 698.5 |
| MS | MDA | 301.5 | 856.1 | 1,157.6 | 0.0 | 0.0 | 16.4 | NR | NR | NR | 16.4 | NR | 0.0 | 870.1 |
| MO | Economic Dev. | 606.4 | 1,519.4 | 2,125.7 | 67.7 | 67.7 | 1.6 | 4.5 | 0.0 | 0.3 | 74.1 | 503.7 | 319.9 | 1,508.8 |
| MT | Administration | 301.5 | 867.6 | 1,169.1 | 15.5 | 15.5 | 50.5 | NR | NR | NR | 66.0 | NR | 208.4 | 875.7 |
| NE | NIFA | 301.5 | 865.4 | 1,166.9 | 0.0 | 0.0 | 160.1 | 0.0 | 0.0 | 0.7 | 160.8 | 0.0 | 120.4 | 584.9 |



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| 2015 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 2012-2014 | Total Capacity | Exempt Facilities | Multifamily Housing ^a | Mortgage Revenue | IDB | Student Loans | Agriculture ^b | Total Issuance of PABs | Mortgage Credit Certificates | Carry-forward Abandoned | Carry-forward to 2016 |
| NV | Business & Industry | 301.5 | 498.5 | 800.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 796.8 |
| NH | NHBFA & Housing | 301.5 | 811.9 | 1,113.4 | 8.0 | 0.0 | 0.0 | 5.0 | NR | 0.0 | 13.0 | 200.0 | 59.9 | 840.5 |
| NJ | Public Finance | 893.8 | 711.9 | 1,605.7 | 3.6 | NR | 475.1 | 0.0 | 187.2 | 0.0 | 665.8 | 0.0 | 190.0 | 496.4 |
| NM | Board of Finance | 301.5 | 723.5 | 1,025.0 | 0.0 | 0.0 | 0.0 | NR | NR | NR | 0.0 | NR | 229.0 | 494.5 |
| NY | Budget | 1,974.6 | 312.3 | 2,286.9 | 1,702.4 | 1,686.3 | 81.5 | NR | NR | NR | 1,783.9 | NR | 0.0 | 493.5 |
| NC | Commerce | 994.4 | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR |
| ND | Governor | 301.5 | 794.4 | 1,095.9 | 9.0 | 9.0 | 198.2 | 0.0 | 0.0 | 0.0 | 207.2 | 0.0 | 170.0 | 718.7 |
| OH | Development | 1,159.4 | 2,744.0 | 3,903.0 | 115.7 | 115.7 | 200.0 | 0.0 | 0.0 | 0.0 | 315.7 | 200.0 | 748.7 | 3,080.8 |
| OK | State Bond Advisor | 387.8 | 1,075.3 | 1,463.1 | 0.0 | NR | 20.4 | NR | NR | NR | 20.4 | 11.4 | 712.4 | 1,086.5 |
| OR | Treasury | 397.0 | 1,036.4 | 1,433.5 | 29.3 | 29.3 | 0.0 | 0.0 | 0.0 | 0.0 | 29.3 | 0.0 | 302.3 | 834.0 |
| PA | DCED | 1,278.7 | 1,806.6 | 3,085.3 | 97.4 | 94.7 | 195.5 | 24.3 | 0.0 | 8.6 | 325.8 | 400.0 | 950.7 | 2,534.3 |
| RI | Public Finance | 301.5 | 867.3 | 1,168.8 | 43.8 | 43.8 | 15.0 | NR | NR | NR | 58.8 | 112.3 | 83.2 | 869.2 |
| SC | Budget & Control Board | 483.3 | 1,456.7 | 1,939.6 | 55.0 | 48.0 | 148.8 | 0.0 | 0.0 | 0.0 | 203.8 | 0.0 | 191.0 | 1,464.1 |
| SD | Governor | 301.5 | 850.6 | 1,152.1 | 0.0 | 0.0 | 77.4 | 0.0 | 0.0 | 0.2 | 77.6 | 193.5 | 0.0 | 881.1 |
| TN | Econ. & Comm. Dev. | 654.9 | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR |
| TX | Bond Review Board | 2,695.7 | 3,765.7 | 6,461.4 | 550.9 | 497.5 | 19.9 | 0.0 | 169.5 | 0.0 | 740.2 | 1,282.1 | 622.6 | 3,814.5 |
| UT | Economic Development | 301.5 | 716.2 | 1,017.7 | 39.4 | 39.4 | 260.4 | 0.0 | 0.0 | 0.0 | 299.8 | 0.0 | 0.0 | 698.0 |
| VT | Emergency Board | 301.5 | 836.2 | 1,137.7 | 0.0 | NR | 63.7 | 1.9 | 22.1 | NR | 87.7 | 60.0 | 127.0 | 863.0 |
| VA | Housing & Comm. Dev. | 832.6 | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR | NR |
| WA | Commerce | 706.2 | 1,326.5 | 2,032.6 | 314.5 | 314.5 | 25.0 | 0.0 | 0.0 | 0.0 | 339.5 | 480.0 | 0.0 | 1,204.7 |
| WV | WVEDA & WVHDF | 301.5 | 354.3 | 655.8 | 25.0 | NR | 134.7 | 0.0 | 0.0 | 0.0 | 159.7 | 0.0 | 73.8 | 342.1 |
| WI | WEDC | 575.8 | 1,559.5 | 2,135.2 | 8.5 | 7.5 | 85.8 | 43.0 | 0.0 | 0.0 | 137.4 | 0.0 | 0.0 | NR |
| WY | Governor | 301.5 | 873.3 | 1,174.8 | 0.0 | 0.0 | 112.1 | 0.0 | 0.0 | 0.0 | 112.1 | 0.0 | 172.5 | 873.3 |
| National Totals | | 34,878.9 | 58,478.6 | 9,0036.2 | 7,614.1 | 6,605.8 | 4,566.3 | 244.3 | 688.1 | 27.1 | 13,139.9 | 6,753.6 | 10,460.1 | 54,584.9 |

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 Past CDFA Annual Volume Cap Reports had "Other" issuance. For 2015, Small Issue agriculture bonds were the only issuance in "Other."