



CDFA *Original Research*

CDFA Annual Volume Cap Report

An Analysis of 2017 Private Activity
Bond & Volume Cap Trends

Released September 2018



CDFA Annual Volume Cap Report

Analysis of 2017 Private Activity Bond & Volume Cap Trends

Every year since 2005, the Council of Development Finance Agencies (CDFA) has collected and analyzed national volume cap data as reported by managing state agencies. The CDFA Volume Cap Report represents a vital 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. The results of our 2017 research are contained in the following report.

To compile the data, CDFA surveyed and interviewed representatives from each state's volume cap allocating and issuing authorities. The data represents the best available figures as reported by each state to CDFA.

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.

About Volume Cap

Private activity bonds (PABs) 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 PABs 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 2017, the volume cap for each state was equal to the greater of \$100 per capita or \$305.315 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 PABs 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.

Overall Statistics and Observations

In 2017, the 50 states and the District of Columbia received \$35.3 billion in new volume cap allocation, an increase of \$205.3 million from 2016. Total carry-forward allocation from 2014-2016 equaled \$55.1 billion, making the total national volume cap capacity \$90.4 billion. The 2017 total for national volume

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 www.irs.gov/pub/irs-pdf/p4078.pdf.



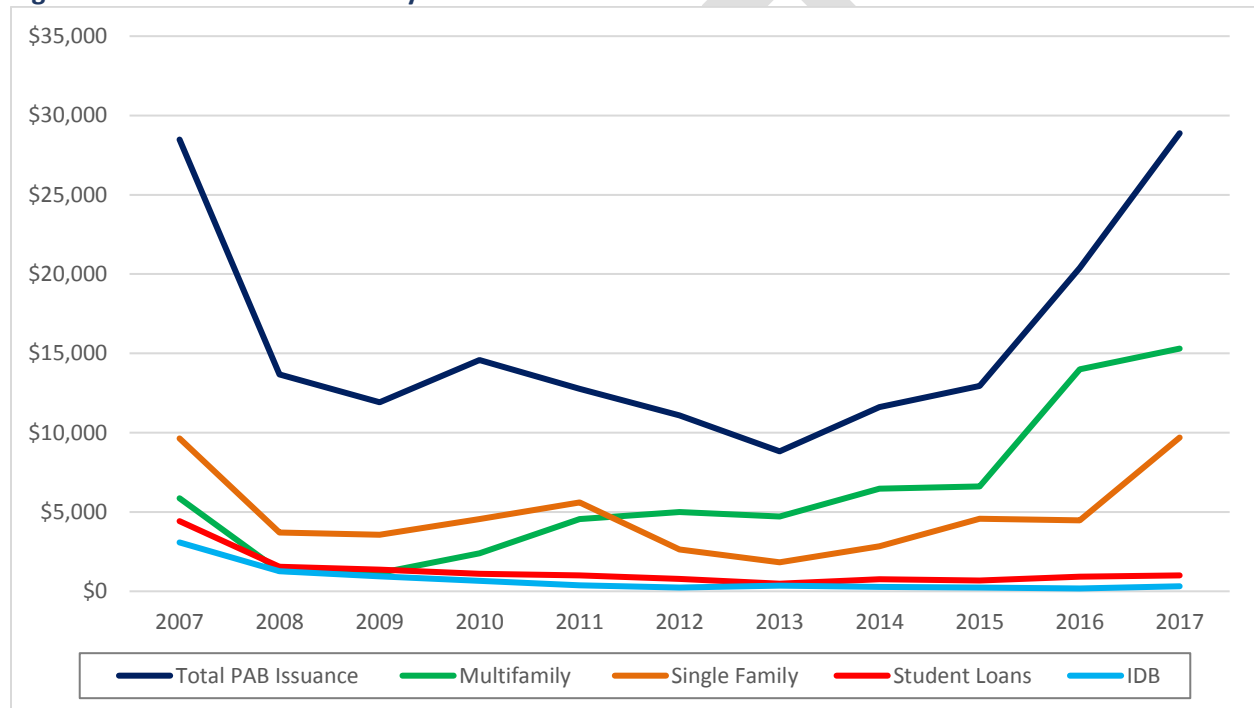
CDFA Annual Volume Cap Report

Analysis of 2017 Private Activity Bond & Volume Cap Trends

cap capacity was \$6.9 billion lower than in 2016 and much closer to the totals recorded in 2013, 2014, and 2015. During the 2013-2015 period total capacity was recorded at \$87.22 billion, 92.08 billion, and 90.04 billion, respectively.

Even though total volume cap capacity was lower in 2017, total private activity bond issuance increased dramatically from 2016, rising from \$20.38 billion to \$28.9 billion. The \$28.9 billion issuance total in 2017 is the highest issuance total ever recorded by CDFA, surpassing the previous high of \$28.5 billion in 2007. Multi and Single-Family Housing Bonds issuance also increased in 2017, climbing from a combined \$18.47 billion in 2016 to \$25 billion in 2017.

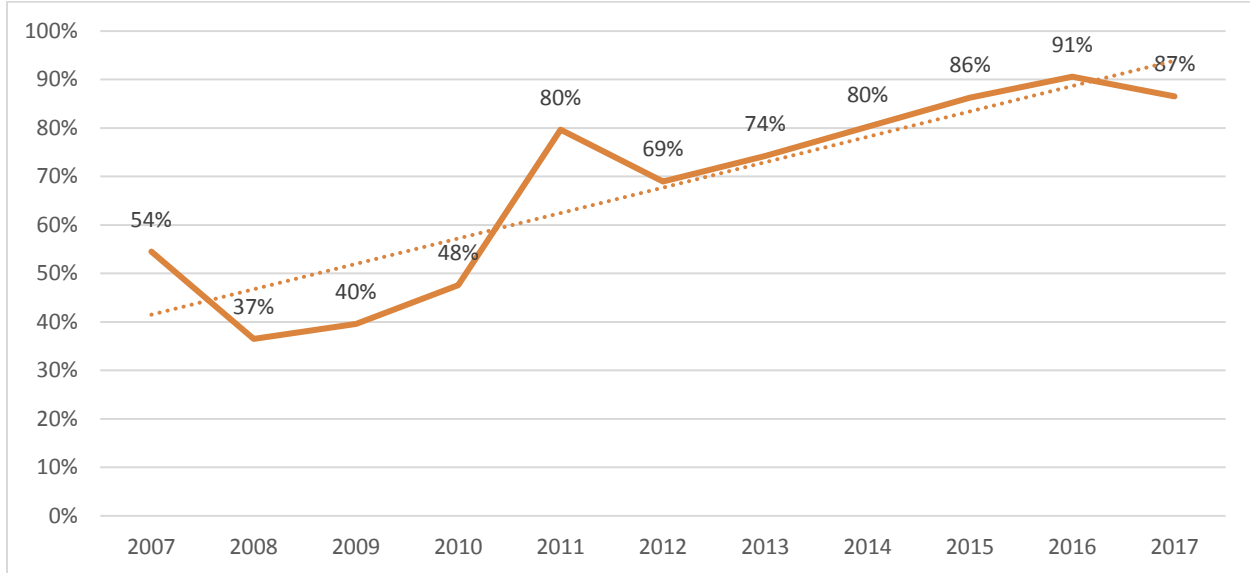
Figure 1. National Private Activity Bond Issuance in Millions of Dollars



Of the major cap-subject private activity bond categories, Single-Family Housing Bonds, or Mortgage Revenue Bonds, made the largest year-over-year gain in 2017. Single-Family issuances grew from \$4.46 billion in 2016 to \$9.69 billion in 2017, an increase of 117 percent.

The combined issuance of Multi and Single-Family Housing Bonds (otherwise known respectively as Residential Rental and Mortgage Revenue Bonds) continues to make up a major share of total cap-subject private activity bond issuance. The 2017 issuance of Multi and Single-Family Housing Bonds accounted for 87 percent of total private activity bond issuance, continuing a trend that began in 2014 of Multi and Single-Family Housing Bonds accounting for greater than 80 percent of all cap-subject private activity bond issuance.

Figure 2. Multi & Single-Family Housing Issuance as Percentage of Total PAB Issuance



Total PAB issuance as a percentage of both total issuing capacity and annual volume cap allocation increased again in 2017, growing from 21 percent to 32 percent, and 58 percent to 82 percent, respectively. 2017 marks the first year since 2008 that total PAB issuance eclipsed 25 percent of the total national issuing capacity, and only the third year issuance has surpassed 25 percent of total capacity in thirteen years.

Figure 3. National PAB Issuance as a Percentage of New Allocation and Total Capacity

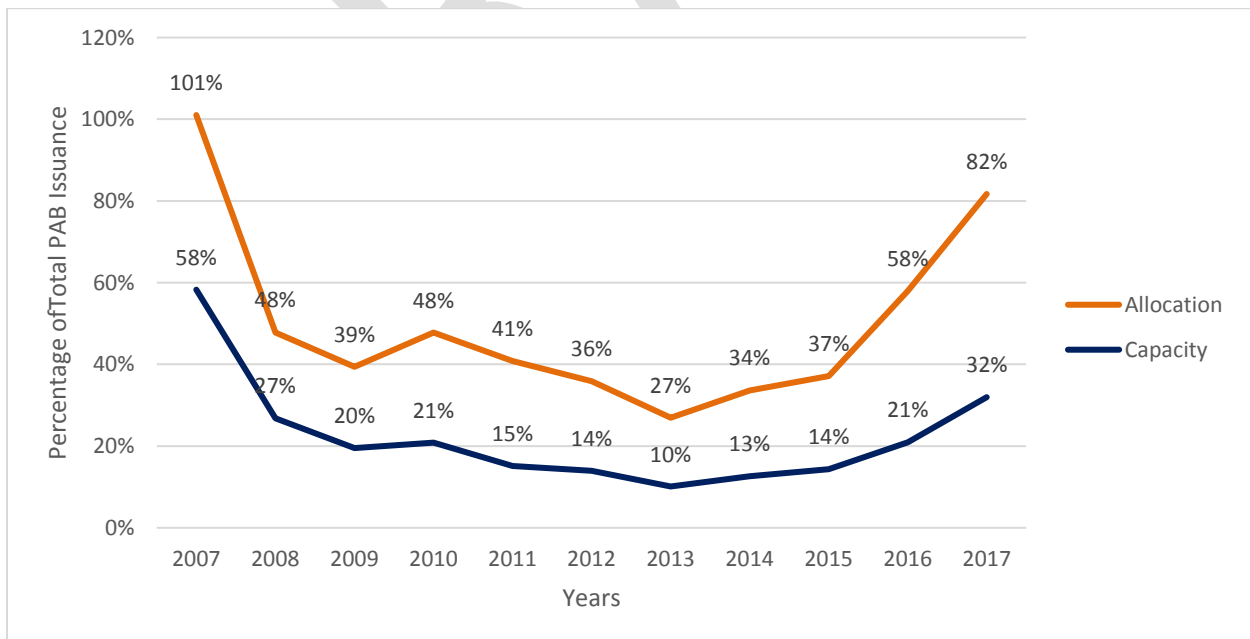
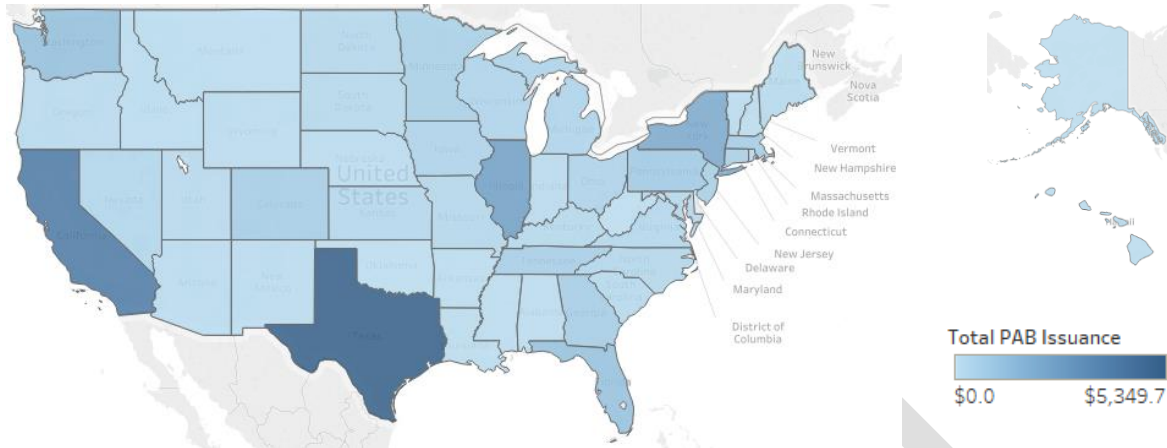


Figure 4. State Issuance of Private Activity Bonds

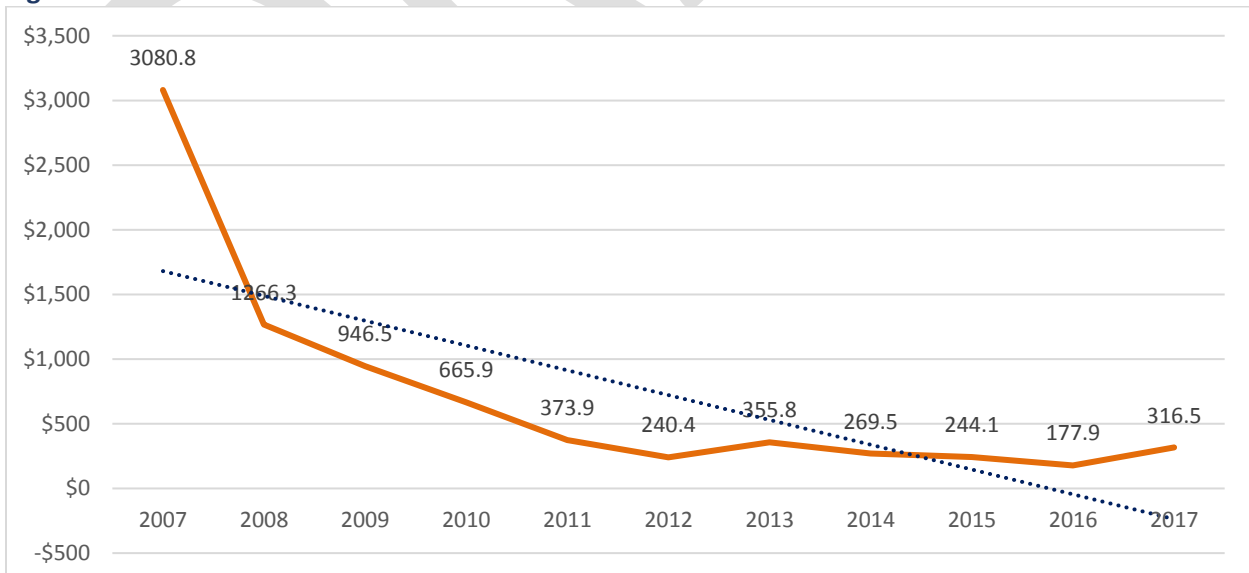


Texas issued the most private activity bonds of any state in 2017, issuing \$5.35 billion. California, after leading the nation in total issuance in 2015 and 2016, issued \$4.13 billion. Illinois, New York, Washington, and Florida were the only other states to issue more than \$1 billion in private activity bonds in 2017, with issuances of \$2.57, \$2.17, \$1.24, and \$1.13 billion respectively.

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.

Figure 4. National IDB Issuance in Millions of Dollars





CDFA Annual Volume Cap Report

Analysis of 2017 Private Activity Bond & Volume Cap Trends

Issuance of IDBs in 2017 increased significantly from 2016 totals, climbing from a 12 year low at \$177.9 million to \$316.5 million. CDFA continues to monitor the issuance and usage of IDBs closely, as CDFA sponsored legislation to modernize the regulations governing IDBs is currently pending in both the U.S. House of Representatives and U.S. Senate (see *CDFA's Legislative Efforts on Tax Exempt Bonds* below).

Twenty one states issued IDBs in 2017, up from twelve in 2016 and the most since 2014 when 22 states issued IDBs. Wisconsin issued \$17.2 million more than the next closest state, Massachusetts, which issued \$62.2 million and \$45 million, respectively. Eight states in 2017 issued more than \$15 million in IDBs, which are shown in Table 1 below.

Table 1. Top States by 2017 Issuance of Industrial Development Bonds

State	IDB Issuance
Wisconsin	\$62.2M
Massachusetts	\$45.0M
Idaho	\$27.6M
Texas	\$20.0M
Georgia	\$18.3M
Pennsylvania	\$17.9M
Florida	\$15.1M
Utah	\$15.0M

Volume Cap & Private Activity Bond Analysis

2017 marked the first year since 2007 that total national PAB issuance exceeded \$25 billion, and is only the third time that total PAB issuance exceeded that mark in the thirteen years that CDFA has been tracking cap-subject PAB issuances. After a relatively calm first-six months of 2017 with municipal issuance lagging behind 2016 totals, the introduction of the Tax Cuts and Jobs Act and its proposed elimination of tax-exempt private activity bonds drove record-breaking issuances in November and December. In fact, according to *The Bond Buyer's* 2017 year-end analysis, December 2017 was the busiest month for municipal issuances in municipal marketplace history.² As cap-subject PAB issuances go, CDFA recorded dramatically elevated issuance totals in nearly every cap-subject PAB category in 2017. However, CDFA does not believe that the increase in 2017 issuances marks the beginning of a trend. As has been reported extensively (and perhaps most cogently in *The Bond Buyer's 2018 Midyear Review*), the end of 2017 rush to market has had negative implications for 2018 issuance volume. Total volume on 2018 tax-exempt issuances is down 19.2 percent from 2017 midyear totals, which were themselves 14.9 percent lower than 2016 midyear totals.³ Barring a dramatic turnaround in the final six

² Weitzman, Aaron. "Tax Reform Iced, Then Heated Issuance in Final Two Months." *The Bond Buyer*, February 26, 2018. <https://assets.sourcemediamedia.com/a9/6f/55b34e9f4496a0c744c1daef6385/2017-yearend.pdf>.

³ "2018 In Statistics: Midyear Review." *The Bond Buyer*, August 20, 2018.

<https://assets.sourcemediamedia.com/b7/4a/1714f7b54d9289d37a308c917476/2018-midyear-sup.pdf>; "2017 In Statistics: Annual Review." *The Bond Buyer*, February 26, 2018. <https://assets.sourcemediamedia.com/a9/6f/55b34e9f4496a0c744c1daef6385/2017-yearend.pdf>



CDFA Annual Volume Cap Report

Analysis of 2017 Private Activity Bond & Volume Cap Trends

months of 2018, the high 2017 issuance totals recorded in this report should be viewed as a one-year anomaly rather than a harbinger of good things to come.

CDFA's Legislative Efforts and Recommendations for PAB Reform

Qualified Private Activity Bonds have offered state and local governments an effective and efficient means for supporting infrastructure, affordable housing, education, and commercial development for over 30 years. Unfortunately, despite the massive economic and financial changes that have occurred throughout the U.S. during that time period, the rules and regulations governing the usage of PABs has remained largely unchanged. H.R. 1, the Tax Cuts and Jobs Act, presented Congress with an excellent opportunity to reform and modernize the Internal Revenue Code language governing bond usage. Unfortunately, following a misguided attempt to eliminate Qualified Private Activity Bonds, Congress elected to make only minor changes to the IRC. As a result, the vast majority of PAB categories are still regulated by rules written over 30 years ago.

Several PAB categories would benefit from legislative reforms that take into account the advanced state of the American economy, as well as the current challenges state and local governments face in funding public infrastructure improvements and development. For example, the manufacturing practices of the early 1980s are dramatically different than those employed in 2018, with today's manufacturers employing advanced technological processes for both company growth and production. In an effort to modernize the code as it relates to IDBs, CDFA sponsored legislation (H.R. 1115 and S. 773) would update the IRC in the following ways:

1. *Expand the definition of manufacturing to include both tangible and intangible production so that IDBs can be used to build 21st Century manufacturing capacity here in the United States;*
2. *Eliminate the restrictions on "Functionally Related and Subordinate Facilities," so that financing is focused on operationally necessary expansion rather than on arcane rules around whether one type of facility room or another can be financed;*
3. *Increase the maximum bond size limitation (from \$10 million to \$30 million) and increase the capital expenditure limitation (from \$20 million to \$40 million) so that IDBs can meet the realistic financing needs of 2018 rather than 1986.*

Alongside reforms to IDBs, CDFA supports the expansion of qualified PABs to finance public facility projects involving schools, hospitals, courts, fire stations, and universities. While the development and maintenance of public facilities has historically been funded by governments through the issuance of GO bonds, the significant, present-day costs associated with public facility projects have forced many cash-strapped governments to forgo regular facility upgrades and improvements. As a result, America's public buildings are in a state of historic disrepair. By expanding qualified PABs to include public facilities, cash strapped governments would be able to engage the private sector through public-private partnerships (P3s), lowering both the upfront project costs and the long-term facility maintenance costs. The *Public Buildings Renewal Act* (H.R. 960 and S. 326) would expand qualified PABs by creating a new category of Exempt Facility Bonds called "Qualified Government Buildings." The passage of the *Public Buildings Renewal Act* would enable Exempt Facility Bonds to finance the development and maintenance of



CDFA Annual Volume Cap Report

Analysis of 2017 Private Activity Bond & Volume Cap Trends

elementary schools, university facilities, public libraries, courts, hospitals, and public safety facilities like police and fire stations.

Ultimately, improving the IRC as it relates to the usage and regulation of PABs would be tremendously beneficial for states and communities around the U.S. PABs provide borrowers with efficient, low-cost capital to support project development, and the cost of PABs to the federal government in the form of foregone tax revenue is incredibly small. CDFA and its members stand willing to advise Congress and the Administration on pending and future PAB-related legislation.

H.R. 1 and Industry Efforts to Preserve PABs

CDFA wishes to once again thank its members, partners, and all those that were involved in the campaign to preserve Private Activity Bonds in H.R. 1, the Tax Cuts and Jobs Act. The original release of H.R. 1 on November 2, 2017 sent shockwaves through the development finance industry as the legislation fully repealed the tax exemption for PABs. CDFA, our members, and our partners worked tirelessly fielding phone calls, drafting sign-on letters, and lobbying Congress for 44 days in November and December of 2017 to secure the preservation of PABs. In total CDFA collected 1,500+ PAB case studies, sent nearly 400,000 emails, and delivered a national sign-on letter with 600+ signatures to Congress in defense of PABs.

Together, we preserved PABs. The ultimate success of the industry's efforts would not have been possible without the committed, coordinated approach employed by the development finance industry.

CDFA will continue to lead these efforts and more to ensure the continued preservation of PABs. 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 2017 Private Activity Bond & Volume Cap Trends

Acknowledgements

CDFA would like to thank all of the state staff who volunteered their time and responded to the Annual Volume Cap Survey. In addition, CDFA would like to thank Peter Lawrence, Director, Public Policy & Government Relations with Novogradac & Company LLP for assisting in the collection of state data. 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.

Toby Rittner, President & CEO
Council of Development Finance Agencies
100 E. Broad St., Suite 1200
Columbus, OH 43215

Authored by:
Tim Fisher
Manager, Government Affairs

CDFA is not herein engaged in rendering legal, accounting, financial or other advisory services, nor does CDFA intend that the material included herein be relied upon to the exclusion of outside counsel or a municipal advisor. This publication, report or presentation is intended to provide accurate and authoritative general information and does not constitute advising on any municipal security or municipal financial product. CDFA is not a registered municipal advisor and does not provide advice, guidance or recommendations on the issuance of municipal securities or municipal financial products. Those seeking to conduct complex financial transitions using the best practices mentioned in this publication, report or presentation are encouraged to seek the advice of a skilled legal, financial and/or registered municipal advisor. Questions concerning this publication, report or presentation should be directed to info@cdfa.net.



CDFA Annual Volume Cap Report

Analysis of 2017 Private Activity Bond & Volume Cap Trends

2017 Volume Cap Allocation and Private Activity Bond Issuance in Millions of Dollars													
State	Reporting Agency	Start of Year Allocation			Private Activity Bond Issuance by Category							End of Year Allocation	
		New Cap	Carry-forward 2014-2016	Total Capacity	Exempt Facilities	Multifamily Housing*	Mortgage Revenue	Student Loans	IDB	Aggie	Total Issuance of PABs	Mortgage Credit Certificates	Carry-forward to 2017
AL	State Industrial Development Authority	486.3	1307.8	1794.1	47.6	47.0	0.0	0.0	7.1	0.0	54.7	0.0	1.3
AK	State Bond Committee	305.3	NR	305.3	8.2	8.2	0.0	0.0	0.0	0.0	8.2	0.0	NR
AZ	Finance Authority	693.1	70.5	763.6	80.0	72.0	9.4	0.0	0.0	0.0	89.4	9.4	545.8
AR	Development Finance Authority	305.3	891.7	1197.0	41.2	38.8	0.0	0.0	0.0	0.0	41.2	0.0	859.0
CA	Debt Limit Allocation Committee	3925.0	46.4	3971.4	3804.8	3350.0	322.6	0.0	0.0	0.0	4127.4	322.0	0.0
CO	Department of Local Affairs	554.1	1114.2	1668.3	539.1	539.1	182.8	0.0	0.0	1.5	723.4	85.0	861.8
CT	Office of Policy & Management	357.7	360.9	718.5	0.0	131.9	420.8	50.6	0.0	0.0	603.3	0.0	156.8
DE	Department of Finance	305.3	846.0	1151.3	32.3	32.3	0.0	0.0	0.0	0.0	32.3	296.8	822.2
DC	Revenue Bond Program	305.3	112.2	417.5	202.1	140.1	NR	0.0	0.0	0.0	417.5	NR	65.4
FL	Division of Bond Finance	2061.3	4581.9	6643.1	573.7	541.2	128.3	0.0	15.1	0.0	1134.4	474.2	1543.2
GA	Department of Community Affairs	1031.0	2419.4	3450.4	700.8	640.8	0.0	0.0	18.3	0.0	719.1	571.7	2143.6
HI	Department of Budget & Finance	305.3	173.8	479.2	79.5	79.5	0.0	0.0	0.0	0.0	79.5	200.0	349.2
ID	Department of Commerce	305.3	844.2	1149.5	34.9	34.9	0.0	0.0	27.6	0.0	62.5	0.0	837.2
IL	Governor's Office of Management & Budget	1280.2	2144.0	3424.2	2554.3	2554.3	0.0	0.0	9.3	4.4	2568.0	0.0	2144.0
IN	Finance Authority	663.3	549.4	1212.7	145.3	0.0	0.0	0.0	11.3	0.0	156.6	0.0	997.5
IA	Finance Authority	313.5	824.5	1138.0	286.7	92.7	119.4	49.7	0.0	18.0	473.8	140.0	522.5
KS	Department of Commerce	305.3	851.5	1156.8	7.0	7.0	140.6	0.0	NR	NR	305.3	0.0	851.5
KY	Private Activity Bond Allocation Committee	443.7	1034.3	1478.0	35.6	35.6	0.0	211.1	0.0	0.0	246.7	0.0	1287.8
LA	Office of the Governor	468.2	1352.1	1820.2	49.4	49.4	0.0	0.0	0.0	0.0	49.4	20.0	1390.2
ME	State Housing Authority	305.3	871.2	1176.5	44.0	0.0	143.5	10.0	0.0	0.0	197.5	0.0	834.7



CDFA Annual Volume Cap Report

Analysis of 2017 Private Activity Bond & Volume Cap Trends

2017 Volume Cap Allocation and Private Activity Bond Issuance in Millions of Dollars													
State	Reporting Agency	Start of Year Allocation			Private Activity Bond Issuance by Category							End of Year Allocation	
		New Cap	Carry-forward 2014-2016	Total Capacity	Exempt Facilities	Multifamily Housing*	Mortgage Revenue	Student Loans	IDB	Aggie	Total Issuance of PABs	Mortgage Credit Certificates	Carry-forward to 2017
MD	Department of Commerce	601.6	1632.2	2233.9	243.9	243.9	0.0	0.0	6.5	0.0	250.4	0.0	NR
MA	Executive Office for Administration & Finance	681.2	14.0	695.2	476.0	476.0	20.0	150.0	45.0	0.0	691.0	0.0	0.0
MI	Department of Treasury	992.8	2816.2	3809.0	9.8	9.8	409.0	0.0	0.0	0.0	418.8	0.0	2697.9
MN	Department of Management & Budget	552.0	432.7	984.7	363.6	357.6	257.7	0.0	2.6	0.3	624.2	0.0	361.0
MS	Development Authority	305.3	871.9	1177.2	55.0	37.5	0.0	0.0	0.0	0.0	55.0	0.0	828.8
MO	Department of Economic Development	609.3	1572.4	2181.7	31.7	31.7	234.1	0.0	1.9	1.5	269.2	5.3	1631.7
MT	Department of Administration	305.3	878.2	1183.5	0.0	0.0	65.1	0.0	0.0	0.0	65.1	0.0	882.2
NE	Investment Finance Authority	305.3	838.6	1143.9	17.9	17.9	75.0	0.0	3.5	1.8	98.2	0.0	824.9
NV	Department of Business & Industry	305.3	369.3	674.6	357.5	185.5	0.0	0.0	0.0	0.0	357.5	9.5	369.3
NH	Development Authority	305.3	172.1	477.4	45.0	0.0	NR	NR	0.0	0.0	45.0	NR	249.7
NJ	Department of Treasury	894.5	863.6	1758.1	0.0	0.0	397.0	175.9	10.4	0.0	634.3	0.0	910.1
NM	State Board of Finance	305.3	794.7	1100.0	60.3	60.3	59.1	0.0	0.0	0.0	119.4	0.0	572.3
NY	Division of the Budget	1974.5	198.3	2172.8	1948.6	1948.6	209.7	0.0	11.3	0.0	2169.6	0.0	3.3
NC	Department of Commerce	1014.7	NR	1000.7	261.0	261.0	0.0	0.0	0.0	0.0	261.0	0.0	NR
ND	Governor's Office	305.3	733.9	1039.2	0.0	0.0	271.2	0.0	0.0	0.0	271.2	0.0	768.0
OH	Development Service Agency	1161.4	2830.9	3992.4	240.2	226.2	256.5	0.0	4.4	0.0	501.1	0.0	1917.3
OK	State Treasurer's Office	392.4	1052.7	1445.1	16.0	16.0	19.5	0.0	0.0	0.0	35.5	206.5	681.3
OR	State Treasury	409.4	1075.4	1484.7	157.1	47.1	0.0	0.0	0.0	0.0	157.1	0.0	732.1
PA	Department of Community & Economic Development	1278.4	2915.0	4193.4	394.4	319.4	430.4	0.0	17.9	5.9	848.6	0.0	2924.1
RI	Housing	305.3	220.0	525.3	91.2	91.2	0.0	52.1	0.0	0.0	143.3	0.0	190.0



CDFFA Annual Volume Cap Report

Analysis of 2017 Private Activity Bond & Volume Cap Trends

2017 Volume Cap Allocation and Private Activity Bond Issuance in Millions of Dollars													
State	Reporting Agency	Start of Year Allocation			Private Activity Bond Issuance by Category							End of Year Allocation	
		New Cap	Carry-forward 2014-2016	Total Capacity	Exempt Facilities	Multifamily Housing*	Mortgage Revenue	Student Loans	IDB	Aggie	Total Issuance of PABs	Mortgage Credit Certificates	Carry-forward to 2017
SC	State Fiscal Accountability Authority	496.1	1490.6	1986.6	77.9	34.0	105.0	0.0	14.6	0.0	197.5	0.0	1446.6
SD	Governor's Office	305.3	794.3	1099.6	0.0	0.0	240.1	0.0	0.0	1.9	242.1	179.2	678.3
TN	Department of Economic & Community Development	665.1	NR	665.1	232.8	232.8	432.3	0.0	0.0	0.0	665.1	158.4	1498.0
TX	Bond Review Board	2786.3	4848.2	7634.5	968.3	968.3	4081.4	250.0	20.0	0.0	5349.7	3018.0	3309.4
UT	Department of Workforce Services	305.3	522.6	848.3	0.0	0.0	154.6	0.0	15.0	0.0	169.6	0.0	496.3
VT	State Treasurer's Office	305.3	863.7	1179.5	0.0	0.0	40.6	52.3	2.5	0.0	95.4	60.0	855.9
VA	Department of Housing & Community Development	841.2	2257.0	3098.2	303.5	294.9	0.0	0.0	0.0	0.0	303.5	753.2	0.0
WA	Department of Commerce	728.8	823.3	1552.1	1077.6	930.8	150.6	0.0	10.0	0.8	1238.9	0.0	324.7
WV	Economic Development Authority	305.3	346.5	651.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	429.9
WI	Economic Development Corporation	577.9	1541.6	2119.5	134.2	117.2	202.0	0.0	62.2	0.0	398.4	231.0	1490.6
WY	Governor's Office	305.3	901.2	1206.7	0.0	0.0	115.1	0.0	0.0	0.0	115.1	0.0	909.9
National Totals		35,346.3	55,067.1	90,430.3	16,830.0	15,302.5	9,693.4	1,001.7	316.5	36.1	28,880.9	6,740.2	44,197.3

Notes

NR = Not Reported

*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.