ISSUER STEPS TO ADDRESS THE EMERGING WORLD OF SCARCE PRIVATE ACTIVITY BOND VOLUME

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- **The demand for private activity bond volume is exceeding supply** in an increasing number of states.

- **From 2015 to 2017, the percent of the United States' total annual private activity bond volume allocation utilized rose from approximately 37% to 70%*.**

- During this period, **single and multifamily housing comprised over 84% of total volume limited private activity bond issuance** with **multifamily representing over 70% of these two categories in 2016 and 2017.**

- This implies that in many cases **states cannot address lack of volume by pulling it from other categories** into housing.

- Remember, using volume for **affordable multifamily rental housing** is the **only category which triggers an additional federal subsidy** equal to **about 30% - 35% of total development cost**.

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* Private activity bond volume data based on CDFA Annual Volume Cap Report, An Analysis of 207 Private Activity Bond & Volume Cap Trends, released September, 2018.

Approximate Total Issuance ($Bil./% of Total Volume Private Activity Bonds)

	2015	%	**2016**	%	**2017**	%
Multifamily	$7.0	53.8%	$14.0	70.0%	$15.3	67.2%
Single Family	4.9	37.7%	4.9	24.5%	5.7	22.8%
Other	1.1	8.5%	1.1	5.5%	4.0*	10.0%
Total	**$13.0**	100%	**$20.0**	100%	**$25.0****	100%

* This small increase in the "other" represents a renewed growth in the use of IDB's and other tax exempt facility financings.

** Approximately 70% of the $35.0 billion 2017 national private activity bond volume allocation.

- **It is important to watch the rate at which a state utilizes its private activity bond volume versus the state's annual allocation. Once the rate of utilization exceeds the annual volume allocation for a state, it is probably only a matter of one to several years before the state's three-year carryforward balance will be exhausted and a "competitive" or "rationing" environment will emerge.**

STATES WHERE A RATIONING ENVIRONMENT ALREADY EXISTS

New York	Minnesota
Massachusetts	Arizona
New Jersey	Colorado
Connecticut	Utah
Tennessee	Washington State

States Where a "Competitive" Environment May Be Likely To Emerge In 2019 Or 2020

- Virginia – Only $15-20 million of local HFA volume used in 2015 and 2016. Almost all of $120 million local volume used in 2017 and 2018, and projections are that 2019 may also push the limit*. About $60 million of 2019 volume currently remaining plus potentially a portion of a $150 million Governor's pool.

- Texas – Almost the entire state has a strong economy, thus heavy demand. Volume almost exhausted in 2018 **. Volume not yet an issue but could become so next year and beyond if growth continues.

- California – Gets $4.1 billion per year. Used $4.6 billion in 2018; $4.3 billion in 2017. State has just dedicated several billion dollars of funds to affordable rental housing. CDLAC expects volume will become competitive in mid-2020; already planning to take the steps described below to deal with this looming potential shortage. First time volume has been an issue since the 1990's.

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* Virginia limits allocation of this pool to $20.0 million per project before July 1.

** Texas reinstated and then released a $20.0 million per project limitation prior to August 15.

Developing an Effective Bond Volume Carry Forward Program

- The State volume allocator should work with the issuers active in multifamily housing bond finance to reallocate any unused private activity bond volume among issuers to those who will make the federal filings to preserve this bond volume use in future years (up to 3 years). The logical issuers to consolidate unused bond volume and to carry volume forward would include state housing finance agencies and larger local housing finance agencies who have a sufficient repetitive demand for tax exempt multifamily housing bond financing. Most states have this in place.

Rationing New And Carryforward Volume to Maximize 4% LIHTC

- **Allocate** new or carryforward multifamily housing bond volume to a given project **only in the amount necessary** (**usually 53-54%** of aggregate basis in land and buildings) **to assure that the 50% Rule is satisfied**, so that the project is eligible for the vital 4% LIHTC without which most affordable housing project would not be feasible.

Developing A Bond Volume Recycling Program

- Under fairly complex **federal "recycling" regulations,** bonds which have been paid off prior to maturity can be **allocated to other similar projects to provide additional tax exempt leverage.** This volume **does not count for purposes of the 50% Test**.
- There are **two major sources** of recycled tax exempt multifamily housing bond volume:
  - Many projects in high-cost urban areas require multiple permanent phase financing sources (HOME, CBDG, Housing Trust Fund monies and other subordinate loans), which result in a **pay down at "Conversion"** from the construction phase to the permanent phase of the loan.
  - A second major source may be the redemption or payment at maturity of **short-term cash-backed tax exempt bonds** which are issued in today's market to satisfy the 50% Rule for projects using FHA-insured loans, rural development loans and other loan programs.
- Recycled volume **expires 6 months after a bond issue is paid down** if not reallocated and closed within 6 months of the pay down. Note, the purpose for which the volume will be used (e.g., multifamily rental housing, pollution control, etc.) must remain the same under current law.

Taxable Tails

- A portion of the bond issue (often 5-10%) can simply be segregated as a **separate series of taxable bonds** – a so-called "taxable tail."

- These bonds are **typically equally and ratably secured** with the tax exempt bonds, but simply bear a separate CUSIP number and typically the word "taxable" in the bond caption.

- Most bond counsel firms will **allow these taxable tail bonds to be amortized** (through serial maturities or mandatory sinking fund payments) **before the tax exempt bonds** are retired. This lowers the coupons associated with these bonds, thus limiting any adverse impact on the overall borrowing rate (often to an increase of only 5 or 10 basis points).

- In the alternative, in some cases, the tax exempt debt purchaser or credit enhancer may **simply extend an additional taxable loan** on the project without structuring it as taxable municipal debt.

Conclusion

- In states where carryforward balances are rapidly declining, the time to design and be prepared to implement the foregoing arrangements is now.