



CDFA *Original Research*

CDFA Annual Volume Cap Report

An Analysis of 2014 Private Activity
Bond & Volume Cap Trends

Released July 2015



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Analysis of 2014 Private Activity Bond & Volume Cap Trends

The Council of Development Finance Agencies (CDFA) has collected 2014 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 2014, the volume cap for each state was equal to the greater of \$100 per capita or \$296.8 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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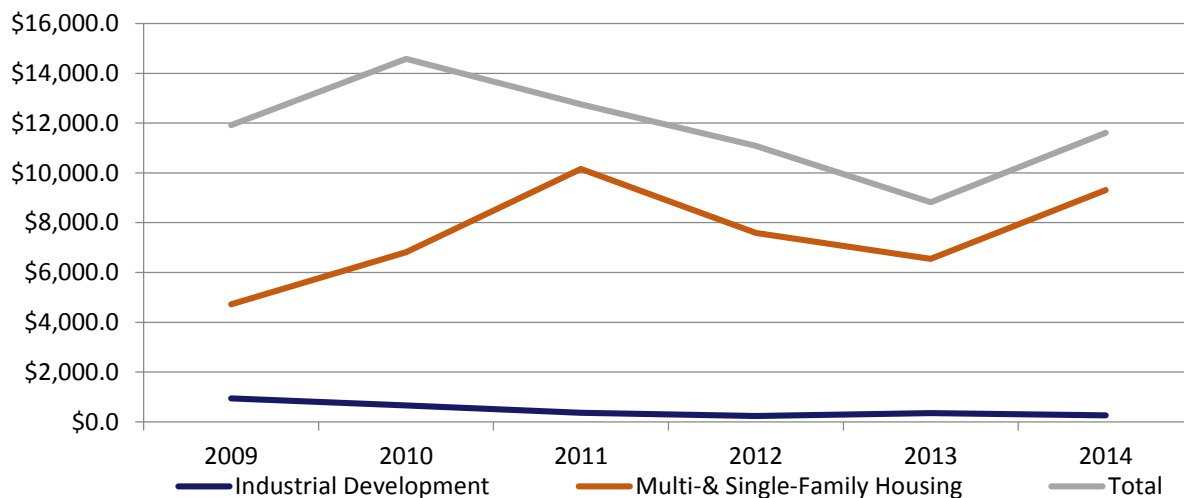
Overall Statistics and Observations

In 2014, the 50 states and the District of Columbia received more than \$34.5 billion in new volume cap allocation, an increase of 5.5 percent from 2013. This was in addition to more than \$59.1 billion in existing carryforward allocation, making the total accessible amount of national volume cap approximately \$92.1 billion. This number continues the upward trend in the total amount of available volume cap of recent years.

Georgia's \$133.3 million increase in new allocation compared to last year was the largest increase rate at 15.4 percent. California and Texas had larger increases in their new volume cap allocation by amount, receiving an additional \$219.3 million and \$169.2 million above 2013, respectively. All states saw an increase in new allocation with the 20 states receiving the minimum allocation seeing a 1.7 percent increase over 2013.

The total dollar amount of private activity bonds issued throughout the U.S. in 2014 increased compared to 2013, to \$11.6 billion. This reversed a three-year trend of decline to a low point of \$8.8 billion in 2013.² The surveyed private activity bond issuance figures are in-line with the overall municipal bond market, which bounced back in the third and fourth quarters of 2014, with increase of 3.5 percent and 30.1 percent respectively.³

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



States' issuance in 2014 accounted for a third of the year's new cap allocation and nearly 13 percent of the total available volume cap. The cap usage rate had been declining for several years, but 2014

² Some variation in the CDFA National Volume Cap Report can be attributed to states' differing participation. Historically, absent data does not appear to affect the direction of observed trends.

³ The Bond Buyer. (2015). *2014 in Statistics Annual Review*. Available at: http://www.bondbuyer.com/pdfs/2014_stats_supp.pdf.

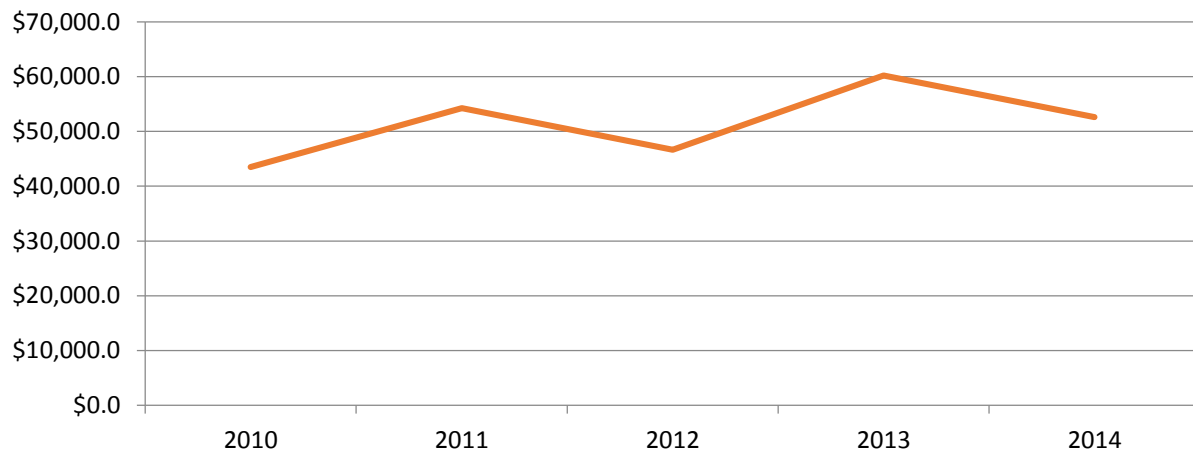


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showed an increasing rate of use. In 2007, the highest year for private activity bond issuance CDFFA has recorded, states used 101 percent of their initial allocations⁴ and 58 percent of their total available cap.

Figure 2. National Carryforward in Millions of Dollars



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 2014, states abandoned \$12.0 billion in unused volume cap allocation, just slightly more than the \$11.8 billion abandoned in 2013. This is the second year that abandoned cap has exceeded \$10 billion.

Following the uptick in usage rate in 2014, states reported expecting to carry approximately \$53 billion in volume cap allocation forward into 2015. This would generate approximately \$88 billion in total cap available at the start of 2015, which would be less than total cap in 2014. The decrease in volume cap carryforward shows a flux over the past five years, as seen in Figure 2.⁴

⁴ 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.



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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 2014 decreased from \$356 million in 2013 to \$270 million. In 2012, issuance of IDBs was also below \$300 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 suggest that a rebound is in process, and the status of IDB issuance will be an important topic for the 2015 report.

Table 1. Top States by 2014 Issuance of Industrial Development Bonds

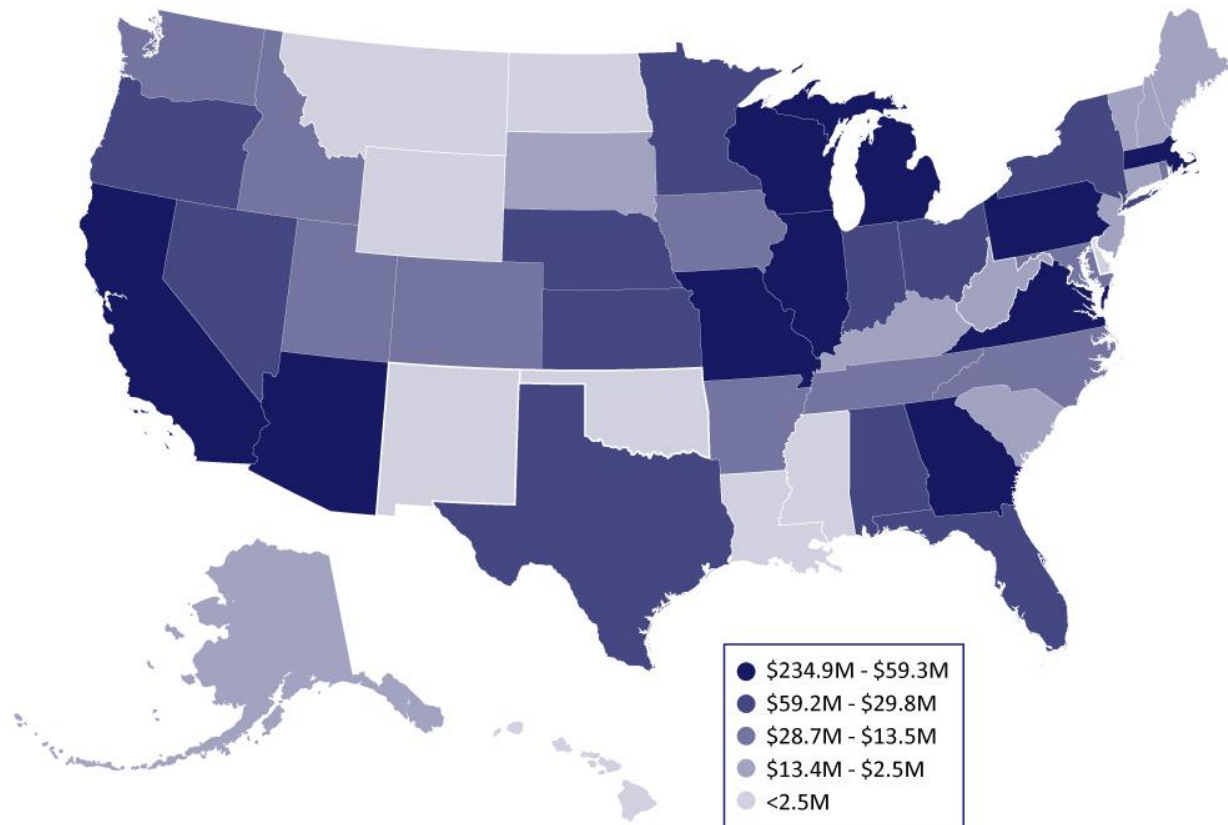
State	Millions of IDB Issuance
Illinois	\$39.3
Massachusetts	\$26.3
Georgia	\$25.9
Wisconsin	\$20.4
Minnesota	\$16.0
New York	\$15.5
California	\$15.3
Missouri	\$14.0
Iowa	\$12.7
Kentucky	\$12.5

At the state level, there is a great variety in use of IDBs. Twenty-two states reported issuing at least one bond for small manufacturers, and at least ten of these issued multiple IDBs (listed in Table 1).

The Midwest region was the most active for the issuance of IDBs with a concentration in the Great Lakes states. In addition to the states named in Table 1, Kansas and Michigan issued IDBs in the Midwest. Other regions were less consistent, with the majority of other states not issuing any IDBs.

Despite reporting no issuance in 2014, Pennsylvania has issued the most IDBs over the last five years, over Illinois at tenth, Massachusetts at second, and Georgia at seventh. Virginia, California, and Arizona complete the top five issuances with the third, fourth, and fifth most respectively.

Figure 2. Amount of Industrial Development Bonds Issued 2010-2014



Volume Cap & Private Activity Bond Analysis

Cap-subject private activity bond issuance reported to CDFA increased in 2014 for the first time since 2010. Hopefully, this is the start of a trend that will continue, reversing the shrinking private activity bond market that has occurred recently. 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, and private activity bond issuance may be another sign of recovery.

The major question for the future of the bond market continues to be what will happen with interest rates. Bank loans and taxable bonds, issued at market-level interest rates, provide competition to the tax-exempt bond market—particularly when rates are low. Rates did not make a sizable increase in 2014 over 2013, but more and more prognosticators expect such an uptick in the near future. This change, coming on the back of a private activity bond market that is already growing, could result in ample opportunity for bond issuance.



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The slight increase in issuance should not be a cue for state and municipal authorities to ignore their potential ability to expand interest in private activity bonds. Better branding of bond programs and expanded marketing could help get the tool in front of more potential borrowers. More importantly, with collateral values remaining low and credit enhancement difficult to attain, authorities could look at new programs or procedures to facilitate private activity bond issuance. By standardizing issuing documents or establishing a private activity bond bank program, authorities may be able to save issuance costs for borrowers. By leveraging additional funds, authorities may be able to establish their own credit enhancement program. 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 bolster specific categories of private activity bonds. Several basic modifications could significantly improve the use of these bonds and thereby 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 create quality jobs in their communities.

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 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



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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.

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.

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2014 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 2011-2013	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 2015
AL	State IDA	483.4	811.5	1,294.9	0.0	0.0	31.4	0.0	0.0	0.0	31.4	0.0	0.0	1,263.5
AK	State Bond Committee	296.8	NR	296.8	23.0	23.0	NR	8.0	NR	NR	31.0	NR	NR	NR
AZ	ACA	662.6	0	662.6	28.0	28.0	16.5	0.0	0.0	0.0	44.5	0.0	593.2	25.0
AR	ADFA	296.8	844.5	1,141.3	NR	NR	NR	NR	NR	NR	NR	200.0	69.3	872.0
CA	CDLAC	3,833.2	7,362.8	11,196.0	1,694.2	1,531.0	0.0	15.3	0.0	0.0	1,709.5	224.6	1,429.3	0.0
CO	Local Affairs	526.9	1,229.1	1,756.0	105.6	105.6	0.0	0.0	0.0	0.6	106.2	183.7	NR	1094.2
CT	Policy & Management	359.6	845.4	1,205.0	5.0	0.0	440.2	0.0	23.8	NR	469.0	NR	13.6	663.4
DE	Finance	296.8	854.3	1,151.1	30.7	30.7	0.0	0.0	0.0	0.0	30.7	266.1	0.0	576.5
DC	Revenue Bond Program	296.8	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
FL	Bond Finance	1,955.3	4,996.3	6,951.6	386.9	376.4	88.5	9.3	0.0	NR	484.7	106.0	734.0	4,898.2
GA	Comm. Affairs	999.2	1,918.5	2,917.7	117.5	89.5	NR	25.9	0.0	0.0	143.4	NR	368.0	2,390.4
HI	Budget Finance	296.8	195.0	491.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	282.8	0.0	209.0
ID	Commerce	296.8	502.1	798.9	0.0	0.0	0.0	3.9	0.0	0.0	3.9	0.0	0.6	779.4
IL	Management & Budget	1,287.5	2,340.5	3,628.0	127.9	101.9	111.3	39.3	0.0	4.4	282.9	NR	1,232.0	1,880.7
IN	Finance Authority	657.0	1,162.2	1,819.2	300.0	NR	NR	NR	NR	NR	300.0	0.0	0.0	1,102.5
IA	Finance Authority	309.0	613.4	922.4	3.3	3.3	0.0	12.7	0.0	12.0	28.0	84.0	0.0	808.1
KS	Commerce	296.8	818.6	1,115.4	9.2	9.2	0.0	8.5	0.0	0.0	17.7	0.0	274.0	825.0
KY	KPABAC	439.5	1,191.5	1,631.0	0.0	0.0	0.0	12.5	0.0	0.0	12.5	0.0	183.8	1,186.0
LA	Bond Commission	462.5	1,162.7	1,625.2	101.7	38.7	0.0	0.0	0.0	0.0	101.7	20.0	409.4	1,094.2
ME	Housing Authority	296.8	851.8	1,148.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	176.8	855.8
MD	DBED	592.9	1,528.6	2,121.5	201.1	170.4	140.7	0.0	0.0	0.0	341.8	203.0	0.2	1,576.4
MA	Admin. & Finance	669.3	393.2	1,062.5	350.4	328.4	153.8	26.3	201.2	0.0	731.7	0.0	0.0	330.8
MI	Treasury	989.6	2,728.1	3,717.7	162.0	115.3	0.0	8.4	176.6	0.0	347.0	0.0	607.2	2,758.9
MN	Management & Budget	542.0	958.5	1,500.5	0.0	0.0	552.1	16.0	0.0	0.3	568.4	92.0	0.0	932.2
MS	MDA	299.1	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
MO	Economic Dev.	604.4	1,418.0	2,022.4	81.7	81.7	2.9	14.0	0.0	1.4	100.0	2.9	404.2	1,519.4
MT	Administration	296.8	848.6	1,145.4	0.0	0.0	44.8	0.0	0.0	0.0	44.8	40.0	193.1	867.6
NE	NIFA	296.8	824.6	1,121.4	0.0	0.0	68.8	1.0	0.0	0.0	69.8	0.0	186.2	569.6



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NV	Business & Industry	296.8	553.8	850.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	170.7	4.8	652.8
NH	NHBFA & Housing	296.8	811.4	1,108.2	30.5	10.0	0.0	2.3	0.0	0.0	32.8	200.0	63.6	807.9
NJ	Public Finance	889.9	727.4	1,617.3	NR	27.8	NR	9.0	226.1	0.0	439.3	0.0	279.6	794.9
NM	Board of Finance	296.8	764.6	1,061.4	0.0	0.0	36.5	0.0	0.0	0.0	36.5	0.0	200.4	823.6
NY	Budget	1,965.1	502.4	2,467.5	2,071.2	2,001.1	67.8	15.5	0.0	0.0	2,154.5	NR	0.6	312.3
NC	Commerce	984.8	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
ND	Governor	296.8	773.9	1,070.7	NR	NR	71.1	0.0	0.0	0.0	71.1	205.8	70.5	723.3
OH	Development	1,157.0	2,880.0	4,037.0	89.5	81.5	100.0	0.0	0.0	0.0	189.5	100.0	911.5	3,034.0
OK	State Bond Advisor	385.1	1,050.2	1,435.3	13.6	0.0	0.0	0.0	0.0	0.0	13.6	13.6	692.8	1,075.3
OR	Treasury	393.0	1,029.5	1,422.5	10.4	10.4	40.0	9.9	0.0	0.0	60.3	0.0	182.1	1,020.0
PA	DCED	1,278.7	2,202.7	3,481.4	551.5	500.0	101.4	0.0	0.0	6.8	659.7	0.0	984.6	1,806.6
RI	Public Finance	296.8	848.3	1,145.1	12.0	12.0	0.0	0.0	36.0	0.0	48.0	118.9	348.7	867.3
SC	Budget & Control Board	477.5	1,454.0	1,931.5	61.0	21.0	66.9	0.0	0.0	0.0	127.9	0.0	394.6	1,456.7
SD	Governor	296.8	838.7	1,135.6	NR	NR	47.5	0.0	0.0	7.6	55.1	229.8	0.0	850.6
TN	Econ. & Comm. Dev.	650.0	NR	650.0	0.0	0.0	NR	0.0	0.0	0.0	0.0	NR	NR	NR
TX	Bond Review Board	2,644.8	2,632.1	5,276.9	352.5	197.1	0.0	3.7	0.0	0.0	356.2	726.5	347.5	3,765.7
UT	Economic Development	296.8	536.3	833.1	18.1	18.1	226.3	0.0	0.0	0.0	244.4	0.0	0.0	606.9
VT	Emergency Board	296.8	735.2	1,032.0	NR	NR	33.2	1.2	90.6	0.0	125.0	80.0	277.3	836.2
VA	Housing & Comm. Dev.	826.0	0.0	826.0	72.9	67.1	0.0	0.0	0.0	0.0	72.9	398.0	0.0	0.0
WA	Commerce	697.1	1,686.5	2,383.6	496.3	496.3	74.3	6.4	0.0	0.2	577.2	480.0	0.0	1,326.4
WV	WVEDA & WVHDF	296.8	346.7	643.5	0.0	0.0	48.8	0.0	0.0	0.0	48.8	0.0	111.1	354.3
WI	WEDC	574.2	1,495.7	2,069.9	0.0	0.0	248.6	20.4	0.0	0.0	269.0	241.5	0.0	1,559.4
WY	Governor	296.8	854.3	1,151.1	0.0	0.0	27.5	0.0	0.0	0.0	27.5	0.0	250.3	873.3
National Totals		34,532.3	59,123.5	92,075.1	7,535.4	6,475.5	2,840.9	269.5	754.3	33.3	11,609.8	4,670.0	11,994.8	52,626.2

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 2014, Small Issue agriculture bonds were the only issuance in "Other."