THE BOND BUYER

# Survey Shows PAB Issuance Jumped More Than 55% In 2016

By **Brian Tumulty September 14, 2017**

WASHINGTON -- Private activity bond issuance subject to state volume caps rose for the third consecutive year in 2016, jumping by more than 55% to $20.38 billion, according to an annual survey by the Council of Development Finance Agencies.

The previous peak in PAB issuance was $14.5 billion in 2010, the group said.

The huge jump is partly explained by an increase in voluntary participation in the survey this year by four states and the District of Columbia.

Besides D,C,, Colorado, North Carolina, Tennessee and Virginia provided data on multifamily housing bond issuances in the survey for 2016, but not for the previous year.

Only Alaska and Illinois continued to not participate in the 2016 survey.

As a result, these year-to-year differences are better used as a very rough guide for trends.

Municipal issuers file Forms 8038 with the Internal Revenue Service when they issue PABs, but the IRS does not publicly release information from those filings. The forms ask issuers for the type of PAB they are issuing as well as whether they are complying with a wide-range of tax requirements. But the IRS has no way to gauge whether issuers are complying with their PAB volume caps or how much capacity they are carrying forward or abandoning in any given years. An IRS spokesman was unable to provide any information to The Bond Buyer.

The $7.24 billion increase in 2016 PAB issuance from the previous year came almost entirely from a $7.39 billion jump in multifamily housing bonds.

The additional information provided by issuers on multifamily housing bonds in this latest 2016 survey showed multifamily housing bonds represented about 70% of the PABs issued.

Multifamily and single-family housing bonds accounted for a whopping 92.3% of PAB issuances for the year, with student loan bonds and industrial development bonds accounting for the bulk of the remainder.

Previous surveys from 2008 to 2015 put annual PAB issuance in the $10 billion to $15 billion range.

CDFA officials compiled the more extensive data this year hoping to influence congressional deliberations this fall on whether to retain the tax exemption for PABs as part of tax reform.

PABs are issued by or on behalf of governmental entities to provide low-cost financing for projects of nonprofit organizations or companies that serve a public purpose.

Most PABs, with the exception of 501(c)(3) bonds and a few other types of PABs, are issued under annual state volume caps, based on a formula published by the Internal Revenue Service. That formula uses annual U.S. Census Bureau population data and inflation estimates. The 2016 volume cap for each state was $302.875 million or $100 per capita, whichever was higher.

California, the most populous state, had a 2016 volume cap of $3.91 billion, followed by Texas with a cap of $2.75 billion.

Overall the 2016 volume cap totaled $35.14 billion, an increase of $262.1 million, or 0.75%, from 2015.

Each state has the ability to allocate its PAB volume cap among state and local agencies as well as municipalities or among various PAB categories. In addition, each state is eligible to carry forward, for up to three years, any unused volume cap. If it is not used within that three year period, it must be abandoned.

In 2016, $63.90 billion of cap was carried forward from 2013 through 2015, which was an increase of 9.3% or $5.42 billion more than the previous carry forward of $58.48 billion for the 2012 to 2014 calendar years.

**Multifamily housing bonds**

Multifamily bond issuance more than doubled in 2016 to $14 billion from $6.61 billion in 2015, an increase of 112%. California led the nation in multifamily housing bonds with $4.66 billion issued, up from $2.86 billion in 2015. New York was the next biggest issuer at $2.13 billion, up from $1.69 billion in 2015.

Barbara Thompson, executive director of the National Council of State Housing Agencies, said the increase was “very consistent with what we have been hearing from our state directors.’’

“The need on the rental side has never been greater,’’ she said.

States and communities are financing multifamily rehabilitation projects by linking tax-exempt PABs with the federal low-income tax credit or the Rental Assistance Demonstration program operated by the Department of Housing and Urban Development.

“I think it’s important to remember that HUD has not been the driver for new rental development for some time,’’ Thompson said. But the federal government is providing financing help through tax-exempt bonds, the tax credit and RAD.

Some developers in California rushed to issue bonds for their multifamily housing projects before the end of the year because of a deadline to qualify for a federal designation for building in a hard to develop area. Los Angeles County and other counties lost that designation when the federal government began using zip codes instead, but projects that qualified before June 30 of 2016 under the old county-level system remained eligible if they issued bonds by Dec. 31, according to Anthony Sertich, director of multifamily programs for the California Housing Finance Agency.

“Projects that were in a planning stage may have rushed to issue bonds,’’ Sertich said.

New York’s $2.13 billion multifamily housing bond issuance was part of Gov. Andrew Cuomo’s “sweeping $20 billion blueprint to expand access to affordable housing and combat homelessness,’’ said Morris Peters, a state spokesman.

Ohio came in third in this category issuing $1.12 billion in multifamily housing bonds followed by Washington State with $865.82 million.

**Exempt facility bonds**

Volume caps apply to certain types of exempt-facility bonds such as multifamily housing bonds, water and sewer bonds, bonds for hazardous waste facilities, mortgage revenue bonds for single-family housing, industrial development bonds and student loan bonds. But they do not apply to exempt-facility bonds for airports, docks and wharves as well as veteran’s MRBs and 501(c)(3) bonds issued by nonprofits, which are not included in the survey.

The issuance of exempt facility bonds rose by $7.17 billion or 94.14% from $14.78 billion in 2015.

And, once again, California’s multifamily housing bonds accounted for much of that increase along with New York.

**Single family housing bonds**

Issuance of mortgage revenue bonds for single-family homes fell by 2.2%, or $101.2 million, to almost $4.47 billion from $4.57 billion in 2015.

Minnesota led in MRB issuance at $789.88 million followed by Connecticut with $350.1 million and Michigan with $303.34 million.

The National Council of State Housing Agencies declined comment, but a year ago the organization predicted MRB issuances would pick up when interest rates began rising.

**Student loan bonds**

The 35.3% increase in student loan bond issuances to $930.7 million from $688.1 million in 2015 “was heavily influenced by a $273 million Michigan transaction that refinanced older Federal Family Education Loan Program (FFELP) collateral,’’ said Debra Chromy, president of the Education Finance Council.

“Additionally, private education loans issued by state-based nonprofit organizations increased by more than 20%,’’ she said.

Twenty one states issued student loan bonds through nonprofit and state-based student loan providers.

The Education Finance Council said the tax-exempt status of the bonds, “in many cases, allow the nonprofit lenders that use them to offer lower interest rates, lower origination fees, and lower monthly payments than many commercial lenders provide.”

According to EFC, its members made more than 84,000 loans to more than 76,000 borrowers totaling $1.2 billion in the 2016-2017 academic year. EFC members have 1.13 million loans totaling $9.32 billion in their outstanding portfolios that represent more than 510,000 borrowers.

**Industrial development bonds**

Industrial development bonds, also known as industrial revenue bonds, fell in issuance by $66.43 million, a 27.2% decline, to $177.9 million from $244.3 million in 2015.

Twelve states issued IDBs last year, two fewer than in 2015. Massachusetts led in IDB issuance at $60 million followed by Wisconsin at $35.48 million, Pennsylvania at $20.05 million, and Texas at $20 million.

IDBs are used for low cost financing by small manufacturers but their use has been limited by the $10 million cap on individual issues, as well as a limited definition of manufacturing.

CDFA said its legislative priority is enactment of Modernizing American Manufacturing Bond Ac, which has been introduced in both the House (H.R. 1115) and the Senate (S. 773). The bills would increase the cap to $30 million and broaden the definition of manufacturing facility to include the production or creation of intangible property.

“We think we have a good shot of getting it passed,’’ said Tim Fisher, legislative and federal affairs coordinator for CDFA.

**Agricultural bonds**

Only five states issued agricultural bonds last year totaling $28.4 million, a $1.3 million or 4.9% increase, from the $27.1 million issued in 2015.

Those states were led by Iowa with $16.1 million followed by Pennsylvania with $5.06 million and Nebraska with $3.7 million. The other two aggie bond issuers were Missouri and South Dakota.