THE BOND BUYER

Why PAB issuance grew to $24.9 billion in 2017

By **Brian Tumulty**

September 19, 2018

WASHINGTON — The near-death experience that private activity bonds went through in 2017 under tax reform helped boost their issuance to $24.9 billion last year.

That's a 22% jump from the $20.4 billion reported in 2016 when Illinois did not participate in the annual survey the Council of Development Finance Agencies conducts of PAB issuance under state volume caps.

2017 PAB Volume Cap Allocation and Issuance

Even if the $2.57 billion in PABs issued by Illinois in 2017 are excluded to provide a more representative year-to-year comparison, issuance rose by 9.4%.

Total national PAB issuance neared the $25 billion mark for the first time since 2007 and only the third time since CDFA began the survey in 2005.

Data on PAB issuance is collected by the Internal Revenue Service on Form 8038, but the service does not aggregate that information for public dissemination.

The Bond Buyer earlier this month submitted a request under Freedom of Information Act for the PAB data. The IRS has not yet responded to that request.

The CDFA annual survey, which is the best available source of national information on PABs, has been plagued by incomplete information.

"There needs to be greater coordination between agencies in states that manage volume cap," said Tim Fisher, CDFA's manager of government affairs. "The IRS should have a role in obtaining this data and making it publicly available."

But states were more responsive in providing data this year than last because of the near elimination of PABs as part of the 2017 tax reform legislation, said Fisher.

This was the first year every state provided information. Even so, only partial data was provided by Alaska, the District of Columbia, New Hampshire and West Virginia.

The initial House Republican tax reform bill last year would have terminated PABs, but they were preserved by the Senate measure and in the House-Senate negotiations for a final bill.

The period of uncertainty resulted in a rush to market for some. The Kentucky Higher Education Student Loan Corporation completed a $171 million Federal

Family Education Loan-backed refinancing in December because of concern the tax bill might eliminate PABs, said Debra Chromy, president of the Education Finance Council.

Information from the last annual CDFA survey helped advocates of PABs in their lobbying effort to preserve them.

This year's survey once again found that multifamily bonds and mortgage revenue bonds for single-family homes accounted the vast majority of PABs reported issued.

They accounted for $20.98 billion, or 84.4%, of the PABs issued nationally.

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

Most PABs, with the exception primarily of 501(c)(3) bonds, 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 2017 PAB volume cap was $35.69 billion for 50 states, the District of Columbia and Puerto Rico. Each state received an allocation of $100 per capita or a minimum of $305.32 million, whichever was higher. The dollar amount is designed to make sure low population states are allocated a reasonable amount of PAB cap.

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.

Multifamily housing bonds

Multifamily bond issuance, which is a subcategory of exempt facility bonds, rose 9.3% nationally to $15.3 billion last year from just over $14 billion in 2016.

The largest issuers of multifamily bonds were California ($3.35 billion), Illinois ($2.55 billion), New York ($1.95 billion), Texas ($968.3 million) and Washington ($930.8 million).

A significant part of the increase was in Texas, which increased its issuance by $389.5 million from a year earlier.

“There’s a lot of demand here and frankly if our allocation system was a little bit more developer-friendly, you’d see more,” said Monica Galuski, director of bond financing and chief investment officer for the Texas Department of Housing and Community Affairs.

Single family housing bonds

Mortgage revenue bonds issued for financing single-family homes increased 27.1% to $5.67 billion in 2017 from $4.47 billion the year before.

The leading issuers were Tennessee ($432.3 million), Connecticut ($420.8 million), Michigan ($409 million), New Jersey ($397 million) and California ($322.6 million).

Most states use a combination of mortgage certificates, down-payment assistance and below market interest rates to assist first-time home buyers.

“We noticed that there has been a general rise in MRB issuance among our members,” said Greg Zagorski, senior legislative and policy associate at the National Council of State Housing Agencies. “And we think, with the rise in interest rates and the incredible need for affordable housing,[housing finance agencies] that had moved away from MRBs are finding them more advantageous and are just issuing more. I think you saw that last year.”

Zagorski said the threat of elimination of PABs may have motivated FHAs to issue more MRBs at the end of 2017.

Elsewhere, $417.48 million of the $1.13 billion in PABs reported by Florida in 2017 represented a penalty for over-issuing mortgage credit certificates in prior years to first-time homebuyers for use on their federal tax returns as nonrefundable tax credits. The over-issuance was discovered through a state audit.

Exempt facility bonds

Exempt facility bond issuance rose 14.7% to $16.96 billion in 2017 from $14.78 billion the year prior.

Much of the increase came from multifamily housing bonds. Other types of exempt facility bonds are issued for sewage treatment plants, drinking water facilities and mass commuting facilities.

Student loan bonds

Student loan bonds topped $1 billion in 2017, an increase of 7.6% from $930.7 million in 2016.

The last time student loan bonds topped $1 billion was in 2011.

Student loan bonds are issued through nonprofit and state-based student loan providers to supplement federal grants and loans when additional money is needed to cover the cost of college.

Texas was the biggest issuer in 2017 with $250 million followed by Kentucky ($211 million), New Jersey ($175.9 million), Massachusetts ($150 million) and Vermont ($52.3 million).

Other states that also issued student loan bonds last year were Connecticut, Iowa, Maine, Rhode Island and Utah.

“These annual programs continue to see increased demand for their loan products,” Chromy said.

Industrial development bonds

Industrial revenue bond issuance jumped by 77.9% to $316.5 million in 2017 from $177.9 million a year earlier.

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.

Wisconsin was the largest issuer of IDBs in 2017 with $62.2 million followed by Massachusetts ($45 million), Idaho ($27.6 million), Texas ($20 million) and Georgia ($18.3 million).

Members of Congress have proposed legislation that would expand the uses of IDBs and raise the limit to $30 million, but lawmakers didn’t include those measure in the Tax Cuts and Jobs Act enacted in December 2017.

Agricultural bonds

Iowa issued $18 million in agricultural bonds in 2017, which was almost half of the $36.1 million issued nationally by seven states. Issuance grew by 26.9% from $28.4 million in 2016 by five states.