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PAB Issuance Up For Second Straight Year.

WASHINGTON Issuance of private activity bonds subject to state volume caps rose for the second consecutive year, according to an annual survey conducted by the Council of Development Finance Agencies.

States and the District of Columbia reported cap-subject PAB issuance of $12.95 billion in 2015, which was $1.34 billion or 11.54% more than the $11.61 billion issued in 2014. The gain marked the upward trend of PAB issuance to a five-year high after the market declined for the previous three years.

“This may be a trend that will continue, and a beginning of a revival of the private activity bond market,” CDFA wrote in its report, released Friday. “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.”

Public entities issue private activity bonds and loan the proceeds to nonprofit organizations or companies to finance projects that serve a public purpose. Most PABs are subject to state volume caps that are determined annually by the Internal Revenue Service based on state population estimates from the U.S. Census Bureau.

In 2015, state volume caps for PAB issuance were the greater of $100 per capita or $301.52 million, according to the IRS. It was a slight rise for low-population states from the 2014 state volume caps, which were the greater of $100 per capita or $296.83 million.

Bonds subject to volume caps include exempt-facility bonds, multifamily housing bonds, mortgage revenue bonds, industrial development bonds, student loan bonds and agricultural bonds. PABs not subject to the state volume caps, including 501(c)(3) bonds and veterans’ mortgage revenue bonds, were not included in the CDFA report.

Under IRS guidelines, states may carry forward unused cap for up to three years before it must be abandoned.

In 2015, the 50 states and the D.C. received $34.88 billion of new volume cap allocation and carried forward $54.48 billion from 2012 to 2014. As a result, they could issue a total of $90.04 billion of cap-subject PABs in 2015, about $2.04 billion less than the prior year.

States abandoned $10.46 billion in unused volume cap allocation in 2015, which was $1.53 billion, or nearly 13% less than the $11.99 billion abandoned the previous year.

The total new cap of $34.88 billion in 2015 represented an increase of $346.52 million, or 1%, from the previous year. However, the new cap plus the carry-forward amounts, which equal total PAB capacity, decreased in 2015 to $90.04 billion, about $2.04 billion or 2.21% from the previous year.

According to the report, issuance of exempt facility bonds, multifamily housing bonds and mortgage revenue bonds rose in 2015, while issuance of industrial development bonds (IDBs) and student loan bonds were down.

The states that reported the most cap-subject PAB issuance in 2015 were: California with $3.13 billion; New York with $1.78 billion; Massachusetts with $982.1 million; Minnesota with $775.3 million; and Texas with $740.2 million.

CDFA compiles its annual survey based on voluntary data reported by state and D.C. authorities or offices that allocate PABs. Four states – Colorado, North Carolina, Tennessee, Virginia and D.C. did not report any data for 2015. CDFA said it would continue to seek data from them.

Housing Bonds

Issuance of multifamily housing bonds was $6.61 billion in 2015, an increase of $130.35 million or 2.01% from the $6.48 billion issued in 2014. Issuance of tax-exempt single-family mortgage revenue bonds (MRBs) showed the largest percentage increase among PAB categories in 2015, according to CFDA. Issuance of MRBs was $4.57 billion in 2015, an increase of $1.73 billion or 60.74% from $2.84 billion in 2014.

Barbara Thompson, executive director of the National Council of State Housing Agencies (NCSHA), said the increase in housing bonds could mark the start of a turnaround after the bond market "froze" following the financial and housing crisis from 2007 through 2009.

She attributed the increase in part to the 4% low income housing tax credit program, which incentivizes private involvement in providing affordable housing.

"It's reassuring that it has confirmed what we've been hearing from our agency members," Thompson said. "A lot of discussion took place during our meetings about how we've been seeing an uptick in usage of private activity bond cap."

More housing bonds have been used by state and local governments in recent years, she added.

Multifamily housing bonds are used to finance rental housing for low-to-moderate income families. MRBs are used to finance below-market interest rate mortgages for first-time qualifying homebuyers.

Garth Rieman, director of Housing Advocacy and Strategic Initiatives for NCSHA, said that multifamily housing bonds have also seen an uptick in issuance because of the recent increased demand for rentals over home ownership.

"This is causing an increase in rent but incomes are not as much, which increases the need for affordable housing," Rieman said. "As the need grows and demand grows, people turn to multifamily housing bonds. I think all these trends will continue."

Officials with the National Association of Local Housing Finance Agencies declined to comment on the survey.

Student Loan Bonds/IDBs

Unlike mortgage revenue and multifamily housing bonds, state-issued student loan bond issuance dropped in 2015 to $688.06 million from $754.26 million 2014. This was a decrease of $66.20 million or 8.78%.

Only eight states reported issuance of student loan PABs during the year: Arizona, Connecticut, Iowa, Massachusetts, Minnesota, New Jersey, Texas and Vermont. Massachusetts, with $200 million, issued the greatest dollar amount of student loan bonds in 2015.

Debra Chromy, president of the Education Finance Council, said that because there have been no Federal Family Education Loan Program (FFELP) loans originated since 2010, there has been a steady decrease in the overall value of state-issued student loan bonds. However, supplemental student loan bond issues have risen, exceeding $500 million last year, she said.

"In 2014 we saw some of the last big FFELP restructuring bond deals, resulting in a decrease in the dollar volume of bond deals from 2014 to 2015," Chromy said. "Concerns by rating agencies of the impact of FFELP loans in forbearance and with income contingent repayment plans basically put a stop to any FFELP bond deals for the second half of 2015."

Issuance of IDBs also fell in 2015: states issued $244.25 million last year compared to $269.50 million in 2014, a drop of $25.25 million or 9.37%. This marked the second straight year of decline of IDBs, which are used to provide financing to small manufacturers.

A total of 14 states reported IDB issuances in 2015, eight less than in 2014. Wisconsin, at $43.0 million, had the largest IDB issuance, followed by California at $35.9 million and Massachusetts at $27.6 million.

In its report, CDFA officials said anecdotal reports at the start of 2015 suggested a rebound in IDB issuance, but the end-of-year figures proved otherwise.

Bolstering Issuance

CDFA, which represents IDB issuers and borrowers, suggested methods to increase PAB issuance going forward, including standardizing issuing documents or establishing a PAB bank program, which it said could reduce issuance costs for borrowers. The group also called for better marketing of bond programs to increase accessibility to borrowers as well as new programs to increase facilitate PAB issuance while collateral values remain low and credit enhancement is difficult to attain.

CDFA urged Congress to bolster specific categories of PABs, including suggesting basic modifications that it said could "significantly improve" the use of these bonds and provide cost-effective capital to fund public purpose projects.

Leveraging additional funds would allow authorities to establish their own credit enhancement program, the group added.

The group was instrumental in getting Rep. Randy Hultgren, RIll., to propose a reform package for IDBs. The Modernizing American Manufacturing Bonds Act (H.R, 2890), which Hultgren introduced in June 2015, would increase the IDB issuance limit to $30 million from $10 million and would allow small-to-mid-sized manufacturers access to low-cost capital to grow and create jobs.

CDFA said one its goals is to work toward getting this legislation passed this year.

"To the extent that state and municipal authorities are interested in being proactive about private activity bond issuance, such options should be pursued," CDFA officials wrote in their report.

The Bond Buyer

By Evan Fallor

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