The Volume Cap for Tax-Exempt Private-Activity Bonds: State and Local Experience in 1989

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Dennis Zimmerman

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Preface and Acknowledgments

The interest income on debt obligations issued by state and local governments for public purposes has been exempt from federal income taxation since the adoption of the federal income tax in 1913. Beginning in the 1960s, however, the Congress began to be concerned that some of the tax exempt issues were being used to support activities that, although related to the governmental mission, were essentially "private." Starting with the *Revenue and Expenditure Control Act* of *1968* and continuing to the present time, a series of restrictions has been placed on the freedom of state and local governments to issue bonds for what the federal government defines as private activities.

One of the most important of these restrictions on "private- activity" bonds is the unified state volume cap that was adopted as part of the *Tax Reform Act of 1986.* Prior to the adoption of the volume cap, local governments and their various authorities issued private-activity bonds. Considerable concern was expressed by local officials that, under the cap, local governments would lose their independence in issuing private-activity bonds and would be required to petition the state for every private-activity bond allocation. Users were concerned that their activities would not receive a fair share of the cap.

Three full years after implementation, very little is known about the states' operation of the volume cap or about their allocation priorities. Nor is much known about the volume of private-activity bonds in each state. The *Deficit Reduction Act* of2984 requires that a form be filed with the Treasury Department for every private-activity tax-exempt bond issue. Treasury has not reported this information since the data on 1986 issues were summarized in 1988.

In order to help close this information gap and learn how the volume cap is operating, Dennis Zimmerman of the Congressional Research Service, Library of Congress, and a Visiting Fellow at The Urban Institute (Winter 1989-Spring 1990), surveyed the 50 states and the District of Columbia to obtain information regarding state and local experience under the volume cap during 1989. The results of the survey are presented in detail in this ACIR report.

The report begins with a brief review of the history of the limitations on tax-exempt issuance, and then details the priorities established by each state to allocate private-activity bonds between state and local authorities. the volume and composition of the bond allocations, and suggestions from the states for reform of the existing volume cap rules.

The Commission wishes to acknowledge the assistance of many persons in successfully completing this project, especially those individuals in the 50 states who responded in great detail to our survey request. Others who were helpful in designing and/or criticizing the survey include Carol Cohen and Robert W. Rafuse, Jr., of ACIK; William G. Colman, consultant; Joyce Corry and Robert Dinkelmeyer of the U.S. General Accounting Office; Bruce Davie of Arthur Andersen and Company; Richard Geltman and Michael Decker of the Public Securities Association: and Catherine Spain of the Government Finance Officers' Association. Anita McPhaul at ACIR provided secretarial assistance.

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Purpose and Scope

This report presents the results of a survey of state and local government experience in calendar year 1989 with the volume cap on state and local issuance of tax-exempt private-activity bonds. The volume cap was instituted by the *Tax Reform* Act of *1986* and represented a continuation of federal policymakers' efforts to restrict state and local use of tax-exempt bonds for "private" purposes that began with the *Revenue and Expenditure Control Act of 1968.*

Prior to the adoption of the volume cap, local governments and their various authorities issued private-activity bonds independently of state control. Considerable concern was expressed by local officials that, under the cap, local governments would lose their independence in issuing private-activity bonds and would be required to petition the state for every private-activity bond allocation. Proponents of the various private activities subject to the volume cap also were concerned that their activities would not receive a fair share.

Three full years after implementation, very little is known about the states' operation of the volume cap or about their allocation priorities. Nor is much known about the volume of private-activity bonds issued in each state. The *Deficit Reduction Act of 1984* required that a form be filed with the Treasury Department for every private-activity tax-exempt bond issue, although no requirement was imposed on Treasury to summarize and publish this information. Nonetheless, the information on these forms is summarized in a report that appears periodically in the *SOI Bulletin,* a quarterly report of the Internal Revenue Service. Unfortunately, no report has appeared since the data on 1986bond issues were summarized in the Summer 1988 issue.

This survey was designed to close some of the information gaps noted above. Three types of information were obtained. One set of questions asked about the priorities established to allocate the cap: that is, the priorities used to allocate the cap between state government and local governmental units; the priorities used to allocate the state and local shares by types of activities; and pending or proposed changes in these priorities.

The second set of questions requested data on: (1) the total volume of bonds issued in 1989 requiring a volume cap allocation: (2) the division of this total volume between issues using an allocation from the 1989 cap and those using an allocation carried forward from volume cap authority unused in previous years; (3) the division of these two categories (current year and carry-forward) by type of private activity; and (4) bond volume by type of activity that had to be denied or delayed due to the unavailability of authority under the volume cap. These data are useful for assessing the decrease in private-activity bond volume since the cap's adoption in 1986. The data also show the presence in some states of unused volume cap available to finance exempt private-activily bonds in 1989 and, in other states, of insufficient volume cap to finance all requests for volume cap allocations in 1989. No information was collected on the total amount of prior years' unused volume cap that was *available* to finance bond issues in 1989.

A final question requested suggestions for reform of the existing volume cap rules that have been imposed by the federal government.

The survey was prepared jointly by staff at ACIR and The Urban Institute, and was mailed to all 50 states and the District of Columbia. Responses were received from all 50 states. Only the District of Columbia did not respond. The bond volume data from Alabama could not be reconciled and is not included in the numerical tables, although its information on priorities is included in the tables explaining allocation priorities. Thus, the numerical data in this report cover 49 states.

Before reporting the survey results, a brief history of federal limitations on state and local bond issuance and an explanation of how the private-activity bond volume cap works are presented in the next section.

Limiting State and Local Bond Issuance

The federal effort to limit bond issuance has taken many different paths, two of which are described here: (1) defining what constitutes taxable and tax-exempt private activity bonds; and (2) imposing a cap on the volume of tax-exempt private-activity bonds.

TAXABLE AND TAX-EXEMPT PRIVATE ACTIVITIES

The interest income on debt obligations issued by state and local governments has been exempt from federal income taxation since the adoption of the federal income tax in 1913. Denial of this interest exemption for some state and local debt began with the Revenue and *Expenditure Control Act of 1968,* which declared that certain bonds had an unacceptably large portion of the proceeds being used for private purposes and were therefore taxable as industrial development bonds (IDBs).

Taxable IDBs were defined by two tests: 25 percent or more of the bond proceeds were used in a trade or business and 25 percent or more of the debt service was secured by property used in or derived from a trade or business. Some of the activities excluded from tax exemption by these tests were thought to produce sufficient public benefits to merit tax-exempt status and were granted a special exception to the IDB tests. These activities were: (1) residential real property; (2) sports facilities; (3) facilities for a convention or trade show; (4) airports, docks, wharves, mass commuting facilities, parking facilities, or facilities for storage or training directly related to any of the foregoing; (5) sewage or solid waste disposal facilities and facilities for the local furnishing of electric energy, gas, or water; (6) air or water pollution control facilities: and (7) acquisition or development of land for industrial parks. In addition, any IDB issue of $1 million or less (what came to be known as the small-issue IDB) was exempt if the proceeds were used for the acquisition, construction, or improvement of land or depreciable property.

More restrictions followed over the next 20 years.1 The *Deficit Reduction Act of 1984* defined a taxable consumer-loan bond as one in which 5 percent or more of the proceeds are used, directly or indirectly, to make loans to persons for nonbusiness purposes (because such loans were not used in a trade or business, they had never passed the 25 percent trade or business tests, and were therefore tax exempt). Exceptions were made for mortgages and student loans. The *Tax Reform Act of 1986* dropped the term IDB, substituted private-activity bonds, and lowered to 10 percent both parts of the private business test. Bonds failing the private business test are termed governmental bonds and are tax exempt. Those passing the test are termed taxable private- activity bonds (including consumer-loan bonds, which were renamed private-loan bonds in 1986). All exempt private activities arc reclassified as tax-exempt private-activity bonds, including bonds issued for mortgages, student loans, and nonprofit organizations (so-called 501(c)(3) organizations). The original list of tax-exempt private activities has changed over time. Some activities have been eliminated from the list, such as sports stadiums, convention centers, and private pollution control facilities; and others have

Table 1

Private-Activity Bond Volume for Selected Private Activities, as a Percentage of Total Bond Volume, 197586 (billions)

Year	Private Activity Amount	Share of Total Volume Percent
1975	$6.2	20.6%
1976	6.4	24.0
1977	13.1	27.9
1978	15.8	32.2
1979	24.6	51.1
1980	29.4	53.6
1981	27.4	48.5
1982	44.0	51.7
1983	49.9	71.0
1984	65.8	72.7
1985	99.4	67.9
1986	17.2	20.0

Source: 1975-1982—Joint Committee on Taxation, *Trends in the Use of Tax-Exempt Bonds to Finance Private Activities*, Joint Committee Print, June 13, 1983; 1983-1986 private-activity data—Gerald Auten and Edward Chung, "Private Activity %x-Exempt Bonds, 1986," *SOI Bulletin* (Summer, 1988); 1983-1986 new issue volume for share calculation from Bond Buyer *1989 Yearbook*.

Joint Committee data do not include such private activities as ports, airports, sports or convention facilities, industrial parks, and the local furnishing of electricity or gas. Auten and Chung data are comprehensive.

been added to the list. such as hazardous waste disposal, acquisition of investor-owned output (electric and gas) utilities, and high-speed intcrcity rail transit. Table 7 contains a list of tax-exempt private activities.

In addition, the proceeds of the bonds issued for some tax-exempt private activities have been restricted to use in selected locations or by persons possessing particular socioeconomic characteristics. Such restrictions are particularly important for mortgage revenue bonds, multifamily rental housing bonds, student loan bonds, and qualified redevelopment bonds.

VOLUME CAPS

Despite these efforts to define private-activity bonds and to control the associated federal revenue loss, the share of long-term tax-exempt bond volume devoted to activities defined as private continued to grow. Table 1 shows this share increased steadily from 20.6 percent in 1975 to 72.7 percent in 1984. Congress reacted by instituting a series of caps that placed a ceiling on the total volume of private-activity bonds that could be issued in a year.[2]

These volume caps are summarized in Table 2. The first volume restriction was enacted in the *Mortgage* Subsidy Bond Act *of 1980*. The annual volume of qualified mortgage bonds in a state was limited to the greater of (1) 9 percent of the average annual aggregate principal amount of mortgages executed during the three preceding years for single-family owner-occupied residences located in the state or (2) $200 million. In 1984, the *Deficit* Reduction Act extended the concept to qualified veterans' mortgage bonds, limiting their volume to an amount equal

Table 2

Volume Caps on Private-Activity Bonds, 1980-88

Activity	1980	1984	1986	1987	1988
Mortgage Revenue Bonds	X		STOP		
Vtterans' Mortgage Bonds		X			
Gireater of $150 per Person or $200 Million		X	STOP		
Exempt Private Activities Not Included in the Cap:					
Mortgage Revenue Bonds					
Veterans' Mortgage Bonds					
501(c)(3) Bonds					
Multifamily Rental Housing					
Airports, Docks, Wharves'					
Convention and Trade Show'					
Mass Commuting'					
Gireater of $50 per Person or $150 Million'			X		
Exempt Private Activities Not Included in the Cap:					
Veterans' Mortgage Bonds					
501(c)(3) Bonds					
Airports, Docks, Wharves'					
Solid Waste Disposal'					
Private Activities Given Exempt Status and Subjected to the Cap:					
Takeovers of Investor-Owned Utilities				X	
High-Speed Intercity Rail Transit-25% of Proceeds					X
501(c)(3) Organizations Limited to $150 Million of Outstanding Tax-Exempt Bonds		X			

X:-year cap adopted.

STOP-year cap terminated.

'Exception applies to facilities owned by or on behalf of governmental entities.

*Effective 1988; through 1987, was greater of $75 per person or $250 million.

to (1) the aggregate amount of such bonds issued by the state during the period from January 1, 1979, through June 22, 1984, divided by (2) the number (not to exceed five) of calendar years after 1979 and before 1985 during which the state actually issued qualified veterans' bonds.

The Deficit Reduction Act of *1984* also extended volume caps beyond housing. The Act imposed a volume limitation on certain categories of IDBs and on student loan bonds set at the greater of $150 per state resident or $200 million. The object was to reduce the growth of private-purpose bonds while allowing the state and local sector to make decisions about what types of activitiesbest serve public purposes and should be allocated part of the scarce private-purpose volume cap. The Congress, however, retained some allocative control and exempted some IDBs from the cap: multifamily rental housing and, if owned or operated on behalf of a governmental entity. convention or trade show facilities, airports, docks, wharves, and mass commuting facilities. This Act also introduced the first cap based on the outstanding stock of tax-exempt bonds rather than on the annual volume of bond issues. Any beneficiary's use of small-issue IDBs was limited to $40 million of outstanding bonds.

The 1986 Tax Reform Act made the most important move away from public-purpose definition. It set a volume cap for each state equal to the greater of $50 per capita or $150 million, effective in 1988 (for 1987, the cap was set temporarily at the greater of $75 per capita or $250 million). The only private-activity bonds not subject to the cap are those issued for nonprofit organizations: for governmentally owned airports, docks, wharves, and solid waste disposal facilities; and for qualified veterans' mortgages (which remain subject to their own cap). The separate cap for mortgage revenue bonds was eliminated. A cap of $150 million was imposed on a nonprofit organization's outstanding stock of tax-exempt bonds, with an exception allowed for hospital facilities.

Many critics argued that all of these efforts to define taxable private activities and to limit issuance of bonds for tax-exempt private activities were unconstitutional because the exemption was protected by the Tenth Amendment and the doctrine of intergovernmental tax immunity. The U.S. Supreme Court took the opportunity, when deciding a challenge to the constitutionality of the requirement to issue tax-exempt bonds in registered rather than bearer form, to settle this issue. Speaking for the Court, Justice William J. Brennan said that any protection for state and local interest income on tax-exempt bonds must be statutory rather than constitutional.

> We see no constitutional reason for treating persons who receive interest on governmental bonds differently than persons who receive income from other types of contracts with the government, and no tenable rationale for distinguishing the costs imposed on States by a tax on State bond interest from the costs imposed by a tax on the income from any other State contract. *South Carolina* v. ***Baker,*** 56 USLW 4311 (April 20, 1988).

Thus, any relaxation of the numerous restrictions on tax-exempt bond issuance imposed in the last 20 years is likely to be motivated by economic or political factors rather than legal considerations. This makes it important to understand how the volume cap has worked.

How the Unified Volume Cap Works

Under current law, each state has the authority to issue tax-exempt private-activity bonds in an amount equal to $50 per resident of the state, calculated using the most recently released Bureau of the Census state population estimates. If a state's population results in the authority to issue less than $150 million, the state allocation is automatically raised to $150 million.[3] Table 3 contains the private-activity volume caps and the corresponding per capita amounts that prevailed in 1989 and to which the states are subject in 1990. The table shows that 22 smaller states plus the District of Columbia received a 1989 allocation far in excess of $50 per capita in 1989, topped by Wyoming with $318 and Alaska with $292.

As a spur to state legislation, the volume cap legislation imposed a 50/50 split of the volume cap between state and local issuing authorities that was to prevail until the governor issued a proclamation or the state legislature passed a statute concerning an alternative allocation. No restrictions were placed on the states' latitude in changing this 50/50 allocation between state and local units of government or reserving a portion for various types of private activity.

Volume cap that is not used during the year in which it is received may be carried forward for a period of three years. At the time of carry-forward, the state must make an irrevocable election of the type of activity (but not the specific project) for which the unused volume cap will be used, such as qualified mortgage revenue bonds or student loans. Small-issue industrial development bonds may not be financed with carry-forward authority, nor may any of the portion of governmental bonds that may be used for private purposes (10 percent governmental bond proceeds). Any carry-forward assigned to mortgage revenue bonds must be used before the exemption for mortgage revenue bonds expires in September 1990.

The states are not required to report to the Internal Revenue Service on their compliance with the volume cap. As with most aspects of the tax-exempt bond law, IRS relics primarily on voluntary compliance implemented by bond counsel, who offer opinions that a proposed bond issue conforms to the provisions of the tax code. If the volume cap is exceeded and it comes to the attention of the tax authorities, those bond issues that placed the state's volume over the cap are deemed to be taxable.

WHO ADMINISTERS THE VOLUME CAP?

"Diverse" is an apt characterization of the state agencies responsible for allocating the volume cap. A few states have retained total control of the voiume cap within the governor's office. Some states have placed the responsibility with the state offices responsible for the financial aspects of the state's operations, usually the offices dealing with budget and finance, or with the office responsible for issuing public debt, usually the treasurer's office. Other states have given the responsibility to the agencywhose mandate seems most closely to approximate the purpose for which the bonds are issued, usually a department of commerce or a department of economic and community development. A few states have created an entirely new entity to allocate the cap, giving it a title such as "bond allocation committee." A list of the responsible state agencies is presented in Table 4.

Table 3

State Private-Activity Bond Volume Caps
Total and Per Capita, 1989 and 1990

State	1990 Volume Cap Total (thousands)	1990 Volume Cap Per Capita	1989 Volume Cap Total (thousands)	1989 Volume Cap Per Capita
Alabama	$205,900	$50	$206,350	$50
Alaska	150,000	285	150,000	292
Arizona	177,800	50	173,300	50
Arkansas	150,000	62	150,000	62
California	1,453,150	50	1,408,400	50
Colorado	165,850	50	164,500	50
Connecticut	161,950	50	162,050	50
Delaware	150,000	223	150,000	227
District of Columbia	150,000	248	150,000	242
Florida	633,550	50	618,850	50
Georgia	321,800	50	320,050	50
Hawaii	150,000	135	150,000	137
Idaho	150,000	148	150,000	150
Illinois	582,900	50	577,200	50
Indiana	279,650	50	278,750	50
Iowa	150,000	53	150,000	53
Kansas	150,000	60	150,000	60
Kentucky	186,350	50	186,050	50
Louisiana	219,100	50	22 1,000	50
Maine	150,000	123	150,000	124
Maryland	234,700	50	232,200	50
Massachusetts	295,650	50	293,550	50
Michigan	463,650	50	465,000	50
Minnesota	217,650	50	215,300	50
Mississippi	150,000	57	150,000	57
Missouri	257,950	50	256,950	50
Montana	150,000	186	150,000	187
Nebraska	150,000	83	150,000	94
Nevada	150,000	135	150,000	142
New Hampshire	150,000	136	150,000	137
New Jersey	386,800	50	386,000	50
New Mexico	150,000	98	150,000	99
New York	897,500	50	894,900	50
North Carolina	428,550	50	326,300	50
North Dakota	150,000	227	150,000	226
Ohio	545,350	50	543,600	50
Oklahoma	161,200	50	163,150	50
Oregon	150,000	53	150,000	55
Pennsylvania	602,000	50	601,350	50
Rhode Island	150,000	150	150,000	151
South Carolina	175,600	50	174,650	50
South Dakota	150,000	210	150,000	210
Tennessee	247,000	50	245,950	50
Texas	849,550	50	839,000	50
Utah	150,000	88	150,000	89
Vermont	150,000	265	150,000	270
Virginia	304,900	50	299,800	50
Washington	238,050	50	230,950	50
West Virginia	150,000	81	150,000	80
Wisconsin	243,350	50	242,900	50
Wyoming	150,000	316	150,000	318
Total	$149387,450		$14,178,050	

Source: ACIR-Urban Institute, Privntc-Activity Bond Survey.

Table 4

State Agencies Responsible for Administering the Allocation of Private-Activity Bond Volume Cap, 1989

State[1]	State Administering Agency
Alabama	Industrial Development Authority
Alaska	State Bond Committee
Arizona	Department of Commerce
Arkansas	Development Finance Authority
California	Debt Limit Allocation Committee
Colorado	Department of Local Affairs, Division of Local Government
Connecticut	Private-Activity Bond Commission
Delaware	Department of Finance
Florida	Department of General Services, Division of Bond Finance
Georgia	Department of Community Affairs
Hawaii	Department of Budget and Finance, Finance Division
Idaho	Department of Commerce
Illinois	Office of the Governor
Indiana	Employment Development Commission
Iowa	Iowa Finance Authority
Kansas	Department of Commerce
Kentucky	Private-Activity Bond Allocation Committee and Office of Financial Management and Economic Analysis
Louisiana	State Bond Commission and Office of the Governor
Maine	Finance Authority of Maine
Maryland	Department of Economic and Employment Development
Massachusetts	Executive Office for Administration and Finance
Michigan	Department of Treasury
Minnesota	Department of Finance, Cash and Debt Management Division
Mississippi	Department of Economic Development
Missouri	Department of Economic Development
Montana	Department of Administration, Office of the Director
Nebraska	Investment Finance Authority
Nevada	Department of Commerce
New Hampshire	Housing Finance Authority and Industrial Development Authority
New Jersey	Department of the Treasury
New Mexico	State Board of Finance, Department of Finance and Administration
New York	State Budget Division
North Carolina	Federal Tax Reform Allocation Committee
North Dakota	Office of the Governor
Ohio	Director, Department of Development
Oklahoma	Department of Commerce
Oregon	State Treasury and Private-Activity Bond Committee
Pennsylvania	Department of Commerce, Bureau of Bonds
Rhode Island	Public Finance Management Board
South Carolina	State Budget and Control Board
South Dakota	Office of the Governor
Tennessee	Department of Economic and Community Development, Division of Community Development
Texas	Department of Commerce
Utah	Department of Economic and Community Development, Division of Community Development
Vermont	Emergency Board
Virginia	Department of Housing and Community Development
Washington	Department of Community Development
West Virginia	Department of Community and Industrial Development
Wisconsin	Department of Development, Housing and Economic Activity Development Authority, and Building Commission
Wyoming	Office of the Governor

[1]The District of Columbia did not respond lo the survey.

Source: ACIR-Urban Institute, Private-Activity Bond Survey.

Table 5

Allocation Priorities for the Volume Cap on Tax-Exempt Private-Activity Bonds in 1989: Division between State and Local Governments

(dollar amounts in millions)

State[1]	All to State	Divided between State and Local Governments
Alabama	●	
Alaska		At least 25% to municipalities
Arizona		20% to state, 42% to nonurban areas, and 38% to urban areas
Arkansas	●	
California	●	
Colorado		50% to state, 25% to larger local governments based on population, 25% available to other local issuers
Connecticut		72% to state, 18% to municipalities and their authorities
Delaware		$75 to state, $26.3 to New Castle County, $18.8 to City of Wilmington, $15 each to Kent and Sussex Counties
Florida		40% to state, 60% to 16 regions (groups of counties) in proportion to population
Georgia	●	
Hawaii		50% to state, 37.55% to City and County of Honolulu and 5.03% to Hawaii, 2.41% to Kauai, and 5.01% to Maui counties
Idaho	●	
Illinois		50% of 5/11 of cap to state, 50% of 5/11 of cap to non-home rule local governments, and 6/11 of cap to home rule local governments
Indiana		38% to state, 62% to local governments
Iowa		53% to state, 5% to local governments, remainder open
Kansas	●	
Kentucky		At least 60% to local governments
Louisiana		70% to state
Maine	●	
Maryland		47.5% to state, 40% to counties in proportion to population, 2.5% to municipalities
Massachusetts	●	
Michigan		40% to state, 60% to local governments
Minnesota	●	
Mississippi	●	
Missouri	●	
Montana		$105 to state, $45 to local governments
Nebraska	●	
Nevada		50% to state, 50% to local governments in proportion to population
New Hampshire	●	
New Jersey	●	
New Mexico		60% to state, 40% to local governments
New York		One-third to state, one-third to local governments, and one-third reserved for all issuers
North Carolina	●	
North Dakota	●	
Ohio		$225 to state, $130 to local governments
Oklahoma		24% to state, 56% to local governments
Oregon		$127.5 to state, $22.5 to local governments
Pennsylvania		After a set-aside for housing and small issues, 50% of remainder to counties for small issues
Rhode Island	●	
South Carolina		40% to state, 60% to local governments
South Dakota	●	
Tennessee		$25 to state, remainder to counties in proportion lo population
Texas		15% to state, remainder available to all issuers
Utah		25% to state, 50% to cities and counties with 30,000 population and 4-year total bond issuance of $12 million, and 25% to other cities and counties
Vermont	●	
Virginia		86% to state, 14% to local governments
Washington	●	
West Virginia	●	
Wisconsin		$115 to state, remainder to local governments
Wyoming	●	

Note: All to State-No set-asides for local governments.
Divided between State and Local Governments–Set-asides for local governments for at least part of the year.

[1]The District of Columbia did not respond to the survey.

Source: ACIR-Urban Institute, Private-Activity Bond Survey.

These agencies are responsible for keeping track of private-activity bond issues that draw on the cap, and most also prepare an annual report on their activities. Some of these agencies are also responsible for processing applications for cap allocations and making decisions about which applications will receive a cap allocation based on priorities enacted by legislative statute or proclamation of the governor; the remaining agencies seem to perform primarily a pass-through function in which they allocate the year's allowable bond volume to other agencies or authorities (such as housing, education, or development finance authorities) according to predetermined amounts. These recipient agencies or authorities then assume the responsibility for choosing among the requesters for shares of the volume cap.

ALLOCATION PRIORITIES

Two types of priorities have been established. Some states set aside fixed proportions or dollar amounts of the cap for state authorities and local authorities. Some states also dedicate a fixed proportion or dollar amount of the cap for a particular type of activity. The material presented here is based entirely on the information provided by the survey respondents, so it is subject to the range of errors common to responses to such instruments.

Division between State and Local Issuing Authorities

The results of state legislation to allocate the cap are divided into two categories in Table 5. The "All to State" category lists those states reporting that 100% of the cap is nominally in state hands. Local governments in these states must ask the state for cap allocations and compete with state usage in all cases. Some states in this category are explicit in stating that the cap is available to all state or local issuers on an equal basis, subject of course to any priorities established for favored activities, which are discussed in the next section. Others are not explicit about equal access for state and local issuers, but the implication seems to be that the cap is available to both state and local issuers on an equal basis.

The "Divided between State and Local" category lists those states that divide the cap into portions for state use and for local use and describes the allocations. The divisions are not absolute, however. The usual procedure is to reserve an allocation for at least nine months of the calendar year. It is not even clear in all cases that a portion reserved for the state is necessarily used by the state. For example, a portion allocated to a state housing finance agency may mean simply that its share of the cap is protected from local development or student loan authorities but is available to be allocated by the state housing finance agency to local governments seeking funding for multifamily rental housing. Consequently, the allocation listed in the "Divided between State and Local" column is very likely not an accurate reflection of which government actually issues the bonds that use the cap.

The allocation among governmental units in most states is further muddied if the reserved allocation is not used by a set date during the year, which for most states lies somewhere between September 1 and December 21. When this date arrives, any unused cap usually reverts to a central pool available to other issuers, sometimes restricted to issuers at the same level of government that has not used the cap, but often including both state and local issuing authorities.

Illinois' allocation between the state and its local governments is unique. The 1986 Act established a system of direct allocations to units of home-rule government in states that have a home-rule unit system. The only state to which this system applies is Illinois. This "home-rule" rule has the effect of bypassing any allocation system established by state legislation or proclamation. The resulting allocation gives 6/11 of the Illinois volume cap to the 109 home-rule units of local government (because these governments comprise 6/11 of the state population), and 5/11 to the state. Half of the state's share is reserved for the state, and half is reserved for non-home-rule units of local government. Needless to say, since the 109 home-rule governments act entirely independently of the state allocation system, the data on cap allocations in the remainder of this chapter include only the portion of the Illinois cap controlled by the state (which happens to include a small portion of the home-rule allocation that a few local governments return to the state).

Table 5 indicates that 28 of the 50 states have reserved portions of the cap for local issuers. The allocation is nonspecific in most states, usually saying that no more than x percent goes to the state and y percent goes to local governments. A few states get very specific. Tennessee divides the nonstate share among counties in proportion to their population, and Utah reserves 50 percent of the cap allocation for cities and counties having at least 30,000 population and a four-year total bond issuance of at least $12 million.

Division between Types of Exempt Activities and Selection Criteria

The 1986 Act subjected most exempt private activities to the volume cap, and many states decided to set aside a portion of the cap to be used exclusively for a subset of these activities. The states also had to establish criteria for selecting among competing projects. These priorities and criteria are summarized in Table 6. States that report no priorities among competing activities and allocate the cap on a first-come first-served basis, with an occasional restriction on the maximum size of the allocation for a project, are listed under the "No Priorities" column. Only 18 states fall in this category. The remaining 32 states have either established priorities among activities or have allocated the cap among competing projects according to some set of economic criteria, most often the number of jobs created or number of low-income persons benefited.

A statement of intent to use the private-activity bond volume to promote economic growth and job creation is nearly universal in the states' enabling legislation or proclamations that established the private-activity bond programs. Unless these economic growth and job creation criteria have some element that is unique. they are not included in the description in Table 6. Several of the priority systems are described below.

Table 6

Allocation Priorities for the Volume Cap on Tax-Exempt Private-Activity Bonds in 1989: Division among Types of Activities and Use of Economic Measures as Selection Criteria

(dollar amounts in millions)

State'	No **Priorities**	**Priorities**
Alabama		25% housing, 10% student loans, 35% small issues, and 15% exempt facilities
Alaska	•	
Arizona	•	
Arkansas		$15 multifamily housing, $50 industrial development, $25 single-family housing, $15 student loans, and the balance for all other bonds; allocated in chronological order
California		Top priority is low-income multifamily and single-family housing, small issues ranked by number of new jobs created (relocated jobs receive lower priority), and priority of all other activities depends on benefits to lower income households
Colorado		Focus on housing, agricultural development, postsecondary education facilities, health facilities, and student loans; choices made based on job creation and retention
Connecticut		42% of state share to housing, 32% economic development
Delaware	•	
Florida		62.5% of state share to housing
Georgia		40% to housing, 40% to economic development (must have one job created per $125,000 of bonds)
Hawaii	•	
Idaho	•	
Illinois	•	
Indiana		28% of state share to housing, 1% student loans, 8% economic development; local share not specified by activity
Iowa		30% single-family housing, 12% economic development, 16% student loans, 5% small issues for first-time farmers, and all other activities on a chronological basis
Kansas		$5 student loans, $25 small issues, $5 for private-use portion, approved in chronological order
Kentucky	•	
Louisiana	•	
Maine		Priority order is small issues, housing, student loans, all others; small issues allocation based on economic impact
Maryland		60% housing (35% to counties on a per capita basis), and 15% to non-housing (to counties on a per capita basis)
Massachusetts	•	
Michigan		Chronological, but can adjust based on economic impact and leverage of other capital sources
Minnesota		Priority to manufacturing, housing, and public facilities; Minneapolis and St. Paul and other first-class cities guaranteed percentage of cap (choices made by lot if cap is insufficient)
Mississippi	•	
Missouri		No activity favored, but priority based on ability of beneficiary to locate project outside state, impact on local businesses, number of persons, families, or businesses which will benefit from project

Table 6 (cont.)

Allocation Priorities for the Volume Cap on Tax-Exempt Private-Activity Bonds in 1989: Division among Types of Activities and Use of Economic Measures as Selection Criteria
(dollar amounts in millions)

State[1]	No Priorities	Priorities
Montana		40% of state share to housing, 25% student loans, and remainder for other activities on chronological basis
Nebraska		30% housing, 20% student loans, 20% all otheractivities, and 30% at the governor's discretion; choiceamong projects within category based on job creation and retention
Nevada	•	
New Hampshire		1/3 housing and 2/3 all other activities
New Jersey		Largest shares usually go to housing and economic development; a small amount to environmental protection activities; $20 set aside for private-use portion
New Mexico	•	
New York	•	
North Carolina	•	
North Dakota	•	
Ohio		Single-family housing and small issues allocated on a chronological basis
Oklahoma		20% to small issues
Oregon		$60 of state share to housing, $60 economic development, and $7.5 energy
Pennsylvania		First priorities are housing and student loans; 50% of the remainder for small issues and 50% for exempt facilities
Rhode Island	•	
South Carolina		Chronological order with some discrimination by job creation
South Dakota	•	
Tennessee		Priority 1 – manufacturing and other activities that export more than half of their output, or produce goods more than half of which are used to produce exported products, or more than half their output substitutes for imports into Tennessee. Priority 2-single-family housing, multifamily housing, and other activities that have a secondary impact on Tennessee economy. Priority 3-other eligible areas.
Texas		33% single-family housing, 10% small issues
Utah		State share used for single-family housing and student loans
Vermont		Housing, industrial development, and student loans
Virginia		41% housing, 41% industrial development, 8% student loans, and 10% at governor's discretion. Allocation based on chronological order.
Washington		Apportionedforhousing, student loans, exempt facilities (sewage treatment, masstransit, local utilities,etc.), public utility districts, and small issues.
West Virginia	•	
Wisconsin		The decreasing order of priority is single-family housing, small issues, multifamily housing, and all other activities. Allocation based on chronological order.
Wyoming		$90 for single-family housing.

Note: No Priorities-No set-asides for specific activities or allocation based on economic criteria.
Priorities-Set-asides for specific activities or allocation based on economic criteria..

[1]The District of Columbia did not respond to the survey.

Source: ACIR-Urban Institute, Private-Activity Bond Survey.

California makes low-income multifamily rental housing its top priority, followed by single-family housing with special emphasis on low-income applicants. Small-issue IDBs are the next priority, with the choice among competing projects based on the number of jobs created. Within the jobs criterion, preference is granted to new jobs over relocated jobs, and to jobs created in enterprise zones over other locations. The choice among all other types of activities is based on the extent to which low-income households are benefited. California stands almost alone among the states in the extent to which it attempts to focus its private-activity bond volume on low-income households.

Tennessee claims to choose among competing projects entirely on the basis of their projected impact on the state economy. The first priority goes to manufacturing and other activities that (1) export more than half their output, (2) produce goods more than half of which are used to produce exported products, or (3) produce goods more than half of which substitute for imports into Tennessee. The second priority is for single-family housing, multifamily housing, and other activities that have a secondary impact on the Tennessee economy. The third priority is all other eligible uses.

Georgia takes a numerical approach. It requires that private-activity bonds issued for economic development generate at least one job for every $125,000 of bonds issued.

State Initiatives to Reform Priorities

Seven states report some degree of interest in changing their allocation priorities in response to their experience with the volume cap. Arkansas is considering changing from a first-come first-served basis to a system of as yet unspecified priorities. Nevada has recently introduced criteria for allocating the state share of the cap, among them the number of new jobs created and jobs retained, and any known environmental impact from the project. Minnesota also is considering changes in its priority system, but the changes are not yet public information. Oklahoma is increasing its share allocated to small issues, and is adding shares for student loans and exempt facilities. South Carolina may shift from a predominantly first-come first-served basis to a more explicit consideration of economic impact. Wisconsin reports some legislative interest in setting more explicit shares for the activities currently considered priorities. Illinois plans to set an earlier date (July 15) when the unused volume cap of home-rule units (except Chicago) reverts to a common pool available for all issuers.

Bonds Issued by Type of Activity and Year of Volume Cap

The 49 states that provided internally consistent survey data issued $15.182 billion in private-activity bonds in 1989 that were subject to the unified volume cap. Note that current refundings are not included in the data. The division of this bond volume among eligible private activities is presented in Table 7, Column 1. Each activity's share of the total is presented in Column 2. By far the largest volume, $5.606 billion (36.9 percent of the total), was issued for mortgage revenue bonds, followed by small-issue IDBs with $3.228 billion (21.3 percent), solid waste disposal, $1.633 billion (10.8 percent), multifamily rental housing, $1.292 billion (8.5 percent), and student loans, $1.250 billion (8.2 percent). Very small or zero amounts of bonds were issued in 1989 for four exempt activities: mass commuting vehicles ($1 million), local district heating and cooling ($4.3 million), high speed rail transit ($O), and takeover of investor-owned utilities ($0). The "Other" category includes bonds for which survey respondents were uncertain as to activity classification or that were issued for activities whose exemption has been removed but for which a few transition rules continue to generate some bond issuance. By far the most important of these transition-rule activities is pollution control. It is included as a separate category in this table ($309 million of bonds were issued in 1989).

Not all tax-exempt private-activity bonds issued in 1989 used borrowing authority from the 1989 volume cap. The *1986 Tax Rejorm* Act, following the precedent established in the *1954 Deficit Reduction Act,* allows unused volume cap to be carried forward for a period of three years. Due to these rules, many bonds issued in 1989 used volume cap authority from as far back as 1986. Columns 3 and 5 divide the $15.182 billion of bond volume in Column 1 between those bonds using 1989 volume cap and those using volume cap carried forward into 1989. Of the total volume, $9.773 billion used 1989 volume cap and $5.409 billion used prior years' volume cap. Each activity's share of the 1989 and prior years' volume cap issuance is presented in Columns 4 and 6.

Table 7

New-Issue Tax-Exempt Private-Activity Bonds Issued in 1989 Subject to the Volume Cap: By Type of Activity and Year of Authority (millions)

Activity	Total Volume		1989 Cap		Carry Forward	
	Amount	Percent	Amount	Percent	Amount	Percent
Mortgage Revenue Bonds	$5,606	36.9%	$3,491	35.7%	$2,115	39.1%
Student Loans	1,250	8.2	592	6.1	658	12.2
Small Issues	3,228	21.3	3,228	33.0	0	0.0
Multifamily Housing	1,292	8.5	817	8.4	475	8.8
Qualified Redevelopment	173	1.1	45	0.5	128	2.4
Mass Commuting Vehicles	1	0.0	1	0.0	0	0.0
Furnishing of Water	162	1.1	34	0.3	128	2.4
Local Furnishing of Electricity or Gas	777	5.1	389	4.0	388	7.2
Local Distribution of Heating or Cooling	4	0.0	4	0.0	0	0.0
Hazardous Waste Disposal	85	0.6	81	0.8	3	0.1
Sewage Disposal	422	2.8	250	2.6	173	3.2
Solid Waste Disposal	1,633	10.8	463	4.7	1,170	21.6
Takeover of IOUs	0	0.0	0	0.0		0.0
High-Speed Rail	0	0.0	0	0.0	0	0.0
Pollution Control	309	2.0	153	1.6	156	2.9
Private-Use Portion	137	0.9	137	1.4		0.0
Other Categories	104	0.7	88	0.9	16	
All Activities	$15,182	100.0%	$9,773	100.0%	$5,409	102%

Note: Columns may not total due to rounding.

Source: ACIR-Urban Institute, Private-Activity Bond Survey.

Has the Cap Reduced the Use of Private-Activity Bonds?

This question is somewhat more complicated than it appears to be. The normal approach would be to compare the estimates in Table 7 with the bond volume issued in 1986, the year prior to the volume cap instituted by the *Tax Reform Act of 1986*. New-issue private-activity bond volume in 1986 was $17.2 billion, an 83 percent decrease from the preceding year. This 1986 volume, however, may not accurately reflect the actual demand for pre-volume cap private-activity bond issuance. Gerald Auten and Edward Chung (1988) argue that this volume reflected two things: (1) the issuance in 1985 of many bond issues that were originally planned for 1986, in anticipation of restrictions included in the House bill that were to go into effect on December 31.1985; and (2) a delay of bond issues originally planned for 1986 due to uncertainty during the first nine months of 1986 about passage of the *Tar Reform Act* and in the last three months about regulations that would be written to implement the new law. For these reasons, the comparison in this section uses an average of new private-activity bond issues for the three years preceding the 1986 Act, 1984%.

New issues of private-activity bonds in 1984-86 were $65.8, $99.8, and $17.2 billion, respectively. However, these totals include bonds issued for nonprofit entities and for airports, docks, and wharves, all of which are exempt from the volume cap imposed in 1986.[4] After deducting bonds issued for these activities, the average private-activity bond volume from 1984 to 1986 was $45.9 billion. In contrast, the volume cap for all 50 states and the District of Columbia was a mere $13.9 billion in 1989. If $45.9 billion is a fair representation of what unconstrained demand for private-activity financings would have been in 1989, the volume cap in 1989 was restrictive indeed, imposing a 69.7 percent decrease in private-activity bond volume (assuming the entire volume cap was used).

Table 8 provides some insight into how the states spread the pain among private activities. It compares average new-issue volume for 1984-86 and 1989 by type of activity. The 1989 volume totals $15.182 billion, an amount greater than the $13.899 billion volume cap due to carry-forward authority from prior years. It is not clear how much of this carry-forward-based volume would have been issued using 1989 authority if carry-forwards were not permitted. Ideally, one would want to scale the $15.182 billion of 1989 issues back to the total dollar value of the volume cap, but it is not clear how the scaling back should be shared among eligible activities. Instead, Table 8 uses all 1989 issues, in effect understating the magnitude of the decrease caused by the volume cap. This makes little difference, since it is the relative decrease among activities that is of interest here. It also is important to note that the percentage changes in the last column reflect more changes than simply imposition of the volume cap. Some of the activities that remained exempt over the period have been subjected to targeting and definitional changes. Some activities have been removed from the list of exempt activities while others have been added; all are included in this table in the “Other” category, with the exception of bonds issued for nonprofit organizations and airports. docks, and wharves. And many transition rules were enacted in 1986 that grandfathered projects in the planning stage that might otherwise have required a volume cap allocation.

Table 8
The Effect of the Volume Cap
on New-Issue Private-Activity Bonds:
1989 Volume Compared to Average for 1984-86
(millions)

Activity	Average 1984-86	1989	Percent Change
Student Loans	$1,956	**$1,250**	-36.1%
Mortgage Revenue Bonds	9,593	5,606	-41.6
Small Issues	13,602	3,228	-76.3
Multifamily Housing	**10,668**	**1,292**	**-87.9**
Sewage and Waste Disposal	**4,231**	**2,140**	**-49.4**
Pollution Control	4,701	309	-93.4
Other	**1,146**	**1,357**	**18.5**
Total	**$45,918**	**$15,182**	**-66.9 %**

source: ACIR-Urban Institute, Private-Activity Bond Survey, and Auten and Chung (1988).

Table 8 shows that private-activity bond volume subject to the volume cap has declined by 66.9 percent. The activities suffering the least reduction are student loans, 36.1 percent, and mortgage revenue bonds, 41.6 percent. The activity suffering the biggest hit (that remains eligible for an exemption) seems to be multifamily housing, with a reduction of 87.9 percent. The multifamily housing number may be overstated, however, for two reasons: (1) the arbitrage-driven multifamily housing deals uncovered in the Matthews-Wright and related scandals suggest that a significant portion of this pre-*Tax **Reform*** Act volume may not have been housing deals at all; and (2) tax-exempt bond-financed housing projects became considerably less attractive due to the restrictions imposed in 1986 on the ability of taxpayers to offset income from one economic activity with losses generated from another activity, the so-called passive loss restrictions.

BONDS ISSUED BY STATES

The total volume of bonds issued in 1989 for each type of private activity (Table 7, Column 1) is disaggregated by state in Table 9. Several activities are supported by most of the states. Forty-three states issued private-activitybonds for single-family housing (mortgage revenue bonds), 43 for small-issue IDBs, 26 for multifamily housing, and 19 for student loans. The number of states issuing other types of bonds declines substantially.

Figure 1 separates each state's total volume according to whether its borrowing authority came from the 1989 volume cap or unused authority carried forward from prior years. Eighteen states used prior years' authority to fund more than 50 percent of their private-activity bond issues. Clearly, the ability to use carry-forward authority substantially reduced many states' need to usc the 1989 volume cap.

IS THERE UNUSED VOLUME CAP?

This is a difficult question to answer. First, it' volume cap were to be unused, it must be understood that this unused cap would be smaller or even nonexistent without the restrictions on the list of activities for which state and local governments can issue bonds. Second, the three-year carry-forward provision suggests that large capital projects occur irregularly, and use of the cap should be averaged over several years. Unfortunately, our data are for 1989 issues only. Using these data, Figure 2 shows that, in 41 of the 49 states, bonds issued in 1989 that were subject to the 1989 volume cap did not use all of the cap.[6] The unused share of volume cap ranged from 94.4 percent in Rhode Island to 1.9 percent in Texas. These shares represent each state's 1989 volume cap that has been carried forward to finance bond issuance through 1992. Total unused 1989 volume cap for these 41 states amounted to $3.741 billion, 36.3 percent of their volume cap and 27.7 percent of the volume cap available to all 49 states.

Unused Volume Cap and Carry-Forward Authority

The above numbers probably represent an upper bound on unused 1989 volume cap authority. Some of the projects funded in 1989 with unused prior years' volume cap would have been funded with 1989 volume cap had the carry-forward authority not existed. This 1989 issuance from carry-forward authority can be used to set a lower bound on excess 1989 volume cap. Suppose that no carry-forward of unused prior years' volume cap existed, and that all projects funded with carry-forward authority requested allocations from the 1989 volume cap, then unused volume cap would equal the 1989 volume cap minus all private-activity bonds issued in 1989. Figure 3 uses this estimate of unused cap to calculate for each slate the percentage of volume cap that would not have been used in 1989.

States whose volume cap would not have been exhausted if all of its 1989 tax-exempt private-activity bond issues (under cap authority from 1986 through 1989) had been funded from the 1989 cap decrease in number from 41 (Figure 2) to 20 (Figure 3). Rhode Island again has the greatest share unutilized, 81.4 percent. The average unused cap for all states declines from $91.2 million to $57.7 million. The total dollar value of unused cap decreasesby more than two-thirds, to $1.154 billion from the $3.741 billion when only issues using 1989 cap authority were included. This unused cap represents 28.4 percent of the cap available to these 20 states, and only 8.5 percent of the cap available to all 49 states.

Unused Volume Cap and Spending Priorities

The true picture of volume cap utilization probably lies somewhere between the data summarized in Figures 2 and 3. It is clear that as of 1989 the use of private-activity bond issues (constrained to those activities allowed by law) fell short of volume cap availability in some states.

Two other factors should be considered when assessing the extent to which unused volume cap exists in any given year. First, as noted in Tables 5 and 6. most states establish priorities by allocating set shares of the cap for state versus local governments and for selected activities. These shares are reserved for those governments and activities for a portion of the year, ranging from 9 to 11 months, after which any unused cap allocation usually becomes available for all types of exempt activities for any

Table 9
Tax-Exempt Private-Activity Bonds Issued in 1989:
By State and Type of Activity
(millions)

State[1]	Mortgage Revenue Bonds	Student Loans	Small Issues	Multi-Family Housing	Qualified Redevel-opment	Furnishing Water	Local Furnishing of Electricity or Gas	Hazardous Waste Disposal	Sewage Disposal	Solid Waste Disposal	Private-Use Portion	Other	Total
Alaska	$77.2	$31.2											$108.4
Arizona	96.2	25.0	$21.7	$8.1									151.0
Arkansas	50.0	50.0	78.7			$2.0			$46.7				227.4
California	642.4		151.3	467.7					147.0				1,408.4
Colorado	101.5	80.2	23.5	6.7									211.8
Connecticut	184.0		17.4	52.0						$55.3		$4.0	312.7
Delaware	85.4		12.0				$20.0						117.4
Florida	419.2		67.1	201.1					29.0	523.9	$67.1	26.5	1,333.9
Georgia	92.1		164.7	27.2					87.0		10.1		381.1
Hawaii				120.1									120.1
Idaho	147.9		31.2										179.1
Illinois	104.6	85.1	63.0	10.0				$16.0	31.9				310.6
Indiana		50.0	170.8	0.6		40.5	23.5	20.0					305.3
Iowa	99.0		48.2						1.3		3.2	16.3	168.1
Kansas	104.9		36.0					7.8					148.7
Kentucky			119.0										119.0
Louisiana	159.0	75.0	12.5	1.0									247.5
Maine	24.5		37.2	20.2									81.9
Maryland	129.7		32.9			20.0			0.7				183.3
Massachusetts	59.0	30.0	43.0	108.5								6.0	246.5
Michigan	69.9		240.4	14.9				2.5	22.9	6.0		224.9	581.5
Minnesota	94.7		90.4	17.1					18.9			0.5	221.7
Mississippi	52.4		60.8							21.5			134.7
Missouri	215.0	8.7	98.7	19.6									341.9
Montana	25.0	105.8								65.0			195.8
Nebraska	1.5	8.0	18.5										28.0
Nevada	73.0		22.6	6.1			75.0						176.7
New Hampshire	150.4		10.6	12.5		1.6				90.3		84.3	349.7
New Jersey	268.0		112.0		$30.5	25.6				275.0	20.0		731.1
New Mexico	35.0		18.0				2.2						55.2

Table 9 (cont.)

Tax-Exempt Private-Activity Bonds Issued in 1989:
By State and Type of Activity
(millions)

State[1]	Mortgage Revenue Bonds	Student Loans	Small Issues	Multi-Family Housing	Qualified Redevel-opment	Furnishing Water	Local Furnishing of Electricity or Gas	Hazardous Waste Disposal	Sewage Disposal	Solid Waste Disposal	Private-Use Portion	Other	Total
New York	200.0		213.1	64.3	7.1	20.0	350.0		79.2	9.4		9.9	952.7
North Carolina	106.0		163.0			12.0				124.0			405.0
North Dakota	100.0	106.0		0.9			59.4			50.9			311.2
Ohio	426.2	65.3	217.2		10.0	0.8	47.5		4.2				771.3
Oklahoma	119.6	9.0	37.3					6.2					172.1
Oregon	69.9		55.1	7.0		5.4						0.3	137.7
Pennsylvania	113.0		113.0	4.0						150.0			380.0
Rhode Island	19.5		8.4										27.9
South Carolina		47.2	147.3										194.5
South Dakota		224.0									7.4		231.4
Tennessee	141.0		122.3					7.0			28.0		298.2
Texas	349.0	197.0	32.0			34.0				200.0		45.0	857.0
Utah	89.9		8.6	1.0	25.0		18.8	25.0					168.3
Vermont	111.4		5.0	18.9									135.3
Virginia	49.2	24.0	98.1		100.0					15.0			286.3
Washington	63.7		68.8	12.4			12.0						156.8
West Virginia			11.1	50.0			168.9						230.0
Wisconsin	71.5		125.2	40.1							0.7		237.5
Wyoming	14.8	35.0											49.8
US	$5,606.2	$1,250.4	$3,227.6	$1,291.9	$172.6	$161.8	$777.0	$84.5	$422.2	$1,633.0	$136.5	$417.8	$15,181.5
Number of States	43	19	43	26	5	10	10	7	10	14	7	10	

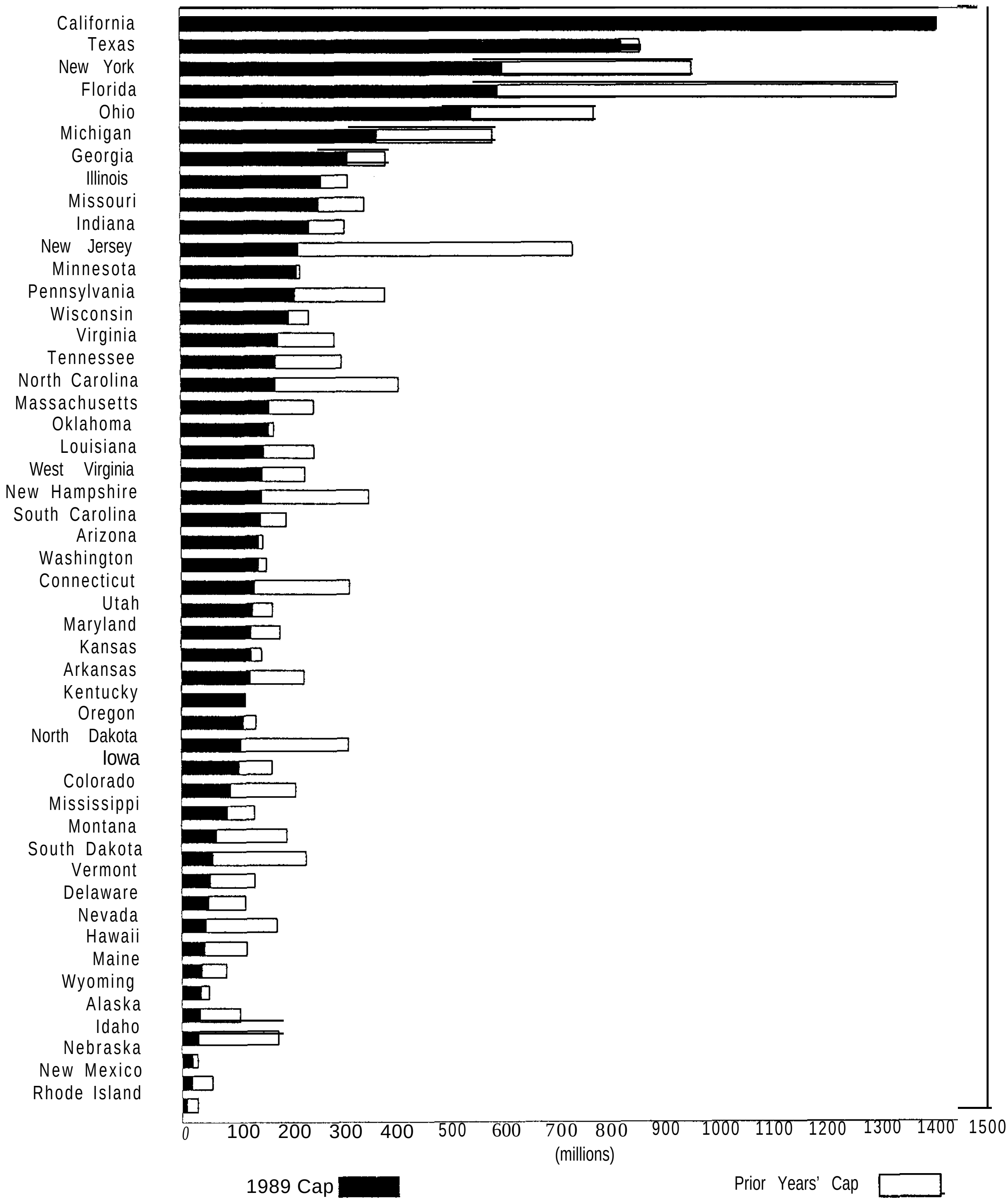
Note: "Other" in this table includes the following categories from Table 3: mass commuting vehicles, local district heating and cooling, high-speed rail transit, takeover of investor-owned utilities, pollution control, and the "other" category.

[1] Data for Alabama are not included. The District of Columbia did not respond to the survey.

Source: ACIR-Urban Institute, Private-Activity Bond Survey.

Figure 1

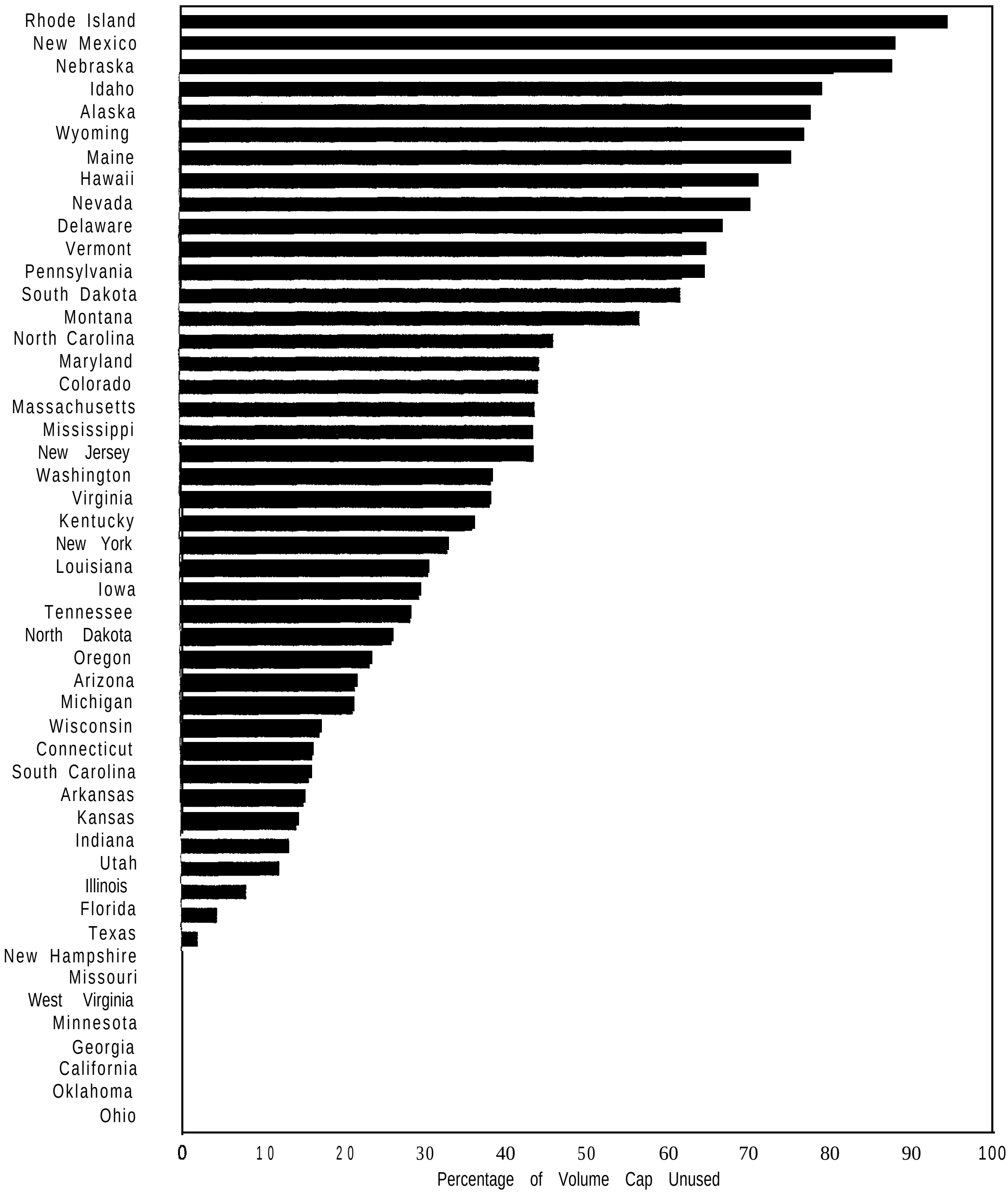
Tax-Exempt Private-Activity Bonds Issued in 1989
Using 1989 and Prior Years' Volume Cap Authority:
Ranked by Volume of Issues Using 1989 Authority[1]



[1] Data for Alabama are not included. The District of Columbia did not respond to the survey.

Source: ACIR-Urban Institute, *Private-Activity Bond Survey.*

Figure 2
Percentage of 1989 Private-Activity Volume Cap Not Used in 1989
by Bonds Claiming 1989 Authority[1]

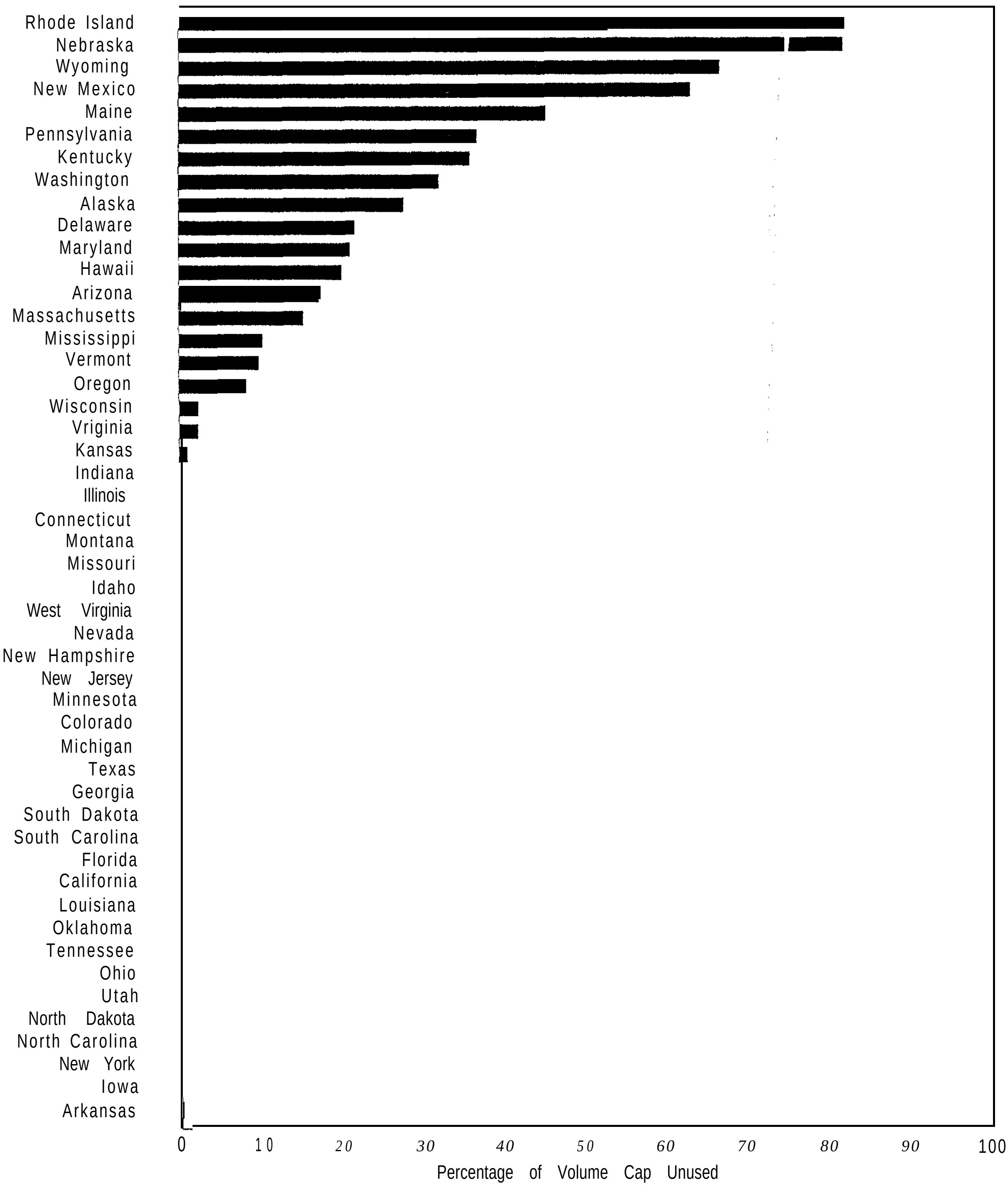


[1] Data for Alabama are not included. The District of Columbia did not respond to the survey.

Source: ACIR-Urban Institute, Private-Activity Bond Survey.

Figure 3

Percentage of 1989 Private-Activity Volume Cap Not Used in 1989 by Bonds Claiming 1989 or Prior Years' Authority[1]



[1] Data for Alabama are not included. The District of Columbia did not respond to the survey.

Source: ACIR-Urban Institute, Private-Activity Bond Survey.

Table 10

Number of States with Unused Volume Cap and Total Unused Volume Cap after Adjustment for Short Planning Horizon and Irrevocable Carry-Forward Election (millions)

	Percentage of Volume Cap Adjusted Ten	Twenty	Thirty	Total for States with Unused Cap
Calculated Using 1989 Authority:				
Number of States	38	31	25	41
Amount of Cap Unused Adjusted for Short Planning Horizon	$3,366.6	$2,992.6	$2,618.5	$3,740.7
Calculated Using 1989 and Carry-Forward Authority:				
Number of States	15	11	8	20
Amount of Cap Unused Adjusted for Short Planning Horizon and Carry-Forward Election	$1,038.8	$0.923	$0.808	$1,154.2

Source: ACIR-Urban Institute, Private-Activity Bond Survey.

issuer. This is a relatively short planning horizon, which undoubtedly frustrates some efforts to take advantage of the unutilized capacity that crops up at the end of the year. Absent these reserved set-asides, some of this unused volume cap probably would have been used in 1989, so that the unused volume cap supply suggested in Figure 2 would be overstated. Second, states must elect the activity on which to spend unused volume cap at the time it is carried forward. It is possible that some of this available carry-forward authority was not used in 1989 because the state's carry-forward election did not conform to the activities for which it needed the authority in 1989.

The last column of Table 10 contains the total number of states with unused volume cap and the amount of their unused volume cap. The top half of the table is based on 1989 issues using 1989 cap author-ity. Focus on the column labeled "Thirty." Suppose that up to 30 percent of unused volume cap was attributable entirely to the short planning horizons that are the inevitable side effect of establishing spending priorities; that is, the desire to use exempt private-activity bond financing was actually 30 percent higher during 1989 than actual issues. If it is assumed that with better planning or a more flexible allocation system this unused cap would otherwise have been used, the number of states with unused caps would decline from 41 to 25 (eliminating the 16 states whose unused cap was less than 30 percent). The dollar value of unused cap would decline from $3.741 billion to $2.618 billion (calculated as 70 percent of total unused cap in the last column, since the 30 percent planning penalty also applies to the states with unused caps above 30 percent). Now look at the column labeled "Ten." If 10 percent is considered to be a more reasonable threshold for the amount of activity inhibited by the bond allocation priorities, the number of states with unused cap would decline only to 38 (eliminating the three states whose unused cap was less than 10 percent). Unused cap would decline only to $3.367 billion (calculated as 90 percent of total unused cap in the last column).

The second panel repeats these calculations using the same method employed for Figure 3-unused volume cap based on all 1989 issues, whatever the source of their volume cap authority. In this case, the source of the frustrated use of volume cap is both the short planning horizon and the requirement to make an irrevocable election of private-activity use at the time the unused cap was carried forward. If 30 percent of the unused cap is attributable to these factors, the number of states with unused cap would decline from 20 to 8, and the dollar value of unused cap would decline from $1.154 billion to $808 million. If 10 percent is considered to be a more reasonable threshold, the number of states with unused cap would decline only to 15, and the unused cap would decline only to $1.039 billion.

VOLUME CAPS AND THE $150 MILLION CAP FOR SMALL STATES

It is possible that this picture of unused volume cap is somewhat skewed by the special treatment that the 1986 Act gives to small states, which are guaranteed at least $150 million of volume cap even if the product of $50 times their population produces a smaller cap allocation. If the demand for tax-exempt private-activity bond usage is a constant function of population, as is implied by the per capita allocation applied to most states, then these small states might be expected to have a greater amount of unused volume cap on average than do other states. Indeed, this turns out to be the case.

Table 11 breaks out the unused volume cap data by type of cap allocation-per capita and $150 million. The first four columns of the first row array the states with unused volume cap by the percentage unused. Columns 5 and 6 record the number of states with unused cap and all states. The last two rows separate the states into those with a per capita volume cap and those with a $150 million cap. Forty-one of the 49 states have unused volume cap. Of the per capita allocation states, 21 of the 27 have unused volume cap. Eleven of these 21 states have unused capacity that exceeds 30 percent of the volume cap (52.3 percent of per capita states with unused cap). Eighteen have unused capacity that exceeds IO percent of the volume cap.

Of the 22 states with a $150 million cap, 20 have unused borrowing authority. Fourteen of these 20 have unused borrowing authority that exceeds 30 percent of the cap (70 percent of $150 million states with unused cap). All 20 states have unused capacity that exceeds 10 percent of the volume cap.

Table 11

States with Unused Volume Cap in 1989, by Type of Cap Allocation: Number of States and Percentage of Cap Unused

	Percentage of Volume Cap Unused				Total States		
	<10	10-20	20-30	>30	With Unused Cap	All States	Percent of Cap Unused
States with Unused Cap	3	7	6	25	41	49	36.3%
Per Capita Allocation	3	4	3	11	21	27	27.9
$150 Million Allocation	0	3	3	14	20	22	56.7

Source: ACIR-Urban Institute, Private-Activity Bond Survey

The last column of Table 11 presents the average percentage of unused volume cap for states with unused volume cap. The 36.3 percent unused cap for all 41 states overstates the magnitude of the unused volume cap for those states receiving a per capita allocation. When disaggregated by type of allocation, the unused volume cap share for the 20 states with a $150 million allocation, 56.7 percent, is double the 27.9 percent share for the 21 states with a per capita allocation.

Denied or Delayed Projects

Slates were asked about requests for volume cap allocations that had to be denied or delayed to a subsequent year due to unavailability of volume cap. Respondents in a few states were questioned about the methodology and procedures used in preparing the numbers. The answers to these queries indicated two things: (1) states excluded from the data projects unlikely to be funded no matter how much funding was available; and (2) projects not even proposed to the bond allocation agency because of prior knowledge of inadequate volume cap are not included in these data because no one had good estimates of their magnitude.

Twenty-seven states reported denied or delayed projects. The first column of Table 12 lists $6.015 billion of such projects by type of activity. The largest amounts were $2.147 billion for mortgage revenue bonds and $2.109 billion for solid waste disposal. The amount for the next largest activity, small issues, was considerably smaller at $518.5 million.

The next four columns divide these amounts between states that used all their volume cap and those that reported unused volume cap. Columns 2 and 3 are based on unused volume cap calculated using only 1989 authority (see Figure 2). States that did not use all their volume cap account for 62.9 percent of these denied or delayed projects ($3.783 billion), and they account for more than 50percent of it in all but four of the 11 categories for which unsatisfied allocations are reported. Columns 4 and 5 are based on unused volume cap calculated using both 1989 and prior years' carry-forward authority (see Figure 3). The share of denied or delayed projects reported by states that have not used all their volume cap declines to a still hefty 31.5 percent ($1.895 billion), but now these states account for more than 50 percent of unallocated projects in only one category (student loans).

How can it be that somewhere between $3.783 billion and $1.895 billion of denied or delayed tax-exempt private-activity bond financing exists in states which have between $3.741 billion and $1.154 billion of unused volume cap available for funding? Several explanations are plausible. First, the survey is an imperfect instrument for collecting data. Some of the states have undoubtedly overreported excess demand by assigning projects to 1989 that may not have been ready for funding until a later year, by including some projects that may not have been eligible for the tax exemption, or simply by making unrealistically high estimates.

Second, the states' priority systems and the need to make irrevocable elections for the use of unused volume cap at the time of carry-forward often make it difficult to switch unused volume cap from one government or activity whose priority allocation is high compared to demand for financing to another government or activity whose priority allocation eitherwas too low or nonexistent. Third, some of the unused volume cap from priority allocations is actually pledged as a carry-forward to high-ranking projects whose timing did not quite coincide with the allocation cycle. As a result. less preferred projects get rejected. It is not clear why the less preferred projects did not receive the 1989 allocation and why the most preferred were simply assigned part of the 1990 allocation. It may be that projects that take a long time to develop, such as a resource recovery plant. seek a pledge of current year cap in the initial phase of development planning that will then be carried forward to be used some time during the next three years.

Table 72

Denied or Delayed Requests for Volume Cap in 1989, Divided between States Reporting Exhausted and Unused Volume Cap

(millions)

		Unused Cap Status of States			
		Calculated Using 1989 Authority		Calculated Using 1986-89 Authority	
Private Activity	Excess Demand Amount	All Used Percent	Some Unused Percent	All Used Percent	Some Unused Percent
Mortgage Revenue Bonds	$2,146.9	64.3%	35.7%	82.5%	17.5 %
Student Loans	404.0	0.0	100.0	28.5	71.5
Small Issues	518.5	28.2	71.8	83.1	16.9
Solid Waste Disposal	2,109.0	22.5	77.5	56.7	43.3
Multifamily Housing	222.8	59.6	40.4	72.8	27.2
Qualified Redevelopment	20.0	0.0	100.0	100.0	0.0
Furnishing of Water	157.1	0.0	100.0	89.8	10.2
Local Furnishing of Electricity or Gas	315.6	0.0	100.0	50.6	49.4
Hazardous Waste Disposal	8.0	0.0	100.0	100.0	0.0
Sewage Disposal	[illegible]	[illegible]	[illegible]	100.0	0.0
Private-Use Portion	[illegible]	[illegible]	[illegible]	100.0	0.0
Total	$6,014.7	37.1%	62.9%	68.5%	31.5%

Source: ACIR-Urban Institute, Private-Activity Bond Survey.

State Suggestions for Reform of the Volume Cap

The states were asked if they had suggestions for improving the way in which the volume cap functions. They were not asked whether the volume cap should be retained. Responses were received from 22 states. These responses focused on several issues.

PROBLEMS WITH CAP ALLOCATION AMONG STATES

Concern was expressed that the allocation of the volume cap among the states is unfair. The cap is allocatedby population (except for the small states that receive $150 million). It was noted that the distribution of demand for the various private activities included under the cap also is affected by factors other than population. Mortgage revenue bonds were cited as an example-states with high housing costs cannot provide as much housing for a given population as states with low housing costs. It was suggestcd that the cap formula be adjusted to take economic and demographic factors into account.

PROBLEMS WITH SUNSET

The continual dcbatc over sunset of mortgage revenue bonds and small-issue IDBs has caused allocation problems. Survey respondents claimed that the uncertainty created by post-dated sunsets causes demand that would have been expressed some time after the sunset date to be accelerated and expressed in the year prior to the sunset date, creating problems in the allocation of the volume cap. With many states having assigned a fixed proportion of the cap to small issues and mortgage revenue bonds, this forces projects for other activities to do without an allocation until a later year.

PROBLEMS WITH CARRY-FORWARD

It was suggested that the way carry-forwards are handled should be changed. Requiring carry-forwards to be allocated to a particular issuer or activity reduces the state's flexibility to adjust to annual changes in demand among eligible activities. Respondents suggested that the carry-forward reside with the state administering agency without allocation to specific users or activities, thereby increasing flexibility. Another respondent suggested that the time frame for reporting to IRS on the allocation of the carry-forward is too short.

PROBLEMS WITH ACTIVITY DEFINITION

The major concern in this area is investment for environmental and conservation purposes. Many states believe that such activities as solid waste disposal, hazardous waste disposal, sewage treatment plants, and similar facilities, which are not governmentally owned, should not be includcd in the volume cap because they have a large component of public consumption no matter what their form of ownership. These states report substantial backlogs of projects in this area, and expect the backlog to continue to grow at a rapid rate. One state expressed concern that if mortgage revenue bonds and small-issue IDBs are ever allowed to sunset, then Congress might reduce the volume cap. It was suggested that this cap will be needed to fund the rapidly growing need for environmental and conservation projects.

Two other suggestions related to environmental issues. One recommendation was that growing concern about the environment might be addressed by again making pollution control bonds an exempt activity. Another concern was that the restriction of land acquisition costs to 25% of bond proceeds is too low for some projects, such as sanitary landfills.

Several small and primarily rural and agricultural states suggested that restricting the eligibility for small-issue IDBs to manufacturing facilities is unfair. Because these states have little in the way of manufacturing, the economic engines of their states receive little of this low-cost debt financing. They wonder what is so magical about manufacturing. In contrast, a large urban state suggested that the restriction of small issues to manufacturing is most desirable, and should not be extended to other types of economic activity.

Another state considers the 10 percent use of proceeds and security interest tests to be unrealistic with respect to the presence of public benefits. The state believes that governmental bonds should be allowed to have more than 10 percent private use and security interest, which would in turn reduce pressure on the volume cap.

MISCELLANEOUS SUGGESTIONS

Although responses seemed to indicate some acceptance of the need for the federal government to set a cap on private-activity bond volume, no such positive views were expressed about the second part of the volume cap program-the creation of a list of exempt activities to be included under the cap. It was suggested that the list be eliminated, thereby allowing the states to determine the activities on which to allocate the cap.

One state objected not so much to the adoption of a volume cap, but rather to the administrative costs of complying with the volume cap. It considers the volume cap to be one more example of mandates being imposed by the federal government without any compensation to help implement the federal goals.

Summary of Findings

The states have set priorities for use of the volume cap. Twenty-eight states have reserved portions of the cap for local issuers; 32 states have reserved portions of the cap for specific private activities.

$15.2 billion of private-activity bonds subject to the volume cap were issued in 1989. This represents a 67 percent decrease in the average volume of private-activity bonds issued from 1984 to 1986. The 1989 total volume was dominated by mortgage revenue bonds ($5.6 billion, 37 percent of the total) and small-issue industrial development bonds ($3.2 billion, 21 percent of the total).

$5.4 billion of the $15.2 billion of private-activity bond issues in 1989 were financed with unused volume cap authority from prior years that was carried forward for use in later years. Only 8 states used their entire 1989 volume cap authority in 1989. The unused 1989 volume cap amounted to 36 percent of the total volume cap for the 41 states.

The 36 percent unused volume cap masks a considerable difference between states that receive cap authority equal to $50 per resident (the large states) and the states that receive $150 million of cap in lieu of the smaller authority generated by $50 per resident. Unused cap for the larger states is 28 percent of their total cap, and for smaller states is 57 percent of their total cap.

The states reported $6.0 billion of projects were denied or delayed due to unavailability of volume cap authority. States reporting unused 1989 volume cap were responsible for 63 percent of these denied or delayed projects.

NOTES

[1] For a detailed account of the twists and turns of tax-exempt bond legislation from 1968 to 1989, see Dennis Zimmerman, *Private Use of Tax-Exempt Bonds: Controlling Public Subsidy of Private Activity* (Washington, DC The Urban Institute, forthcoming 1990).

[2] Although the language in this report refers to a volume capon bond issues, the restriction applies to any state or local contractual arrangement that involves the payment of interest income or its equivalent. Thus, short-term notes and such long-term financial arrangements as sale-leaseback, lease-purchase, and installment sales contracts also require a volume cap allotment if they are used for exempt private activities.

[3] Because some US. possessions have such small populations, the allocation of those with populations less than the least populous state are restricted to the percapita amount actually received by the least populous stale.

[4] Non-governmentally owned airports, docks, and wharves were subject to the volume cap in 1989, but Table 7 indicates that no bonds were issued for these purposes in 1989.

‘Arbitrage bonds are issued primarily to generate interest earnings rather than to build capital facilities. The proceeds of the bond issue are invested by the state or local government in taxable securities that earn a higher yield than the tax-exempt yield that must be paid by the state or local government on its tax-exempt bonds. Arbitrage bonds were first restricted in 1969, and were subjected to increasingly more comprehensive rebate requirements beginning in 1984 (and modified in 1989). An account of the multifamily housing arbitrage deals that occurred prior to the *Tar Reform Act of 1986* is available in numerous issues of *Credit Matkets* from 1987 through 1989.

[6] Any state that had less than $500,000 of volume cap remaining was considered to have exhausted its cap.

Glossary

This glossary provides definitions for selected terms used in this report. When the definitions refer to current law, the appropriate Internal Revenue Code sections are included.

Carry-Forward—The election to use current-year private-activity volume cap authority some time over the next three years for a particular type of private activity. Section 146(f).

Consumer-Loan Bond-Beginning in 1984, bonds for which 5 percent or more of the proceeds are used to make loans to individuals.

Governmental Bond-Beginning in 1986, bonds for which: (1) either 10 percent or less of the proceeds are used in a trade or business or 10 percent or less of the proceeds are secured by property used in a trade or business; or (2) 5 percent or less of the proceeds are loaned to an individual. Section 103(a).

Mortgage Revenue Bond—Private-activity bonds whose proceeds are used to finance mortgages for single-family owner-occupied housing. Section 143(a).

Multifamily Rental Housing Bond—Private-activity bonds (formerly IDBs) whose proceeds are used to finance the construction of multifamily rental housing targeted to lower income families. Section 142(d).

Small-Issue IDB-Any industrial development (private-activity) bond issue of $10 million or less used for manufacturing facilities or first-time farmers (up to $250,000), not restricted to any particular type of manufacturing activity. Section 144(a).

Student-Loan Bond—Private-activity bonds whose proceeds are used to finance student Loans for higher education. Section 144(b).

Taxable Industriul Development Bond (IDB) -From 1969 until 1986, bonds for which. more than' 25 percent of the proceeds were used in a trade or business and for which more than 25 percent of the proceeds were secured by property used in a trade or business.

Taxable Private-Activity Bond-Beginning in 1986, bonds for which more than 10 percent of the proceeds are used in a trade or business and for which more than 10 percent of the proceeds are secured by property used in a trade or business. Section 141(b).

Taxable Private-Loan Bond-Name change adopted in 1986 for consumer-loan bonds. Section 141(c).

Tax-Exempt Industrial Development Bond-An otherwise taxable industrial development bond for which an exception to permit issuance as a tax-exempt bond is provided in the Code.

Tux-Exempt Private-Activity Bond-An otherwise taxable private-activity bond for which an exception to permit issuance as a tax-exempt bond is provided in the Code. Sections 142-145.

Unified State Volume Cap-Passed in 1986. imposed a limit beginning in 1988 on the volume of private-activity bonds issued within a state equal to the greater' of $50 per person or $150 million. Section 146.

Veterans' Mortgage Bond-Private-activity bonds whose proceeds are used to finance mortgages for single-family housing owned and occupied by veterans. Section 143(b).

Appendix

Survey of State Experience with Private-Activity Bond Volume Cap

For purpose of follow, -up, please provide the name and phone number of the person completing the survey:

Name: ______________________________

Phone number: ( ) ____________

I. RULES TO ALL0 CATE THE VOLUME CAP

According to Federal law, bonds that pass nongovernmental (private) use and security interest tests are taxable unless the activity being financed is on a list of exempt activities. Most of these exempt activities are subject to a volume cap. Each State's exempt private-activity bond volume is to be allocated among the various governmental units within the State that are authorized to issue tax-exempt private-activity bonds. This allocation can either be done via the statutory method dictated by the Federal Government (one half of the bond volume to the State and its agencies and one half to local governmental units having bond issuing authority), or by State legislation that can allocate the volume cap in any way desired.

A. What agency adnninisters the allocation of the volume cap in your State?

B. What rule. is used to allocate the share of the volume cap dedicated to the State and its agencies versus the share dedicated to local governmental units having issuing authority? (If a statute, handbook, or document describing the rules is available, a copy would be sufficient).

C. What rules are used to allocate the volume cap among the eligible private activities? (If a statute, handbook, or document describing the rules is available, a copy would be sufficient).

II. AMOUNT 'TO BE ALLOCATED

A. What was the 1989 volume cap for allocation within your State?

B. According to Federal law, all private-activity bonds issued in 1989 are subject to the 1989 volume cap except for: (1) those private-activity bonds issued in 1989 that utilized unused volume cap carried forward from any of the three preceding years; and (2) 501(c)(3) bonds (for nonprofit organizations), veterans' mortgages, and governmentally owned airports, docks, wharves, and solid waste disposal facilities. In addition, the private-use portion of governmental bonds (up to 10 percent) is also subject to the cap.

1. What was the *total volume ofprivate activity bonds* issued within your State in 1989 subject to the volume cap? (Include in this total those bonds issued under 1989 volume cap authority, those issued under unused volume cap carried forward from previous years, and the private-use portion of governmental bonds. *Do nor include* in this total bonds issued for nonprofit organizations, veterans' mortgages, and governmentally owned airports, docks, wharves, and solid waste disposal facilities.)

2. What was the total volume of private-activity bonds issued within your State in 1989 *based upon carry-forward authority* (using unused volume cap borrowing authority carried forward from previous years)?

3. If you have such information, what was the total volume of private-activity bonds issued within your State in 1989 for nonprofit organizations, veterans' mortgages, and governmentally owned airports, docks, wharves, and solid waste disposal facilities?

HI. BREAKDOWN BY TYPE OF ACTIVITY

Please complete the private-activity bond volume table on the next page. The list includes all activities classified as exempt private activities by the *Tax Reform Act of 1986* and subsequent additions to the list, even those few private activities that are not subject to the volume cap. Note that the sum of the numbers entered in column (1) for private activities subject to the volume cap should equal the number entered in question II.B.l. Columns (2) and (3) separate bonds reported in question II.B.l between those issued under the 1989 cap allocation and those issued under prior years' cap allocations that have been carried forward. The sum of column (3) for activities included in the cap should equal the number you recorded in question II.B.2. The sum of the numbers you record in column (4) for private activities not included in the cap should equal the number you recorded in question II.B.3.

Example: Suppose $100 million of bonds were issued for nonprofit organizations (501(c)(3)s. For the "nonprofit organizations" category, enter $100 million in column 4.

Example: Suppose $100 million of bonds were issued for multifamily rental housing during 1989, of which $24 million was from carry-forward authority. Enter $100 million in column 1, $76 million in column 2, and $24 million in column 3.

Example: Suppose $2 billion of ***governmental*** bonds were issued, and $75 million of the proceeds were used for ***private*** purposes under the 10 percent rule. Enter $75 million in column 1 and $75 million in column 2.

A string of Xs indicates "not relevant" for that private activity.

Private-Activity Bond Volume in 1989

(enter numbers in $ millions)

Activity	(1) Total Volume	(2) 1989 Authority Included in Cap	(3) Carry-Forward Authority	(4) Private Activity But Excluded From Cap
UNDER VOLUME CAP:				
Qualified mortgage revenue	______	______	______	XXXXX
Student loans	______	______	______	xxxxx
Small-issues	______	______	______	xxxxx
Multifamily rental housing	______	______	______	xxxxx
Qualified redevelopment	______	______	______	xxxxx
Mass commuting	______	______	______	xxxxx
Furnishing of water	______	______	______	xxxxx
Local furnishing of electric & gas	______	______	______	xxxxx
Local district heating & cooling	______	______	______	xxxxx
Hazardous waste disposal	______	______	______	xxxxx
Sewage disposal	______	______	______	xxxxx
Takeover of investor-owned utilities	______	______	______	xxxxx
High-speed intercity rail transit	______	______	______	xxxxx
Private-use portion of governmental bonds	______	______	XXXXX	XXXXX
NOT SUBJECT TO CAP:				
Veterans' mortgages	xxxxx	xxxxx	xxxxx	______
Airports, docks, wharves	xxxxx	xxxxx	xxxxx	______
Solid waste disposal	xxxxx	xxxxx	xxxxx	______
Nonprofit organizations	XXXXX	xxxxx	xxxxx	______

IV. DEMAND FOR PRIVATE-ACTMTY BONDS

Did you have to deny or delay requests for bond issues in 1989 due to insufficient volume cap? YES NO ____. If you did, please list the volume of bonds affected by private-activity category. If you have reason to believe these numbers understated demand (for example, if knowledge of exhausted volume caps kept issuers from requesting allocations), please make a note of this understatement beside the numbers entered.

Activity	Volume Denied or Delayed
Qualified mortgage revenue bond	
Veterans' mortgage bonds (has its own cap)	
Student loans	
Small issues	
Airports, docks, wharves	
Solid waste disposal	
Multifamily rental housing	
Qualified redevelopment	
Mass commuting	
Furnishing of water	
Local furnishing of electricity and gas	
Local district heating and cooling	
Hazardous waste disposal	
Sewage disposal	
Takeover of investor-owned utilities	
High-speed intercity rail transit	
Private-use portion of governmental bonds	

Questions V and VI elicit opinions about what may occur with respect to the volume and allocation of the private-activity bond cap in your State and solicit suggestions for Federal government policy changes. If a different office or agency in the State is responsible for such issues, please do not hesitate to share this survey with them.

V. LOOKING AHEAD

A. How do you expect 1990 volume to compare to 1989 volume?

B. Do you expect to consider a change in allocation method or priorities. ? If so, please describe the options being considered.

VI. SUGGESTIONS FOR CHANGE

Please provide any suggestions you may have for restructuring the cap at the Federal level, e.g., size of the cap, activities to be deleted from the cap or added to the cap, etc. Please note that any discussion of these suggestions in the survey results will maintain respondent anonymity.

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The Commission is composed of 26 members—nine representing the federal government, 14 representing state and local government, and three representing the public. The President appoints 20—three private citizens and three federal executive officials directly, and four governors, three state legislators, four mayors, and three elected county officials from slates nominated by the National Governors' Association, the National Conference of State Legislatures, the National League of Cities, U.S. Conference of Mayors, and the National Association of Counties. The three Senators are chosen by the President of the Senate and the three Representatives by the Speaker of the House of Representatives.

Each Commission member serves a two-year term and may be reappointed.

As a continuing body, the Commission addresses specific issues and problems, the resolution of which would produce improved cooperation among the levels of government and more effective functioning of the federal system. In addition to dealing with important functional and policy relationships among the various governments, the Commission extensively studies critical governmental finance issues. One of the long-range efforts of the Commission has been to seek ways to improve federal, state, and local governmental practices and policies to achieve equitable allocation of resources and increased efficiency and equity.

In selecting items for the research program, the Commission considers the relative importance and urgency of the problem, its manageability from the point of view of finances and staff available to ACIR, and the extent to which the Commission can make a fruitful contribution toward the solution of the problem.

After selecting specific intergovernmental issues for investigation, ACIR follows a multistep procedure that assures review and comment by representatives of all points of view, all affected levels of government, technical experts, and interested groups. The Commission then debates each issue and formulates its policy position. Commission findings and recommendations are published and draft bills and executive orders developed to assist in implementing ACIR policy recommendations.