

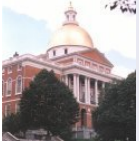
**Executive Office for  
Administration and Finance**

State House  
Rooms 373 & 272  
Boston, MA 02133

# **2010 Volume Cap Hearing *for Private Activity Bonds***

**Executive Office for Administration and Finance**

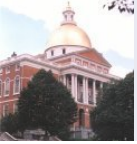
**January 6, 2010**



### Agenda for Hearing

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- 3:00 – 3:15 Introductions and information about volume cap allocations
- 3:15 –5:00 Open for comments from the general public

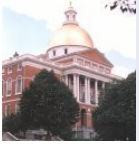


# About Private Activity Bonds

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Private Activity Bonds (PABs) are tax-exempt bonds issued by public entities to provide low-cost financing for private projects that serve a public purpose.

Public entities issue these tax-exempt bonds and loan the proceeds to private borrowers for public-purpose projects. The loan repayments from the private borrowers (not public funds) are used to pay back the bonds.



# How the Federal Subsidy Works for PABs

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Tax-exempt bonds result in a lower cost of borrowing.

- “Tax exempt” means that the interest paid to the bond owner is exempt from federal income taxes.
- Since the interest is tax exempt, the bond owner is willing to charge a lower interest expense for the loan.

For example:

A \$10,000 bond at 5% interest yields \$500 in interest to the bond owner; the bond owner then pays \$100 in taxes, keeping a net amount of \$400.

A \$10,000 tax-exempt bond at 4% interest yields \$400 in interest to the bond owner; the bond owner owes no taxes, and keeps a net amount of \$400.

*In the case of the tax-exempt bond, the bond owner is able to charge a lower interest rate and make the same amount.*

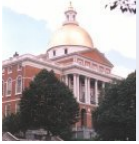


# Federal Tax Law Restrictions on PABs

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Federal tax law imposes a number of restrictions and requirements on the issuance of Private Activity Bonds:

- must be issued by a governmental entity
- limited to certain types of projects and borrowers
- public hearing and Governor's approval ("TEFRA")
- "volume cap" limits amount of PABs for non-charitable organizations
- *and many more restrictions...*



### About Volume Cap

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Federal tax law limits the total volume of private activity bonds that may be issued in each state - this limit is referred to as the “volume cap.”

Each state’s volume cap is calculated by multiplying the state’s population by a per capita dollar amount fixed by federal tax law; for example, the volume cap calculation for Massachusetts in 2010 is:

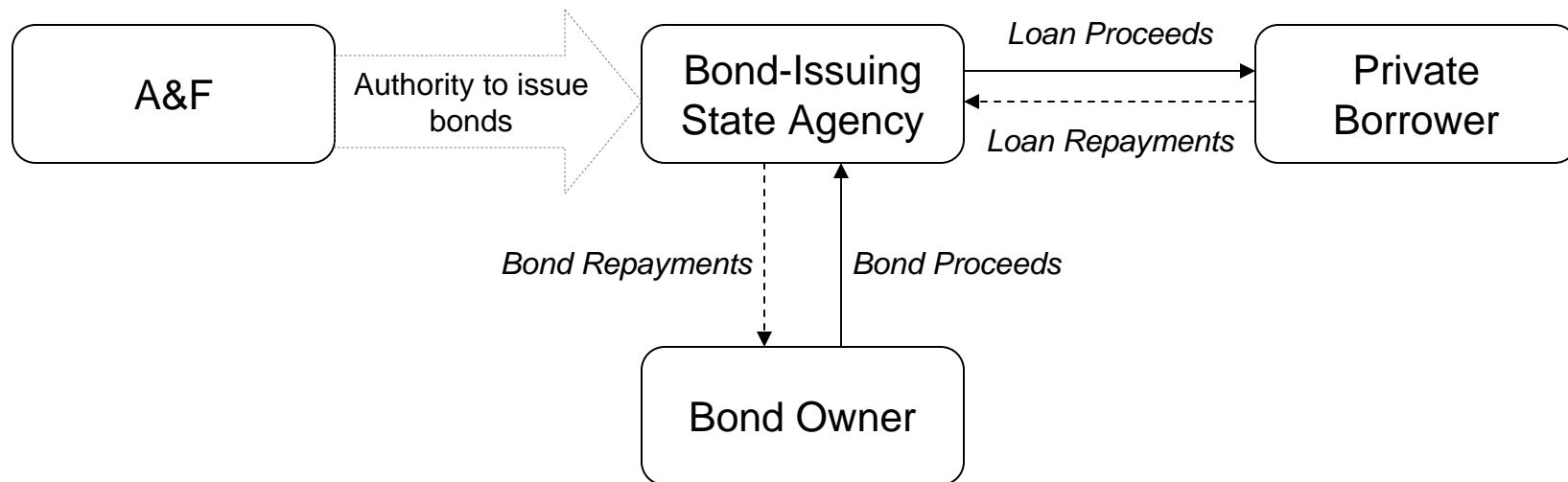
$$6,593,587 \text{ population} \times \$90 \text{ per capita} = \\ \mathbf{\$593,422,830}$$



# How Volume Cap Is Allocated in Massachusetts

Massachusetts state law grants the Secretary of Administration and Finance (A&F) the authority to allocate volume cap.

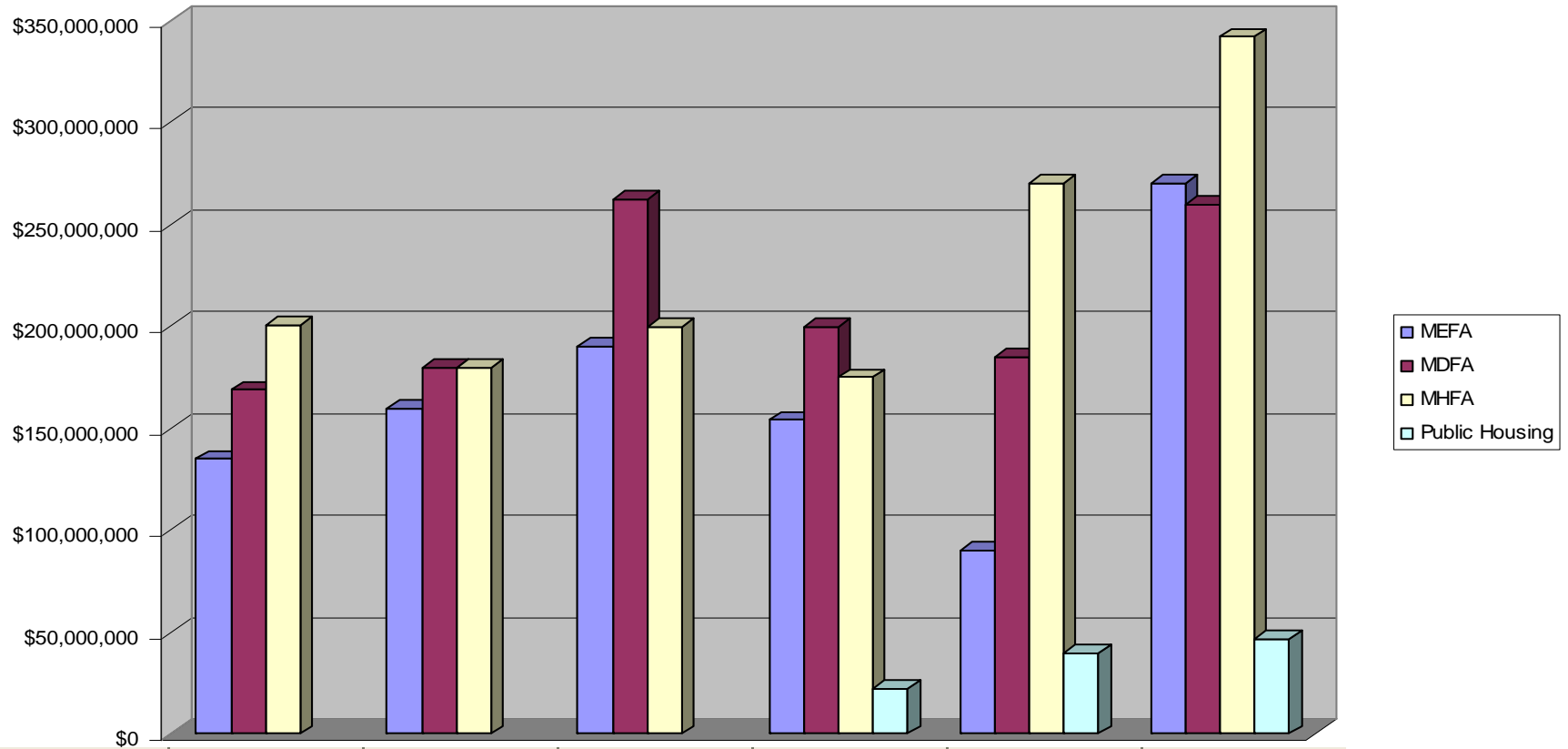
Volume cap has historically been allocated to the following three public entities, which are empowered by state law to issue PABs for certain purposes: MHFA, MEFA and MDFA.





# Administration and Finance

## How Volume Cap Has Been Reserved Historically



	2004	2005	2006	2007	2008	2009
<i>MEFA</i>	135,000,000	160,000,000	190,000,000	154,010,429	90,393,106	270,206,045
<i>MDFA</i>	168,809,402	180,000,000	262,321,320	200,000,000	185,000,000	260,000,000
<i>MHFA</i>	200,494,025	180,064,477	200,000,000	175,000,000	270,000,000	342,000,000
<i>Public Housing</i>				22,161,405	40,000,000	46,500,000



### 2009 Reservation

- \$270,206,045 was reserved for MEFA for subsidized student loans
  - included \$131,932,512 of 2008 unused volume cap carried forward to 2009
- \$150,000,000 was reserved for MDFA for job creation
- \$110,000,000 was reserved for MDFA for multi-family housing
- \$342,000,000 was reserved for MHFA:
  - Included \$201,956,503 for unused 2008 HERA cap carried forward into 2009
  - \$192 million was reserved for multi-family housing
  - \$150 million was reserved for single family housing
- \$46,500,000 was reserved for use by DHCD for public housing



# Administration and Finance

## Results of 2009

	2008		2009	
	Volume Cap Used by Purpose	Benefits	Volume Cap Used by Purpose	Benefits
Affordable Housing Units created or preserved	\$91,575,000	619	\$99,250,000	1,026
Loans to low and moderate income homebuyers	\$160,000,000	1,846*	\$110,176,527	1,107
Public Housing Units	\$14,000,000	95	\$28,050,000	110
Jobs Created	\$97,885,594	389	\$18,637,404	173
Student Loans	\$90,000,000	6,900**	\$269,996,351	9,667**
Total	\$453,460,594		\$526,110,282	

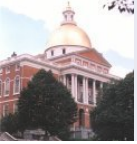
\* MHFA made 1,239 loans through December 31, 2008 and anticipates lending the remaining proceeds to an additional 607 qualified borrowers.

\*\* MEFA made 2,945 loans through December 31, 2008 and anticipates lending the remaining proceeds to an additional 3,955 qualified borrowers. Lending will continue into 2010 from proceeds issued in 2009.



### 2010 Volume Cap Available

- *2009 Volume Cap carried forward into 2010* = \$392,595,763
- *2010 Volume Cap* = \$593,422,830
- *Total Cap Available* = \$986,018,593



### **Volume Cap Allocation Process for 2010**

- Public hearing – January 6, 2010
- Volume cap allocation advisory panel interviews each bond issuing entity – by January 15, 2010
- Based on panel's deliberation and recommendations, A&F makes reservations of volume cap to bond issuing entities – by February 1, 2010
- A&F periodically reviews status of volume cap use and receives updates from bond issuing entities about projected needs throughout year
- If necessary, ANF reallocates volume cap reservations



### After Today's Hearing

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To submit further testimony after this hearing, email :

Lori D. Hindle – [Lori.Hindle@state.ma.us](mailto:Lori.Hindle@state.ma.us)

All materials from today's hearing will be posted at ANF website: [www.mass.gov/eoaf](http://www.mass.gov/eoaf) → "Capital Finance"

Additional materials will also be posted online:

- Volume cap reservation amounts
- Specific projects approved
- Other information as needed