Municipal Bonds, 2012–2013

by Kelly Dauberman and Aaron Barnes

Overall municipal bond issuances fell from $496.0 billion in 2012 to $422.4 billion in 2013 (Figure A).[1] The majority of municipal bond issuances in 2012 and 2013 came from tax-exempt bonds. Because of this, the article will mainly focus on the tax-exempt bond issuances for those years. At the end of the article, there is an additional section on credit payments made to issuers of direct payment bonds from 2009 to 2013.[2] However, the article excludes analysis of direct payment and tax credit bonds due to their low overall issuances during this period.

State and local governments issue tax-exempt bonds to finance operational and infrastructure needs.[3] Tax-exempt bonds have a longstanding history and provide bondholders (investors) interest payments exempt from Federal taxation and, often, State and local taxation. Tax-exempt bonds are classified as either "governmental" or "private activity," depending on whether the proceeds are used and secured by public or private entities and resources.

The tax-exempt bond data presented here are compiled from the populations of Forms 8038, *Information Return for Tax-Exempt Private Activity Bond Issues*, and Forms 8038-G, *Information Return for Tax-Exempt Governmental Obligations*, filed with the Internal Revenue Service (IRS) for bonds issued during the given calendar years.[4] Data for issuers of direct payment bonds requesting credit payments are based on the population of Forms 8038-CP, *Return for Credit Payments to Issuers of Qualified Bonds*, filed in a given calendar year.

The following sections discuss several defining characteristics of tax-exempt bonds and provide an overview of the market for tax-exempt bonds during the 2-year period 2012 through 2013.

Background Information on Tax-Exempt Bonds

When a bond is issued, the issuer is obligated to repay the borrowed funds at a specified interest rate, by a specific date. For Federal income tax purposes, investors who purchase governmental bonds and certain types of qualified private activity bonds are able to exclude the interest they earn from their gross incomes.[5,6] This tax exemption lowers the borrowing cost incurred by the issuers, since holders of tax-exempt bonds are generally willing to accept an interest rate that is lower than that earned on comparable taxable bonds.[7] The "spread" between high-grade municipal bonds and high-grade corporate bonds varied from 0.5 percent to 1.5 percent, depending on the bonds' maturity dates. Spread is a measure of the difference between the two investment yields. Investors in higher tax brackets have a greater tax incentive to invest in tax-exempt bonds than investors in lower brackets because the required yield on a taxable bond needs to be even greater than a tax-exempt bond for a comparable after-tax benefit.[8]

This tax exemption lowers the borrowing cost incurred by the issuers, since holders of tax-exempt bonds are generally willing to accept an interest rate that is lower than that earned on comparable taxable bonds.

Tax-exempt bonds fall into two classifications: "governmental" or "private activity." Governmental bond proceeds finance government operations, facilities, and services for general public

Highlights for 2012 and 2013

- Municipal bond issuances totaled $918.4 billion, 99.6 percent of which were tax-exempt bonds.
- Governmental bonds financed almost $729.6 billion in public projects such as schools, transportation infrastructure, and utilities in 2012 and 2013, while private activity bonds accounted for the remaining 20.3 percent of all tax-exempt bonds over the same period.
- Long-term bonds accounted for more than 80 percent of all governmental bonds and over 99 percent of all private activity bonds issued in 2012 and 2013.
- Over three-fifths (61 percent) of all long-term, governmental bond proceeds financed education, utilities, and transportation projects in 2012 and 2013, and nearly two-thirds (63.9 percent) of long-term private activity bonds financed qualified section 501(c)(3) bonds.
- The top 5 States issued 43.1 percent of the total "new money" long-term tax-exempt governmental bonds.

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[1] For Calendar Year 2011 data, see Barnes, Aaron, "Municipal Bonds, 2011," *Statistics of Income Bulletin*, Summer 2014.

[2] Issuers of direct payment bonds and specified tax credit bonds may request credit payments from the Treasury based upon interest payments made to bondholders using Form 8038-CP.

[3] The term "State" includes the District of Columbia and any possessions of the United States. The term "State" also includes Federally recognized Indian Tribal governments.

[4] Bond issuers were required to file these information returns by the 15th day of the second calendar month after the close of the calendar quarter in which the bond was issued.

[5] In addition, for State income tax purposes, most States allow for the exclusion of interest on bonds issued by government agencies within their own States, thus increasing the benefit to the bondholder.

[6] The extent of exclusion of interest income can vary with taxpayer characteristics. For example, banks and insurance companies may be limited as to how much tax-exempt interest they can exclude.

[7] The interest exclusion for tax-exempt bonds is not allowed for arbitrage bonds or unregistered bonds. An arbitrage bond is one in which any portion of the proceeds is used to purchase higher-yielding investments or is used to replace proceeds that have been used to purchase higher-yielding investments. Certain rules allow for arbitrage earnings with respect to tax-exempt bonds within a specified period, as long as these earnings are rebated to the Department of the Treasury.

[8] For more information on taxable and tax-exempt rate comparisons see: http://www.investinginbonds.com/learnmore.asp?catid=8&subcatid=53&id=206.

Figure A

Tax-Exempt, Taxable Direct Payment, and Tax Credit Bonds, 2011–2013

[Money amounts are in millions of dollars]

Type of bond	2011			2012			2013		
	Number	Amount	Percentage of total amount	Number	Amount	Percentage of total amount	Number	Amount	Percentage of total amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total [1]	**24,282**	**390,629**	**100.0**	**27,926**	**496,047**	**100.0**	**26,162**	**422,391**	**100.0**
Tax-exempt bonds	23,612	384,257	98.4	27,652	493,800	99.5	25,995	421,131	99.7
Taxable direct payment bonds [2]	614	6,156	1.6	239	2,155	0.4	93	1,016	0.2
Tax credit bonds [3]	56	216	[4]	35	92	[4]	74	244	0.1

[1] Includes combined data from all governmental, private activity bond, and specified tax credit and tax credit bond returns (Form 8038-G, *Information Return for Tax-Exempt Governmental Obligations;* Form 8038, *Information Return for Tax-Exempt Private Activity Bond Issues*; and Form 8038-TC, *Information Return for Tax Credit Bonds and Specified Tax Credit Bonds*).

[2] Includes specified tax credit bonds reported on Form 8038-TC that indicate the issuer elected to apply section 6431(f) to receive a refundable credit in lieu of tax credits under section 54(A). Issuers who elect to apply section 6431(f) are eligible to receive Federal direct payments and the bonds are classified as "taxable direct payment bonds" for purposes of this table.

[3] Excludes bonds reported on Form 8038-TC that indicate the issuer elected to apply section 6431(f) to receive a refundable credit in lieu of tax credits under section 54(A). See footnote 2, above.

[4] Less than 0.05 percent.

NOTE: Detail may not add to totals because of rounding.

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Bonds, November 2015.

use. Governmental sources pay the debt service on these bonds.[9] Private activity bonds are issued by, or on behalf of, State or local governments to finance a project sponsored by a private user. Since private activity bond proceeds are used by one or more private entities, the debt service is paid or secured by one or more private entities.[10] Interest income on most private activity bonds is taxable. However, Congress has deemed certain types of private activities necessary for the public good and, therefore, interest earned on "qualified private activity bonds," as defined in IRC section 141(e), is generally tax exempt.[11,12] The total annual amount of tax-exempt bond issuances for the years covered in this article was $493.8 billion (Calendar Year 2012) and $421.1 billion (Calendar Year 2013). During this time, governmental bonds accounted for roughly 80 percent of total tax-exempt bond proceeds, while private activity bonds accounted for the remaining 20 percent.

Most Tax-Exempt Bonds Are Long-Term Issuances

Bonds are classified as either short term or long term, depending on the length of time from issuance to maturity. Bonds typically classified as short term mature in less than 13 months, while bonds classified as long term mature in 13 months or more. Long-term bonds make up the majority of the tax-exempt bond market because they are generally used to finance construction or other capital improvement projects. Of the tax-exempt governmental bonds issued in 2012 ($389.8 billion) and 2013 ($339.7 billion), long-term bonds accounted for $324.3 billion and $283.4 billion. This made up more than four-fifths (83.2 percent and 83.4 percent) of all governmental bond proceeds.

Tax-exempt bonds issued for short-term projects accounted for nearly 17 percent of governmental bond issuances and less than 1 percent of the private activity issuances. Most short-term governmental bonds are issued in the form of tax anticipation notes (TANs), revenue anticipation notes (RANs), or bond anticipation notes (BANs). TANs and RANs generally mature within 1 year of issuance, at which time the proceeds are paid from specific tax receipts or other revenue sources. BAN proceeds are typically used to pay for start-up costs associated with a future, long-term, bond-financed project. A renewal BAN can be issued on maturity of an outstanding BAN, until the proceeds of the future bond issue are used to pay off, or retire, the outstanding BAN. In total, BANs, TANs, and RANs accounted for almost $62.1 billion in 2012 and $55.5 billion in 2013, or nearly 15.9 percent (2012) and 16.3 percent (2013) of the total governmental bond proceeds.[13]

Long-term bonds make up the majority of the tax-exempt bond market because they are generally used to finance construction or other capital improvement projects.

[9] See section 7871(c) of the Internal Revenue Code for tax-exempt bond requirements for Indian Tribal governments.

[10] Section 141(a) of the Internal Revenue Code (IRC) provides that the term private activity bond means any bond issued as part of an issue that meets: 1) the private business tests set forth in the IRC section 141(b); or 2) the private loan financing test set forth in IRC section 141(c). The private business tests of IRC section 141(b) define a bond as a private activity bond if both of the following criteria are met: 1) more than 10 percent of the bond proceeds are used for a private business purpose; and 2) more than 10 percent of the bond debt service is derived from private business use and is secured by privately used property. The private loan-financing test of IRC section 141(c) defines a bond as a private activity bond if the amount of proceeds used to (directly or indirectly) finance loans to nongovernmental persons exceeds the lesser of $5 million or 5 percent of the proceeds.

[11] Tax-exempt private activity bonds include exempt facility bonds, qualified mortgage bonds, qualified veterans' mortgage bonds, qualified small issue bonds, qualified student loan bonds, qualified redevelopment bonds, and qualified section 501(c)(3) bonds, all of which are defined in the "Explanation of Terms" section of this article. Examples of exempt facilities include airports; docks and wharves; sewage facilities; solid waste disposal facilities; qualified residential rental projects; and facilities for the local furnishing of electricity or gas. Qualified section 501(c)(3) bonds are issued by State and local governments to finance the activities of charitable and similar organizations that are tax exempt under IRC section 501(c)(3). The primary beneficiaries of these bonds are hospitals, universities, and organizations that provide low-income housing or assisted living facilities.

[12] The interest income from qualified private activity bonds (other than qualified section 501(c)(3) bonds) is considered a tax preference for the alternative minimum tax calculations.

[13] Data compiled for BAN/RAN/TAN include short-term issues and are not comparable to tables found in the SOI Tax Stats Tax-Exempt Bonds Statistics Webpage.

Figure B

Long-Term Governmental Bonds Issued, by Type and Issue Year, 2009–2013

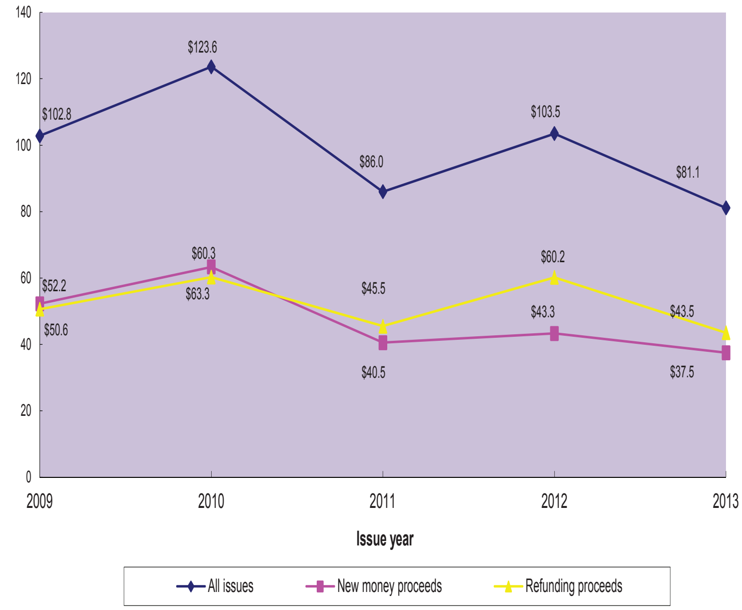
[Billions of dollars]

NOTE: Detail may not add to totals because of rounding.
SOURCE: IRS, Statistics of Income Division, Tax-Exempt Bonds, November 2015.

Figure C

Long-Term Private Activity Bonds Issued, by Type and Issue Year, 2009–2013

[Billions of dollars]



NOTE: Detail may not add to totals because of rounding.
SOURCE: IRS, Statistics of Income Division, Tax-Exempt Bonds, November 2015.

Refunding Bond Issuances Increased Sharply in 2012 Then Declined in 2013

Total bond issuances are composed of both nonrefunding ("new money") issues and refunding issues. New money proceeds finance new capital projects, while refunding proceeds retire outstanding bonds. During the refunding process, newly issued bond proceeds are used to pay off the outstanding balance of a previously issued bond(s). A bond issue can include both new money and refunding proceeds. Figures B (governmental) and C (private activity) show total long-term bond issuances, as well as their distribution between new money and refunding proceeds, between 2009 and 2013. Within Figure B, 2012 stands out as a peak year, with long-term governmental bond issuances totaling $324.3 billion, an increase of 39.5 percent over 2011. Long-term private activity bond issuances increased 20.3 percent from 2011 to 2012; however, the 2012 bond issuance amount remained below its 2010 level (Figure C). These increases in bond issuances in 2012 were largely driven by an increase in refunding issues, which may be due to State and local governments taking advantage of the low interest rate environment. Moreover, interest rates were also near historical lows in 2013, and refunding bond issuances decreased in that year. One possible explanation is that there were fewer refunding opportunities, due to the prolonged period of low interest rates, so refunding volumes declined.

Most Long-Term, Tax-Exempt Bonds Are Issued for a Few Select Purposes

Figures D (governmental) and E (private activity) each display long-term, tax-exempt bond proceeds by selected purpose and type of issue for 2012 and 2013. In both years, more than 60 percent of long-term, governmental bond proceeds financed education, utilities, and transportation projects (Figure D). In 2012 and 2013 combined, States and local governments used 29.4 percent of proceeds for "other bond purposes" not separately allocated by the issuer, or for issues that do not apply to any of the specific purposes listed on Form 8038-G. For example, filers often categorize bonds for capital improvements, which are bonds issued to fund multiple purposes, in the other bond purpose line.

> ***More than 60 percent of long-term, governmental bond proceeds financed education, utilities, and transportation projects.***

Qualified 501(c)(3) bonds are private activity bonds issued by 501(c)(3) organizations that meet the requirements of section 145(a). Generally, a 501(c)(3) organization must be organized and operated exclusively for educational, religious, or charitable purposes, and no part of the organization's net earnings may inure to or for the benefit of any private shareholders or individuals.[14] Two types of qualified 501(c)(3) bonds—qualified hospital bonds and qualified nonhospital bonds—accounted for

[14] For additional information on qualified section 501(c)(3) private activity bonds, see https://www.irs.gov/pub/irs-pdf/p4077.pdf.

Figure D1

Long-Term Tax-Exempt Governmental Bonds, by Selected Bond Purpose and Type of Issue, 2012

[Billions of dollars]

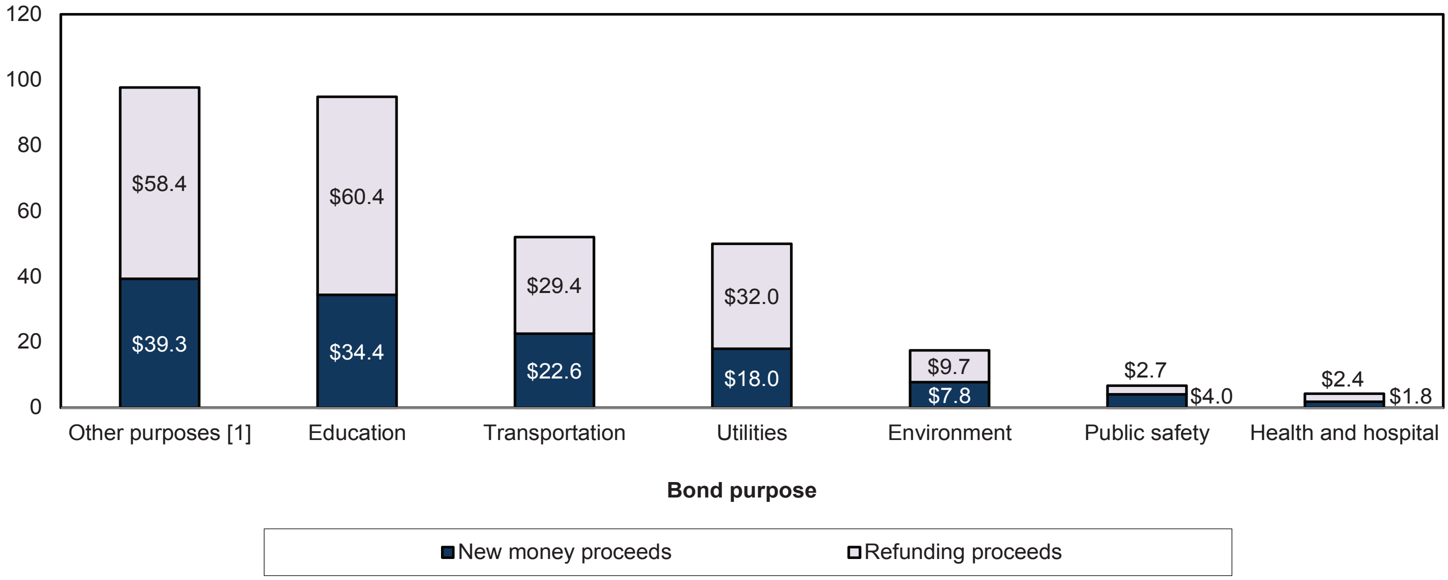
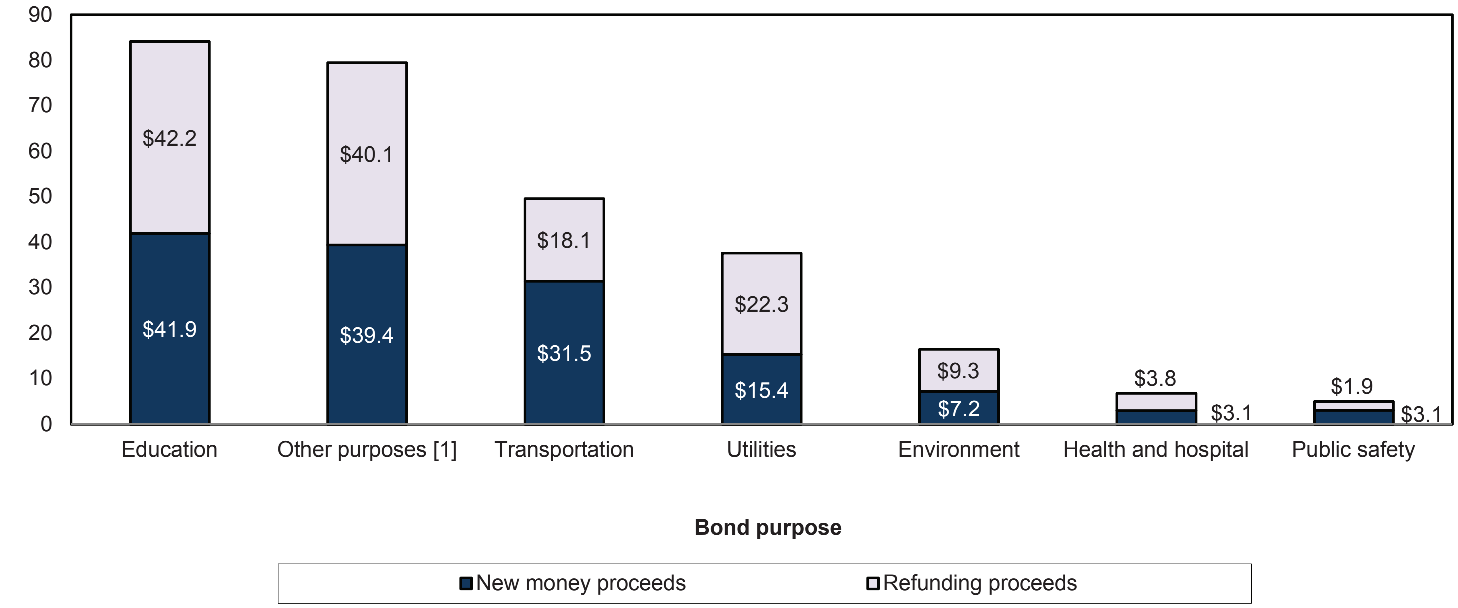


Figure D2

Long-Term Tax-Exempt Governmental Bonds, by Selected Bond Purpose and Type of Issue, 2013

[Billions of dollars]



[1] "Other purposes" refers to obligations for which a specific purpose either did not apply or was not clearly indicated on the Form 8038-G. It does not include specific purposes, such as housing and bond and tax/revenue anticipation notes, that are not shown separately in this figure. See Table 2.

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Bonds, November 2015.

Figure E1

Long-Term Tax-Exempt Private Activity Bonds, by Selected Bond Purpose and Type of Issue, 2012

[Billions of dollars]

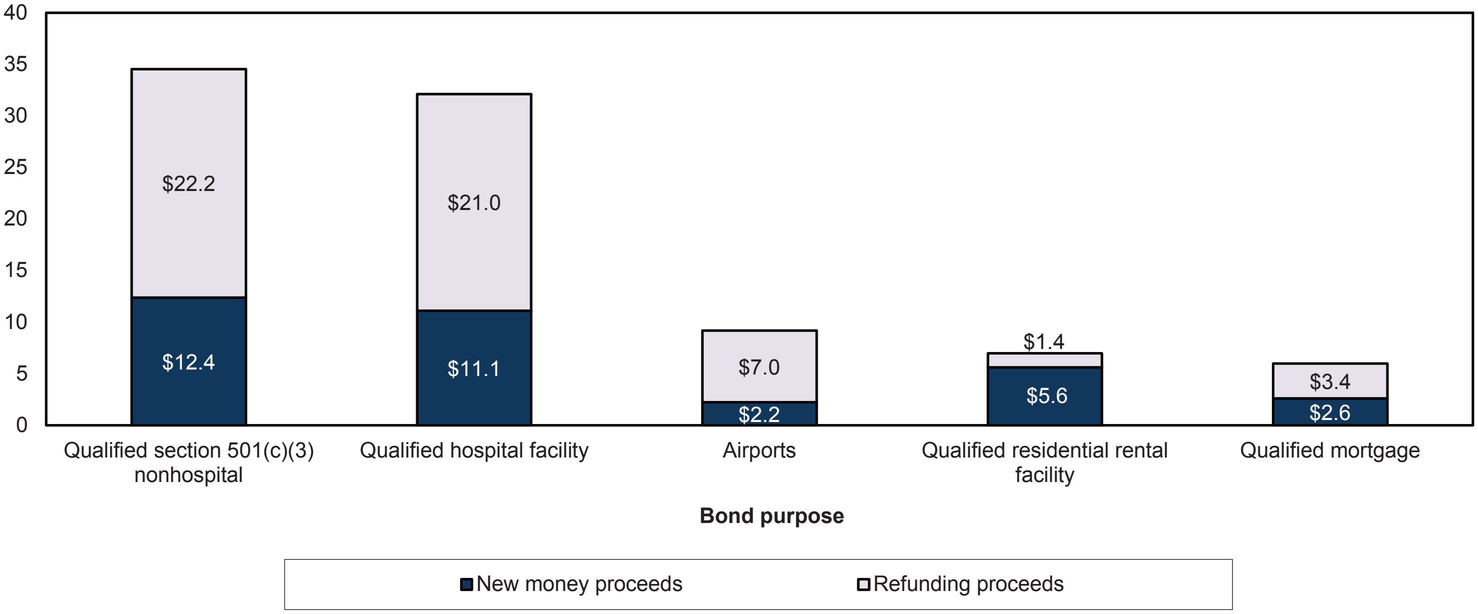
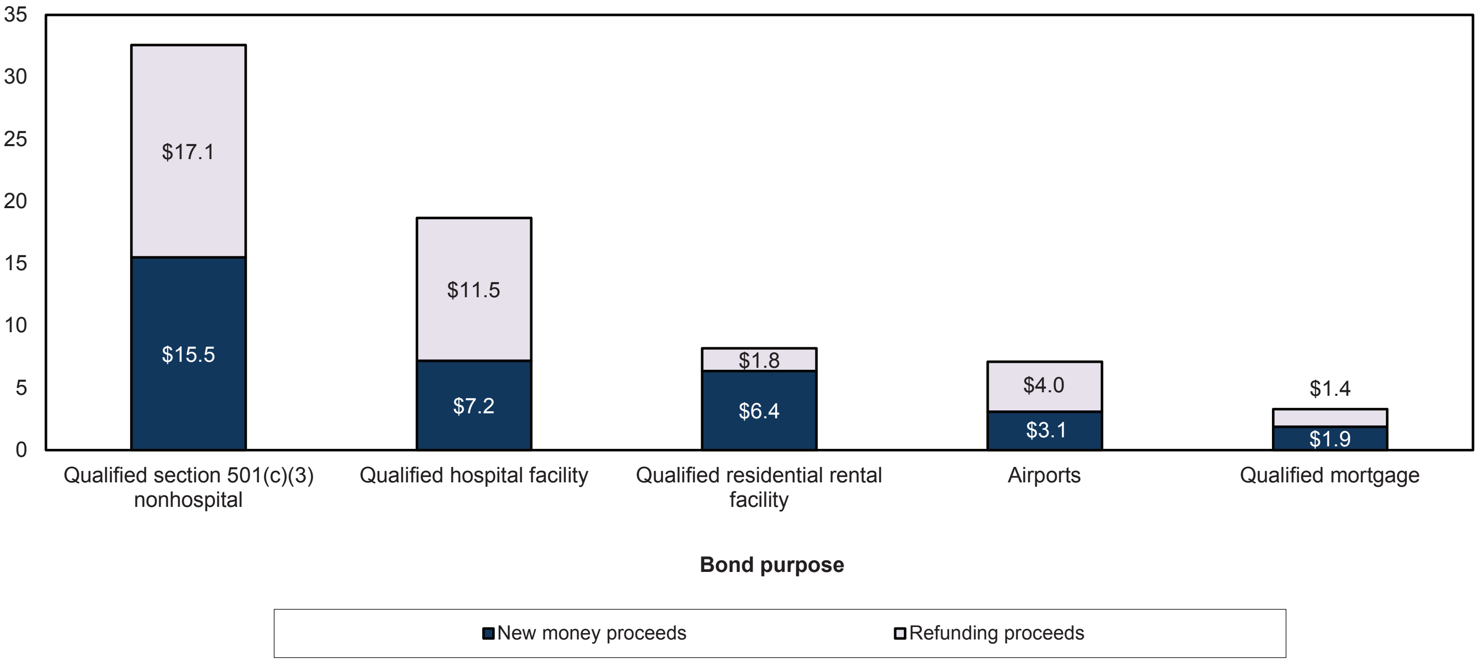


Figure E2

Long-Term Tax-Exempt Private Activity Bonds, by Selected Bond Purpose and Type of Issue, 2013

[Billions of dollars]



SOURCE: IRS, Statistics of Income Division, Tax-Exempt Bonds, November 2015.

Figure F

States with Largest Decreases and Increases in Amount of New Money Long-Term Tax-Exempt Governmental Bonds Issued, 2012 and 2013

[Billions of dollars]

State of issue	2012 amount	2013 amount	Change in amount	Percentage change in amount
	(1)	(2)	(3)	(4)
All States, total	**128,877**	**144,824**	**15,947**	**12.4**
States with decreases:				
Virginia	4,711	3,076	-1,635	-34.7
Colorado	3,640	2,081	-1,559	-42.8
Pennsylvania	7,847	6,608	-1,239	-15.8
Illinois	6,245	5,468	-777	-12.4
Nebraska	1,595	855	-740	-46.4
States with increases:				
California	12,892	20,442	7,550	58.6
New York	14,068	16,498	2,430	17.3
Texas	12,896	15,090	2,194	17.0
New Jersey	3,205	4,876	1,671	52.1
Oregon	1,196	2,503	1,307	109.3

SOURCE: IRS, Statistics of Income Division, Tax-Exempt Bonds, November 2015.

nearly two-thirds of long-term, private activity bond proceeds in both 2012 (64.4 percent) and 2013 (63.3 percent). However, total qualified hospital facility bond issuances decreased by 41.7 percent, from $32.1 billion in 2012 to $18.7 billion in 2013 (Figure E).

States with Large Populations Issue Most Tax-Exempt Bonds

Figure F presents data for States with the largest net decreases and net increases in the dollar amount of new money long-term, tax-exempt governmental bonds issued in 2012 and 2013. Large changes in this type of bond issuance may indicate a change in State-level investment in new capital projects. For all the States, total new money long-term, governmental bond proceeds increased slightly more than $15.9 billion (12.4 percent) from 2012 to 2013, rising to $144.8 billion. Virginia and Colorado decreased their net proceeds in dollar terms by more than all other States in 2013. California increased (by $7.6 billion) its net proceeds more than all other States, issuing $20.4 billion in 2013.

The amount of governmental bond proceeds for the top 15 States in terms of total dollar volume of new money long-term, tax-exempt bonds issued for 2012 and 2013 combined was 69.8 percent of the $273.7 billion total (Figure G). Authorities in the

Figure G

New Money Long-Term Tax-Exempt Governmental Bond Proceeds, by Selected Bond Purpose, for Top 15 States, Ranked by Total Issuances, 2012 and 2013 Combined [1]

[Money amounts are in millions of dollars]

State of issue	Total amount	Selected bond purpose									
		Other purposes [2]		Education		Transportation		Utilities		Environment	
		Amount	Percent of State total	Amount	Percent of State total	Amount	Percent of State total	Amount	Percent of State total	Amount	Percent of State total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
All States, total	**273,701**	**94,848**	**34.7**	**76,320**	**27.9**	**54,124**	**19.8**	**33,391**	**12.2**	**15,016**	**5.5**
California	33,334	7,999	24.0	12,810	38.4	5,879	17.6	5,073	15.2	1,574	4.7
New York	30,566	18,525	60.6	2,489	8.1	8,773	28.7	503	1.6	276	0.9
Texas	27,986	6,517	23.3	9,464	33.8	5,320	19.0	6,455	23.1	229	0.8
Pennsylvania	14,455	7,480	51.7	2,404	16.6	2,173	15.0	580	4.0	1,817	12.6
Illinois	11,713	3,575	30.5	3,355	28.6	3,502	29.9	597	5.1	685	5.8
Ohio	10,029	2,578	25.7	3,606	36.0	1,749	17.4	1,837	18.3	261	2.6
Washington	8,583	2,787	32.5	2,099	24.5	2,101	24.5	979	11.4	617	7.2
Florida	8,480	3,389	40.0	1,050	12.4	2,542	30.0	1,257	14.8	242	2.9
New Jersey	8,081	1,872	23.2	1,615	20.0	d	d	64	0.8	187	2.3
Virginia	7,787	2,328	29.9	2,405	30.9	2,103	27.0	481	6.2	468	6.0
Massachusetts	7,429	3,279	44.1	1,959	26.4	1,481	19.9	186	2.5	523	7.0
Connecticut	6,011	2,167	36.1	1,838	30.6	1,457	24.2	246	4.1	302	5.0
Maryland	5,897	1,941	32.9	1,614	27.4	918	15.6	66	1.1	1,358	23.0
Colorado	5,721	753	13.2	2,311	40.4	1,618	28.3	565	9.9	d	d
Minnesota	4,983	2,265	45.5	1,185	23.8	985	19.8	346	6.9	203	4.1

d—Data deleted to avoid disclosure of information about specific bonds. However, the data are included in the appropriate totals.

[1] Figure includes bonds issued during 2012 and 2013 and reported on the Form 8038-G.

[2] "Other purposes" refers to obligations for which a specific purpose either did not apply or was not clearly indicated on the Form 8038-G. It does not include specific purposes, such as public safety and housing, that are not shown separately in this figure. See Table 2.

SOURCE: IRS, Statistics of Income Division,Tax-Exempt Bonds, November 2015.

Figure H
States with Largest Decreases and Increases in Amount of New Money Long-Term Tax-Exempt Private Activity Bonds, 2012 and 2013

[Money amounts are in millions of dollars]

State of issue	2012 amount	2013 amount	Change in amount	Percentage change in amount
	(1)	(2)	(3)	(4)
All States, total	**43,259**	**37,545**	**-5,714**	**-13.2**
States with decreases:				
Iowa	2,365	505	-1,860	-78.6
Virginia	2,627	796	-1,831	-69.7
Indiana	2,517	1,251	-1,266	-50.3
California	4,973	4,141	-832	-16.7
Ohio	1,971	1,148	-823	-41.8
States with increases:				
Colorado	787	1,736	949	120.6
New Jersey	716	1,265	549	76.7
New York	3,169	3,662	493	15.6
Massachusetts	1,597	2,027	430	26.9
Maryland	666	1,038	372	55.9

NOTE: Some States were excluded due to disclosure.
SOURCE: IRS, Statistics of Income Division,Tax-Exempt Bonds, November 2015.

top 5 States—California, New York, Texas, Pennsylvania, and Illinois—issued about $118.1 billion (43.1 percent) of the total proceeds during the 2-year period. According to 2013 Census estimates, these 5 States accounted for almost 34.8 percent of the total U.S. population.[15]

Figure H presents States with the largest net decreases and net increases in the amount of new money long-term, tax-exempt private activity bonds for 2012 and 2013. For all States, total new money long-term, tax-exempt private activity bond proceeds decreased by approximately $5.7 billion (down 13.2 percent). Iowa accounted for the largest net decrease ($1.8 billion) in bond proceeds, while Colorado had the largest net increase ($949 million).

New money long-term, tax-exempt private activity bonds issued for the top 15 States during 2012 and 2013 combined accounted for 72.8 percent of the $80.8 billion total proceeds (Figure I).[16] Authorities in the following top 5 States issued almost $30.1 billion (37.3 percent) of the total proceeds: California (11.3 percent), New York (8.5 percent), Texas (8.0 percent), Pennsylvania (4.8 percent), and Indiana (4.7 percent). According to 2013 Census estimates, these 5 States accounted for almost 32.8 percent of the total U.S. population.

Figure I
New Money Long-Term Tax-Exempt Private Activity Bond Proceeds, by Selected Bond Purpose, for Top 15 States, Ranked by Total Issuances, 2012 and 2013 Combined [1]

[Money amounts are in millions of dollars]

State of issue	Total amount	Selected bond purpose					
		Qualified section 501(c)(3) nonhospital		Qualified hospital facility		Qualified residential rental facility	
		Amount	Percent of State total	Amount	Percent of State total	Amount	Percent of State total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All States, total	**80,804**	**27,893**	**34.5**	**18,285**	**22.6**	**11,968**	**14.8**
California	9,114	3,936	43.2	d	d	2,631	28.9
New York	6,831	2,142	31.4	650	9.5	3,699	54.2
Texas	6,491	1,439	22.2	d	d	d	d
Pennsylvania	3,915	2,053	52.4	1,356	34.6	167	4.3
Indiana	3,768	544	14.4	d	d	107	2.8
Massachusetts	3,624	1,526	42.1	604	16.7	892	24.6
Florida	3,614	1,827	50.6	449	12.4	357	9.9
Virginia	3,423	d	d	760	22.2	253	7.4
Ohio	3,119	635	20.4	2,009	64.4	135	4.3
Iowa	2,870	386	13.4	316	11.0	d	d
Illinois	2,793	1,329	47.6	853	30.5	255	9.1
Wisconsin	2,587	1,222	47.2	813	31.4	d	d
Colorado	2,523	1,317	52.2	d	d	186	7.4
Washington	2,191	235	10.7	d	d	491	22.4
New Jersey	1,981	309	15.6	335	16.9	d	d

d—Data deleted to avoid disclosure of information about specific bonds. However, the data are included in the appropriate totals.
[1] Figure includes bonds issued during 2012 and 2013 and reported on the Form 8038.
SOURCE: IRS, Statistics of Income Division,Tax-Exempt Bonds, November 2015.

[15] The resident population estimates for July 1, 2013, were produced by the U.S. Bureau of the Census and are available at http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmkxls.
[16] Given that qualified private activity bond authority is generally allocated to States based on population, States with larger populations are more likely to appear in Figure I.

Summary

Overall bond issuances fell from $496.0 billion in 2012 to $422.4 billion in 2013. The majority of municipal bond issuances in 2012 and 2013 came from the nearly 25,000 tax-exempt governmental bonds issued in 2012 and 23,000 issued in 2013. These governmental bonds raised a combined total of almost $729.5 billion of proceeds for public projects pertaining to schools, transportation, infrastructure, and utilities in 2012 and 2013. Of the combined 2012 and 2013 total of $607.7 billion for long-term governmental bonds issued, just over $273.7 billion (45 percent) of proceeds financed new projects, while the remaining $334.0 billion (55 percent) of proceeds were used to refund prior governmental bond issues. In addition, approximately 5,700 tax-exempt private activity bonds were issued in 2012 and 2013, for a total of almost $185.4 billion in proceeds. These tax-exempt private activity bond proceeds financed projects for qualified private facilities (such as residential rental facilities, single-family housing, and airports), as well the facilities of IRC section 501(c)(3) organizations (hospitals and private universities, for example). Just over 43.8 percent of proceeds of long-term private activity bonds issued ($184.6 billion) were used to finance new projects, while the remaining 56.2 percent of proceeds refunded prior tax-exempt private activity bond issues.

Data Sources and Limitations

SOI based the data presented in this article on the populations of Forms 8038, 8038-G, and 8038-TC filed with the Internal Revenue Service for bonds issued during Calendar Years 2012 and 2013. Tax-exempt bond data exclude returns filed for commercial paper transactions, as well as issues that are loans from the proceeds of another tax-exempt bond issue, an arrangement known as pooled financing. Data for tax credit bonds and specified tax credit bonds were compiled from Forms 8038-TC. Data for credit payments were compiled from the population of Forms 8038-CP filed for interest paid to bondholders during Calendar Years 2009 through 2013.

Bond issuers were required to file Forms 8038, 8038-G, and 8038-TC by the 15th day of the second calendar month after the close of the calendar quarter in which the bond was issued. The filing deadline for Form 8038-CP varied based on the structure of the interest payments. In an effort to include as many applicable returns for a particular year as possible, each of the respective study periods extended well beyond established filing deadlines. The Forms 8038, 8038-G, and 8038-TC data include

Credit Payment to Issuers of Direct Payment Bonds

The American Recovery and Reinvestment Act (ARRA) authorized direct payment bond issuance through the Build America Bonds (BAB) and the Recovery Zone Economic Development Bond (RZED) programs. These programs were created to provide an incentive for State and local governments to undertake new capital projects during a period of national recession. ARRA allowed issuers of these bonds to elect (in lieu of issuing tax-credit bonds) to receive a direct refundable credit payment from the Federal government equal to a percentage of the interest payments made to bondholders. The bond programs authorized by ARRA expired for new issues on January 1, 2011; however, issuers of bonds created under ARRA continue to request credit payments for previously issued bonds by filing Form 8038-CP, *Return for Credit Payments to Issuers of Qualified Bonds*. Direct payment bond issuers are required to file Form 8038-CP to request credit payments as interest payments are made throughout the term of the bond.

The Hiring Incentives to Restore Employment Act of 2010 (HIRE), enacted on March 18, 2010, extended the direct payment provision to certain issuers of specified tax credit bonds. In lieu of issuing bonds with a tax credit to the bondholder, issuers of specified tax credit bonds may elect to receive a Federal direct payment on an interest payment date equal to a certain percentage of the interest paid.[17] Once an issuer elected to treat a bond as a direct payment bond, the bondholders received taxable interest payments from the issuer, instead of a tax credit.

Figure J includes credit payment requests to issuers of direct payment bonds from 2009 through 2013. Since the inception of the Form 8038-CP, the number of returns, as well as the amount of credit payment outlays, have steadily grown. In 2009, only issuers of BABs and RZEDs were able to file the Form 8038-CP. A small number of QZABs and QSCBs were filed in 2010.[18] As of December 31, 2010, no new BABs or RZEDs were permitted, so the number and amount of credit payment requests have remained relatively constant from 2011 (nearly $3.8 billion) to 2013 (slightly more than $3.9 billion). The number and amount of credit payment requests for BABs and RZEDs are anticipated to decrease over time as bonds mature, issuers refund the debt, and as credit payment requests decrease in amount due to principal reduction. In contrast, issuers of specified tax credit bonds may still be eligible to issue bonds, so the number and amount of credit payment outlays will likely continue to grow or remain constant for several more years. The total amount of credit

[17] Internal Revenue Notice 2010-35 states, “Section 301 of the Hiring Incentives to Restore Employment Act, Pub. L. No. 111-147, 124 Stat. 71 (2010) (the “HIRE Act”) added subsection (f) to section 6431 of the Code, which authorizes issuers to irrevocably elect to receive Federal direct payments of allowances of refundable tax credits to subsidize a prescribed portion of their borrowing costs instead of the Federal tax credits that otherwise would be allowed to holders of certain qualified tax credit bonds under section 54A. For more information regarding the HIRE Act see Internal Revenue Notice 2010-35.

[18] In general, bond issuers may structure debt repayment on their own terms; however, most issuers of municipal bonds opt to make debt repayments biannually. Because most issuers of direct payment bonds choose to repay debt biannually, it is has been observed that accompanying Forms 8038-CP are filed shortly after issuance.

Credit Payment to Issuers of Direct Payment Bonds (Continued)

payments for BABs and RZEDs has remained near $4.0 billion from 2011 to 2013, while the credit payments for bonds created under HIRE grew from nearly $472 million in 2011 to $812 million in 2013 (Figure J).[19]

Figure J1
Composition of Credit Payment Outlays to Issuers of Direct Payment Bonds Under ARRA, by Bond Type, 2009–2013 [1][2]

[Billions of dollars]

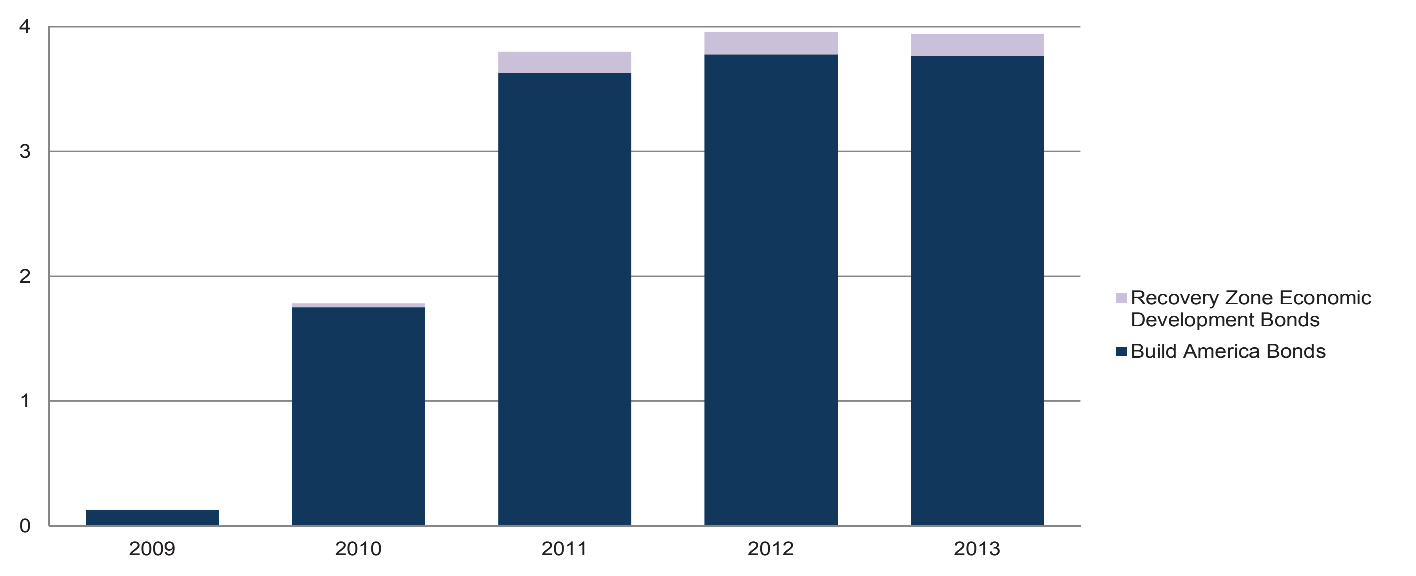
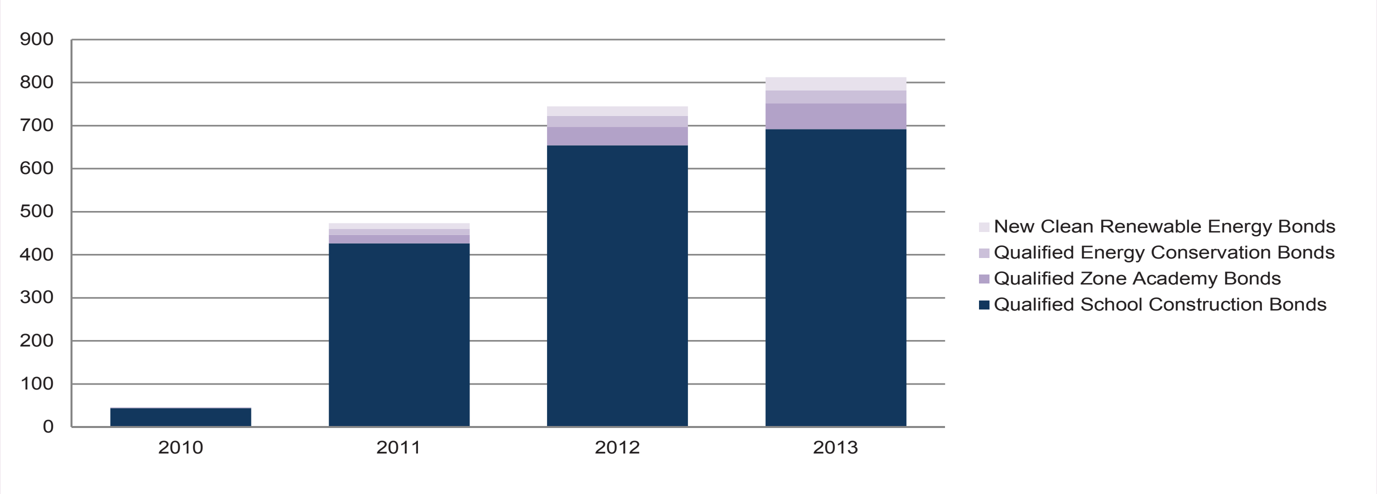


Figure J2
Composition of Credit Payment Outlays to Issuers of Direct Payment Bonds Under ARRA, by Bond Type, 2009–2013 [1][2]

[Millions of dollars]



[1] Form 8038-CP, *Return for Credit Payment to Issuers of Qualified Bonds* , is used by issuers of Build America bonds, recovery zone economic development bonds, and specified tax credit bonds who elect to receive a direct payment from the Federal Government equal to a percentage of the interest payments on these bonds. Specifically, issuers of Build America bonds receive a credit payment equal to 35 percent of interest payable, and issuers of recovery zone economic development bonds receive a credit payment equal to 45 percent of interest payable. For specified tax credit bonds the amount of refundable credit payments for qualified zone academy bonds and qualified school construction bonds is the lesser of 100 percent of the interest payable or 100 percent of the amount of interest determined at the applicable tax credit rate under Internal Revenue Code section 54A(b)(3). The amount of refundable credit payments for new clean renewable energy bonds and qualified energy conservation bonds is the lesser of 70 percent of the interest payable or 70 percent of the amount of interest determined at the applicable tax credit rate under section 54A(b)(3).

[2] Credit payment outlays are not subject to sequestration reductions in 2012. Credit payment outlays in 2013 are subject to sequestration reductions; however, the data shown for 2013 do not reflect the rate reduction. This is due to the fact that preparers are instructed to complete the Form 8038-CP in the manner provided by the Form 8038-CP Instructions. For more information see: http://www.irs.gov/Tax-Exempt-Bonds/Effect-of-Sequestration-on-Certain-State-and-Local-Government-Filers-of-Form-8038CP.

NOTE: Detail may not add to totals because of rounding.

SOURCE: IRS, Statistics of Income Division,Tax-Exempt Bonds, November 2015.

[19] Issuers of BABs were not subject to volume cap limitations. Issuers of RZEDs, as well as all direct payment tax credit bonds, were subject to volume cap limitations. Issuers of QSCBs were allocated $11 billion for each of Calendar Years 2009 and 2010; unused cap could be carried forward. Issuers of QZABs were allocated $1.4 billion for each of Calendar Years 2009 and 2010; unused cap could be carried forward up to 2 years. An additional $400 million was allocated to States for each of Calendar Years 2011 through 2013. Issuers of NEWCREBs were allocated $800 million with no restriction on year of issuance and issuers of QECBs were allocated $3.2 billion total with no restriction on year of issuance.

returns processed from January 1, 2012, to April 30, 2015, for bonds issued in 2012 and 2013. The Form 8038-CP data include returns processed from April 1, 2009, to July 1, 2015, for interest paid during 2009 through 2013. Where possible, SOI included data from amended returns filed and processed before the cutoff, and excluded late-filed returns processed after the respective cutoff dates.

During statistical processing, returns were subject to thorough testing and correction procedures to ensure data accuracy and validity. SOI conducted additional checks to identify and exclude duplicate returns, and wherever possible, edited returns with incomplete information, mathematical errors, or other reporting anomalies to resolve internal inconsistencies. However, in other cases, it was not possible to reconcile reporting discrepancies. Thus, some reporting and processing errors may remain.

Explanation of Selected Terms

American Recovery and Reinvestment Act of 2009 (ARRA)—An act of the 111th Congress passed on February 17, 2009, in response to the economic crisis. The passage of ARRA added to the Internal Revenue Code (IRC) sections 54AA and 1400U-1 through 1400U-3. These IRC sections authorize State and local governments to issue two general types of Build America Bonds, recovery zone economic development bonds, and recovery zone exempt facility bonds.

Build America Bond (BAB)—The American Recovery and Reinvestment Act (ARRA) added IRC section 54AA to enable State and local governments to issue bonds for authorized purposes to promote economic recovery and job creation. These new types of bonds would be issued as taxable governmental bonds with Federal subsidies to help offset a portion of issuers' borrowing costs. The two distinct types of Build America Bonds—Build America Bond tax credit and Build America Bond direct payment subsidy—vary by the structure of Federal subsidy. For Calendar Year 2010, issuers of Build America Bonds were required to file IRS Form 8038-B, *Information Return for Build America Bonds and Recovery Zone Economic Development Bonds*.

Build America Bond direct payment bond—This type of BAB provides a refundable credit payment to State or local governmental issuers in an amount equal to 35 percent of the total coupon interest payable to investors.

Clean renewable energy bond (CREB)—A type of tax credit bond used to finance eligible clean renewable energy projects, which are subject to a national volume cap. Issuers of clean renewable energy bonds under IRC section 54 must be eligible to apply for volume cap allocations. Clean renewable energy bonds were first authorized under the Energy Tax Incentive Act of 2005. For additional information, see Internal Revenue Notice 2007–26.

Commercial paper—Commercial paper consists of short-term notes that are continually rolled over. Maturities average about 30 days but can extend up to 270 days. Many localities use commercial paper to raise cash needed for current transactions.

Exempt facility bond—Bond issue of which 95 percent or more of the net proceeds are used to finance a tax-exempt facility (as listed in IRC sections 142(a)(1) through (15) and 142(k)). These facilities include airports, docks and wharves, mass commuting facilities, facilities for the furnishing of water, sewage facilities, solid waste disposal facilities, and qualified residential rental projects. They also include facilities for the local furnishing of electric energy or gas, local district heating or cooling facilities, qualified hazardous waste facilities, high-speed intercity rail facilities, environmental enhancements of hydroelectric generating facilities, and qualified public educational facilities.

Governmental bond—Any obligation that is not a private activity bond (see below) and is issued by a State or local government unit. The interest on a governmental bond is excluded from gross income under IRC section 103.

The Hiring Incentives to Restore Employment Act of 2010 (HIRE)—Enacted on March 18, 2010, HIRE provides an option for issuers of certain qualified tax credit bonds ("specified tax credit bonds") to irrevocably elect to issue the bonds with a direct pay subsidy, in the same manner as the build America bonds direct pay subsidy. The issuer of these bonds will receive an interest payment subsidy from the Federal government. Bondholders will receive a taxable interest payment from the issuer instead of a tax credit. For additional information, please see Internal Revenue Notice 2010-35.

Private activity bond—Bond issue of which more than 10 percent of the proceeds is used for any private business use and more than 10 percent of the payment of the principal or interest is either secured by an interest in property to be used for private business use (or payment for such property) or is derived from payments for property (or borrowed money) used for a private business use. A bond is also considered a private activity bond if the amount of the proceeds used to make or finance loans (other than loans described in IRC section 141(c)(2)) to persons other than governmental units exceeds the lesser of 5 percent of the proceeds or $5 million.

Qualified energy conservation bond—Any bond issued as part of an issue if: (1) 100 percent of the available project proceeds of such issue are to be used for one or more qualified conservation purposes; (2) the bond is issued by a State or local government; and (3) the issuer designates such bond for purposes of IRC section 54D.

Issuers of qualified energy conservation bonds receive 70 percent of the interest paid to the borrower if the interest were determined at the tax credit bond rate determined under section 54A(b)(3) for qualified tax credit bonds. If a qualified energy conservation bond was issued as a specified tax credit bond issuers can receive the lesser of 70 percent of their interest payment or the amount of interest that would have been paid if the interest rate was determined at the tax credit bond rate. For more information on new, clean renewable energy bonds, see IRC section 54D and Internal Revenue Notice 2010–35.

Qualified hospital bond—Type of qualified section 501(c)(3) bond issue of which 95 percent or more of the net proceeds are to be used to finance a hospital.

Qualified mortgage bond—Bond issue of which the proceeds (except issuance costs and reasonably required reserves) are used to provide financing assistance for single-family residential property, and which meets the additional requirements in IRC section 143. Bond proceeds can be applied toward the purchase, improvement, or rehabilitation of owner-occupied residences, as well as to finance qualified home-improvement loans.

Qualified school construction bond (QSCB)—A type of tax credit bond, of which 100 percent of the bond proceeds are to be used for construction, rehabilitation, repair, or land acquisition in connection with a public school facility, which is issued by a State or local government within the jurisdiction of where the school is located. QSCBs are subject to a national volume cap to be allocated by the Treasury among the States. The American Recovery and Reinvestment Act of 2009 (ARRA) created IRC section 54F authorizing QSCBs.

The Hiring Incentives to Restore Employment Act of 2010 allowed issuers of QSCBs to receive 100 percent of the interest paid to the borrower if the interest were determined at the tax credit bond rate determined under section 54A(b)(3) for qualified tax credit bonds. If a QSCB was issued as a specified tax credit bond, issuers can receive the lesser of 100 percent of their interest payment or the amount of interest that would have been paid if the interest rate was determined at the tax credit bond rate. For more information on QSCBs, see IRC section 54E and Internal Revenue Notice 2010–35.

Qualified section 501(c)(3) bond—Bonds issued by State and local governments to finance the activities of charitable organizations that are tax exempt under IRC section 501(c)(3). A bond must meet the following conditions to be classified as a section 501(c)(3) bond: 1) all property financed by the net proceeds of the bond issue is to be owned by a section 501(c)(3) organization or a governmental unit; and 2) the bond would not be a private activity bond if section 501(c)(3) organizations were treated as governmental units with respect to their activities that are not related trades or businesses, and the private activity bond definition was applied using a 5-percent threshold rather than a 10-percent threshold. The primary beneficiaries of these bonds are private, nonprofit hospitals, colleges, and universities. A qualified hospital bond issue is one in which 95 percent or more of the net proceeds are to be used for a hospital.

Qualified zone academy bond (QZAB)—A type of tax credit bond issued by a State or local government to finance certain eligible public school purposes authorized under IRC section 54E. QZABs are subject to a national volume cap to be allocated by the Treasury among the States.

Issuers of QZABs receive 100 percent of the interest paid to the borrower if the interest were determined at the tax credit bond rate determined under section 54A(b) (3) for qualified tax credit bonds. If a QZAB was issued as a specified tax credit bond, issuers can receive the lesser of 100 percent of their interest payment or the amount of interest that would have been paid if the interest rate was determined at the tax credit bond rate. For more information on QZABs, see IRC section 54E and Internal Revenue Notice 2010–35.

Recovery zone bond—The American Recovery and Reinvestment Act (ARRA) added IRC sections 1400U–1 through 1400U–3 authorizing State and local governments to issue recovery zone bonds. These bonds provide tax incentives through lower borrowing costs and are intended to promote job creation and economic recovery in targeted areas particularly affected by employment declines. See Internal Revenue Notice 2009–50 for additional information.

Recovery zone economic development bond—Authorized under IRC section 1400U–2, this type of bond provides for a deeper Federal subsidy through a refundable credit payment to State or local governmental issuers in an amount equal to 45 percent of the total coupon interest payable to investors. A recovery zone economic development bond must be a Build America Bond, the proceeds of which must be used for one or more qualified economic development purposes. Recovery zone economic development bonds are allocated under a $10-billion national bond volume cap. For Calendar Year 2010, issuers of recovery zone exempt facility bonds were required to file IRS Form 8038-B, *Information Return for Build America Bonds and Recovery Zone Economic Development Bonds*.

Recovery zone exempt facility bond—Authorized under IRC section 1400U–3, which expanded the definition of the term "exempt facility bond" to include any recovery zone facility bond. A recovery zone exempt facility bond must be a qualified private activity bond under IRC Section 142, the proceeds of which may be used to finance certain "recovery zone property." Recovery zone exempt facility bonds are allocated under a $15-billion national bond volume cap. For Calendar Year 2011, issuers of recovery zone exempt facility bonds were required to file IRS Form 8038, *Information Return for Tax-Exempt Private Activity Bonds.*

Specified tax credit bonds—New clean renewable energy bonds, qualified energy conservation bonds, qualified zone academy bonds, and qualified school construction bonds are specified tax credit bonds for purposes of IRC section 6431(f). As a result of legislation in the HIRE Act, issuers of these bonds can elect to receive the tax credit in the form of a direct payment subsidy instead of the bondholder (investor) receiving the tax credits. Issuers are required to file IRS Form 8038-TC, *Information Return for Tax Credit Bonds and Specified Tax Credit Bonds,* to report such issues. See IRC section 54 and Internal Revenue Notice 2010–35.

Tax credit bond—Tax credit bonds are not interest-bearing obligations. The holder of a tax credit bond is generally allowed an annual Federal income tax credit while the bond is outstanding. The amount of the credit is equal to the face amount of the bond multiplied by the credit rate of the bond. Unique to all other tax credit bonds, issuers of certain qualified tax credit bonds, specifically new clean renewable energy bonds and qualified energy conservation bonds, pay bondholders taxable interest payments in addition to the tax credit the bondholder receives. For additional information, see Internal Revenue Notice 2009–15 and "Frequently Asked Questions on Qualified Tax Credit Bonds and Specified Tax Credit Bonds" at http://www.irs.gov/pub/irs-tege/tc_and_stcb_q-a._09-07-10_1.5.pdf.

Additional Tabular Data on Tax Stats

SOI conducts annual studies on tax-exempt governmental bonds, tax-exempt private activity bonds, and tax credit bonds using data collected from Forms 8038, 8038-G, and 8038-TC filed by bond issuers. Additional tax-exempt bond data, including data for prior years, are available on SOI's Tax Stats Webpage: http//www.irs.gov/taxstats. Click on "Tax-Exempt Bonds." The direct link for SOI's tax-exempt bond statistics is: http://www.irs.gov/uac/SOI-Tax-Stats-Tax-Exempt-Bond-Statistics.

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