



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

MAR 29 1984

Dear Mr. Chairman:

Given the current Congressional interest in the volume and uses of private purpose tax-exempt bonds, we are transmitting a summary of the data reported for certain private purpose bonds issued during calendar year 1983. The information reporting requirement, enacted as part of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), requires issuers of certain private purpose bonds to report selected information about such bonds to the Internal Revenue Service.

The report includes a table showing the new issue volume (excluding refunding proceeds) for the bonds subject to the proposed State volume limitation in H.R. 4170 on a State-by-State basis. During 1983, thirty-four States issued less than \$150 per capita of bonds in categories that would be subject to the proposed volume limitation.

Sincerely,

/s/ John E. Chapoton

John E. Chapoton
Assistant Secretary
(Tax Policy)

The Honorable
Dan Rostenkowski, Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Enclosure

(copy also sent to Cong. Barber Conable)

TREASURY REPORT ON PRIVATE PURPOSE TAX-EXEMPT BOND
ACTIVITY DURING CALENDAR YEAR 1983

Department of the Treasury
Office of Tax Analysis
March 28, 1984

TREASURY REPORT ON PRIVATE PURPOSE TAX-EXEMPT BOND
ACTIVITY DURING CALENDAR YEAR 1983

Summary

This report presents data reported for private purpose tax-exempt bonds issued during calendar year 1983 and compiled from Form 8038. The face amount of long-term tax-exempt industrial development bonds, student loan bonds, and bonds for private non-profit organizations totaled \$50.0 billion in 1983. Combined with the volume of housing bonds, total long-term private purpose tax-exempt bond volume was \$62.4 billion, accounting for 68 percent of the total estimated long-term tax-exempt bond volume. Bonds issued for private businesses under the small issue IDB exemption were the largest category of private purpose bonds, totaling \$13.5 billion in 1983. Over one-half of the small issue IDB volume took place in the fourth quarter. During 1983, at least thirty-four States issued less than \$150 per capita of bonds in categories that would be subject to the House Ways and Means Committee's State volume limitation.

Background

Issuers of tax-exempt industrial development bonds (IDB's) and tax-exempt bonds for student loans and for private, non-profit organizations are required to report selected information about the bonds to the Treasury. Issuers must file IRS Form 8038 within 45 days of the end of the calendar quarter in which the obligation is issued in order for the interest on the obligation to be tax exempt. The reporting requirement, enacted in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), provides the first comprehensive data on the issuance of private purpose tax-exempt bonds. Comparable data for periods before 1983 are not available.

This report is an update of the preliminary Treasury report dated October 5, 1983, which described the data from the first half of 1983. Data for the first half of 1983 contained in this report may be different from that contained in the previous report for three reasons. First, this report excludes the amount of proceeds of bonds issued to refund outstanding obligations in order to report new issue volume. Second, this report includes information from late filed information returns for the first half of 1983. Third, additional error and consistency checks were completed and the original returns were checked for accuracy.

The data from the fourth quarter are preliminary due to possible late filings and additional consistency checks.

Total Volume of Private Purpose Tax-Exempt Bonds Issued

Table 1 shows the total face amount of long-term private purpose tax-exempt bonds issued during calendar year 1983 for which Form 8038 was submitted. ^{1/} The face amount of reported long-term private purpose bonds (including refunding issues) totaled \$50.0 billion. Long-term bonds have maturities exceeding one year.

Information reporting is not required for some types of private purpose tax-exempt bonds. These include mortgage subsidy bonds for owner-occupied housing, veterans' general obligation housing bonds, multi-family rental housing bonds exempt under Section 11(b) of the Housing Act of 1937, and bonds issued by the District of Columbia, Puerto Rico and U.S. possessions. Approximately \$11.0 billion of mortgage subsidy bonds, \$0.7 billion of veterans' general obligation housing bonds and \$0.8 billion of section 11(b) multi-family rental housing bonds were issued during 1983. No estimate is available for the volume of private purpose tax-exempt obligations issued by the District of Columbia, Puerto Rico or the U.S. possessions.

Including both reported and non-reported bonds, the total face amount of long-term private purpose tax-exempt bonds issued during 1983 was \$62.4 billion. Private purpose bonds accounted for 68 percent of the \$91.8 billion of total estimated long-term tax-exempt bonds issued during 1983. ^{2/}

Uses of Private Purpose Tax-Exempt Bonds

Table 2 shows the face amount and new issue volume of the different reported private purpose bonds. The bonds are separated into short-term obligations with maturities of one year or less and long-term obligations. The new issue volume equals the amount of funds received (purchase price) in excess of any proceeds used to retire outstanding obligations. For instance, a bond issue with a \$100 million face amount sold at par to refund a \$95 million outstanding obligation would count as \$5 million of new issues.

^{1/} Information reports received by March 1, 1984, two weeks after the final deadline, are included.

^{2/} The estimated total volume of long-term tax-exempt issues takes the Bond Buyer total of \$81.2 billion and adjusts for underreporting due to privately-placed small issue IDB's. The adjustment for underreporting equals the face amount of long-term small issue and industrial park IDB's (\$14.3 billion) minus the amount of publicly-reported (Bond Buyer) "industrial aid" bonds (\$3.7 billion). The total estimated volume is \$91.8 = \$81.2 + (\$14.3 - \$3.7) billion.

New issues of reported private purpose bonds totaled \$39.8 billion during 1983. ^{3/} Most short-term obligations were used to refund outstanding obligations. Only \$1.2 billion of the \$9.0 billion face amount of short-term bonds were new issues, while \$38.6 billion of the \$50.0 billion face amount of long-term bonds were new issues. New issues represent the increase in outstanding private purpose tax-exempt obligations (not including non-refunding retirements).

The five largest categories of private purpose tax-exempt bonds issued in 1983 are small issue IDB's, bonds issued for private, non-profit hospitals and educational facilities (section 501(c)(3) organizations), multi-family rental housing IDB's, pollution control IDB's, and student loan bonds. Thirty-four percent of the reported new issue total, or \$13.5 billion, was issued for private businesses under the small issue IDB exemption. Bonds for section 501(c)(3) organizations totaled \$8.2 billion, accounting for 21 percent of new issues. Multi-family rental housing IDB's exempt under I.R.C. section 103 totaled \$5.3 billion, or 13 percent of new issues. Pollution control IDB new issues totaled \$3.8 billion and student loan bond new issues totaled \$3.5 billion, or each roughly 9 percent of new issues.

Table 3 shows the total new issue volume of reported private purpose bonds by calendar quarter during 1983. The fourth quarter new issue volume was \$17.6 billion, or 44 percent of the annual volume. In particular, small issue IDB volume in the fourth quarter was \$7.7 billion, greater than the total volume issued during the first three quarters. The heavy fourth quarter volume is partly attributable to bonds that would otherwise have been issued in 1984, but were issued in 1983 to avoid the proposed restrictions on IDB's in H.R. 4170.

Volume of Private Purpose Bonds By State

Table 4 shows the total reported new issue volume by type of bond for each State. The volumes are reported for all private purpose tax-exempt bonds subject to the information reporting requirement, including multi-family rental housing IDB's and bonds issued for section 501(c)(3) organizations (which are excluded from the House Ways and Means Committee's proposed State volume limitation in H.R. 4170).

Table 5 shows States' per capita volume for the bonds affected by the State volume limitation proposed in H.R. 4170 as amended. The average per capita amount of bonds subject to the volume limitation in 1983 was \$113, compared to the proposed \$150 annual per capita amount. This figure is higher than what

^{3/} No information on the amount of refunding was collected for student loan bonds.

ould be actually covered under the volume limitation for two reasons. First, some student loan bond volume was used to refund earlier obligations. The refunding portion of student loan bonds, which is excluded from the volume limitation, is not reported on Form 8038. Second, those IDB-financed convention and transportation facilities owned by a governmental unit for Federal income tax purposes are excluded from the volume limitation. It is not possible from the information on Form 8038, however, to identify which convention and transportation facility IDB's would be excluded from the cap. Thus, a separate per capita sub-total, excluding all convention and transportation facility IDB's, is shown.

Thirty-four States had less than \$150 per capita of bonds affected by the proposed State volume limitation and thus would not have been restricted by the proposed limitation had it been in effect in 1983. Of the 16 States exceeding the \$150 per capita limit, one-half issued less than \$200 per capita. Several of these States would have lower per capita volume applicable to the limitation if refunding student loan bonds and some convention and transportation IDB's were excluded.