

October 18, 1983  
JCX-33-83

PROPOSAL FOR TAX-EXEMPT BONDS  
(MORTGAGE SUBSIDY BONDS AND IDBs)

I. Mortgage Subsidy Bonds

A. Extension of Mortgage Bond Authority

The tax exemption for qualified mortgage bonds would be extended for 5 years (i.e., for bonds issues prior to January 1, 1989). State mortgage bond volume caps would be reduced by veterans' bonds issued in the prior year, and veterans' bonds would sunset after 1988. Additionally, mortgage subsidy bonds (including veterans bonds) would be made subject to the TEFRA reporting requirements for private purpose bonds.

B. Mortgage Credit Certificates (MCCs)

State and local governments would be permitted to elect, for any year, to exchange all or a part of their qualified mortgage bond authority for authority to issue qualified mortgage credit certificates (MCCs). The amount of authority which could be exchanged would be restricted to 9 percent of the average volume of single family mortgages in the prior three years (i.e., the \$200 million safe harbor ceiling would not be applicable for exchange purposes).

MCCs would entitle homeowners to nonrefundable credits not exceeding 50 percent (but not less than 10 percent) of mortgage interest on qualifying principal residences. The credits would be subject to the existing eligibility requirements for qualified mortgage bonds. Credits not usable by the taxpayer in the current year could be carried over.

The total principal amount of MCCs distributable by State or local government would be equal to 15 percent of the principal amount of exchanged mortgage subsidy bond authority. For States and localities which issued less than their full authorized volume of mortgage subsidy bonds in 1983, the authority to issue MCCs would be phased in over a 5-year period. The 1983 volume would be an annualized amount based on the actual issues in the first nine months of 1983. MCCs would be subject to the same sunset as mortgage subsidy bonds.

Under the bill, MCCs could be distributed only following the announcement by the State or local government, at least 90 days before distribution, of a proposed plan of distribution.

## II. Industrial Development Bonds

### A. Volume Caps for Private Purpose Bonds

#### PROPOSAL:

State-by-state volume caps would be set for all private purpose bonds other than mortgage subsidy bonds and bonds issued to benefit 501(c)(3) organizations (i.e., the cap would include all IDBs and student loan bonds). The cap would not apply to bonds issued for traditional public purposes (e.g., schools, roads, and public improvement projects and the financing of public debt). The cap would be adjusted after 1986 to reflect the previously enacted changes applying to small issue bonds.

#### IMPLEMENTATION:

- a. Beginning in 1984, set per capita cap on annual bond issuance equal to \$150.
- b. Volume cap for each state would be set by multiplying \$150 by population of the State (as most recently estimated by the Census Bureau), as modified by a phase-in adjustment.

- c. Four-year phase-in adjustment:

For States whose 1983 volume of issuance exceeded 1984 cap, increase 1984 cap by 3/4 of difference. For such states in 1985, the cap would be increased by 1/2 the difference between 1983 volume and otherwise applicable 1985 cap. A factor of 1/4 would be used for 1986. The volume for 1983 would be based on annualized volume through September (to prevent a rush to market).

For States whose 1983 volume was below 1984 cap, the 1984 cap would be reduced by 3/4 of the difference. Factors of 1/2 and 1/4, respectively, would be used in 1985 and 1986.

- d. Refinancing of outstanding issues (so long as maturity is not extended) and rollover of short-term construction financing would not count towards the cap.

- e. Allocation:

Each State's cap would be allocated according to the principles for allocation of mortgage subsidy bond authority. Thus, for each State, authority would be allocated 50 percent to State and 50 percent to local issuers on the basis of

population, unless the state legislature (or governor, on an interim basis) determines an alternate method of allocation. Local volume caps would be allocated to the smallest units which exercise general governmental powers and which have authority under the State constitution or statutes to issue bonds. A special allocation would be made for constitutional home rule cities (as was the case for mortgage bonds).

BACKGROUND:

1. National per capita volumes of private purpose, long-term tax-exempt bonds (excluding bonds issued to benefit §01(c)(3) organizations and refinancing issues),<sup>1</sup> by type (based upon 1980 population of 226,564,000).

|                      | 1981                 | 1982 | 1983<br>(est.) |
|----------------------|----------------------|------|----------------|
|                      | (dollars per capita) |      |                |
| Student Loans        | 5                    | 8    | 14             |
| Small-issue IDBs     | 56                   | 56   | 67             |
| Multi-family housing | 5                    | 23   | 22             |
| Pollution Control    | 16                   | 26   | 20             |
| Other                | 10                   | 14   | 16             |
| TOTAL                | 92                   | 127  | 139            |

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<sup>1</sup> Includes bonds for private hospitals and educational facilities. The per capita volume of private nonprofit hospital bonds (net of refinancing issues) is \$14 for 1981, \$23 for 1982, and an estimated \$35 for 1983.

Industrial Development and Student Loan Bond Volumes  
Per Capita By State for the First Half of 1983 <sup>1/</sup>

| Total<br>Volume<br>Per<br>Capita | State               | Face Amount of Non-Refunding <sup>2/</sup> Issues Per Capita <sup>3/</sup> |  |                           |                              |               |  |
|----------------------------------|---------------------|--|--|---------------------------|------------------------------|---------------|--|
|                                  |                     | Student<br>Loan<br>Bonds   | Small-Issue<br>& Industrial<br>Park IDBs | Rental<br>Housing<br>IDBs | Pollution<br>Control<br>IDBs | Other<br>IDBs |  |
| \$ 45                            | Alabama             | \$ 19  | \$ 8                                     | \$ 17                     | \$ 0                         | \$ 0          |  |
| 51                               | Alaska              | 0  | 45                                       | 8                         | 0                            | 0             |  |
| 262                              | Arizona             | 75   | 39                                       | 58                        | 59                           | 31            |  |
| 45                               | Arkansas            | 0  | 22                                       | 4                         | 16                           | 4             |  |
| 33                               | California          | 4  | 3  | 18                        | 1                            | 7             |  |
| 63                               | Colorado            | 0  | 19                                       | 20                        | 15                           | 10            |  |
| 17                               | Connecticut         | 0  | 9  | 8                         | 0                            | 0             |  |
| 464                              | Delaware            | 0  | 44                                       | 20                        | 17                           | 384           |  |
| 76                               | Florida             | 0  | 10                                       | 15                        | 21                           | 30            |  |
| 53                               | Georgia             | 0  | 22                                       | 24                        | 0                            | 7             |  |
| 0                                | Hawaii              | 0  | 0  | 0                         | 0                            | 0             |  |
| 22                               | Idaho               | 18   | 4  | 0                         | 0                            | 0             |  |
| 31                               | Illinois            | 4  | 11                                       | 1                         | 1                            | 13            |  |
| 71                               | Indiana             | 4  | 12                                       | 3                         | 37                           | 14            |  |
| 38                               | Iowa                | 21   | 16                                       | 1                         | 0                            | 0             |  |
| 88                               | Kansas              | 0  | 27                                       | 17                        | 39                           | 5             |  |
| 120                              | Kentucky            | 89   | 7  | 1                         | 16                           | 7             |  |
| 92                               | Louisiana           | 0  | 22                                       | 33                        | 20                           | 17            |  |
| 8                                | Maine               | 0  | 8  | 0                         | 0                            | 0             |  |
| 134                              | Maryland            | 0  | 14                                       | 22                        | 9                            | 90            |  |
| 69                               | Massachusetts       | 25   | 14                                       | 1                         | 0                            | 28            |  |
| 16                               | Michigan            | 0  | 6  | 3                         | 7                            | 0             |  |
| 37                               | Minnesota           | 0  | 25                                       | 12                        | 0                            | 0             |  |
| 106                              | Mississippi         | 0  | 55                                       | 25                        | 6                            | 20            |  |
| 15                               | Missouri            | 0  | 5  | 2                         | 8                            | 0             |  |
| 72                               | Montana             | 43   | 13                                       | 14                        | 1                            | 1             |  |
| 19                               | Nebraska            | 0  | 13                                       | 5                         | 0                            | 0             |  |
| 296                              | Nevada              | 0  | 11                                       | 21                        | 175                          | 89            |  |
| 16                               | New Hampshire       | 0  | 15                                       | 0                         | 0                            | 0             |  |
| 52                               | New Jersey          | 0  | 26                                       | 11                        | 10                           | 6             |  |
| 79                               | New Mexico          | 32   | 26                                       | 0                         | 21                           | 0             |  |
| 40                               | New York            | 0  | 6  | 8                         | 10                           | 16            |  |
| 9                                | North Carolina      | 0  | 7  | 2                         | 0                            | 0             |  |
| 33                               | North Dakota        | 0  | 29                                       | 2                         | 0                            | 0             |  |
| 16                               | Ohio                | 0  | 11                                       | 0                         | 3                            | 2             |  |
| 62                               | Oklahoma            | 0  | 9  | 46                        | 0                            | 8             |  |
| 5                                | Oregon              | 0  | 5  | 0                         | 0                            | 0             |  |
| 27                               | Pennsylvania        | 0  | 26                                       | 1                         | 0                            | 0             |  |
| 23                               | Rhode Island        | 0  | 23                                       | 0                         | 0                            | 0             |  |
| 92                               | South Carolina      | 0  | 8  | 0                         | 67                           | 15            |  |
| 27                               | South Dakota        | 0  | 1  | 0                         | 13                           | 13            |  |
| 49                               | Tennessee           | 0  | 39                                       | 8                         | 0                            | 2             |  |
| 96                               | Texas               | 15   | 16                                       | 60                        | 1                            | 4             |  |
| 171                              | Utah                | 34   | 12                                       | 26                        | 63                           | 35            |  |
| 15                               | Vermont             | 0  | 0  | 16                        | 0                            | 0             |  |
| 102                              | Virginia            | 51   | 18                                       | 12                        | 11                           | 10            |  |
| 26                               | Washington          | 0  | 3  | 0                         | 0                            | 23            |  |
| 34                               | West Virginia       | 0  | 15                                       | 7                         | 12                           | 0             |  |
| 13                               | Wisconsin           | 0  | 13                                       | 0                         | 0                            | 0             |  |
| 256                              | Wyoming             | 0  | 15                                       | 0                         | 240                          | 0             |  |
| \$ 54                            | Total <sup>1/</sup> | \$ 7   | \$ 14                                    | \$ 13                     | \$ 9                         | \$ 11         |  |

Office of the Secretary of the Treasury  
Office of Tax Analysis

October 18, 1983

Note: All figures are preliminary based on returns filed before August 16, 1983. Detail may not add to total due to rounding.

- <sup>1/</sup> Annual volume per State may be more or less than two times the volume during the first six months.
- <sup>2/</sup> Includes both short-term and long-term non-refunding bonds. Bonds were classified as refundings if 80 percent or more of lendable proceeds are used to refund earlier issues.
- <sup>3/</sup> Population statistics from the 1980 Population Census.

**B. Restrictions on cost recovery for IDB-financed property**

All IDB-financed property would receive straight-line cost recovery over applicable ACRS periods. This includes IDBs used to finance the following types of activities:

1. Low to moderate income multi-family housing (present law allows accelerated cost recovery over ACRS periods)
2. Sports facilities (no change from present law)
3. Convention or trade show facilities (no change from present law)
4. Airport, dock and wharf facilities (no change from present law)
5. Mass commuting facilities and parking facilities (no change from present law)
6. Sewage and solid waste disposal facilities (present law allows accelerated cost recovery over ACRS periods for municipal sewage and solid waste, straight-line over ACRS periods for industrial waste)
7. Facilities for local furnishing of electricity and gas (no change from present law)
8. Air and water pollution control facilities (present law allows accelerated cost recovery over ACRS periods where original facility existed prior to July 1, 1982, otherwise straight-line over ACRS periods)
9. Certain facilities for the furnishing of water (no change from present law)
10. Qualified hydroelectric generating facilities (no change from present law)
11. Qualified mass commuting vehicles (no change from present law)
12. Local district heating and cooling facilities (no change from present law)
13. Industrial park sites (no change from present law)
14. Projects eligible for UDAG (present law allows accelerated cost recovery over ACRS periods)
15. Small issues IDBs (no change from present law)

### C. Other changes

1. Eliminate use of IDBs for purchase of land or existing facilities unless:
  - (a) purchaser is using proceeds for substantial rehabilitation, or
  - (b) proceeds are used to purchase farm or ranch by first-time farmer/ranchers who operate farm or ranch, where no more than \$250,000 in IDB financing per principal user is outstanding after issuance.
2. Allow small issue IDBs only to extent not more than \$40 million in IDB financing is outstanding per principal user after issuance.
3. Deny tax exemption for bond issues with Federal guarantees, so that in no cases would such bonds be more attractive than Treasury securities or general obligation bonds. Exempt VA, FHA and student loan guarantees.
4. Make Code rules applicable to non-Code tax exemptions (DC bonds, possessions bonds, HUD bonds, etc.).
5. Apply limits on small issue IDBs to entire projects, rather than each user (e.g., multi-story buildings).
6. Tighten up rule disallowing use of IDBs when bonds are owned by users of facilities or their partners.
7. Extend mortgage subsidy bond arbitrage rules to IDBs and student loan bonds.
8. Eliminate use of tax-exempt bonds for liquor stores, skyboxes, airplanes and gambling establishments.

### D. Effective dates

1. The tax exemption would be denied for FSLIC- and FDIC-insured bonds issued after April 14, 1983 (as provided in H.R. 1635).
2. All other provisions (including volume caps) would apply for bonds issued after December 31, 1983.
3. Transitional rule for Federal guarantee rule and applying small issue limit to entire project. The restrictions would not apply to facilities if:
  - (a) the construction of the facility had commenced before October 19, 1983, or

(b) a binding contract existed on October 18, 1983, and at all times thereafter, which committed the purchaser to incur significant expenditures for construction or acquisition of the facility.

4. Transition rules for cost recovery provisions:

The restrictions on cost recovery for IDB-financed property would apply generally to property placed in service after December 31, 1983. However, the restrictions would not apply to a facility placed in service after December 31, 1983, if the original use commences with the taxpayer and either--

(a) construction of the facility had commenced before October 19, 1983, or

(b) a binding contract existed on October 18, 1983, and at all times thereafter, which committed the purchaser to incur significant expenditures for construction or acquisition of the facility, or

(c) a ruling request with respect to the use of the facility had been filed with the IRS by a government unit on or before October 18, 1983.

Additionally, the restrictions would not apply to property placed in service after December 31, 1983, to the extent the property is financed with tax-exempt bonds issued before October 19, 1983.

Estimated Impact of Proposed Changes

|   | Impact on              |                 |                 |                 |
|---|------------------------|-----------------|-----------------|-----------------|
|   | <u>Volume of Bonds</u> |                 | <u>Revenue</u>  |                 |
|   | (billions of dollars)  |                 |                 |                 |
|   | <u>CY 84-86</u>        | <u>CY 84-88</u> | <u>FY 84-86</u> | <u>FY 84-88</u> |
| <u>Mortgage Subsidy Bonds</u>                             |                        |                 |                 |                 |
| 1. Defer MSB sunset to 1989                               | +40                    | +84             | -.8             | -2.8            |
| 2. Include veterans bonds in State caps and future sunset | -7                     | -15             | +.3             | +.5             |

|                                 |     |     |      |      |
|---------------------------------|-----|-----|------|------|
| .. Mortgage credit certificates | N/A | N/A | + .4 | + .6 |
|---------------------------------|-----|-----|------|------|

Industrial Development Bonds

|   |     |     |      |      |
|---|-----|-----|------|------|
| .. Volume caps on private purpose bonds | -50 | -87 | + .6 | +2.7 |
|---|-----|-----|------|------|

1. Straight-line recovery for IDB property

1. No small issues where more than \$40 million of IDB financing

1. No IDBs to acquire land as existing facilities

5. Deny tax exemption for federally insured bonds

(The provision does not affect the baseline estimates.)

5. Apply Code rules to non-Code exemptions

No significant impact

7. Apply small issue volume limits to entire project

No significant impact

3. No IDBs when bonds owned by facility owners or partners

No significant impact