Ohio Volume Cap Program
Fact Sheet 2012

- A **tax-exempt bond** is a bond for which the interest earned by bondholders is not subject to federal and/or state and local income tax. Entities or individuals investing in tax-exempt bonds are willing to accept a lower interest rate because they are saving on their income tax expense. This results in a lower cost of capital for the borrower who finances with tax-exempt bonds

- A **municipal bond** is issued by the state, a political subdivision, a state agency or an authority and is used to finance a public project (highways or school building). Municipal bonds are tax-exempt, but public entities can also issue bonds on behalf of private businesses, these bonds are known as **Private Activity Bonds (PAB's)** and are subject to federal income tax.

- Certain types of PAB's are selected by the federal government to be exempt from federal income tax, but the IRS places a limit on the volume of these tax-exempt private use bonds. This limit is known as **"volume cap"** and refers to the ability to issue private use bonds as tax-exempt.

- Each state is given volume cap (tax-exempt bonding allocation authority) annually on a per-capita basis, currently $95 per resident (see Internal Revenue Bulletin: 2010 46, dated November 15, 2010, Revenue Procedure 2010-40, Section 3.09 at http://www.irs.gov/irb/2010-46_IRB/ar17.html). The total 2012 volume cap available to the State of Ohio is $1,096,770,345, meaning no more than this amount of tax-exempt private use bonds can be issued in the State.

- In Ohio there are five categories of projects eligible for tax-exempt financing based upon Section 122-4-02 of the Ohio Administrative Code: multi-family housing (15% allocation up to $120 million, whichever is less), single-family housing ($300 million allocation available for the Ohio Housing Finance Agency), exempt facilities (10% allocation up to $100 million, whichever is less), qualified small issue (10% allocation up to $100 million, whichever is less, for manufacturing companies), and student loan bonds (10% allocation up to $120 million, whichever is less).

- Based upon percentages outlined above, allocation of the volume cap **set-aside** for each of the five **categories** occurs at the beginning of the calendar year. There are three selection rounds, or if applicable, automatic allocation rounds[1]. For February and May, 30% of the total set-aside is available and for July, 40% is available.

- For certain categories[2], if the allocation is not used by a certain date (defined in the Ohio Administrative Code), then the remaining volume cap is deposited into the Ohio Director of Development's Discretionary fund to be used by projects in other categories.

- Any remaining volume cap unused at the end of the calendar year can be given to an issuer for use sometime in the next three years (known as a **"carryforward"** allocation). If volume cap is not carried forward or used during the calendar year, it expires.

Footnote

[1] Allocations for single-family housing and student loan bonding for each of the three rounds are automatic.

[2] Applicable to multi-family housing, exempt facilities, and qualified small issue. Transfers into the discretionary fund may also include allocations reduced from other categories due to carry forwards from previous years.