

# Municipal Bonds, 2010

by Aaron Barnes

Since 2009, State and local governments have been able to issue three types of bonds to finance essential operations, facilities, infrastructure, and services for their constituents.<sup>1</sup> These three types are tax-exempt, tax credit, and direct payment bonds. Tax-exempt bonds provide bondholders (or investors) interest payments that are exempt from Federal taxation, and often State and local taxation. Tax credit bonds differ from tax-exempt bonds in that they are not explicitly interest-bearing obligations. In lieu of, or in addition to, receiving periodic interest payments from the bond issuer, a tax credit bondholder is generally allowed an income tax credit while the bond is outstanding.<sup>2</sup> Direct payment bonds provide issuers with a Federal subsidy equal to some percentage of the total interest payment made to bondholders. The interest received is subject to Federal taxation; however, the interest rate is generally greater than that of a tax-exempt bond, all things being equal.

Figure A provides an overview of the municipal bond market for 2010. State and local governments raised \$556.9 billion from tax-exempt, tax credit, and direct payment bonds. Tax-exempt bond proceeds totaled \$420.7 billion, or 75.5 percent, of all municipal bond proceeds during the year, while tax credit bond proceeds totaled almost \$1.1 billion and accounted for 0.2 percent. Some 24.3 percent of all municipal bond proceeds came from the recently introduced direct payment bonds and totaled more than \$135.1 billion.

This article presents information for the three types of municipal bond financing options available in Calendar Year 2010. The first section looks at several defining characteristics of tax-exempt bonds and provides an overview of the market by State. The next section covers the development of tax credit bond programs and presents tax credit bond data for 2010. The third section of this article discusses direct payment bonds programs and presents bond data for 2010.

Tax-exempt bond data presented here are based on the populations of Forms 8038, *Information Return*

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**Figure A**

## All Municipal Bonds: Total Tax-Exempt, Taxable Direct Payment, and Tax Credit Bonds, by Amount of Proceeds, 2010

[Money amounts are in millions of dollars]

Type of bond	Number	Amount of proceeds	Percentage of total amount
	(1)	(2)	(3)
<b>Total [1]</b>	<b>29,315</b>	<b>556,890</b>	<b>100.0</b>
Tax-exempt bonds	25,660	420,679	75.5
Taxable direct payment bonds [2]	3,456	135,127	24.3
Tax credit bonds [3]	199	1,084	0.2

[1] Includes combined data from all governmental, private activity bond, Build America Bonds, 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*; Form 8038-B, *Information Return for Build America Bonds and Recovery Zone Economic Development Bond*; and Form 8038-TC, *Information Return for Tax Credit Bonds and Specified Tax Credit Bonds*).

[2] Includes bonds reported on Form 8038-B and Form 8038-G with a specific reference to "Build America Bond direct payment" or "Recovery Zone Economic Development Bond" in either their issue name or other description. Includes specified tax credit bonds reported on Form 8038 and 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 are classified as "taxable direct payment bonds" for purposes of this figure.

[3] Includes bonds reported on Form 8038, Form 8038-B, and Form 8038-TC with a specific reference to "qualified school construction" bonds, "qualified zone academy" bonds, "new clean renewable energy" bonds, "qualified energy conservation" bonds, or "Build America Bond tax credit" bonds in either their issue name or other description. Excludes bonds reported on Form 8038 and 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).

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

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 2010. Direct payment bond data are based on populations of Forms 8038-B, *Information Return for Build America Bonds and Recovery Zone Economic Development Bonds*, and Forms 8038-TC, *Information Return for Tax Credit Bonds and Specified Tax Credit Bonds*, filed for specified tax credit bonds issued during the year.<sup>3</sup> 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*, for bonds with interest payments occurring in Calendar Year 2010. Tax credit bond data are based on the population of Forms 8038-TC filed for tax credit bonds issued during

<sup>1</sup> The term "State" includes the District of Columbia, U.S. Possessions, and Federally recognized Indian Tribal governments.

<sup>2</sup> Issuers of certain qualified tax credit bonds, specifically new clean renewable energy bonds and qualified energy conservation bonds, pay bondholders an interest payment in addition to the tax credit the bondholder receives. For additional information, see "Frequently Asked Question 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](http://www.irs.gov/pub/irs-tege/tc_and_stcb_q-a_09-07-10_1.5.pdf).

<sup>3</sup> Issuers of Build America Bonds and recovery zone economic development bonds were instructed to file Form 8038-B, *Information Return for Build America Bonds and Recovery Zone Economic Development Bonds*. The 2010 data contain a small number of Forms 8038-G, *Information Return for Tax-Exempt Governmental Obligations*, with a specific reference to "Build America Bond direct payment" or "Recovery Zone Economic Development Bond" in either their issue name or other description.