

Subject: Process for Allocating Private Activity Volume Cap on and After April 1, 2025

Overview:

This memorandum outlines the process for allocating Arizona's private activity bond volume cap on and after April 1, 2025, as governed by Arizona Revised Statutes (A.R.S.) §§ 35-902 and 35-906. It details the mechanics of a lottery system designed to ensure compliance with statutory allocation requirements.

Statutory Framework:

Under A.R.S. § 35-906, except for the percentage of volume cap subject to director's discretion (which equals 25% of the total state ceiling), all remaining volume cap shall be pooled and subject to allocation among requests on a first come, first served basis, subject to the provisions of A.R.S. § 35-902(I)(1), which states that 60% of the remaining state ceiling is allocated to the projects described under A.R.S. § 35-902(c) and (d) (qualified mortgage revenue bonds and mortgage credit certificates and qualified residential rental projects, respectively).

Lottery Mechanism for Allocation:

To ensure a fair and transparent allocation process starting April 1, 2025, a lottery system will be implemented with the following procedures.

1. Application Submission:

- Applicants must specify whether their requests pertain to subsection (C) or (D) of § 35-902, or to another subsection.

2. Lottery Drawing:

- All applications will be entered into a random drawing.
- Applications will be selected at random and assigned a sequential number based on the order drawn.

3. Allocation Process:

- Applications will be reviewed in the order determined by the lottery.
- Once 40% of the total available volume cap has been allocated to requests that do not relate to subsections (C) or (D) of § 35-902, subsequent applications in this category will be bypassed.
- The allocation process will then proceed to the next application related to subsection (C) or (D) of § 35-902.
- If acceptance of a request that does not relate to subsections (C) or (D) of § 35-902 would require an allocation in excess of the 40%, then such applicant will be given an opportunity to reduce its request to an amount that would not require an allocation in excess of 40% before being bypassed for the next application related to subsection (C) or (D) of § 35-902.

Security Deposits for Allocations Obtained After March 31:

Under A.R.S. § 35-906(B)(3), for confirmations to be issued on or after April 1, before the director issues the confirmation, the authority must receive a security deposit in the amount of one percent of the principal amount stated in the request. The security deposit is forfeited to the authority if the bonds are not issued before the expiration of the confirmation or any extension. The security deposit shall not be required pursuant to this paragraph if the direct beneficiary of the bond proceeds is this state or a county, city, town or nonprofit entity, the issuer is a student loan corporation or the project will include urban development action grant or housing development grant financing, is a qualified mortgage revenue bond or is a qualified mortgage credit certificate program.

Process for Waiting List Applicants

In accordance with A.R.S. §35-906A, if volume cap becomes available, the director shall issue a confirmation to the next numbered request which is equal to or less than the then available portion of the state ceiling or to the next numbered request if the principal amount of such request is reduced to an amount equal to or less than the then available portion of the state ceiling available for such purpose. If the amount of volume cap that becomes available is less than the amount requested in all requests on file with AFA, then the director shall notify each applicant with an outstanding request for such purpose, in the numbered order, and offer an opportunity to reduce its respective request to an amount equal to or less than the volume cap coming available.

If the applicant elects to reduce its request, it must submit a separate request for any remaining volume cap needed. This request will be renumbered behind all other requests on file.

Conclusion:

The implementation of this lottery mechanism aligns with the requirements set forth in A.R.S. §§ 35-902 and 35-906.

For further details on the volume cap allocation timeline and procedures, please refer to the [Arizona Finance Authority's website](#).