The Impact of Conditions in the Municipal Bond Market on Community Services and Facilities
FOREWORD

This bibliography and synthesis present the results of extensive research and study conducted by Gerry H. Williams of the Southern Rural Development Center. The research was funded under a contractual agreement between the SRDC and the U. S. Department of Agriculture--Cooperative Research (#70-59-2281-1-2-133-1).

The document is divided into two sections. Part One contains a synthesis of the information reviewed for the bibliography; Part Two contains an annotated bibliography. This document will provide valuable insight for local decision-makers in their efforts to allocate available resources during a time when Federal budget cuts and an unstable municipal bond market threaten to cut off two of the most important sources of funding for essential community services and facilities. In addition to explaining the factors contributing to an unstable bond market, this study suggests a wide range of options local governments have in achieving access to the market.

The Southern Rural Development Center, one of four such centers in the nation, focuses on specific rural development problems of the region. It serves 13 Southern states and Puerto Rico by developing knowledge essential to rural development and by providing technical consultation where needed. Other high-priority areas have been addressed by researchers throughout the South and a publication list of other synthesizes and bibliographies is located at the end of this publication.

The SRDC is jointly sponsored by Mississippi State University and Alcorn State University. Its clientele is the research and extension staffs of the 28 land-grant institutions with rural development and community development responsibilities.

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Director
A Synthesis and Annotated Bibliography

THE IMPACT OF CONDITIONS IN THE MUNICIPAL BOND MARKET ON COMMUNITY SERVICES AND FACILITIES

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PREFACE

The purpose of this study is to review recent literature relevant to the following issues regarding the municipal securities market: (1) factors responsible for the significant increase in the cost of public debt, (2) projections on the future of the municipal securities market under existing conditions, and (3) ways to facilitate access of localities to the municipal market. Information for this publication was obtained through computer searches, professional journals, periodicals, research abstracts, statements and testimony from Congressional hearings, research reports, and newspapers. The computer searches included the Public Affairs Information Service (PAIS) and Management Contents.

The body of this report is organized in two parts. Part one includes a synthesis of the information contained in the reviewed publications; part two contains an annotated bibliography. The entries in the bibliography are numbered in consecutive order and are not a comprehensive listing of all publications relating to this subject. On the contrary, an effort was made to compile a selected group of entries relating to each of the topics under consideration in this study.

The author gratefully acknowledges the use of two sources of information regarding publications unavailable for review at the Center. They are Resources in Review and State and Local Finance and Financial Management: A Compendium of Current Research. In addition, the author wishes to express appreciation to Sue H. Jones and Sheila A. Buckner of the Southern Rural Development Center for their invaluable assistance to this study.
PART ONE
THE MUNICIPAL SECURITIES MARKET
1975 TO PRESENT
I. INTRODUCTION

The state of the municipal securities (bond) market is of great importance to American localities. This is the market place for the bulk of the debt obligations issued by state and/or local governments and certain agencies or authorities of these governments. State and local governments use municipal securities to finance public infrastructure such as schools, roads, sewer systems, and other types of capital improvements necessary for the maintenance of community services.

In recent years, localities have turned to debt issues to finance an ever-expanding range of facilities as well as to provide operating costs during times when revenue collections are slow. This increasing reliance on the issuance of debt as a fiscal "cure-all" has led to a dramatic increase in the supply of public debt issues. The surge in the supply of municipal securities has occurred simultaneously with a decrease in demand for this type of investment. The large institutional investors who formerly dominated the market have retreated leaving the individual investor to purchase the bulk of the new issues coming to market. The voluminous supply of debt issues and a stagnant economy have impacted heavily on the municipal market creating an unstable environment. The unstable environment with its high interest rates in the municipal market has, in turn, put local governments in an unenviable position—either borrow money now at prohibitively high interest levels or delay needed repairs or construction until interest rates come down.
This paper will review the factors responsible for this significant increase in the cost of public debt and then summarize the projections of others concerning the future of the market and ways local communities can obtain access to the municipal market.
II. FACTORS RESPONSIBLE FOR THE SIGNIFICANT INCREASE

IN THE COST OF PUBLIC DEBT

The municipal securities (bond) market has become an increasingly inhospitable source of financing for localities in need of capital to fund a diverse array of public purpose projects. Several factors have put upward pressure on interest rates in this sector. (The tax-exempt market is considered a sector of the larger market which encompasses municipal, corporate, and Federal government securities.)

One of these factors is an enlarging supply of municipal securities. In recent years the volume of tax-exempt financing has risen significantly. This dramatic rise has been due primarily to the proliferation of government agencies or authorities having the power to issue tax-exempt securities for largely non-traditional purposes. The municipal securities market has traditionally been a source of financing for construction of basic community facilities such as sewer systems and new schools. In the last decade, however, non-traditional uses of this form of tax-exempt financing have widened the scope of the securities market to include the following: (1) mortgage revenue bonds designed to fund mortgages for single and multi-family dwellings, (2) hospital/medical facility revenue bonds designed to fund construction of government-mandated pollution control devices for private industrial firms, and (4) industrial development or revenue bond financing for commercial enterprises such as shopping centers, cable television systems, and restaurants. According to Roger C. Altman, managing director of Lehman Brothers Kuhn Loeb Inc., securities issued by industrial development authorities,
public power authorities, and housing authorities have accounted for more than 80 percent of the increased volume of tax-exempt issues marketed from 1975 through the summer of 1981. As a result of these non-traditional uses of tax-exempt financing, the volume of municipal offerings has soared in recent years, and interest rates have climbed to new heights in order to attract investors to an expanded market.

A second broad factor affecting the cost of public debt relates to the reduction in demand for municipal securities by both institutional investors and residual (individual) investors. Institutional investors include commercial banks, property and casualty insurance companies, and pension funds. This investor group has dominated the municipal market in the past. The reduction of demand for municipal securities by these important investors is at least one result of a credit squeeze caused by a sharp rise in the demand for credit. This intense demand has served to increase the cost of credit throughout the public and private capital markets and may be attributed both to inflation and a restrictive monetary policy designed to alleviate inflation.

Several secondary factors have resulted in institutional investors reducing their investments in municipal securities. The liquidity of commercial banks remains low in comparison to similar economic conditions occurring in the past. Corporations formerly faced projected economic recovery by repaying short-term bank loans with the proceeds of long-term instruments (corporate bonds). This enabled banks to invest substantial amounts in Federal and municipal obligations. Today, however, corporations are unsure about when a recovery will occur and how strong the recovery will be, so they are reluctant to refinance their short-term debt with
long-term issues. (Interest rates on long-term issues still remain high, further discouraging such a move.) Property and casualty insurance companies have been reluctant to purchase intermediate and long-term municipal securities because of declining profits and because short-term municipal issues are more rewarding than long-term issues. Pension funds, like other institutional investors, currently prefer the short-term municipal securities which are the most profitable (and most liquid) investment. Consequently, institutional investors have retreated from the intermediate and long-term sectors of the tax-exempt market and significantly reduced the demand for formerly substantial municipal securities.

The demand for municipal securities by individual investors has declined as a result of personal income tax breaks allowed by the 1981 tax bill. The new bill allows a 25 percent reduction in personal income tax rates over a three-year period. Since investors will not be taxed at as high a rate as in the past, they are more inclined to make taxable income investments rather than seeking out tax-free municipal securities. In the final analysis they will probably pay no more in taxes than in past years. An additional tax advantage allowed by the 1981 bill involves investments in the All-Savers Certificate. New tax laws declare a portion of the interest earned each year to be tax free for certificate investors. The tax-free status of the bond market has traditionally attracted investors, but these new tax advantages provide investors additional options and lessen the demand for municipal securities.

A third factor affecting the cost of public debt is the borrowing needs of the Federal government. Since the credit needs of the Federal government have been growing at a rapid pace, less credit has been
available to other borrowers including state and local governments. This diminishing availability of credit has put upward pressure on interest rates in the municipal market and created a serious dilemma for localities forced to seek this form of financing for construction of public facilities.

The rapidly increasing supply of new municipal offerings coupled with the decreasing demand for these offerings has created an unstable market environment characterized by volatile interest rates. This environment has in turn threatened the ability of local government to finance needed improvements on existing (basis) public facilities and/or construction of new facilities needed by community residents.
III. PROJECTIONS ON THE FUTURE OF THE MARKET UNDER EXISTING CONDITIONS

Since non-traditional uses of tax-exempt financing have been primarily responsible for the substantial increase in the volume of new municipal issues, the 1982 outlook will continue to be bleak unless the expansion of non-traditional financing is curbed (particularly industrial development bond financing). Congress is currently considering legislation designed to restrict the use of industrial development bonds, but even legislation is very controversial and could be amended to the point that it would be ineffective.

Other negative elements which have affected the municipal market in the recent past will continue to grow in significance. The ever-increasing borrowing needs of the Federal government loom large over the market causing investors to be fearful of runaway budgets and a return to a higher inflation rate. These fears stimulate investors to continue to have an aversion for longer term issues. Perhaps the most significant element affecting the market is the disincentive of the individual investor caused by recent tax cuts in the area of personal income tax. Since individual investors are presently purchasing the majority of new municipal issues, any factor that would cause a part of this investor group to withdraw from the market could prove costly to the stability of the market environment.

The forecast for 1982 is that it will be a difficult year for the municipal market in the face of all the negative elements that continue to impact on it. In addition, 1982 will be a difficult year for local
governments needing to bring new issues to a market plagued by high interest rates.
IV. WAYS TO FACILITATE ACCESS OF LOCALITIES TO THE MUNICIPAL MARKET

Due to the continuing volatility of the municipal securities market environment, localities are utilizing alternative ways to facilitate their access to the market. One of these ways is the bond bank. A bond bank is a state level agency authorized to buy local government bonds (optional for both parties). When a sufficient number of local issue applications have accumulated, a bond bank can issue its own bonds in larger amounts. The goals of bond banks are to improve the marketability and reduce the interest cost of local issues.

Another such alternative measure for local governments is the mini-bond. Mini-bonds are small denomination issues that are sold over-the-counter by either state or local governments to individual investors. The goals of the mini-bond concept are (1) to issue tax-exempt securities of small enough size (issues vary from $100 to $1,000 per bond) to interest the average citizen who has only a small amount to invest and (2) to increase citizen involvement in local government and community affairs through the voluntary financial support of such activities.

A third measure to facilitate access to the market is tax-exempt commercial paper. This concept may be defined as negotiable, unsecured promissory notes which mature in 365 days or less and are issued by state or local governments or agencies of these governments. Commercial paper can be used as a source of working capital and/or interim construction financing.
Another measure which can serve to improve access to the market is bond insurance. Two companies sell municipal bond insurance— the American Municipal Bond Assurance Corporation (AMBAC) and the Municipal Bond Insurance Association (MBIA). Bond insurance sold by these companies guarantees the timely payment of interest and principal on a bond. Bond insurance can reduce interest expense because insured bond issues usually get more favorable treatment on interest rates.

One other measure designed to improve access to the market is the floating rate bond. The coupon rates are set at a specific percentage of the current prime rate, and the price of the principal remains close to par. This type of bond attracts investors who want the security of a municipal bond but want to protect their capital.

While other alternatives are available to local governments, the measures described in this paper highlight the wide range of options localities have in achieving access to the municipal securities market.
PART TWO

A SELECTED ANNOTATED BIBLIOGRAPHY

The article describes the operation of a local mortgage revenue bond program utilizing Chicago and other Illinois issuers as examples. (The bonds are issued to fund single-family residential mortgages.) The costs and benefits of this type of program are presented. In addition, local, state, and Federal level legislative actions affecting the Illinois program are presented. The author concludes that market regulation of this type of municipal bond may be preferable to Federal regulation due to the diversity of the program and the municipalities represented. (The implication is that market regulation offers greater flexibility.)


Though the author's remarks are addressed to the depressed state of the municipal bond market, he initially identifies general factors which are causing high interest rates for all the credit markets such as (1) inflationary expectations, (2) a stimulative fiscal policy, (3) the possible effect of projected record budget deficits (Federal) on the Treasury's borrowing needs, and (4) the reduced ability of institutional investors to purchase bonds. Beyond the general factors which affect all the credit markets, there are narrower factors which have particularly caused municipal borrowing costs to rise more sharply than others. These factors are (1) a sharp increase in the volume of state and local borrowings, (2) the prevailing inverse yield curve, (3) the effects of the financial institutions' deregulation which has occurred since 1977, and (4) the recently passed tax legislation (reduction in personal income tax rates and the All-Savers Certificates.) Mr. Altman suggests that a likely cure for the ills of the credit markets would be a fiscal policy and a monetary policy that work together rather than in opposition to each other such as a restrained monetary and fiscal policy would.


This research examined the ways in which information about municipal credit conditions can be improved and better disseminated. Techniques for the analysis of municipal credit conditions were developed and tested, and alternative means of financing municipal capital needs were considered. Methods by which governments can improve the credit quality and marketability of their debt were assessed. The project used survey, case study, legal and econometric research to develop the basis for recommending policy and preparing educational materials. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)
4


Bond insurance has given the tax-exempt market for municipal debt a badly needed shot in the arm. The insurance coverage offered by AMBAC (American Municipal Bond Assurance Corporation) and MBIA (Municipal Bond Insurance Association) increases the marketability of municipal securities while cutting the interest cost of issuers and giving peace of mind to bond buyers. At present, the two companies together cover nearly 3 percent of the market. Not only does insurance cut interest costs, some underwriters believe that it also enhances marketability on the basis of name recognition, i.e., relatively unknown issuers can trade on the name recognition of MBIA or AMBAC. Standard and Poor's grants all insured issues on AAA rating, but Moody's Investor's Service still rates its bonds on the merits of each issue, insured or not. Bond insurance has become especially desirable in the wake of Proposition 13.

5


The spread of "tax revolt fever" initiated by California's Proposition 13 has caused great consternation in the municipal revenue bond market. As more and more revenue bonds appear to be in danger of default, commercial banks' demands that they be allowed to underwrite revenue bonds are receiving more serious attention from Congress.

6


This study documents the procedures and costs of the conventional method of handling state and local government bonds in Texas and examines alternatives for reducing the physical movement of the bonds in order to cut costs and security problems. A primer on the present system for long-term governmental borrowing in Texas, the report is a reference document for public officials with responsibility for decisions on government debt. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)

7


The taxable bond option is examined in this article. It is discussed as a possible solution to the supply-demand imbalance in the municipal bond market.

Though the sometimes disjointed efforts of the House Ways and Means Committee to restrict the use of single-family mortgage revenue bonds had a significant impact on the housing sector of the tax-exempt market, housing issues still provided almost half the volume of neglected public issues over $5 million in 1979. The financing record for December for all sectors of the tax-exempt market is given.


The overall volume of tax-exempt issues declined more than 45 percent from the heavy volume of the previous month. Only one housing issue was brought to market. This modest showing in the housing sector is undoubtedly a reflection of the Congressional restrictions on single-family housing issues which became effective on 1 January. The largest issue of the month was a $300 million public power offering. The market appeared to be weakening toward the end of the month.


Housing issues dominated the tax-exempt market in December, 1980 constituting 77 percent of the overall volume for the month ($1.961 billion of the total volume of $2.537 billion). Congressional restriction of the use of tax-exempt financing for single-family housing prompted the rush to market of sixty-two housing issues in December. The year 1980 was a very good year for housing issues with this type of tax-exempt financing accounting for close to half of the total municipal financing volume. The market was plagued by extreme volatility challenging underwriters to develop a variety of innovations in marketing issues in an uncertain market.


Rising interest rates and fear of inflation sent shock waves through the municipal bond market. Long-term investors, leery of committing money during a period of uncertainty, retreated from the market. Most of the issues that made it to market were short-term offerings. The financing record for the month of October is broken down into the various sectors.
12

The financing record for the various sectors of the tax-exempt market is presented. Particular emphasis placed on the housing sector which accounted for 53 percent of the volume in August. The surge in the sale of housing bonds was due to the release of a number of single-family mortgage revenue bonds that were "in progress" but not yet sold at the time of the 25 April moratorium on this type of financing set forth by the House Ways and Means Committee.

13

April was a month in which really large issues dominated the tax-exempt market. There were eight issues brought to market that had a volume of $100 million or larger. The largest of these jumbo issues was a $360 million pollution control offering which was the largest issue of this type ever brought to market. The short maturity of the bonds (three years) plus its triple-A rating made the offering especially attractive to retail investors who bought up the bulk of the issue. Two large public power issues were brought to market - an offering of $300 million and an offering of $268 million. In addition, there was a $289 million industrial development revenue bond issue marketed by a power company - Tucson Electric Power Company. Though most underwriters called this large number of jumbo issues a coincidence, other knowledgeable sources say that time had run out for the issues of these large offerings - they simply could not wait any longer for cheaper interest rates.

14

Most sectors of the municipal bond market retreated in the face of plunging prices and exorbitant interest rates but the housing sector braved the adverse condition responsible for the deteriorating market. The impetus for the critical stampede in housing issues was the loss of tax-exempt status for local and single-family mortgage bonds effective January 1, 1981. Issues of housing bonds were trying to get their offerings in before the deadline. The financing record for all sectors of the tax-exempt market is also presented.

15

The volume in tax-exempt housing issues soared in the last quarter of 1981. The upsurge was due largely to improved market conditions, a reduction in interest rates and a slight change in the Treasury regulations governing mortgage bond issues. In addition, many issuers were hurrying to get as many housing issues through as possible in order to avoid a new regulation which requires that such issues be registered beginning in January 1982.

Municipal securities have plummeted in popularity in the wake of New York City's financial problems. A likely partial solution to the woes of the municipal bond market would be a policy of "full disclosure" of finances by state and local governments which sell their securities in the market. Though corporate securities issues have been required to furnish a full disclosure of their financial conditions at the time of sale of their securities, tax-exempt issues have been free from such regulation. However, according to John Petersen, director of the Municipal Finance Officers Association: "It's not a question of whether disclosure standards for issues are needed, but of who is going to do the regulating." There are strong arguments for and against Federal regulation of financial disclosure, but few argue the need for disclosure of some kind.


This project proposed the creation of a central agency to refinance New York City debt and to issue long-term debt at different interest rates. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


Default on its obligations by New York City was averted when President Ford agreed to support legislation which provides for a temporary line of credit to the State of New York to supply seasonal funds for essential services. In the meantime, issuers of municipal securities across the nation have felt the adverse impact of New York's financial problems in the form of higher borrowing costs. The European financial community is gravely concerned by the uncertainty of New York's future. The Federal bail-out is only the beginning of the road to recovery for New York City, and the city will have to accept primary responsibility for that recovery.


Industrial development bonds (IDBs) may well be the tool needed by towns and townships to develop more jobs and expand local tax bases. IDBs served the southern states well in attracting industry in the 1940s
and 1950s and are providing much the same service for almost all the states in the 1980s. IDBs are a type of debt instrument issued by or on behalf of a state or local government. Depending on statutory restraints which vary from state to state, the proceeds from IDBs may be used to build factories, retail stores, office buildings, hotels and motels, warehouses, or to purchase equipment. Having been purchased by public funds, the facilities may then be leased or sold to private companies. In some instances, the local government loans the bond proceeds directly to the company at the outset of the project. The debt is retired through lease or sale proceeds or loan repayments. IDBs are usually secured by the repayment from company, so the credit of the local government is not an issue.


In the last few years the value of municipal securities has declined more sharply than other types of long-term debt. At the same time, yields on tax-exempt securities have recently risen to very high levels relative to taxable yields. Though higher yield rates on tax-exempt securities have occurred during major business downturns in the recent past (1969-70 and 1974-75), some of the problems that currently plague the market could undermine tax-exempt securities for some time. Some of the factors which are subverting the tax-exempt market presently are the recently enacted reductions in Federal income tax rates, the declining rate of inflation, increased competition from newly authorized IRA and "All-Savers" accounts, increased demand for borrowed money by both the Federal government and large corporations (particularly short-term debt which now has more appeal for the investor), and, lastly, the prospect of financial problems for a large number of local governments brought on by the shifting of responsibilities from the Federal government back to the state and local level.


Between 1971-1978, public utilities utilized pollution abatement revenue bonds to finance nearly $7 billion worth of pollution abatement equipment. Public utilities have become increasingly reliant on the municipal securities market for help in financing pollution abatement equipment now required by tough state and Federal environmental regulations. Congress, aware of the magnitude of the problem facing public utilities, has evidenced its concern by making PCRBs tax-free. It is projected that the public utility industry will be spending as much as $7 billion annually on pollution abatement equipment with much of this financing coming from PCRBs.

Regional banks and fire and casualty companies have recently taken some tentative steps back into the tax-exempt bond market. Though these moves may be short-lived, the market was encouraged by a brief respite from a very heavy reliance on the individual investor. Current bond yield levels reflect doubts over future municipal credit quality as the Reagan Administration stands ready to shift the burden of various social programs back to the local level thereby increasing the already heavy load borne by local governments. Older industrialized areas are afraid to increase taxes for fear of losing industries and workers. Furthermore, the full negative impact of recently enacted legislation such as reductions in Federal revenue-sharing and cuts in corporate and personal income taxes has yet to be felt. The developments portend a further reduction in the demand for tax-exempt securities.


This article reviews the developments and the effects, both local and national, of local governments' use of single-family mortgage bonds. It highlights differences between state housing finance agency activities and local governments' usage of tax-exempt bonds for single-family housing. The impact of the bonds on the local mortgage markets is explored as well as the implications for housing prices. National effects on the tax-exempt securities market, Federal revenue, and monetary policy are also discussed. (Reviewed in Resources in Review.)


This article examines developments in the municipal bond market in the wake of New York City's financial difficulties. It also provides an analysis of the municipal characteristics of concern to investors and their effort on bond yields in the secondary market. The study shows that much of the difference in the secondary market yields of the securities of large cities in 1976 can be accounted for by three factors: (1) a city's unemployment rate, (2) its short-term debt outstanding, and (3) a measure of unfunded pension liability.

Initially, the article reviews recent developments in the municipal securities market with particular emphasis placed on the composition of the increasing volume in new securities. In the second part of the article, the authors examine the relative yields of the securities of different cities and seek to determine some possible reasons for the differences. In the third part of the article, the authors conclude that although the municipal market still concerns itself greatly with credit worthiness, the differences in the yields of large cities' securities have narrowed noticeably. This may be explained in part by reductions in the amounts of short-term debt and also by declining unemployment rates in some large cities.


Banks are now allowed to underwrite general obligation municipal bonds but are barred from underwriting a large proportion of revenue bonds. The presumption of economic theory is that an increase in the number of potential competitors will lower the costs to states and municipalities of borrowing funds. The theory that bank eligibility reduces the cost is supported by the evidence presented in various studies.

This study brings the evidence up to date. The effect of bank eligibility to underwrite municipal bonds on reoffering yields is estimated by regression analysis of random samples of bonds issued during 1973-1976. By comparing eligible and ineligible issues, the potential beneficial effect of bond eligibility on reoffering yields of presently ineligible revenue bonds for utility and other nonindustrial purposes is estimated. In the final section, the total savings to issuers of presently ineligible revenue bonds if the bonds were eligible for bond underwritings estimated. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


This article discusses the use of industrial revenue bonds to finance new capital investments for private companies. It is concluded that these companies may realize a significant interest cost savings thereby decreasing the overall cost of capital.


According to a senior officer in the firm of Lehman Brothers Kuhn Loeb, Inc., the outlook for tax-exempt markets will be grim for 1982
unless the use of industrial development bonds for nontraditional uses is curtailed significantly. Roger Altman, managing director of business development and planning for Lehman Brothers ..., said that the use of IDBs has had an adverse effect on the cost and availability of tax-exempt financing. In addition, negative factors such as the recent tax cuts, the tight monetary policy espoused by the Federal Reserve, the Federal government's massive borrowing needs, increasing investor disillusionment with long-term financing, and others will be injurious to the market and will be instrumental in keeping interest rates at high levels.


A number of local governments are counting on long-term interest rates on bonds to drop soon, but in the meantime, they are turning to commercial banks for short-term financing. Though some states and cities have decided to postpone capital projects until interest rates go down, there is still fear of a liquidity crunch if short-term borrowing by municipalities spreads throughout the banking system. In fact, some regional and small banks may already be feeling an impact from such borrowing.


In this interview, the President of Standard & Poor's Corporation discusses several variables that are considered by analysts in determining a bond rating. In addition, he gives his opinion about the future direction of the municipal market and the trends that will set the stage for this direction.


In response to the difficult conditions prevalent in the municipal bond market there are several new Federal programs currently under consideration that will either guarantee or underwrite interest costs on industrial revenue bonds (IRBs) issued to finance pollution control equipment. Legislation passed in June provided for the guarantee of tax-exempt pollution control bonds while other proposals would subsidize a percentage of the interest costs on taxable bonds.

State Housing Finance agencies have recently encountered problems in raising money in the municipal bond market. The Department of Housing and Urban Development has come to the aid of the discussed HFAs with two new programs both designed to upgrade the quality of the HFA issues through Federal guarantees or subsidies. One program will co-insure mortgages written by housing finance agencies on multi-family residences while the other program will underwrite up to one-third of the interest costs incurred by housing finance agencies on taxable bonds.

33 "Companies Flock to Tax-Exempts." Business Week, October 8, 1979, pp. 102-3. Due largely to the recent change in the IRS Code that doubled the limit on industrial development bonds to $10 million per project, the use of tax-exempt financing by companies for expansion programs has mushroomed. States have strongly encouraged the use of this type of tax-exempt financing in order to encourage businesses to locate in the state and, hence, boost the local economy. The tremendous increase in the use of IDBs has attracted criticism. Critics of IDBs contend that although Congress intended for IDBs to help small businesses, large companies have managed to abuse this form of financing. Though this sort of popularity led to a crackdown on IDBs by the Treasury in 1969; at present, there seems to be no reason for concern about another crackdown. Indeed, the surge in the use of IDBs will likely continue.

34 Congressional Budget Office. Tax-Exempt Bonds for Single-Family Housing. Washington, D. C.: U. S. Government Printing Office, 1979. Prepared at the request of the U. S. House of Representative's Committee on Banking, Finance, and Urban Affairs, this paper analyzes the potential extent and effects of issuing tax-exempt bonds to finance single-family home mortgages and provides a background for analyzing various proposals to limit their use. In accordance with CBO's mandate to provide objective analysis, the report offers no recommendations. (Reviewed in Resources in Review.)

35 "Congressmen Act to Kill a Flourishing Housing Program." Engineering News-Record 202 (May 3, 1979): 13. After weeks of consternation over the rising tide of mortgage revenue bonds flowing into the municipal market, Rep. Al Ullman, Chairman of the House Ways and Means Committee along with four other Congressmen, sponsored a bill to deny tax-exempt status to mortgage revenue bonds. The Congressman took this action upon learning that mortgage revenue bonds accounted for almost one-third of all tax-exempt bonds sold during the first quarter of the year - $2.8 billion out of an overall volume of $9.2 billion. So concerned were the Congressmen that they made the measure applicable to all bonds not in the marketing process prior to 25 April. Municipal finance officers have been concerned that the large volume of these issues would push interest costs for more conventional tax-exempt uses up.

The first industrial development bond legislation was passed in Mississippi in the mid-1930s; and from that time until the mid-1960s, most industrial bonds were issued by southern states. However, in the 1960s, several industrialized states in the north, Michigan and Ohio, for example, passed legislation providing for the issuance of industrial bonds. By 1967, 9 percent of the dollar volume of all municipal securities were industrial development bonds. As a result of the sudden mushrooming in the number of industrial development bond issues, Congress enacted legislation in 1968 which restricted the dollar amount of industrial development bonds as well as the purposes for which they could be utilized. Subsequent regulation and legislation have provided the framework for this type of tax-exempt financing. In addition to the recent history of industrial development bonds, the author has given a summary of the current legal restrictions on the use of industrial development bonds.


This article sets forth the position of the National Association of Housing and Redevelopment Officials (NAHRO) concerning the use of tax-exempt bonds for single-family mortgages; endorsement of the use of the bonds only in the context of a comprehensive local strategy aimed at meeting housing needs and/or neighborhood community improvement goals. The article also reports briefly on the recent experience with MRB financing in St. Paul, Wichita, and Pittsburgh. (Reviewed in Resources in Review.)


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Volume V: Federal Legislative Background
Volume VI: Four Legal Memoranda
Memoranda on the Securities Acts of 1933 and 1934, the Municipal Securities Rulemaking Board (MSRB) and court cases tried under Federal laws. Also includes copies of municipal securities legislation proposed by Senator Thomas Eagleton (1975) and Senator Harrison Williams (1976 and 1977). Includes summaries of SEC reports on New York City (in reference to fiscal problems of mid-1970s). (Volumes V and VI are bound together.) 1978.

VII: Municipal Disclosure Standards Sourcebook
Guidelines for preparation of disclosure statements. Analysis of current disclosure practices. Also includes voluntary guidelines sanctioned by MFOA. 1978.

Volume VIII: State Laws
Review of state laws relating to municipal securities transactions. 1978.

Volume IX: Disclosure Guidelines

Volume X: The Way Back: Forward Accountability in American Cities
The concluding volume in the series offers analyses of trends in local government financial management and accounting and auditing standards. Proposals for Federal regulation of municipal financial accounting and disclosure practices are examined.


The traditional competition among regions, states and cities for jobs and industry is rapidly approaching warfare. Special inducements such as tax abatements and low-cost loans are playing a significant role in the efforts to secure new industry. Industrial revenue bonds may well be the least costly form of special-inducement, but even they exact a price.


This study outlines the effects that key proposals of the Reagan administration's budget would have on each sector of municipal debt, e.g., general obligation bonds of state governments, local governments, and school districts; and revenue bonds for Federal housing, hospitals,
water and sewer, etc. A summary table shows, for each of these sectors, the credit considerations associated with particular proposed budget and tax cuts. A brief discussion of the sectoral impacts expands the material in the chart and on review interprets the data. Among its conclusions, this study foresees the budget cuts increasing geographic sectionaism and competition and predicts that the greatest negative effects will be felt in the older central cities. (Reviewed in Resources in Review.)


This article discusses a new concept in municipal financing — the mini-bond. Traditionally, municipal bonds are sold in denominations of $5,000 or $10,000, but with the advent of the mini-bond, denominations as low as $100 may be purchased which opens the door to a whole new group of investors who formally couldn't have invested in municipal bonds because of their cost. Mini-bonds bypass the cost of underwriters and cut debt service costs to public issuers. In addition, by using a special type of bond coupon that resembles checks, bonds may be cashed in easier, while at the same time reducing the costs of processing. Though mini-bonds appear to have a bright future, there may be problems for this new type of financing.

"Double Gold-Plated Bonds." Forbes 116 (December 1, 1975): 60.

Public housing authority bonds and notes, one of a myriad of securities available in the municipal market, have a strong selling point for investors — they are exempt from both Federal and local income taxes. In addition, they are unconditionally guaranteed by the Federal government which is not true of other types of tax-exempts. This guarantee was granted to local housing authorities in 1937 in order to promote the building and renovation of low-income housing projects. Without the local guarantee, it is very unlikely that the more than $10 billion in bonds and $60 billion in notes could have been issued and sold. State housing agencies do not have the Federal guarantee granted to local housing authorities in 1937, but they are currently mounting a campaign to pressure HUD to grant the Federal guarantees to the state housing authorities.


This article provides an overview of past rulings and laws regarding industrial development bonds. The information given leads to the conclusion that the rewards associated with this type of financing are considerable due to the low interest rates for long term financing and to changes brought about by the Revenue Act of 1978. Limitations imposed by the current IRS position warrant careful planning of issues of industrial bonds in the future.

In this examination of the financing of hospitals through tax-exempt bonds, the legal background of the exemption of interest paid on municipal securities is outlined and the nature of the subsidy for tax-exempt bonds is discussed. The possible impacts of administration tax reform proposals on tax-exempt hospital bonds are considered. Requirements for issues of hospital bonds are summarized and the role of tax-exempt financing in relation to hospital construction is explained. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


Investors in the municipal bond market feared an earthquake in the market after the passage of Proposition 13, but it didn't happen. In fact, some Wall Street professionals feel that Proposition 13 may be beneficial to the market. Another type of tax revolt that has come with the inflation of the 1970s has driven more and more people afflicted with "bracket creep" to the tax-exempt market. As a result of the rising tide of investors, new bond funds sprang up in 1976 and 1977. But these investors lately come to the market have had their taste of the bad in the market as a result of the tight money policy of the Federal Reserve. However, economists who follow the municipal market expect it to continue in the usual cycle thereby allowing nervous investors to recoup losses.


High interest rates coupled with a shortage of available credit present a problem for most any business which needs to raise money for expansion. An attractive alternative to conventional borrowing is the industrial development bond (IDB). This article discusses the history of and restrictions on this type of financing. In addition, guidelines for the securing and marketing of IDBs are discussed. Finally, the advantages and disadvantages of IDBs are reviewed.


A summary of the various studies conducted by respected authors in the field of municipal finance on mortgage revenue bonds. The results of the study are indicative of the diversity of opinion regarding the costs and benefits inherent in mortgage revenue bonds.

This report introduces several alternative approaches to the financing of capital projects in Colorado, Montana, Washington, and Wyoming during the years 1967-1977. It reports recent research findings regarding types of bonds used for specific purposes, the extent of the use of debt financing for capital by the size of municipality, and the factors that affect the choice of bond type by municipalities.

Faas, Ronald; Young, Douglas; and Wandschneider, Philip. *What Determines Municipal Bond Costs in Four Western States?* Corvallis, OR: Western Rural Development Center, (in process) 1982.

This leaflet is addressed to local municipal officers, particularly those who deal with public finance. The research identifies factors that tend to influence the marketability and the interest (and other) costs associated with bond financing. Bonds issued by towns and cities in the states of Washington, Colorado, Montana and Wyoming were the sources of data for the study.


Two sets of financial institutions are locked in a heated battle over tax-exempt revenue bond financing. The antagonists are some fifteen thousand commercial banks led by the Dealer Bank Association and approximately five hundred securities dealers led by the Securities Industry Association. The controversy revolves around the question of whether or not commercial banks should be allowed to underwrite and deal in all types of revenue bonds issued by state and local governments. The commercial banks maintain that allowing them to underwrite revenue bonds would broaden the market for such offerings and, as a result, reduce the interest costs to state and local governments. The trend away from general obligation bond financing began in the mid-1960s when commercial banks' limited by the Glass-Steagall (1933) to underwriting general obligation bonds began to push for a change in the law. In 1968 they received permission to underwrite investment quality housing, university, and dormitory revenue bonds. Since then the commercial banks have met with defeat in their efforts, but they continue to press for additional changes in the law.

The future of tax-exempt health-care financing is uncertain in view of the current close scrutiny of all forms of tax-exempt bond financing by Congress. Tax-exempt bonds for health-care facilities have been targeted for attack by the Congressional Budget Office. In light of the restrictions imposed on mortgage revenue bonds by the 96th Congress and the current Congressional debate on legislation designed to restrict the use of industrial development bonds, it would seem likely that tax-exempt financing for health-care is also eventually in for closer Congressional scrutiny.

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This study presents a review and evaluation of various aspects of the management and policies of debt administration in the state of Oregon. Part I presents a background discussion of the general debt issuance process, including the procedures for authorizing debt, the coordination and timing of bond sales, and financial reporting practices.

Part II reviews the current market performance of Oregon bond issues and compares trends in borrowing costs with other states' bonds carrying similar credit ratings. The analysis in Part III suggests there are practical limits on the use of state credit capacity and discusses the nature of these limits. Part IV presented several recommendations based on the review and findings of the previous parts. In brief, the recommendations address three points: the need for (1) improved reporting and disclosure practices; (2) improved coordination of borrowing and capital spending plans; and (3) alternative means to conserving the state's general obligation bond borrowing capacity. The study concludes, however, that short of a marked reduction in new borrowing volume, these alternatives do not offer significant potential for reducing overall borrowing costs.

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This article reviews mortgage revenue bond programs in general.

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The data presented in this article describe the average marketing, underwriting and interest costs of revenue bond issues. The added costs of marketing, underwriting, and debt service have serious implications for an issuer since the benefits of revenue bond financing may not be worth the cost. Data indicate that several factors such as the size of the
issue, the bond rating, and bond proceeds should be considered in making the choice between revenue and general obligation bonds. For some types of issues, revenue bonds are the only practical way to generate capital project financing while, in other cases, general obligation bonds could easily be utilized. Issuers should seek the advice of experts as to whether the increased borrowing costs of revenue bonds are worth the advantages of using this type of debt.


This research will determine the impact of capital costs, including debt service and operation and maintenance, on tax rates of New York municipalities and on the ability of these municipalities to raise funds from the bond market. The analysis separates localities into three credit capacity categories according to the likelihood that bond issues can be sold at a reasonable rate. In addition, alternative financing mechanisms, including various methods of state credit assistance, are proposed and evaluated. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


This paper studies the state and local programs which finance single-family mortgages by issuing tax-exempt revenue bonds and leads to the conclusion that the state agencies may be better intermediaries than the local agencies. The report also analyzes the effect of the volume of housing bonds on the entire tax-exempt market leading to the conclusion that at the time of the study mortgage revenue bonds were found to be a fast growing segment of the tax-exempt market. (Reviewed in Resources in Review.)


The soaring popularity of the tax-exempt mortgage revenue bond has begun to worry the Federal government. In the face of an ever-increasing loss of potential tax revenues to the Treasury, Congress is now threatening to pass legislation designed to remove the tax-exempt status of mortgage revenue bonds which very likely would eliminate or greatly reduce the use of these bonds. The Department of Housing and Urban Development favors retention of the MRBs, but would put income limits on participating home buyers, a ceiling on size of mortgages, and restrictions on neighborhoods where the bond money can be used.

Investors are nervously watching the paper value of their securities sink almost continuously, and commercial banks are becoming increasingly reluctant to hold illiquid tax-exempt industrial development loans in their portfolios. Investment bankers have recently come up with the answer to both problems - the floating rate unit trust. The unique feature of the unit trusts is the floating coupon rates - they float with the prime rate since they are set at a percentage of the prime rate. All bonds in the trusts are industrial revenue bonds with an occasional pollution control bond being the only exception. The bonds are purchased by investment firms from commercial banks and are backed by bank letters of credit. The trusts free commercial banks from illiquid loans, and they offer the individual investor protection for his principal in exchange for a fixed return on the investment.


This article reports data on the costs of marketing state and local bonds gathered from 270 governmental units responding to a survey in December 1979 and January 1980. Tabulations show total sales costs of issues, by size of issue and type of bonds, along with the cost per $1,000, the average cost per issue, and the range in cost per $1,000. Also similarly tabulated are legal costs, bond election costs, financial advisor/accountant/audit costs, and publication/printing/rating costs. The historic trend is measured in a final table comparing total costs per $1,000 of issue in 1973 and 1979.


This article reviews the debate that has been going on in Washington regarding the broad range of tax-exempt financing purposes as well as tax-exempt financing for hospitals and health care facilities. Several ideas are advanced which support the use of tax-exempt financing for hospitals (non-profit).


The benefits and the costs of city and/or county mortgage programs financed by means of tax-exempt bonds are discussed in this article. Benefits of such a program include (1) an increased flow of mortgage funds, (2) increased availability of owner-occupied single-family
dwellings, and (3) greater availability of low-cost mortgages. Costs associated with such a program include (1) the tax expenditures related to the interest on state and local industrial development debt, (2) the profit differential between participating and non-participating financial institutions, and (3) the distributional impact between income groups and states.


Many hospitals are seeking ways to protect themselves against unfavorable market fluctuations in the tax-exempt market which is currently plagued by volatile interest rates and investor resistance. Some hospitals are using interim (short-term) financing in lieu of the more traditional long-term financing for capital improvement projects while they wait for long-term interest rates to come down. In addition, some hospitals are looking at hedging their financial risks through the government securities futures market. The technique of futures hedging is explained, and an example illustrating this technique is given.


The Reagan administration recently made public its proposal to curb the use of tax-exempt industrial development bonds. In addition, the administration is considering levying a minimum tax on the interest earned by large corporations which pay a minimal amount of income tax. Beyond that, large corporations would be prohibited from the use of small issue industrial development bonds altogether. The proposal would place restraints on issues as well as requiring that tax-exempt financing be limited to bonds publicly approved by local governments. After 1985, state and local issuers would be required to make some financial commitment to all bond-financed projects. Bonds issued for projects located in urban enterprise zones would be exempt from the IDB curbs.


This article gives a brief history of industrial development bonds, an assessment of the impact of the tremendous increase in the use of IDBs as they impact on interest rates in the remainder of the tax-exempt market, and an educated opinion as to how IDBs might fare under the Reagan administration.

Industrial revenue bonds are being used by growing numbers of states and municipalities as a special inducement to private business. While these bonds aren't costing the states and municipalities anything, someone is paying for this abuse of tax-exempt financing. That someone is the Federal government in the form of taxes rendered uncollectable by the tax-exempt status of industrial revenue bonds.


This article examines the possible impact of national health insurance on the borrowing costs for health care facilities should the present Medicare reimbursement formula be carried over into a national health insurance program without needed modification.


Tax-exempt revenue bonds can offer the investor a good yield on his investment and a relatively low risk of default on the obligation. Housing bonds are a particularly attractive type of tax-exempt investment with their growing yields, and, even though they are usually a long-term instrument, many housing bonds are retired well before maturity. Another type of revenue bond that is growing in popularity, is the student loan revenue bond despite its bewildering maze of state and Federal guarantees.


A growth in the demand by American investors for tax-exempt securities has been instrumental in swelling the volume of this type of financing. President Reagan's program of tax-cuts includes Senate Bill 169, which provides for the use of municipal (tax-exempt) bonds to aid in financing pollution control equipment necessary in plant construction. Formerly restricted to cities, counties, states or their agencies, tax-exempt financing is now being extended, under certain conditions, to private companies.

This study presents the results of a survey of state laws regarding the validation (or approval) of local bond issues. While validation of local government bond issues by states improves the security and marketability of local government securities, there is a question raised concerning the possibility of interference in local affairs. Included in the study is a review of all state statutes and a telephone survey of selected states.

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The first half of the article discusses the changes in the municipal market that have occurred as a result of the financial crises of New York City and New York State as well as the new emphasis on more in-depth municipal credit analysis. The second half of the article reviews the legal risks inherent in making short-term loans to municipalities.

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At a time when interest rates for long-term hospital revenue bonds are highly volatile, health care facilities must look to short- and intermediate-term financing techniques for the near term. The use of interim financing will enable health care facilities to finance their capital needs now and refinance them with long-term issues later when long-term rates fall. The article examines three basic short- and intermediate-term financing techniques (1) commercial paper, (2) tax-exempt bond anticipation notes, and (3) bank lines of credit.

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Tax-exempt hospital bond financing reached record levels in 1981, and projections for 1982 indicate that the municipal securities market may be hard pressed to absorb the large supply of tax-exempt hospital financing that is expected to flood the market. The two basic reasons cited for the record volume of tax-exempt hospital financing in 1981 were (1) a pressing need for renovation of existing facilities and construction of new facilities, and (2) the impact of inflation on the costs of facilities. The impact of inflation has been quite evident in increased construction and equipment costs as well as increased costs of interest. Some dealers expect the volume of tax-exempt financing for 1982 to exceed that of 1981 and are frankly concerned about the ability of the market to absorb the heavy volume of hospital financing in the face of a projected heavy supply of housing and public utility revenue bonds.

A record volume of hospital revenue bonds (approximately $1 billion) were issued in the first quarter of 1981 in spite of very high interest rates and unprecedent volatility in the municipal bond market. No major change in interest rates is expected in the near term in the face of various technical and structural factors.


In the face of very high long-term interest rates and extremely volatile market conditions, hospital revenue bond issues reached near-record levels both in the number of issues and the total dollar volume in the second quarter of 1981. This presents a comprehensive list of all publicly offered non-insured tax-exempt hospital revenue bonds issued during the second quarter of 1981.

Hee, Dickson L. "Statistical Trends by Number of Hospital Beds." Hospital Financial Management 35 (March 1981): 34.

This article presents the results of a statistical analysis of hospital bond ratings by bed size. The data collected for the analysis tend to support the assumption that larger hospitals generally receive better bond ratings. The very highest ratings often go to multi-hospital systems which offer a high degree of security for the investor.


This is the first in a series of articles on tax-exempt hospital revenue bonds. The series will provide the historical background of this type of financing as well as analyses of trends and forecasts on the future of tax-exempt health care financing. The first article briefly reviews the history and characteristics of tax-exempt hospital revenue bonds. It concludes with an analysis of recent trends in this sector of the tax-exempt market.

This is the second in a series of articles on tax-exempt hospital revenue bonds. This article presents data on hospital bonds marketed during the first half of 1980. In addition, recent trends in long-term interest rates and the relationship of bond ratings to interest rates for hospital bonds are examined.


The objective of this summary study is to clarify various aspects of the market for state and local debt (the municipal bond market). Factual material is preserved for eight topics: size of the market, borrowers, short-term state and local borrowing, long-term state and local borrowing, owners of state and local debt, costs of borrowing for state and local units, the quality of state and local debt, and operation of the market for state and local debt instruments. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


In recent years, borrowing rates of state and local governments (SLGs) have risen sharply relative to those of other sectors. This increase in rates, combined with increasing state and local government budget deficits (as highlighted by the New York City crisis) have led Federal, state and local authorities to question the long-term viability of relying on tax-exempt securities as a means of financing SLGs.

This research provides two econometric models, and annual forecasting model and a quarterly structural model, which are used to analyze the need for structural reform within the market for tax-exempt securities to prevent SLG borrowing rates from rising relative to those of other sectors. The research also analyzes the impact of various legislative proposals on these relative borrowing rates. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


Phase two of this project explored whether changes in the relative supply of securities in a tax-exempt market caused by advance refunding bond issues affects regional borrowing costs relative to those nationwide, and if so, whether the impact of advance refunding bond issues on borrowing costs is different from that caused by other bond issues. It was concluded
that (1) increases in relative supply - whether caused by advanced refunding bond issues or other types of issues - increase regional tax-exempt borrowing costs relative to those nationwide, and (2) the impact upon borrowing cost caused by advance refunding bonds is no different from that caused by other bond issues. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


Phase one of this project devised and performed a variety of empirical tests which indicated that changes in the supply of tax-exempt securities in a region affect regional borrowing costs and costs on individual bond issues relative to nationwide tax-exempt rates. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


The findings of a study conducted by the Congressional Budget Office on the uses (and abuses) of industrial development (or revenue) bonds are reviewed. Results of the study indicate that the use of industrial development bonds is much more widespread than had been estimated previously. Furthermore, in many instances, IDBs have been used to finance projects which have no real "public purposes." The possibility of restrictions or an outright elimination of the use of IDBs by Congress is examined.


This article reviews the question of whether or not commercial banks should be allowed to underwrite revenue bonds. Because they are perceived by market participants as carrying greater risks than general obligation bonds comparable in other characteristics, revenue bonds receive fewer bids and are burdened with greater interest costs.


The report documents the results of a research project conducted by the Oregon State Treasury. The purpose of the project was to study the
alternative means of assistance that the state might offer to local
governments in the issuance of debt. The original scope of the research
topic was limited to bond banks, but was later broadened to include
mini-bonds. The structure and operations, security, possible negative
features, cost effectiveness of existing bond banks are discussed as a
follow-up to the basic concepts of bond banks. In addition, the potential
viability of a bond bank in the state is discussed. In conclusion,
recommendations are made regarding which alternative measures might best
serve local governments in Oregon.

"Hospital Bonds: A Tax-Free Alternative to Municipals." Business Week,
November 24, 1975, p. 85.

Hospital bonds offer an attractive alternative to other types of
tax-exempt obligations that are currently out of favor with investors.
The reasons for their growing popularity may be found in (1) higher
interest rates (similarly rated municipal revenue bonds usually command
lower interest rates), (2) the moderate risk of default, and (3) the
narrow market for hospital bonds. Projections are that hospital bonds
will continue to gain in popularity particularly as news of their
attractive yields becomes more widely known among investors.

"A Hot Market in Health Care." Institutional Investor 13 (August 1979):
173-74.

Volume for the month of June was almost twice that of May, and,
surprisingly, more than 25 percent of the volume was accounted for by
health care issues. The surge in health care issues can be attributed
to a lack of competition from housing issues (caused partly by the
25 April moratorium on mortgage revenue bonds for single-family housing
issues) and a light calendar in health care issues in the first half of
the year. The financing record for June for all sectors of the tax-
exempt market is presented.

Housing and Development Reporter. Tax-Exempt Bond Market Finance for Housing:

A seminar reference book on materials for a September 18-19, 1980
seminar in Washington, D. C. sponsored by the Bureau of National Affairs.
The preliminary findings of a Congressional Budget Office study of
industrial development bonds, data on state and local housing bond issues
marketed in the first half of 1980, rating agencies' credit reports, and
a working draft of an Urban Development Action Grant User Guidebook are
included.

The rapid growth in the volume of industrial revenue bonds has precipitated a bitter controversy in Congress over the prospect of additional restrictions on the use of this type of tax-exempt financing to fund commercial and industrial development projects. Treasury Secretary Regan initially voiced opposition to the unrestricted use of industrial revenue bonds (IRBs), but, more recently, Norman Ture, the Undersecretary for Tax and Economic Affairs, advocated the expanded use of IRBs. The Treasury has not yet decided on a final position as to what, if anything, should be done to recapture lost revenues. Meanwhile, the debate over the possible further restriction of industrial revenue bonds continues.


This article discusses the advantages and disadvantages of investing in the tax-exempt markets. Inflation and the 1976 Tax Reform Act are the strong forces that are drawing more and more investors into the tax-exempt market. Inflation is pushing the average working men into higher and higher tax brackets - while at the same time, the 1976 Tax Reform Act has knocked out many traditional tax shelters. So the small investor, in many cases, is turning to the municipal market. The two broad categories of bonds (notes, etc.) - general obligation and revenue - are discussed. In addition, the article gives tips on bond funds and unit trusts.


Since the mid-1960s, a number of states have passed legislation which benefits business in the form of special tax incentives. Since 1975, the efforts aimed at providing tax incentives to attract business and industry have increased significantly in the form of investment tax credits, property tax abatement, and other types of subsidies. One of the most popular of these subsidies is the industrial development bond. This financing tool enables companies to use tax-exempt power of states and localities to finance private investment. Federal legislation enacted in 1968 limited the tax exemption on industrial bonds to $1 million per issue excepting pollution control bonds (no limit on pollution control bonds). Subsequent legislation has increased the limit to $5 million per issue - later $10 million per issue. In the meantime, the volume of pollution control bonds has mushroomed disproportionately to the remainder of the tax-exempt market. Large corporations have particularly benefited from tax-exempt pollution financing.
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The objective of this project is to assist Texas state and local government officers in designing bond issues with financially optimal features and characteristics. A number of these features and characteristics are examined in order to determine their effect on issuer cost (net interest cost), call features, agency ratings, term to maturity, underwriting procedures, number of bids and size of issue. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)

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This paper examines the procedures used to award municipal bond issues in Colorado and demonstrates that substantial interest savings can be realized by improving these procedures. It is recommended that the true interest cost (TIC) method of computing interest cost be employed rather than the net interest cost (NIC) method when a municipality has a bond issue approaching $10 million or more. Market evidence suggests that these borrowers will achieve the greatest interest rate savings through TIC bidding procedures. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)

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This report discusses the New Jersey Qualified Bond Program and its impact fiscally on municipalities and school districts. The report compares bond issue ratings and interest rates before and after participation in this state-assisted bonding effort. This report shows that if localities are willing to accept fiscal discipline from the state, their investor confidence increases and significant savings occur. A copy of the New Jersey Qualified Bond Program is included.

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The purpose of the research is to examine the operation of the industrial revenue bond as a method of attracting capital to a locality. A literature review of document, statutes, case law, and pending legislation. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)

This article examines the factors that determine the extent of the diffusion of municipal bond banking. Evidence indicates that the rate of financial innovation is directly related to the net benefits gained through its use. Bond banks can lower the cost of debt for poorly rated municipalities in states with high credit ratings. The success of bond banks suggests that there are profitable poolable risks in the municipal bond market.


This study was sponsored by an ad hoc group of commercial banks to examine issues which determine the public interest in the question of whether to permit commercial bank participation in the revenue bond underwriting market: do the social benefits outweigh the social costs? This analysis specifically addresses H. R. 1539, amendments to the Glass-Steagall Act pending in the U. S. Congress. Legal aspects are researched by Kauper and the economic approach is authored by Phillips. Both subscribe to the premise that competitive forces should be displaced only to the extent necessary to achieve a compelling social goal and they develop the argument that none of the reasons advanced in favor of prohibiting commercial bank participation withstand analysis. (Reviewed in Resources in Review.)


This work evaluates, from the investor's perspective, the credits of the two main providers of municipal bond insurance, the Municipal Bond Insurance Association (MBIA) and the American Municipal Bond Assurance Corporation (AMBAC). Besides describing the two and discussing their strengths and weaknesses, Kelly and the other authors rate MBIA as a mid-range AAA and AMBAC as a mid-range AA. (Reviewed in Resources in Review.)


This study reviews the concept of mortgage revenue bonds. The problems associated with mortgage revenue bonds are discussed.

The authors test hypothesized effects of New York City's default upon the borrowing costs of other municipal debt issuers by applying a series of statistical tests to a data file that consists of almost every municipal bond issue of $1 million or more sold competitively during 1945-1975. They found some evidence that the New York City fiscal crisis impacted upon some issuers and not others. Analysis revealed that a subset of large borrowers - large, economically depressed, northern cities - may have paid higher than normal interest rates during the fiscal crisis period. Since not all cities fitting this description were affected, the authors conclude that certain cities paid higher interest rates because of their own financial and management problems.


A general model of the municipal-U. S. government yield differential as a function of after-tax yields on both types of bonds and fluctuations in demand and relative supplies. Estimation of the model indicates that commercial banks do arbitrage between the tax-exempt and taxable bond markets. In particular the widely segmented market model does not appear to be supported by the results obtained. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


This article analyzes the decline in bank demand for municipal securities and examines two hypotheses which have been advanced as explanations. Section I documents the decline in commercial bank demand. Section II analyzes the hypothesis which attributes the decline in demand to the necessity of maintaining adequate liquidity. Section III analyzes an alternative hypothesis which attributes the decline in bank demand to the increased commercial banks use of alternative means of tax avoidance. Section IV discusses these alternatives and the competitive efforts of tax subsidies. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)

Since colonial times state governments have issued debt to finance
the cost of large capital improvements. States have traditionally acted
as primary borrowers, using funds obtained in the financial markets to
acquire real capital. Recently, however, states have established state
instrumentalities that act as financial intermediaries. These state
agencies obtain funds in the capital markets and, in turn, acquire the
financial liabilities of local governments and their agencies. This
article describes and analyzes the operation and impact of these new
state intermediaries. Part I considers the extent and scale of state
intermediaries. Parts II and III describe the sources and uses of funds,
respectively, while Part IV discusses some recent proposals for state-
owned commercial banks. (Reviewed in State and Local Government Finance
and Financial Management: A Compendium of Current Research.)

(September 1980): 2325.

Municipal commercial paper was first offered for sale in the tax-
exempt market in 1974. It quickly lost favor as the economy went into
recession, interest rates climbed, and some local governments and agencies
narrowly missed defaulting on their debt. However, recently, municipal
commercial paper is again emerging as a powerful short-term debt instru-
ment. Several factors could encourage expanded use of commercial paper
by local governments and agencies such as shorter maturities, suitability
for the tax-exempt money market funds and almost daily presence in the
market. Offsetting these advantages are factors which might stifle the
expanded use of municipal commercial paper such as the restricted use of
short-term debt by public agencies in some states, concern on the part of
potential issuers which may be wary of commercial paper because in the
past it was linked to fiscal crises, etc. The scope and use of municipal
commercial paper is still evolving.

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Kormendi, Roger C., and Nagle, Thomas T. The Interest Rate and Tax Revenue
Effects of Mortgage Revenue Bonds. Chicago: Graduate School of Business,
University of Chicago, July 1979.

This study examines the impact of mortgage revenue bonds on interest
rates in the municipal (tax-exempt) market as well as the impact on
Federal tax revenues. The authors conclude that the impact of mortgage
revenue bonds on interest rates and tax revenues is significantly smaller
than had previously been reported.

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Kreiser, Larry, and Rini, Charles T. "When to Finance Pollution Control
Facilities with Tax-Exempt Industrial Development Bonds and Elect Five-

Tax-exempt industrial development bonds can be utilized to finance
pollution control facilities and reduce income tax liabilities. Five-
year amortization can be elected in place of a regular depreciation
deduction and still use the allowed investment tax credit. The tax
credit allowed has been reduced by recent tax legislation.
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Tax-exempt industrial pollution control financing set a new record in 1981 with a volume of $3.92 billion thereby surpassing the previous record set in 1977. The average size of pollution control issues sold in 1981 was $24.83 million, a substantial rise from the 1980 average of $14.49 million. In addition, pollution control financing increased its share of the overall long-term volume from 5.3 percent in 1980 to 8.7 percent in 1981. Utilities garnered 70.2 percent of pollution control issues with a total volume of $2.25 billion; oil companies increased their share of the market from 4.8 percent in 1980 to 11.2 percent in 1981 with a volume of $438.74 million; manufacturing firms, chemical companies, and forest products companies made up the remainder of the issues.

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The year 1981 marked the high tide for tax-exempt financing of industrial pollution control. The year's volume exceeded that of the previous peak, 1977, by 43.8 percent. The primary reason behind the record volume lies in the lower interest rates and the flexibility of tax-exempt funds. With a renewed emphasis on the development of domestic energy sources in Washington, utilities and energy-related industries dominated the pollution control market in 1981 accounting for 83 percent of the volume with a combined total of $3.56 billion. The fear of possibility of curbs on the tax-exempt financing (industrial revenue bonds) surely helped to bolster the tide of pollution control issues that swept into the market in 1981. Issuers have recently turned to short-term bonds because short-term rates are the lowest in the tax-exempt market and because they appeal to individual investors who have come to dominate the market in the last eighteen months. Some observers say that 1982 will surpass 1981 in volume while others disagree.

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Money center banks are providing short-term financing for hospitals until long-term interest rates drop in the tax-exempt bond market. Citibank and First National Bank of Chicago are lending nationwide, but Continental Illinois National Bank confines its lending to Illinois. Bank of America in Los Angeles lends primarily to investor-owned hospital chains. Most of these banks are limiting loans to interim financing.

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The book provides a broad overview of the tax-exempt securities market. The first part of the book is devoted to introductory information regarding the issuers and the investors in the market, the pattern of growth of the market, and a discussion of the rating agencies, etc. The second and third parts of the book are devoted to discussions of general obligation and revenue bonds. General obligation bonds are discussed as a class while revenue bonds are discussed by bond type, i.e., hospital bonds, industrial development bonds, etc. Part four contains discussions on municipal accounting, legal protection, disclosure and liability. Part five is diverse in content with everything from appendices on financial statements to brief discussions of New York City and MAC bonds.

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This article reviews the findings of a study conducted to determine the value of industrial development bonds (IDBs) in attracting industry to a specific state and/or locality. Though the firms that participated in the survey were all from Arkansas, the similarity of bond financing programs in most states should make the observations and conclusions derived from the analysis of the data collected valid in most other states. While analysis of the findings does not provide sufficient evidence to enable the author to make a substantive statement regarding the values of industrial development bonds in attracting industry, they do support the conclusion that it is essential for communities to provide special inducements to industry (including IDBs) if they wish to be competitive in attracting industry and jobs with other communities in the region.

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The rapid growth in the use of mortgage-backed revenue bonds as a housing finance tool has prompted concern on the part of the Federal government as well as various groups from the private sector. Federal concern stems from the projected loss of tax revenues due to the double subsidy that these revenue bonds provide: (1) the interest paid on the bonds is exempt from Federal income tax and (2) the individual whose home is financed by proceeds from these bonds benefits from low interest rates and the mortgage interest deduction as well. Another effect of mortgage-backed revenue bonds would be to absorb a part of the available credit in the tax-exempt market thereby "crowding out" other types of issues. In addition, there has been concern about the impact of this tax-exempt financing tool on the non tax-exempt mortgage financing tools. Because the costs of mortgage-backed revenue bond programs can be high and yet benefit a relatively small segment of the population, there have been proposals to limit these programs.

Industrial revenue bonds (IRBs) have given private business access to the lower interest rates that are generally reserved for public agencies, states or municipalities. In this article, the procedure for issuing and marketing industrial revenue bonds is discussed. The Congressional Budget Office study indicates the popularity of this type of financing noting that approximately $10 billion worth of IRBs were marketed during 1980.


This issue paper seeks to determine how local governments' competition for funds in the municipal bond market can be made more efficient. Three problems are examined: (1) disparities in the cost of funds among municipalities; (2) growing technical complexity in the capital market itself; and (3) the extreme diversity in the pattern of local debt issuances and the absence of any debt controls.

Existing state debt policy toward local units of government does not address the three problems discussed. Three alternatives are presented which - with varying degrees of state involvement in the capital market - are intended to enhance the position of Wisconsin's local units of government in the capital market. The three alternatives discussed are: (1) municipal bond bank; (2) state advisory commission on local debt; and (3) state guarantee of local debt. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


The tremendous growth in the use of tax-exempt mortgage revenue bonds by state and local governments to provide financing for single-family homes has prompted both the Treasury and the Department of Housing and Urban Development to press for changes in the laws that regulate this type of financing. While the Treasury favors the prohibition of the use of MRBs for financing single-family housing, HUD merely wishes to impose restrictions that eliminate upper income levels from eligibility. In addition, the advantages and disadvantages of the direct expenditure substitute program are reviewed.

While medicine is becoming increasingly technological, new technology becomes obsolete relatively quickly which creates a dilemma for hospitals. At the present time, many hospitals finance new equipment with long-term bonds, but this is not practical because in many cases the equipment is obsolete before the bonds are retired. Alternatives to this method of financing are (1) financing equipment by issuing tax-exempt notes or (2) by leasing equipment from a hospital authority at tax-exempt rates. An additional plus for short-term rates is that they are lower. Furthermore, the utilization of short-term issues to fund hospital equipment will relieve some of the upward pressure on long-term issues which will continue to be used to fund hospital and health construction.

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According to an analysis of statistics compiled by Northern Trust Co., net purchases of tax-exempt securities by institutional investors declined more than 50 percent in 1981, falling from $23.7 billion in 1980 to $11 billion in 1981. As a result, net municipal purchases fell from $25 billion in 1980 to $24 billion in 1981. Comparing more widely, net purchases of tax-exempts in 1979 totaled $18.9 billion and $28.3 billion in 1978. Most of the decline can be attributed to reductions in purchases by commercial banks and casualty companies. The market was sustained by individual investors who increased their net purchases tenfold from $1.3 billion in 1980 to $13 billion in 1981. In addition, mutual funds increased their share of the market in 1981; net purchases by mutual funds amounted to $3 billion in 1981 up from $2 billion in 1980.

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This report is a statistical analysis of the municipal securities market for the year ending December 31, 1975. The year marked another record in the volume of long-term financing by state and local governments with $29,326,229,546 in new issues, an increase of 28.5 percent of the previous year's issues. Short-term financing declined in 1975 in response to the financial problems of New York City and New York State. Among the investor groups in the market, commercial banks reduced their share of holdings from 47.2 percent of the market in 1974 to 43.8 percent in 1975; households increased their share from 31.2 percent in 1974 to 34.7 percent in 1975. The number of new issues sold in 1975 rose to 8,107 from 7,701 new issues sold in 1974; the dollar amount of the new issues rose from $51,864,649,720 in 1974 to $58,299,055,469 in 1975. Other statistical information in the report provides a clear picture of the tax-exempt market in 1975.

This report is a statistical analysis of the municipal securities market for the year ending on December 31, 1976. Data presented in tabular form shows the impact of disruptive forces in the market (the fiscal crisis of New York City). Tabular reviews of trends such as growth in the volume of state and local debt, shifts in the market share held by investor groups, total volume of short- and long-term state and municipal debt outstanding help to indicate the direction of the market. The market has moved away from short-term debt marking a record high for long-term for the second year in a row. Short-term financing declined 24.4 percent from the 1975 figure.


This report is a statistical analysis of the municipal securities market for the year ending December 31, 1977. It reflects a marked increase in the volume of long-term debt. It also reflects a substantial increase in the use of public debt for non-traditional uses, i.e., industrial pollution control, and hospitals and medical care facility financing. In addition, the large amount of refundings contributed to the surge in volume. Short-term financing (new issues) declined for the third year in a row, but the combined volume for new long- and short-term debt rose by 10 percent.


This report is a statistical analysis of the municipal securities market for the year ending on December 31, 1978. The volume of long-term financing by state and local governments set a record for the fourth consecutive year. The volume of long-term financing in 1978 totaled $46,214,763,694 up from a total of $45,060,469,916 in 1977. After 3 years of decline, the volume of short-term issues sold in 1978, $21,642,471,485, rose slightly from the volume of short-term issues sold in 1977, $21,348,918,413. The total volume for both long-term and short-term securities set a record for the fifth year in a row up from $66,409,388,329 in 1977 to $67,857,235,179 in 1978. Advance refundings played a major role in the large volume; the refundings of all kinds amounted to $9,284,039,584 in 1978. The 1978 total volume of tax-exempt issues outstanding stood at $301 billion which consisted of $266.4 billion in long-term securities, $18.7 billion in short-term obligations, and $15.8 billion in non-financial corporate business (pollution control IDBs). Commercial banks held 41 percent of the market, households share dropped to 29.7 percent, and fire and casualty insurance companies held 19.8 percent of the market. Other statistical information in the report helps to provide an accurate picture of the market in 1978.

This report is a statistical analysis of the municipal securities market for the year ending December 31, 1979. For the first time in five years, the aggregate for long- and short-term tax exempt securities posted a decline from the previous year, from $67,857,235,179 in 1978 to $63,158,021,159 in 1979. In addition, long-term issues also declined for the first time in five years moving downward from $46,214,763,694 in 1978 to $42,260,817,929 in 1979. Short-term issues which have had a more checkered history in recent years declined from $21,642,471,485 in 1978 to $20,897,203,230 in 1979. Certainly a major factor in the decline in volume was a significant drop in refundings, falling sharply from $9,284,039,584 in 1978 to $1,872,211,333 in 1979. At year's end, the total volume of tax-exempt issues outstanding stood at $312.7 billion with $293.5 billion in long-term obligations, $12.6 billion in short-term securities, and $19.2 billion in pollution control IDBs. Commercial banks held 43.4 percent of the market, households held 23.7 percent of the market, and fire and casualty insurance held 23.8 percent of the market. Additional statistical information clearly outlines the conditions in the market in 1979.

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This report is a statistical analysis of the municipal securities market for the year ending on December 31, 1980. Tabular reviews of basic trends such as the volume of state and local debt, the percentage of the market held by various investor groups, the volume of long- and short-term debt are presented. In addition, there are listings of the issues marketed in 1980 in several of the larger sectors of the market—the pollution control, the hospital, medical facilities and the housing sectors.

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According to data compiled by the Bond Buyer, the volume of long-term tax-exempt securities dropped 3.8 percent from $47.13 billion in 1980 to $45.32 billion in 1981. The number of new issues also declined during 1981; issues dropped from 5,550 issues sold in 1980 to 4,076 issues sold in 1981. A breakdown by type of borrowing for the year follows: education - 9.6 percent; water and sewer system projects - 5.6 percent; highways, bridges, and tunnels - 2.3 percent; utilities (gas and electric) - 16.4 percent; industrial development - 4.4 percent; pollution control - 9.4 percent; state and municipal housing finance - 15.0 percent; hospitals - 11.2 percent; and other purposes - 26.1.

The use of tax-exempt financing for subsidized housing (Section 8 subsidy from HUD) is reviewed in this article. The article describes how a bond underwriter puts the bond issue together and then markets the issue in order to finance a section 8 housing project. In addition, the safeguards for bondholders and the benefits of this type of financing to the real estate developer are thoroughly discussed.


At a time of abnormally high interest rates, the use of industrial revenue bonds to finance real estate projects can be beneficial to all parties involved. The advantages of this type of financing to both borrower and lender are reviewed.


If Congress and the Federal Communications Commission give their approval, the municipal bond market may add yet another non-traditional use of tax-exempt funds to an already crowded list. However, the future of tax-exempt financing for cable television systems is clouded by the increasing Federal scrutiny of the "public purpose" of tax-exempt financing. In addition, conflict of interest questions regarding municipal ownership of cable systems could be a problem. Thus far, there are only a few municipal investment firms which follow this limited new use of tax-exempt financing. The general consensus appears to be that there is uncertainty about whether or not a market for this type of bonds exists.


Recently enacted restrictions on mortgage-back revenue bonds limited the volume of this type of bond to $7.07 billion in 1981. This was a marked decrease from 1980's volume of $14.23 billion. In 1981 mortgage bonds made up 15.5 percent of the overall long-term volume of $45.7 billion in the tax-exempt market in contrast to 1980 when mortgage bonds constituted a whopping 30.4 percent of the $47.13 billion market. Single-family mortgage bonds dominated the tax-exempt housing bond sector in 1980 with 67.3 percent of all housing bonds being single-family issues. However, the dominance of the single-family issue declined somewhat in 1981 with single-family issues constituting only 32.8 percent of all housing issues. Forty-two states and Guam issued housing bonds in 1981 with California being by far the largest overall issuer.
McMullen, J. S. "Industrial Revenue Bond Financing: What's It All About?" 

Industrial revenue bond financing originated in the 1930s in the 
South; it was used by several southern states as a means to attract 
industry from the industrial centers in the North. Until the mid-1960s,
the use of IRBs was insignificant. In the late 1970s, record high
interest rates prompted a virtual explosion in the use of this form of
tax-exempt financing. This article describes industrial revenue bond 
financing, the advantages it offers to issuer, investor and how it works.
In addition, criticisms of this method of financing are also discussed.

Melvin, D. J. "Another Look by Washington at Industrial Revenue Bonds."

The environment which encouraged the recent rapid increase in the 
use of small issue industrial revenue bonds is examined. What are IRBs,
who issues them, and why are they suddenly a hot topic in Washington
are some of the questions reviewed in this article.

Mentz, J. Roger; Menaker, Mitchell E.; and Pasiri, Emil G. "Leveraged 
Leasing and Tax-Exempt Financing of Major U. S. Projects." Taxes, the 

The increasingly high cost of money has forced many U. S. businesses
to resort to the use of more innovative techniques to finance their capital 
requirements. Two of these techniques are leveraged leasing and municipal 
bond financing. The basic structures of both types of financing are 
reviewed. In addition, the tax requirements and benefits are identified 
for both techniques.


Expansion or new construction of new capital facilities can be 
financed through the use of industrial revenue bonds. This article 
previews a review of industrial revenue bond financing including the 
reasons why it is attractive to the borrower and the investor.

354-56.

This article is based on a speech delivered at the legislative 
conference of the United State League of Savings. The speech reviewed 
the state of the housing finance industry during a period of fundamental 
change. Financial institutions are undergoing changes in their roles at
the hands of deregulation. The transition has not always been a smooth one in light of the fact that the roles of the private and public sector have sometimes been overlapping. A case in point is the use of tax-exempt mortgage revenue bonds. In a growing number of instances, tax-exempt bonds are being used to finance mortgages for individuals whose income levels would allow them to borrow money elsewhere (in the private mortgage market). Clearly, some guidelines need to be imposed which would effectively relegate the use of tax-exempt funds to those households which could not qualify for financing elsewhere.


This work is a comprehensive study on the various aspects of the administration of local government debt. The work is divided into three parts: (1) the first part gives an overview of some important trends in the municipal bond market such as the tremendous increase in the volume of outstanding issues and the shifts in interest of investor groups in tax-exempt securities; (2) the second part concerns itself with the actual planning and marketing of municipal securities; and (3) the last part deals with the administration of debt after it is issued.


The availability of tax-exempt industrial revenue bond financing could be the pivotal factor in decisions relating to plant location for the near term. With the spread between industrial revenue bonds and conventional financing averaging about 3 percent for the last five or six years, companies wishing to put together $5 million worth of financing could save close to $3 million in interest before taxes on a 20-year, A-rated issue. With the revision of the IRS Code in 1978, the limit on capital expenditures for individual projects moved upward to $10 million. In some cases where Urban Development Action Grants are used to assist in an industrial location, the limit is extended upward to $20 million. (The $20 million limit is beginning to attract large corporations.) The Treasury is taking steps to prevent large corporations from stepping in and abusing this source of low-interest financing.


Legislation designed to halt the use of tax-exempt mortgage revenue bonds to finance single-family dwellings retroactive to April 25, 1979 was introduced recently by Rep. Al Ullman with backing of key Democrats and Republicans on the House Ways and Means Committee. The proposed
legislation was in response to warnings from the Treasury Department that the ever-increasing use of tax-exempt financing might cost the Federal government $500 million to a $1 billion in revenue by 1981. (Mortgage revenue bonds are one of the fastest growing types of tax-exempt financing from a volume of $29 million in 1978 to an estimated $2.3 billion in sales so far in 1979). Rep. Ullman and Rep. Barber Conable, Jr. have agreed to make an exception for cities and counties that had already done the planning for bonds but had not issued them yet. The White House is being pulled between the Treasury Department which favors the Ullman bill and the Department of Housing and Development which opposes it.

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In July 1978, under the auspices of the Mayor of Chicago, the Mortgage Revenue Bond Advisory Committee was established. It was charged with the mission of reviewing the concept of mortgage revenue bond programs. This paper gives the conclusions of the committee regarding the Chicago Pilot Program and, in addition, offers guidelines for future issues of mortgage revenue bonds.

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The City of Chicago has come to market with a second large offering of mortgage revenue bonds - a $150 million issue. Chicago started a trend in the use of this type of tax-exempt financing when it brought a $100 million issue to market in the summer of 1978. Mortgage revenue bonds have become an overnight success - so much so in fact that bankers, thrift institutions, and even the President are openly concerned about the impact of these issues on the remainder of the market. (It has been projected that over $1 billion worth of tax-exempt mortgage revenue bonds might be brought to market this year.) President Carter has recommended that Congress pass legislation that would restrict mortgage revenue bonds to being used for families of modest means.

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The municipal bond market will be a buyer's market, and the investors that will dominate the market will be those who are willing to take a chance on default in return for high yields on their investments. In the face of the shaky condition of the municipal market, more conservative investors such as banks, fire casualty insurance companies and wealthy individuals are bailing out of the market leaving it to the "highrollers."
With New York City’s financial problems at least temporarily under control, the market still has other problems to face. The new breed of investor is hedging his debts by demanding "full disclosure" of the financial conditions of issuers these days.

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The Securities and Exchange Commission’s report on New York City is likely to provide new life to the campaign for fuller disclosure in municipal securities. Though there has been more and better disclosure recently, it has been done on a voluntary basis and, consequently, rarely furnishes the desired level of reporting. Perhaps the biggest problem for securities analysts and investors is that there is a lack of uniformity in accounting practices among municipalities. The SEC report has given a shot in the arm to a bill first introduced last year by Senator Harrison Williams that would establish minimum disclosure standards for municipalities currently having debt in the municipal market worth $5 million or more or that have previously borrowed as much as $50 million or more in the municipal market. The SEC report has apparently been responsible for increasing support in Congress for the Williams bill.

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Although the market still considers general obligations bonds safer, revenue bonds are gaining ground on GO bonds. A case in point is the utility revenue bond which is gaining favor over general obligation issues. According to Seisel E. Canaday, Jr., the portfolio strategist at John Nuveen & Co., investors have lost confidence in GO bonds after last year's financial crisis in New York City. In addition, Mr. Canaday said, "... people will fight high taxes - but they'll pay their water bill." According to William B. Sims, a vice president in the firm of Herbert J. Sims & Co., New York, general obligation bonds are largely dependent on property taxes which can be difficult to collect whereas municipal utility bonds are backed by revenues "collected with a monkey wrench."

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The purpose of the study was to review and evaluate available evidence concerning the impact on interest cost to issuers of extending bank eligibility to underwrite all revenue bonds. It reviews previous studies concerned with the same question and concludes that the studies conducted by (Phillip) Cagan and (Reuben) Kessel were inaccurate in their
conclusions based on available data. This author contends that the available evidence does not support the argument that an extension of bank eligibility would result in a significant reduction in interest costs. Furthermore, he asserts that considerations such as problems of conflict of interest and concentration and abuse of financial power are relevant and should be weighed against any potential gains.


A thorough review of the tax-exempt status of state and local government securities. Compares the proposed taxable bond option with tax-exempt bonds.


New York State is skirting the edge of financial disaster now like New York City was last year. Default by New York State would likely deal the same staggering blow to the municipal market as the city's debacle did. The crucial problem is New York's state agency debt, a moral but not legal obligation of the state. The state must come forth with a plan for either paying off or rolling over some $2.5 billion in agency debt due to mature in the next twenty-four months - $360 million must be paid off or rolled over on 15 March. The state itself needs to borrow $4 billion in short-term money in order to cover a $449 million deficit in the fiscal year ending 31 March. In addition, the state needs another $3 billion to make state aid payments to school districts, towns, and counties. The eyes of the financial community are focused on the state capital where the governor and the state legislature must come up with a balanced budget if the state is to find lenders willing to help it weather its fiscal crisis.


The cost of borrowing for cities and states has soared to record levels, and still, the New York City debacle wrecks havoc in the municipal market. The financial woes of New York City have drastically affected the ability of New York State to borrow money in the tax-exempt market. Interest rates for other states such as Massachusetts and Connecticut have risen in the wake of the New York crisis. In fact, investors are questioning the viability of the whole municipal market. Of particular concern is the concept of the moral obligation pledge where states are morally but not legally obligated to salvage debt issued by state agencies which are in financial trouble such as housing finance authorities. The concern is that states would not or could not honor these indirect pledges which would result in default on short-term obligations (notes) issued by some of these agencies.

In light of the financial crisis which rocked the very foundation of the municipal market in the mid-1970s, investors, both individuals and institutions, are concerned about the adequacy and accuracy of municipal financial disclosure. In this article, the author initially seeks to describe the method which is used by his firm to analyze bond issues. In conclusion, he makes suggestions as to what credit information a bank should have in its files to demonstrate that it has exercised good judgment regarding purchases of municipal securities.


A precedent was set in July 1977, by the California Pollution Control Financing Authority when it issued a series of seven bonds - each for a different company, in one offering of $4.6 million. These bonds were guaranteed by the Small Business Administration using authority given it by a 1976 bill which gave the SBA the authority to guarantee pollution control bonds for companies which meet certain requirements. This guarantee allows bonds issued by small companies to earn a AAA rating and to command a lower interest rate. Some thirty states have informed the Small Business Administration that they are interested in starting this type of program to aid small businesses. Though the program does have some drawbacks for the small business, the advantages seemed to outweigh the expensive up-front costs.


The results of a study on the impact on the real cost of debt in the state and local government sector are presented in this article.


The changing conditions in the municipal bond market and their effect on the availability and cost of state and local government debt are described in this study. It is concluded that the increased supply of and reduced demand for tax-exempt securities has increased the borrowing costs of state and local governments. This report discusses several proposals to broaden the market for state and local government debt. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)

Recent research in state and local government debt policy and management has been influenced markedly by the New York City fiscal crisis and the impact of the crisis on the municipal securities market. The fact that the entire market (other governmental borrowers included) was shaken by the New York fiscal crisis served to emphasize the importance of the market to the formulation of debt policy by state and local governments. The article points out the differences in structure and operation of the municipal securities market and other capital markets. There is a discussion of the major investor groups involved in the market. Finally, the problem borrower is examined.


The second part of a two part series of articles reviews the types of securities available in the municipal bond market as well as the purposes for borrowing. Special attention is given to various non-traditional uses of borrowing and the decline in short-term borrowing. The point is made that in the face of the proliferation of non-traditional borrowing needs of the state and local sector, capital needs for traditional uses have declined.


This article details the potential impact of a New York City bankruptcy three years after New York City's financial crises. The author records the impact of the 1975 New York City financial crisis on the municipal securities market and the subsequent months of uncertainty and turmoil that accompanied the restoration of investor confidence in New York City/State and the municipal securities market as a whole. As a result of the 1975 fiasco, municipal issuers were forced to improve their disclosure practices, and, in addition, the 1976 Tax Reform Act brought a new investor group into the market. Both occurrences have made for a stronger market. However, if New York City were to become insolvent, the author concludes that the Federal government would still be forced to take a large and active role in the finances of a number of financially troubled cities as well as New York thereby raising questions relating to security, contract, and political sovereignty.

This article seeks to review debt policy as it is practiced today. The author asserts that debt policy commonly practiced today is a combination of tradition, hastily-made decisions and advice given by outside consultants. He decries the fact that, generally speaking, greater effort is not made to coordinate program objectives with financial means thereby increasing the likelihood of wiser decisionmaking concerning debt. The author suggests that most local governments need to formulate a written policy that would assure that both elected and appointed officials are aware of the variables that must be considered by those charged with the responsibility of debt management.


The relative efficiency of competitive versus negotiated bidding of general obligation bond issues of Pennsylvania municipalities is being examined in this study. There is also a review of the history of municipal borrowing in Pennsylvania and a comparison of Pennsylvania borrowing procedures with those in other states. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


The task force examined the municipal bond market and considered methods of improving its structure. Recommendations were developed to improve technical aspects of the tax-exempt market as well as to alter the supply of bonds, to encourage state assistance, to deal with fiscal emergencies, and to promote disclosure of financial information. A background paper prepared for the task force dealt with three major structural problems (1) market difficulties, (2) underlying supply and demand characteristics of the market, and (3) competition between the public and private sectors for funds for investment. Various proposals for remedying these problems were discussed. (Reviewed in State and Local Government Finance and Financial Management: A Compendium of Current Research.)


The article discusses the impact of the New York City crisis on the bond market. The New York City/New York State emergency has prompted a rise in interest costs for state and local borrowers nationwide even though the greatest difficulties are in the Northeast. The dwindling confidence of investors in the security of municipal bonds as a sound
investment further complicates conditions in the market. Structural
difficulties - too much demand for a limited supply of credit - are
adding to the already difficult conditions in the market. Possible
solutions to the problems in the market and the problems of New York
City New York State are suggested.

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Peterson, George E., and Cooper, Brian. Tax-Exempt Financing of Housing
This study examines the effects of tax-exempt financing of housing.
The sharp increase in the use of tax-exempt bonds as a means of financing
single-family dwellings is documented. The study indicates that the
original use of housing bonds has been expanded beyond provision for
low-to-moderate income families to middle-income home buyers as well as
special development uses. The rapid growth in the volume of housing bonds
has put upward pressure on interest rates in the tax-exempt market. For
this reason the authors feel that the Federal government will eventually
be forced to place some limitation on the access of housing bonds to the
tax-exempt market. In conclusion, the report considers several proposals
before Congress which would restrict or eliminate the use of tax-exempt
money for financing single-family home mortgages.

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Peterson, George E.; Tuccillo, John A.; and Weicher, John C. Analysis of
This report examines legal issues surrounding local government
revenue bonds, their impact on the mortgage market and on tax-exempt
interest rates, and takes a look at the market for mortgage-backed
securities. (Reviewed in Resources in Review.)

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In 1980, the results of eighteen months of research led the World
Coal Study to conclude that coal would serve as the major source of energy
from the present on into the next century and that the world coal trade
would have to increase at least tenfold in order to meet the world's
needs. In response to this statement, U. S. ports have promptly begun
to develop plans to bolster their coal exporting capacity. It is pro-
jected that the costs of dredging channels and port construction will be
accommodated through the issuance of billions of dollars worth of
industrial revenue bonds in the next five years. There are a number of
port authorities which have started planning for expansion to meet the
export demand. The responsibility for the bulk of the financing for
costs of construction and later maintenance will be on the shoulders of
local port authorities since the federal government favors a policy of
little Federal responsibility for underwriting the costs of new port
projects.

Stringent Federal and state environmental regulations coupled with massive capital budgets have been responsible for public utilities increasing reliance on the tax-exempt pollution control securities market, claim the authors. Included in their discussion is a state-by-state listing of such bond issues, showing their total dollar values during the years 1971-1978. (Reviewed in Resources in Review.)


This article briefly reviews the use of tax-exempt credit for the expansion of capital facilities for private companies. In addition, plausible reasons why this practice should not be allowed are given.


This paper seeks to acquaint the reader with municipal securities ratings, what they are, why they are important, and the factors involved in the rating process. A bond rating is an estimate of the probability of the issuer's willingness and ability to repay debt. Ratings are important to issuers and investors. Ratings increase the marketability of securities for issuers, and they provide an indication of prospective performance for investors. There are several broad factors involved in the rating process which can be categorized as follows: socioeconomic analysis, administrative factors, debt factors, and financial analysis. The analyst uses elements from these several categories to assign a rating to a security.


This report gives an overview of mortgage revenue bond programs. It outlines the procedure typically used in the issuance of mortgage revenue bonds. Also included is a preliminary status report on the results of a survey by the Council of State Housing Agencies on single-family mortgage revenue bonds (data provided by the survey effective February 16, 1979).

The success of tax-exempt pollution control financing is largely dependent upon the cooperation of government officials and industrial management. This type of tax-exempt financing was an important exception and was not restricted by the 1968 Revenue and Expenditure Control Act which restricted the size of industrial revenue bonds for other non-traditional purposes. The advantages and disadvantages of tax-exempt pollution control financing are listed. The author concludes with a commentary on the bright future of tax-exempt pollution control bonds.


This document presents the results of a study conducted by the Oklahoma State Legislative Council to define a new state role in assisting local units of government to finance their capital needs that cannot be met through existing revenue sources. Capital needs were identified by means of a mail survey of local jurisdictions. Mechanisms for state assistance used in other states were examined for possible adoption, primarily those of the Texas Water Development Fund and the Maine Bond Bank. The study concludes that the bond bank model most closely meets the needs of Oklahoma, and the Council presents a set of recommended actions for the legislature to undertake in order to establish an Oklahoma Municipal Bond Bank. Extensive appendices illustrate the survey methodology and display detailed tabulations of data resulting from it. (Reviewed in Resources in Review.)


The Congressional Budget office is currently involved in a study of industrial development bonds to determine the current volume and uses of industrial development (IDBs). The CBO is specifically reviewing the use of small-issue IDBs for commercial and industrial purposes. Preliminary findings indicate that small-issue IDBs used for commercial and industrial purposes are the largest and fastest growing use of IDBs.


The state and Federal regulations concerning the issuing of industrial development bonds and the tax-exempt status of interest income from such bonds are briefly summarized in this report. Included also is a list of recent municipal bond offerings in Oregon showing the type and size of the bond sale and the net interest cost. (Reviewed in Resources in Review.)

The crisis in the municipal securities market started before the financial difficulties of New York City became widely known. The reason for the crisis is a growing imbalance between the supply of municipal issues (which is expanding at a very rapid rate) and the demand for these offerings (which is diminishing as institutional investors are retreating from the market). The tremendous increase in municipal offerings may be attributed largely to a drastic change in the uses of state and local debt. The use of public debt is no longer restricted to traditional public purposes, but has gone beyond that to the benefit of private interests. More specifically, pollution control bonds are cited as a particularly questionable non-traditional use of tax-exempt finance.


This report presents the results of an analysis of borrowing costs for bonds issued in recent years. In light of previous research, a design was formulated that expresses net interest cost as a function of the following variables: (1) the size of the issue, (2) the type of issue, (3) the number of years to final maturity, (4) whether the issuer sells the securities on competitive bid or negotiated basis, (5) the number of bids, (6) whether the issue was rated or unrated, and (7) the credit rating of the issuer. Results of the statistical tests indicate that those factors that most heavily influence borrowing costs are (1) the interest rate level, (2) the years to final maturity, and (3) the fact that an issue was rated.


The possible effects of Proposition 13, a proposed constitutional amendment sponsored by Howard Jarvis and Paul Gann, on the issuance of various types of tax-exempt debt in California are reviewed in this article. According to Mr. Jarvis, the initial objective of the amendment is to force reductions in state and local expenditures by cutting back on the government revenues. By reducing the income of state and local governments, the amendment effectively reduces the ability of these governments to issue municipal securities.

Prevailing high interest rates and investor resistance have prompted issues of tax-exempt securities (bonds) to look to zero coupon bonds as an alternate means of tax-exempt financing. Though the demand for zero coupon bonds would likely be low during periods of easy credit and low interest rates, demand for this type of security should increase during periods of tight money and high interest rates.


In 1960, seventy percent of all tax-exempt securities were general obligation bonds utilized to finance traditional public projects such as roads, schools and sewer systems. However, by 1979, seventy-two percent of all tax-exempt securities were some type of revenue bond often used to finance largely non-traditional public projects. One of the fastest growing types of revenue bonds is the industrial revenue bond which utilizes public debt to finance private business expansion. Seven billion dollars worth of industrial revenue bonds were marketed in 1979-twine the volume sold in 1978. The spectacular growth in this type of financing has made these bonds rather controversial. The Treasury is pressing for stringent restrictions on the use of these bonds in order to stem the loss of Federal tax revenues caused by the use of this type of tax-exempt financing. (An estimated loss of $1 billion in tax revenues was directly linked to industrial revenue bonds.)


This report is largely statistical in nature and gives a broad picture of what is happening in the field of municipal debt - how much there is and how it is distributed. The second part, by means of a checklist and two case studies, shows how a jurisdiction can measure its financial condition.


The golden days of tax-exempt pollution control bond financing may soon be over. This is the fear expressed by many participants in the pollution control sector of the municipal market in the face of growing opposition to this type of tax-exempt financing. The strongest opposition emanates from the Department of the Treasury (particularly the IRS), but other non-government groups such as the Municipal Finance Officers Association and the American Public Power Association have joined the IRS to encourage Congress to lift the tax-exempt status from pollution control bonds. The tide may well be turning against tax-exempt pollution control financing.

Tax-exempt mortgage revenue bonds started out as aid for low-income families by subsidizing the cost of buying a house, but this help soon became available for just about anyone. States and cities have sold tax-exempt bonds for years to finance government-related projects including mortgage bonds which were used to provide money for home mortgages for families with low or marginal incomes. In the face of 10 to 10.5 percent mortgage rates last year, cities in the thirteen states where local government bonds are legal began to issue mortgage revenue bonds in high volume. In addition, in some states there were no restrictions on income levels, and, consequently, almost no one was turned away on the basis of too high an income. The Treasury soon caught on to the proliferation of mortgage revenue bond issues and warned members of Congress as to the potential loss of revenue resulting from the abuse of tax-exempt financing. Rep. Al Ullman quickly sponsored legislation which would deny tax-exempt status to mortgage revenue bonds retroactive to 25 April. This legislation stopped the flood of MRBs that was inundating the municipal market.


Investor-owned nursing homes and hospitals are quietly battling to prevent tax-exempt industrial development bond financing for healthcare facilities from being eliminated by Congress. These small-issue IDBs provide a low cost source of financing for the construction and/or expansion of hospitals and nursing homes. The elimination of this type of financing would force the industry to go to private lenders or taxable bonds for the capital necessary for expansion to meet the needs of this decade.


While the fiscal difficulties of New York City were in the news, other municipalities in New York State felt the impact of the uncertainty surrounding the nation's financial center. As the problems of New York City came to the light of day, questions began to surface as to whether New York State would be pulled down with the city. If the state defaulted on its obligations, counties, cities, and school districts would lose their state aid and would, consequently, be placed in precarious financial condition as well. As a result, there was a general loss of confidence in all municipalities, counties, etc. in New York State. Probably the biggest lesson learned in the aftermath of the New York City crisis is that the fortunes of all municipalities are linked together in that fiscal problems for a major city will be reflected in debt costs to all municipal borrowers.
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Interest costs on municipal bond issues sold by competitive bidding were compared to interest costs of issues sold by negotiated bidding. Regression models constructed to explain new interest cost and planned underwriter spread indicated that on average, bond issuers do not appear to obtain lower interest costs by negotiation. However, issuers who sold bonds by negotiation had lower interest costs in cases where the demand for the one issue was relatively uncertain, e.g., bonds with lower credit ratings. (Reviewed in State and Local Government Finance and Financial Management: (A Compendium of Current Research.)

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The near default of New York City in 1975 directed public attention toward the fiscal condition of many major cities in the United States. The public scrutiny helped to stimulate pressure within the municipal market for more precise financial disclosure, and, in addition, prompted a demand for Federal regulation of the tax-exempt bond market. In response to a need for some type of regulation of the market aimed at protecting a growing number of small investors, Sen. Harrison Williams has twice sponsored legislation designed to impose disclosure guidelines (not stringent) on tax-exempt issues. Both the constitutionality and the practicality of the proposed legislation have been questioned. Finance officers as well as city and state lobby groups appear to be opposed to it.

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States and cities across the country are facing a borrowing crunch of unprecedented magnitude brought on by high interest rates and borrowing blocked by state interest rate ceilings. The amount of long-term bonds issued in the tax-exempt municipal market in 1981 is expected to be about $41 billion. Only about $10 billion of that total is expected to be used for the financing of basic infrastructure needs such as waterworks, schools, etc. The remainder will go to non-traditional tax-exempt uses such as construction for private industry, financing for single-family housing, etc. Not only have state and local governments had to deal with high interest rates and increasing competition, they have also been plagued by erosion in their credit ratings. This means even higher rates for some issuers and, ultimately, more fiscal problems.

The municipal market's most fundamental problem is that the supply of credit is not keeping up with demand. The supply of credit is being diminished by the huge borrowing needs of the Federal government and
large business corporations. The new tax policies of the Reagan administration have unwittingly dealt a blow to municipal bonds. Reduced tax rates for unearned income, the overall reduction of income tax by 23 percent by 1984, and the All-Savers certificates have had a serious impact on the availability of investment capital for the tax-exempt market.


The article reports the results of the 12th annual survey of states' interest rate ceilings on state and local bonds. The legal limits for interest rates on bonds and notes is displayed in tabular form. The legal interest ceilings for the following categories are given for each state: (1) state general obligation bonds; (2) state revenue bonds; (3) state agency bonds; (4) state notes; (5) local general obligation bonds; (6) local revenue bonds; (7) local agency bonds (8) local notes and (9) urban renewal notes and low rent housing notes. According to the commentary, twenty-nine states have no ceiling on general obligation bonds and four states have no authorization for state general obligation bonds.


The financial community is rather pessimistic regarding the future of the bond market. However, the collapse of the bond market that was precipitated last fall by the Federal Reserve's tightening up on the supply of credit will not be terminal as many had feared. A projected recession will cause a turnaround in the bond market for the near term. In fact, with a likely decline in inflated real estate prices, problems looming on the horizon for the thrift institutions, possible Chrysler bankruptcy and possible loan defaults by underdeveloped counties, the bond market may be a safer place to invest your money than some other "safe" investments.


Predictions that New York's financial crisis would stifle municipal borrowing in 1976 have not proven to be the case. In fact, borrowing by state and local governments has reached almost $20 billion in the long-term market in the first seven months of the year, and recent projections are that it will at least equal and possibly exceed the record volume of $30.7 billion posted in 1975. Short-term borrowing has dropped noticeably since last year from $18.5 billion (1975-first 7 months) to $13.6 billion (1976-first 7 months). The market is calmer and more receptive to borrowing now - especially long-term. Only New York City is still being turned away from the market.

This is the course book utilized by those who attended the March 1979 Conference on mortgage revenue bonds sponsored by the Bureau of National Affairs and the Institute for Professional Development. Information from the Congressional Budget Office's study on tax-exempt mortgage revenue bonds (March 1979) is used. Public policy questions, legal issues, and other aspects of the mortgage revenue bond concepts are discussed.


This report examines sixteen series of mortgage revenue bond issues used to fund single-family mortgages. These bonds were all local-government bonds issued prior to January 1, 1979.


During the past decade, the number of American families that could safely afford to purchase a new median-priced home, using accepted income-to-purchase ratios, declined from 46 percent to less than 25 percent. State and local governments across the nation have attempted to alleviate mortgage interest rates as a factor by issuing tax-exempt mortgage revenue bonds to pump new financing into the single-family market place. This article examines the program's implementation in Texas and includes a chart outlining the existing pending mortgage revenue bonds issues in that state. (Reviewed in Resources in Review.)


Approximately four months after the issuance of Chicago's $100,000,000 single-family residential mortgage-backed revenue bond (May 1978), the authors opined that these city and county mortgage-lending programs could have a substantive negative impact upon the mortgage and municipal credit markets.

The authors anticipated the growth of these industrial development revenue bonds (this is the specific classification in which those locally issued mortgage revenue bonds fit) for mortgages. With that, the authors recognized the need to question the legality of these programs and their problems, costs, and benefits.

This report explains the environment shortly after these bonds were developed and raises issues explored further in later papers by others. (Reviewed in Resources in Review.)

The municipal bond market closely resembled a roller coaster ride in December. The first half of the month was characterized by high volume, but suddenly, in mid-December, the market took a nosedive as it reacted to the OPEC price increase and the faltering value of the dollar. Housing was the dominant sector in the tax-exempt market for the month accounting for almost a third of the volume for December. The financing record for all sectors of the tax-exempt market is presented.


Initially, Mr. Trent describes the function of the municipal securities market and the basic characteristics which set it apart from other fixed income markets. In addition, he describes the three groups of major investors and their relative importance to the market. He briefly describes recent innovations in municipal finance such as the use of short-term debt (variations of it), letters of credit, and tax-exempt commercial paper. Lastly, Mr. Trent discusses the impact of high interest rates, the All-Savers certificates, and certain Federal regulations on the municipal securities market.


The report examines the impact of the substitution of tax-exempt funds borrowed by local governments for taxable funds provided by private institutions for the financing of single-family dwellings. The authors conclude that tax-exempt securities are competing strongly with taxable issues in the mortgage-backed securities market. In fact, it is hypothesized that because local government programs often reduce bank profitability in the mortgage market, the major impact could be the shifting by banks of direct investments in the taxable mortgages to investments in tax-exempt mortgage-backed securities. Furthermore, the study indicates that the desired effects of local mortgage revenue bonds program, e.g., increased home ownership and geographic targeting, have not been achieved. Finally, the study offers alternatives to these programs.

A complete record of the hearings held by the Subcommittee on Housing and Urban Affairs of the Committee on Banking, Housing and Urban Affairs on the basic issue of tax-exempt mortgage revenue bonds.

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The legislative intent of the Mortgage Subsidy Bond Tax Act was (1) to insure that the funds derived from the sale of tax-exempt mortgage revenue bonds be allocated to families who have the greatest need for the subsidy, (2) to increase the efficiency of the subsidy, and (3) to restrict the overall revenue loss from the use of tax-exempt bonds for housing.

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This is the report submitted by the House Committee on Ways and Means on H.R. 5741, the Mortgage Subsidy Bond Act. Included are dissenting and minority opinions.

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Record of the hearings and the statements of witnesses on the tax treatment of mortgage subsidy bonds as heard by the House Committee on Ways and Means (regarding H. R. 3721).

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Recommendations regarding mortgage revenue bonds by the Advisory Commission on Intergovernmental Relations are given. The report also includes the comments by commission members on this issue.

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Results are reported from state and local government financial statement user survey designed to identify potential users of governmental financial information, evaluate their concerns with respect to current reporting practices, and investigate selected preferred accounting practices. The evaluation of financial statements indicates that the "statement of revenue and expenditures" and budgetary comparisons are the most useful of all groups, while the "balance sheet" appears to be least useful. Appendices include the user survey instrument, categories of respondents, variables associated with general obligation bonds, and tabular data on aspects of financial reporting.


This study, sponsored by the U. S. League of Savings Association, reviews the growing involvement of state and local governments in mortgage revenue bond financing.


The article discusses the tax-exempt mortgage revenue bond which was introduced to the municipal market in July 1978 by the City of Chicago. The issuance of a $100 million tax-exempt issue of single-family mortgage revenue bonds opened the door for a flood of such issues over the next ten months. Some $13 billion in tax-exempt housing bonds were brought to market in 1979. Congress reacted to this new type of tax-exempt financing that threatened to swamp the municipal market in a predictable fashion. The question of whether or not the use of tax-exempt financing to raise home mortgage money constitutes a valid "public purpose" prompted the introduction of legislation designed to eliminate the use of tax-exempt single-family mortgage revenue bonds.


This paper examines the impact of state regulation of municipal disclosure in an effort to provide empirical evidence as to the likely effect of Federal regulation of municipal disclosure. In particular, the impact of state-mandated audits is assessed to determine the effect on municipal borrowing costs and bond ratings.

The purpose of the article is to review various aspects of municipal lending and credit analysis. Some of the topics discussed are the purpose and types of loans available to municipalities, statutory restrictions that are associated with loans to municipalities, and credit analysis for municipalities. The author points out that loans to municipalities are very technical and that complications affecting repayment may arise if all financial and political factors are not considered.


Interest rates on municipal securities are beginning to move upward belatedly following the upward trend that has been the nemesis of the rest of the market recently. Some analysts claim that the upward trend in interest rates is a result of the monetary policy pursued by the Federal Reserve System as well as an inordinately large volume of tax-exempt issues. Though it appears likely that the situation will moderate in the near future, it seems likely that the long-term trend will be one of higher interest rates.


Projections are that tax-exempt bonds will outperform taxable bonds (corporate bonds) this year. Though the corporate sector is in a pronounced downward slide, the municipal market has noticed little or no effect from the other sector of the bond market. The reasons are twofold. Demandwise, there has been continued heavy buying on the part of institutional investors (banks and insurance companies) and by municipal bond funds. (In addition, the Tax Reform Act of 1976 has restricted formally popular tax shelters such as farming, movies and sports franchises thereby turning investors to the tax-exempt market.) Supplywise, many new issues are being sold on a negotiated basis which alleviates some of the disruption in the market that normally occurs when there is a large volume of financing.


Pollution control revenue bonds offer private businesses access to the low-cost, tax-exempt financing available in the municipal bond market. This type of tax-exempt financing is growing in volume across the South as businesses tap this source of low-interest funds to finance pollution control equipment. From 1971 to 1978 PCRB financing in the South constituted 25 percent of the nationwide volume in the pollution control sector. Indications are that PCRB financing will continue to play an important part in the control of the environment in the South.

The article reviews generally state laws that authorize the use of tax-exempt financing for industrial development. In addition, there is a discussion of the size limitation imposed by the Internal Revenue Service Code. Finally, the tax-exempt bond market and its opinion of the marketability of bonds secured by mortgages on shopping centers are reviewed. (Review of techniques of using municipal tax-exempt industrial development bonds to build a shopping center.)


The use of pollution control revenue bond financing began in Tennessee in 1973 with a $4 million offering by the Mead Corporation. Commencing with that first issue on through November 1978, there were twenty-two PCRB issues with a combined volume of $108,185,000. There is good reason to believe that pollution control revenue bond financing which offers Tennessee businesses and/or corporations a relatively low cost means of financing pollution control equipment will continue to flourish in the state.


The volume of tax-exempt financing for hospitals and health care facilities soared past the previous record set in 1977. In 1981 the volume peaked at $5.04 billion surpassing the $4.73 billion issued in 1977. Hospital and health care issues constituted 11 percent of the long-term volume for 1981. Net interest costs for this type of financing ranged from 8.1 percent on an issue sold in March to 17.37 percent on an issue sold in October. Forty-six states came to market in 1981 seeking tax-exempt financing for hospitals and/or health care facilities; only Alaska, Hawaii, Nebraska, and Vermont did not seek this type of financing in 1981.


The improved environment in the capital markets prompted non-profit hospitals and investor-owned chains to rush to the financial markets to market debt and sell equity issues. In late May and early June, hospitals marketed $448.1 million worth of bonds in the tax-exempt market.

In the face of record long-term interest rates in the tax-exempt market, large hospitals are shifting to interim forms of financing such as bond anticipation notes or lines of credit with taxable rates from large banks. Smaller hospitals unable to secure the types of interim financing available to large hospitals must rely on taxable bonds secured through the Federal Housing Administration. If tax-exempt rates do not fall, then some large hospitals may have to return to financing through taxable bonds.


In the face of worsening conditions in an already weakened tax-exempt bond market, hospitals are being forced to seek ways to improve their credit ratings and make their bonds more attractive to investors. Two methods that hospitals are using to beef up credit ratings are the formation of syndicates and pooling their revenues. Other forms of financing such as short-term notes, public stock sales, etc. are also proving to be alternative sources of funds.
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