

CHAPTER 42

Industrial Plants Financed and Owned by Local Governments*

The issuance of tax-exempt bonds by a municipality or other local government to finance the acquisition, construction, or improvement of industrial facilities to be leased to a private company is known generally as "municipal industrial financing." Such financing by local governments is authorized at present in 28 States, as shown in table 1, and limited types of such financing are authorized in a few additional States.

After widespread defaults in the period 1837-45 in bonds issued by local governments to assist certain types of private business, most of the States adopted constitutional amendments prohibiting the State or its municipalities from issuing bonds or loaning their credit in aid of private business. To permit municipal industrial financing in States with such constitutional prohibitions against the use of local government credit for the benefit of private business, constitutional amendments were required in some States, but in other States the courts held that the authorizing legislation was constitutional on the ground that it was basically for the benefit of the public or that, in the case of revenue bonds, it did not involve a pledge of the credit of the local government.

The present type of municipal industrial financing was initiated by Mississippi in 1936. Kentucky followed in 1948 and Alabama and Tennessee in 1951. This type of financing originated in an attempt to attract industrial plants to a few Southern States. Several States have authorized such financing in recent years only so that they could compete with other States by offering the same inducements to attract or keep industry.

Table 2 lists the number of issues and the dollar amount of municipal industrial financing in each State in the period 1956-64. This table shows that 5 States (Alabama, Arkansas, Kentucky, Mississippi, and Tennessee) have accounted for 88.4 percent (465) of the 526 issues in the indicated period and that those 5 States have accounted for 82.4 percent (\$652 million) of the \$791,342,000 in the dollar amount of such issues.

Table 3 lists the dollar amount of municipal industrial financing in each year from 1956 through 1965, a total of 526 issues aggregating over \$791 million. Table 3 includes all of the issues of municipal industrial bonds for which information has been obtained by the research department of the Investment Bankers Association, but it is believed that there have been substantial additional amounts of such financing.

Table 3 indicates the tremendous expansion in the use of such financing in recent years, with the total dollar amount only \$40 million in 1960, but over \$213 million in 1965. In the first 5 months of 1966 there already have been five large issues of revenue bonds which aggregate over \$200 million.

*Prepared by the Investment Bankers Association, with minor editing by committee staff.