

leased to private enterprise (now permitted in some 30 States); (2) lease rental authority financing wherein a nonprofit corporation is created to issue bonds to build a school or other public building, which is then leased to a school district or other local government unit; and (3) public authority financing wherein an authority is established by a city or county to issue bonds for a civic building (courthouse, community center) or stadium, which facilities are then leased to the creating city or county. In all three instances, the lease rentals are set at levels sufficient to repay the bond indebtedness.

(b) *Organizational Structure*

The four chapters on institutional factors in the municipal securities market—bond underwriters, financial advisers, bond counsel and consulting engineers—detail the nature and scope of their duties, qualifications and standards of performance, size and structure of the industry, relationships with borrowers, lenders and other institutional factors, and bases of remuneration. Summarized below are the major findings:

(1) *Municipal bond underwriters* purchase bonds from an issuing public body (usually by winning a competitive bid) and, in turn, the bonds are sold to ultimate investors. In fulfilling this distribution function, the underwriter assumes the risk of possible changes in market prices as well as the costs of distribution, for which he is compensated by the spread (difference) between the underwriters' purchase price and the reoffering sales price to investors. In 1965 there were 388 managing underwriter firms, including 295 investment banking firms and 93 municipal departments of commercial banks. In contrast, there were 932 municipal bond dealers (firms that engage in short-run trading and/or underwriting), including 809 dealer firms and 123 municipal departments of commercial banks.

Dealer syndicates (involving two or more underwriting firms) are usually formed to bid for and distribute municipal securities. About 95 percent of general obligation bond issues and around 60 percent of revenue bond issues are sold through competitive bidding. The average number of competitive bids for new bond issues has exhibited a rising trend during the years 1957-65 for various size bond issues (by dollar amounts). In contrast, the average spread for underwritten issues has steadily declined between 1958 and 1965.

(2) *Municipal financial consultants* provide advisory services to State and local public agencies concerning the planning, development, and selling of a prospective bond issue, particularly the assemblage of relevant financial and economic supporting data, specifications of the bond issue (maturities, bidding requirements, repayment conditions) and timing of the bond sale. Currently there are six nationally recognized independent financial consulting firms; also, about 30 investment banking firms engaged in financial consulting work. Altogether, the six independent firms have about 75 professional employees. Financial consultants are compensated for their services by payment of a fee by the employing municipality, determined either on an annual retainer basis or on the basis of a bond issue, with somewhat higher fees for revenue bonds, as compared to general obligation bonds. Expansion of the financial consulting industry to cope with heavy workloads occasioned by the rising trend of bond issues is hampered by the lack of qualified personnel.