Chapter 6

Patterns of General Obligation Bonds*

Introduction

In the following discussion concerning the present availability of general obligation bond issues as a credit resource for financing State and local public facilities, consideration is given only to the type of bond issue which has traditionally been known in the municipal bond market as "general obligations," to wit: bonds to the payment of which is pledged the full faith and credit of the issuer and which are payable from and primarily secured by ad valorem taxes upon all of the taxable property within the boundaries of the issuer, subject to taxation by the issuer, without limitation of rate or amount. Not included are revenue bonds, assessment bonds, special excise tax bonds, or bonds for the payment of which the full faith and credit of the issuer is pledged, but for the payment of which the issuer has either no power or limited power to levy ad valorem taxes.

1. Historical Development

A. Prior to World War II

During this period practically all of the State and municipal long-term financing was through the medium of general obligation bonds. The next largest volume of municipal financing (prior to the financial crisis of 1929) was through bonds payable from assessments on property specially benefited from the improvements constructed from the proceeds of such bonds. In the early 1930's, about $2 billion or approximately 9 percent, of all municipal bonds then outstanding, including the bonds of at least one State, went into default, a situation which, together with very high delinquencies in tax and assessment collections, resulted in a substantial reduction in public borrowing and increased interest costs to issuers. There was practically no market for assessment bonds, as the real estate development boom had burst, and this type of new issue became only a trickle mostly locally absorbed. This was a period when States and local agencies curtailed their borrowing only to provide ultraessential public facilities, and the so-called "frills," or luxury items, were abandoned.

B. During World War II

At or shortly prior to the outbreak of World War II the Capital Issues Commission was created with regional committees established in various parts of the country to implement the rules set by the Com-

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