Chapter 8

Patterns of Lease-Rental Financing*

A. Industrial Aid Financing

1. NATURE OF INDUSTRIAL REVENUE BONDS

Industrial development bonds are issued by local government bodies—city, State, county, municipality, etc.—to buy or build plants and equipment to be leased to private enterprise. The most common variety of industrial development bonds is a revenue bond, which is supported solely by rents derived from the facility. Some issues, however, have been general obligations which pledge the credit and taxing power of the issuer in addition to rents from the project.

The primary purpose of industrial development bonds is to attract new industries to areas by offering lower costs than would be incurred through traditional methods of corporate bond financing. Since the interest on municipal bonds is exempt from Federal income taxes, local governments are usually able to borrow funds in the capital markets at interest rates lower than those available to private borrowers.

Typically, a municipality will sell bonds to purchase a site and build a plant for a particular company, usually to the company's specifications. It is then leased to the company for a period of time sufficient for rental payments to cover principal and interest on the bonds. Should the tenant default, he is subject to eviction and another company is then sought to fill the premises. If the plant was financed by revenue bonds, any loss must be stood by the bond holders.

The first industrial aid bond was issued in the State of Mississippi in 1936. Authority for the issue came from Mississippi's then new "balance agriculture with industry" (BAWI) plan which was State sponsored and legislatively approved, and made industrial aid financing available to all Mississippi's communities. The first issue originated in Durant, Miss., for the construction of a factory for the Realsilk Hosiery Mills. The amount of the issue was $85,000. Between 1936 and 1950 only Mississippi and Kentucky had authorized the use of industrial development bonds, but during that period very few such bonds were issued.

In 1952, the city of Florence, marketed an issue of bonds convertible into stock.

The first issue of industrial development bonds by Durant, Miss., was of the general obligation type. Today only Mississippi uses general obligation bonds extensively, though Tennessee, Arkansas, and Louisiana have made some use of this technique. Both revenue bonds and general obligation bonds are tax exempt, but they differ in the credit standing behind the issue. Since general obligation bonds

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