



Government Finance Officers Association

Public Policy Statement

Non-Governmental Bonds (2007) (DEBT)

(Replaces the 1968 policy - *Industrial Development Bonds* and the 1981 policy - *Tax-Exempt, Small-Issue, Conduit Industrial Revenue Bonds*)

Background

Tax-exempt bonds are the primary source of funds for the traditional capital needs of state and local governments. The tax-exemption provides significant cost savings to state and local governments through low interest rates related to the debt issued to fund those capital needs.

The GFOA defends the issuance of tax-exempt bonds when they are used for essential public purposes, including economic development efforts to address serious economic need.

For over forty years, the GFOA has frequently expressed concern with the effect that a substantial increase in the supply of tax-exempt bonds for private use could have on interest rates that state and local governments must pay to finance government services such as transportation, education, and public utilities. While noting that various tax acts have imposed many restrictions on the kinds of private activity for which tax-exempt bonds may be issued, GFOA still believes that the permitted uses of tax-exempt bonds requires careful review.

Policies

The GFOA generally opposes the issuance of tax-exempt bonds that exclusively benefit private businesses. To the extent that tax-exempt financing is made available to private users, suitable restrictions remain necessary in order to limit these financings to essential public purposes.

GFOA does support use of the tax exemption as part of a jurisdiction's economic development strategy only as long as the issuance of tax-exempt bonds is used in conjunction with an economic plan that is used in response to serious economic need determined by the issuer.

The GFOA opposes defining bonds that provide essential governmental services such as education, health care, airports, ports, water and sewer facilities, etc. as private activity bonds. These types of financings should be correctly categorized as governmental bonds. In addition, the private activity bond rules should not prevent state and local governments from taking advantage of the benefits of public/private partnerships.

The GFOA's Executive Board recommends approval of this public policy that was approved by the Governmental Debt Management Committee, March 2, 2007.