MUNICIPAL FINANCE
OFFICERS ASSOCIATION

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Members of the Committee on Ways and Means

A proposal to limit the volume of industrial development bonds (IDBs) by setting a $100 per capita limit on bond issuance has been proposed to the members of the Committee on Ways and Means. The Municipal Finance Officers Association's (MFOA) members and other state and local officials that have strongly supported Congressional efforts to limit private-purpose, tax-exempt borrowing do not support state-by-state volume caps. We think you should know why we object to this policy option and are supporting Mr. Pickle's efforts to develop a substitute proposal.

- Areas of the country with declining populations whose needs may be the greatest will be hurt the most by the proposed cap.

- Some jurisdictions in need of economic development may be denied the opportunity to issue IDBs while others not in need might be encouraged to use their portion of a limit and issue the bonds.

- Setting state-by-state volume caps at the federal level is a relatively simple task. However, allocation of that cap within a state would be extremely difficult.

- The allocation of the caps among local issuers would impose excessive administrative requirements on government officials.

- Lower priority, politically unpopular infrastructure projects will be placed at a competitive disadvantage in acquiring financing.

- State-by-state volume caps may not distinguish between those bonds issued to serve a public purpose and those which are used as a conduit to provide lower cost financing for private purposes.

The Municipal Finance Officers Associaton finds the high level of tax-exempt, small-issue IDBs to be an alarming trend in the municipal bond market. As a result, the Association supports the development and passage of legislation to restrict the use of small-issue IDBs to areas of serious economic deprivation.

As a service to the members of Congress we have compiled some data we think you will find helpful in the upcoming discussions. Enclosed you will find a state-by-state comparison of the caps that would be imposed, an estimate of the level of borrowing in each state for 1983 and the percentage of the cap that would have been attained in 1983 had a cap been in effect.

If you have any questions concerning these data or would like more information concerning the MFOA's position, please do not hesitate to contact Cathy Spain or Cathie Eitelberg in the MFOA's Washington office at 466-2014.

Sincerely,

Jeffrey L. Esser

Jeffrey L. Esser
Executive Director