

# Borrowings by State and Local Governments for *More Schools, Roads, Public Housing, and Bridges*

State and local governments, during 1954 and the first quarter of this year, contributed heavily to the high level of construction, a most important bolster to the nation's expanding economic activity. In 1954 the value of construction by all state and local governments in the country amounted to an estimated 8.4 billion dollars. This year, judging by the volume of contracts awarded during the first three months, the value is running 15 percent ahead of last year. Bigger and better schools, roads, public housing projects, and bridges are going up all over the country.

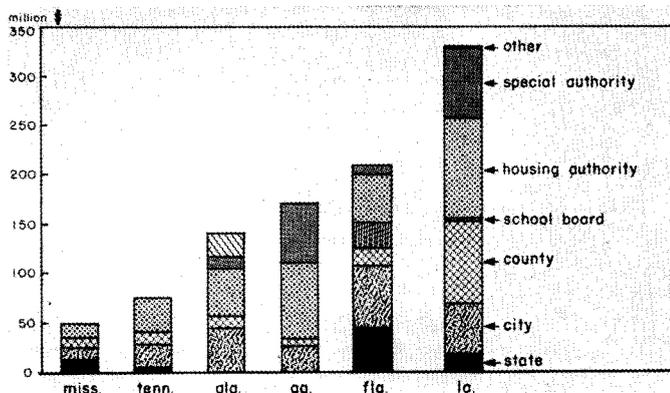
Capital expenditures of this type are generally financed by borrowings. Total borrowings by state and local governments, therefore, or the amount of securities they issue, give some indication of how much is being spent for public construction. The relationship is not exact, however, since some of these expenditures are financed out of tax revenue. Furthermore, the total of securities issued contains some duplication, since a number are issued on a temporary basis in the form of notes and are refinanced later in the same year in the form of long-term bonds. Also, a few of the securities issued may be for refunding purposes.

Nevertheless, an analysis of state and local government borrowing in an area will reveal to some extent trends in capital expenditures and distribution of borrowers. A study of the underwriters, furthermore, may indicate the degree

million dollars. Florida governments followed with 206 million. In both states, housing authorities borrowed heavily, but in Louisiana, counties and special authorities were also important; in Florida, city governments and state and local school boards added significantly to the total.

In all six states, housing authorities borrowed 337 million dollars, or about 35 percent of the total, and accounted for the largest share in each state except Florida. Most of the securities issued by housing authorities were guaranteed

**Securities Issued by State and Local Governments  
Sixth District States, 1954**



by either the Public Housing Administration or the Housing and Home Finance Agency.

The amounts borrowed by state governments are small, compared with the totals of some other governmental units. Because of a constitutional limitation on debt, some state governments cannot sell securities or incur debt in their own name, and, therefore, they establish special authorities to do the borrowing and provide necessary improvements. During 1954, District state governments borrowed 80 million dollars and special authorities, 151 million dollars.

Because housing authorities borrowed a major share, much of the money was spent on public housing, but school construction was also important. During the year, construction and expansion of schools, made necessary by the increased enrollment, amounted to 188 million dollars. Construction of streets, roads and bridges was next, followed by public utilities, hospitals, and the like.

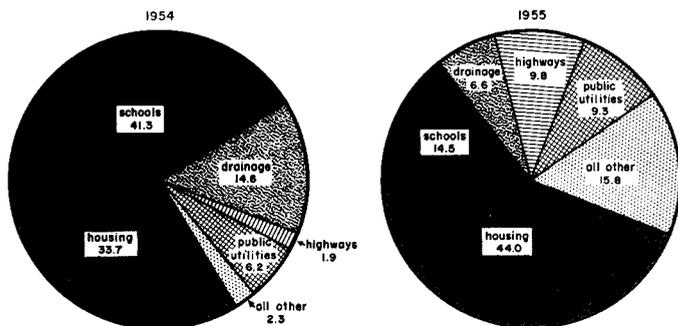
Underwriters, such as bankers and investment dealers, generally look for funds in their own area with which to finance new issues. These funds usually come from the savings of local business firms and individuals; the savings in turn depend to a great extent on regional income.

In 1954 underwriters in District states, separately or with syndicates in which they were a major part, handled about 410 million dollars in new securities and underwrote more than half of the issues of the city and county governments and small district governments, such as water, sewage and garbage districts. Although the amount of securities underwritten by local bankers and investment dealers has increased rapidly since World War II, the relative share

## Use of Borrowings by State and Local Governments

Sixth District States

**Percentage Distribution, First Quarter of 1955  
Compared with First Quarter of 1954**



of local financing as well as the ability of a region to provide its own funds for capital improvements. The data also reveal the cost of borrowing by state and local governments in relation to the availability of financial resources.

Sixth District states have participated heavily in the national program of general improvement. Last year, according to a special tabulation of individual issues by this Bank, all securities issued by states, cities, school boards, housing authorities, special authorities, and other instrumentalities in the District states amounted to 968 million dollars. And the estimated first-quarter total for 1955 is above that for 1954.

In District states in 1954, governmental units in Louisiana had by far the largest amount of borrowings—327

of these underwriters fell from an average of 87 percent in 1948-49 to 50 percent in 1954. This decline, although large, reflects the increase in the amount of public improvements rather than a decline in local income.

Even though the increase in income in this area exceeded that in the nation, the area was not able to provide funds for all its capital expenditures, and state and local governments found it necessary and profitable to seek funds in national markets. Judging by the distribution of the amount and number of issues underwritten in Southern and non-Southern states, large issues were generally financed by firms outside the District states. These firms underwrote 57 percent of the dollar amount of state and local securities but only 42 percent of the number of issues, indicating that Southern markets are still too small to handle large issues.

**Distribution of State and Local Securities by Purpose**  
**Sixth District States, 1954**  
 (In Millions of Dollars)

Purpose	Ala.	Fla.	Ga.	La.	Miss.	Tenn.	Total
Schools . . . .	24	77	39	27	7	14	188
Water and Sewers .	11	38	5	5	3	10	72
Streets, Highways and Bridges . . .	6	*	31	131	17	1	186
Public Utilities . .	39	19	8	23	2	2	93
Hospitals . . . .	*	7	1	1	*	3	12
Housing . . . .	51	50	81	103	15	37	337
Refund . . . .	1	1	..	..	..	..	2
Other . . . .	7	14	4	37	6	10	78
Total . . . .	139	206	169	327	50	77	968

\*Less than \$500,000

The dependence of Southern governmental units on national markets, therefore, depends to some degree on the size of issue involved. The percentage of all securities issued by governmental units and handled within the state ranged from 2.3 in Florida to 14.4 percent in Alabama. Non-Southern firms underwrote 62.2 percent of the securities issued by Tennessee governments but only 39.7 percent of the Louisiana issues.

To some extent this variation in the dependence on non-Southern firms was also determined by the amounts the governmental units in each state borrowed. In states in which housing securities made up a large part of the total, a major share of the securities was handled by non-Southern underwriters. Most of these issues, both large and small, were sold through New York City banks rather than through local bankers and investment dealers. Although housing authority issues were of all sizes and were mostly short-term, only one issue was underwritten by a Southern firm. These securities were not attractive to local underwriters probably because the firms had more productive outlets for the funds they had available.

State governments, because they are generally a good credit risk and are well-known nationally, can sell their securities in large national markets and thereby obtain lower rates. Out of the 19 issues by District states last year, 12 were underwritten by non-Southern firms. These issues were primarily long-term, ranging from 5 to 25 years, and were of large denominations.

School boards also relied heavily on outside firms; 92 percent of their securities were handled by syndicates, which were predominantly non-Southern. Most of these securities were in Florida, however, and represented a series of relatively large issues by school boards. Issues of other governmental units in District states found a ready market locally.

Since governmental units usually seek the most favorable market in which to sell their securities, the yield—the interest cost in relation to the amount received for the security—is usually indicative of the market response to the credit position of the borrower. But more than that it indicates the availability of funds for investments. Last year, yields on securities sold in national markets were slightly lower than those prevailing in local markets, but this rate advantage varied considerably by type of borrower. State governments, school boards, and housing authorities found a slight yield advantage by selling their securities in the national markets. City and county governments, special authorities, and small district instrumentalities found local markets more favorable. A few county governments that sold securities in national markets did so at yields that were somewhat higher than those in the case of counties that sold in the local market.

The analysis of state and local securities for the year 1954 and for the first quarter of 1955 reveals that state and local governments have added significantly to the level of construction in this area. A great part of these funds was raised through national capital markets, judging from the proportion of securities handled by local underwriters. This access to other national funds brought with it not only a sharing in the financing of the program of capital improvements on the part of investors throughout the country, but in some cases a reduction in interest costs to local governments.

With the continued expansion in income and the predicted increase in state and local government construction, local bankers and investment dealers can expect to have more business in 1955 and the people of the area can expect to have more schools, roads, public housing and bridges.

CHARLES S. OVERMILLER

### Bank Announcements

*The Citizens Bank, Mobile, Alabama, a newly organized nonmember bank, opened for business July 1 and began to remit at par. Capital stock of the bank amounts to \$265,000 and surplus and undivided profits to \$91,000. Officers are E. E. Delaney, President; Joseph C. Sullivan, Vice President; O. B. Harrell, Vice President and Cashier; and James Pollard and Fred Kimbrough, Jr., Assistant Cashiers.*

*Another newly organized nonmember bank opened for business July 15 and began to remit at par—the Greenville Bank, Greenville, Alabama. This bank's capital stock and surplus and undivided profits total \$175,000. Howard E. Cheatham is President; J. W. Rainer, Jr., is Executive Vice President; and James Calloway is Cashier.*