

MAR 23 1965

Dear Mr. Hamrick:

Thank you for your letter to Secretary Dillon in which you inquire regarding his comments before the House Committee on Banking and Currency on the growing practice of financing industrial plants through issuance of tax-exempt municipal bonds.

In response to a question by Representative Reuss of the House Banking and Currency Committee regarding municipal industrial bonds the Secretary stated that he has great sympathy with municipalities and States in less developed areas which have adopted this device as a means of attracting industry, but prefers measures other than the use of tax-exempt industrial bonds to help these localities.

As you know, the propriety of using the tax exemption privilege in this way is being questioned by a number of groups, including many State and local officials. The Advisory Commission on Intergovernmental Relations, composed of representatives of Federal, State, and local governments, made an extensive study of this problem and in a report published in June 1963 concluded that "the industrial development bond tends to impair tax equities, competitive business relationships, and conventional financing institutions out of proportion to its contribution to economic development and employment. It is, therefore, a device which the Commission does not endorse or recommend."

Sincerely yours,

(Signed) Stanley S. Surrey

Stanley S. Surrey

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