

September 2006

FEDERAL TAX POLICY

Information on Selected Capital Facilities Related to the Essential Governmental Function Test



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-06-1082](#), a report to Ranking Minority Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

Unlike state and local governments, Indian tribal governments are in general restricted to using tax-exempt bonds for activities that are an “essential government function,” where “essential government function” does not include functions not customarily performed by state and local governments. This restriction has been difficult to enforce by the Internal Revenue Service (IRS) and increased the tax compliance burden on Indian tribal governments.

GAO was asked for information on the number of facilities that state and local governments finance, construct, and operate in eight categories: (1) Rental housing, (2) Road infrastructure, (3) Parking garages and lots, (4) Community recreational facilities, (5) Golf courses, (6) Conference centers, (7) Hotel and tourist accommodations, and (8) State-owned gaming support facilities.

GAO did not find a comprehensive, reliable source of the number of facilities. Instead, GAO searched and found a variety of public and private sources that had limited information on the amounts of financing provided by state and local governments in related categories.

www.gao.gov/cgi-bin/getrpt?GAO-06-1082.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

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Information on Selected Capital Facilities Related to the Essential Governmental Function Test

What GAO Found

Data sources showed state and local governments (municipalities) provided a wide range of financial support in the following types of facilities.

- **Rental housing.** From 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$46.4 billion in 3,557 bond issues for multi-family housing projects. Over the period these borrowings accounted for 33 to 45 percent of debt issued for housing projects.
- **Road transportation.** From 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$61.4 billion in 1,091 issues for toll roads and highways. Over the period these borrowings accounted for 27 to 38 percent of debt issued for transportation facilities.
- **Parking facilities.** From 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$3.5 billion in 220 issues for parking facilities. In addition, about 73 percent of the U.S. population lived in metropolitan statistical areas (MSA) that reported positive user charges for parking facilities.
- **Park and recreation facilities.** From 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$60.9 billion in 3,085 tax-exempt issues to build public facilities, including \$0.6 billion in 29 issues for theaters; \$6.1 billion in 723 issues for parks, zoos and beaches; \$5.3 billion in 119 issues for stadiums and arenas; and \$4.6 billion in 420 issues in other recreation facilities. In addition, about 75 percent of the U.S. population lived in MSAs that reported positive user charges for park and recreation facilities.
- **Golf facilities.** In 2005 there were about 2,400 municipal golf courses, about 15 percent of total golf courses in the United States. Municipal golf courses exist in all states. At least 120 golf courses in 29 states have been identified as financed, at least in part, with tax-exempt bonds. About 5 percent of municipal golf courses are connected to resorts or real estate developments.
- **Convention centers.** Over 300 government owned convention centers have been identified by government finance experts. In addition, from 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$11.1 billion in 236 issues related to convention centers.
- **Hotels.** GAO identified 12 hotel projects related to convention centers or airports that were financed with tax-exempt bonds in recent years and additional data sources identify 39 tax-exempt financed hotel projects.
- **Gaming support facilities.** According to financial and gaming reports all but 2 states have some form of legal gaming, and 41 states and the District of Columbia providing state lotteries. In addition, tax-exempt financing has been used for capital projects related to the gaming industry.

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United States Government Accountability Office
Washington, DC 20548

September 13, 2006

The Honorable Max Baucus
Ranking Minority Member
Committee on Finance
United States Senate

Dear Senator Baucus:

Congress supports public capital formation by allowing investors to exclude from gross income for the purpose of federal taxes the interest received on state and local government bonds. In 2005, this tax benefit resulted in lower borrowing costs for about 55,000 active bond issuers but it cost the federal government over \$26 billion of forgone tax revenue. The total value of outstanding tax-exempt bonds as of January 2004 was about \$1.8 trillion, or 11 percent of the domestic bond market.

In order to restrict the benefits of tax exemption to government purposes, Congress has imposed limits on the amounts and types of facilities that can be financed with tax-exempt bonds by state and local governments. In addition, limitations are placed on the ability of Indian tribal governments to use tax-exempt bonds. While state and local governments can use tax-exempt bonds for a variety of public and qualified private activities, the Internal Revenue Code (I.R.C) restricts Indian tribal governments' use of tax-exempt bonds to obligations that are part of an issue substantially all of which proceeds are to be used in the exercise of an "essential government function." The Revenue Act of 1987¹ added a provision to the I.R.C to exclude from the definition of an "essential government function" any function that is not customarily performed by state and local governments with general taxing powers.

This restriction has been difficult to enforce by the Internal Revenue Service (IRS) and has contributed to the tax compliance burden on Indian tribal governments.²

¹Pub.L. 100-203 (1987).

²The Tribal Government Tax-Exempt Bond Parity Act of 2006, S. 3567, 109th Cong. (2006) would place tribal governments on a more equal footing with state and local governments in terms of their ability to issue tax-exempt bonds to fund certain governmental programs.

In order to support efforts to reduce the enforcement and compliance burdens, you asked us to provide information on the gross number of facilities that state and local governments finance, construct, and operate in the following eight categories:

1. Rental housing
2. Road infrastructure
3. Parking garages and parking lots
4. Community recreational facilities
5. Golf courses
6. Conference centers
7. Hotel and tourist accommodations
8. State-owned gaming support facilities

We did an extensive review of possible data sources and did not find comprehensive, reliable sources of the number of facilities. As agreed with your staff, we provide instead limited data on the number and amount of financings of a broader set of similar categories, describe tax-exempt financings by selected state and local governments of certain facilities, and present other indicators of public support for the types of facilities. The information we provide is limited because state and local governments are not required to report specific numbers of facilities financed with tax-exempt bonds or the funding details for each facility. According to bond finance experts, states frequently finance with a single bond several capital projects in broad categories that could be similar to the eight types of facilities in your request.

Our data sources are Thomson Financial data contained in Bond Buyer Yearbooks; the U.S. Census Bureau's (Census) 2002 Census of Governments; selected financial reports of state and local governments; a National Golf Foundation database; an American Gaming Association study; and testimonies, studies and interviews of experts in taxation and government finance. The links between the information we provide and the eight facilities in the request are the following.

- *Rental housing.* We use Thomson Financial data to provide the number of bond issues and amounts of borrowing for single-family and multi-

family categories, which could include nonrental housing projects.

- *Road infrastructure.* We use Thomson Financial data to provide the number of bond issues and amounts of borrowing for toll roads and highways and other transportation-related borrowings.
- *Parking garages and parking lots.* We provide (1) the number of bond issues and amounts of borrowing for parking facilities using Thomson Financial data, (2) user charges for parking facilities in large metropolitan statistical areas (MSA) reported in the 2002 Census of Governments, and (3) tax-exempt financing of selected parking facilities disclosed in government financial reports.
- *Community recreational facilities and conference centers.* We provide (1) the number of government-owned convention and civic centers that have been identified by Akin Gump Strauss Hauer & Feld LLP and (2) the number of bond issues and amounts of borrowing for convention centers and other similar government facilities using Thomson Financial data.
- *Golf courses.* We provide information on approximately 2,400 municipal golf courses listed in a National Golf Foundation database and tax-exempt financing details of golf facilities disclosed in selected state and local government financial reports.
- *Hotels and tourist accommodations.* We provide the number of hotels financed with tax-exempt bonds identified by government finance experts and details of tax-exempt financings of resort facilities disclosed in selected state and local government financial reports.
- *State-owned gaming support facilities.* We provide a summary of gaming operations in 48 states. Gaming details provided include lottery operations disclosed in state financial reports, other forms of gaming summarized in a national study of the American Gaming Association, and gaming trends reported in academic studies on gaming.
- In addition to the above information sources, we interviewed experts in the field of government finance from top law firms and investment banks specializing in bond financing, officials of the Government Finance Officers Association, a senior finance officer of a county government, and officials of the Bond Market Association, and reviewed studies in the field of taxation and government finance.

We determined that these data were reliable for the purpose of providing limited information on the eight types of facilities. Appendix I has a

detailed description of the methodology, data sources, and limitations. We conducted our work from February 2006 through August 2006 in accordance with generally accepted government auditing standards.

Results in Brief

Data sources showed state and local government (municipalities) provided a wide range of financial support in the following types of facilities.

- *Rental housing.* From 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$46.4 billion in 3,557 bond issues for multi-family housing projects. These types of housing projects are likely to involve rental housing units for low-income households. Table 1, page 7, provides borrowing details by year for multi-family and single-family projects.
- *Road transportation.* From 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$61.4 billion in 1,094 issues for toll roads and highways. Table 2, page 9, provides borrowing details for different types of transportation projects.
- *Parking facilities.* From 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$3.5 billion in 220 issues for parking facilities (see table 2 for annual data). According to Census data, about 73 percent of the U.S. population lived in metropolitan statistical areas (MSA) that reported positive user charges for parking facilities. Audited financial reports of selected municipalities showed most provide tax-exempt financing for construction of parking facilities.
- *Park and recreation facilities.* From 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$60.9 billion in 3,085 tax-exempt issues to build public facilities. This general category includes several recreation-related facilities, including libraries and museums (\$7.5 billion in 470 issues); convention centers (\$11.1 billion in 236 issues); theaters (\$0.6 billion in 29 issues); parks, zoos, and beaches (\$6.1 billion in 723 issues); stadiums and arenas (\$5.3 billion in 119 issues); and other recreation facilities (\$4.6 billion in 420 issues). Table 4, page 13, provides borrowing details by year. According to Census data, about 75 percent of the U.S. population lived in (MSA) that reported positive user charges for park and recreation facilities.

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- *Golf facilities.* In 2005 there were about 2,400 municipal golf courses,³ about 15 percent of total golf courses in the United States. Municipal golf courses exist in all states. At least 120 golf courses in 29 states have been financed, at least in part, with tax-exempt bonds. About 5 percent of municipal golf courses are connected to resorts or real estate developments. Over the past 10 years an increasing number of golf courses have been built as part of larger real estate developments. Some municipalities have issued tax-exempt revenue bonds for the construction of resorts with golf courses, lodging, and meeting facilities.
 - *Convention centers.* Over 300 government-owned convention centers have been identified by government finance experts. In addition, from 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$11.1 billion in 236 issues related to convention centers. The amounts borrowed varied, ranging from \$1.2 billion to \$3.4 billion per year (see table 4 for annual figures).
 - *Hotels.* Government finance experts identified 39 hotel projects associated with convention centers or airports that were financed by tax-exempt bonds. Selected government financial reports we examined disclosed 12 hotel projects that were financed with tax-exempt bonds in recent years (see borrowing details in table 6 on page 21).
 - *Gaming-support facilities.* According to government financial reports and a national gaming report, all but 2 states have some form of legal gaming. Forty-one states and the District of Columbia reported assets and revenues related to lotteries. Their annual operating income ranged from \$2 million to \$2 billion. According to selected government financial reports, tax-exempt financing has been used for capital projects in states with significant private gaming industries.

We are not making any recommendations in this report.

Background

For federal tax purposes state and local government bonds are classified as either “governmental bonds” or “private activity bonds.” In general, governmental bonds are used to build public capital facilities and serve the general public interest. Governmental bonds are tax-exempt and can be issued for a variety of public facilities and projects. Tax exemption lowers

³Municipal golf courses are courses owned by a tax-supported entity, such as a city, county, state, or park district.

municipalities' borrowing costs and provides higher after-tax yields to investors. Private activity bonds, on the other hand, provide financing to private businesses or individuals and are either tax-exempt or taxable depending on two tests.⁴ Tax exemption is granted to certain qualified private activity bonds, such as those for certain housing projects and activities, but the borrowed amounts are limited and the interest earned by investors can be subject to alternative minimum tax.

In addition, bonds issued by state and local governments can be structured as general obligation (G.O.) or revenue bonds. G.O. bonds, also known as full faith and credit obligations, are secured by revenues obtained from the issuer's general taxing powers, including sales taxes, property taxes, and income taxes. Most G.O. bonds are used to build public infrastructure, such as school buildings, jails, police stations, and city halls, and are classified as governmental bonds for tax purposes. In contrast, revenue bonds are issued to finance specific projects or enterprises and investors get paid from the revenues generated by the financed projects. Revenue bonds can be either private activity bonds or governmental bonds for tax purposes.

In addition to the limitations and restrictions placed on the issuance of tax-exempt bonds by state and local governments, there are additional restrictions on tribal governments' issuance of tax-exempt bonds. Specifically, I.R.C. §7871 (c) provides that tribal governments may use tax-exempt bonds only if substantially all of the proceeds from those bonds are used to exercise an essential government function. In 1987, I.R.C. §7871 (e) was added to the I.R.C. to provide that "essential government function" shall not include any function not customarily performed by state and local governments with general taxing powers. With the exception of certain manufacturing activities, tribal governments are not eligible for the tax benefits of qualified private activity bonds.

⁴Bond issues are taxable private activity bonds if (1) more than 10 percent of the proceeds of the issued bond are to be used for any private business use and (2) if the payment on the principal of, or the interest on, more than 10 percent of the proceeds of such issue is (under the terms of such issue or underlying arrangement) directly or indirectly secured by any interest in property used or to be used for a private business use, or payments in respect to such property or if the payment is to be derived from payments (whether or not to the issuer) in respect of property, or borrowed money, used or to be used for a private business.

No regulations have been issued yet addressing what is or what is not an essential government function since the provision in 1987 was added.⁵ Congress in the legislative history to I.R.C. § 7871(e) provided some examples, such as schools, roads, and government buildings. This limited direction for tribes' use of tax-exempt bonds does not fully address the types of activities that state and local governments are financing, a principal criterion for determining an essential government function.

State and Local Governments Provide Substantial Financing for Housing

We were unable to determine the number of rental housing facilities that were financed, constructed, or operated by state and local governments. According to experts in state and local government financing, affordable housing projects are commonly provided by state and local governments to low-income individuals. We found the following details on debt financing for multi-family housing.

From 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$46.4 billion in 3,557 bond issues for multi-family housing projects, according to Thomson Financial data. State and local governments allocated from about 6 percent to 10 percent from 2000 through 2004 of total bond issuances for housing. Of the municipal bonds issued over the period for housing, 33 percent to 45 percent went to multi-family dwellings. The bond issuances totaled from \$7.2 billion to \$12.2 billion in constant 2004 dollars. Table 1 shows nominal amounts of borrowings by category—single family and multi-family borrowings, and tax-exempt, taxable and amounts subject to alternative minimum tax.

Table 1: State and Local Government Housing-Related Borrowings and Number of Issues

Dollars in billions. Numbers of issues sold in parentheses.

	2000	2001	2002	2003	2004
Total	\$20.3 (1,293)	\$22.6 (1,367)	\$23.6 (1,245)	\$26.3 (1,007)	\$22.3 (998)
Single-family	\$13.7 (566)	\$14.9 (542)	\$13.0 (434)	\$14.4 (362)	\$14.1 (449)

⁵On August 9, 2006, IRS published an advanced notice of proposed rule making regarding the definition of essential government function, and solicited comments by November 7, 2006. 71 Fed. Reg. 45474.

Dollars in billions. Numbers of issues sold in parentheses.

	2000	2001	2002	2003	2004
Multifamily	\$6.6 (727)	\$7.7 (825)	\$10.6 (811)	\$11.9 (645)	\$8.2 (549)
Tax-exempt	\$5.2 (436)	\$7.5 (509)	\$8.1 (429)	\$12.3 (449)	\$8.0 (420)
Taxable	\$3.3 (332)	\$3.4 (291)	\$2.9 (232)	\$3.5 (176)	\$2.0 (135)
Alternative minimum tax	\$11.7 (525)	\$11.7 (567)	\$12.7 (584)	\$10.5 (382)	\$12.4 (443)

Source: Thomson Financial.

The magnitude of bond issuances suggests significant state and local government support for both single-family and rental housing in the form of multifamily dwellings. As can be seen in table 1, tax-exempt borrowings provided less than 50 percent of total borrowings for housing. The I.R.C includes housing financing as a “qualified private activity” subject to volume caps.

Transportation Facilities Often Are Publicly Financed by a Variety of Methods

We were unable to determine the number of road infrastructure facilities that have been constructed, financed, or operated by state and local governments. According to experts in state and local finance, transportation and schools are the largest categories of capital projects financed by state and local governments. We found the following details on debt financings of road projects.

According to Thomson Financial data, from 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$61.4 billion in 1,094 issues for toll roads and highways. In 2002, debt financing represented about 10 percent of total state funding for highways. In addition to tax-exempt bonds, transportation facilities received federal support in the form of highway credit programs and loans, and highway tax revenues.⁶ We were able to provide some details on debt financing of transportation facilities.

⁶GAO, *Transportation Infrastructure: Alternative Financing Mechanisms for Surface Transportation*, [GAO-02-1126T](#) (Washington, D.C.: Sept. 25, 2002).

Thomson Financial data indicate that while state and local governments allocated 9 percent to 13 percent of total bond issuances to transportation facilities in the period from 2000 through 2004, between 27 and 38 percent of those issues went toward toll roads and highways. These bonds averaged about \$12 billion in constant 2004 dollars over the period from 2000 to 2004. Table 2 shows the nominal amounts of borrowings by category—air, sea, and road facilities, and tax-exempt, taxable and amounts subject to alternative minimum tax. Categories in bold are closest to the types of facilities that are the subject of this report. However, some facilities of interest may have been bundled within the other categories.

Table 2: State and Local Government Transportation-Related Borrowings and Number of Issues

Dollars in billions. Numbers of issues sold in parentheses.

	2000	2001	2002	2003	2004
Total	\$26.7 (469)	\$32.2 (562)	\$45.0 (557)	\$40.4 (546)	\$32.4 (461)
Airports	\$7.4 (123)	\$12.4 (149)	\$10.1 (128)	\$10.3 (162)	\$7.0 (129)
Seaports	\$1.2 (27)	\$1.2 (39)	\$1.1 (41)	\$1.3 (37)	\$0.9 (24)
Toll roads and highways	\$10.2 (222)	\$8.6 (259)	\$14.5 (241)	\$15.2 (201)	\$10.1 (171)
Bridges	\$1.5 (11)	\$2.3 (7)	\$4.1 (23)	\$3.0 (17)	\$1.4 (13)
Tunnels	\$0.3 (2)	\$0.1 (1)	\$0.8 (1)	\$0.0 (0)	\$0.0 (0)
Parking facilities	\$0.5 (36)	\$0.6 (42)	\$1.0 (55)	\$0.5 (40)	\$0.7 (47)
Mass transit	\$5.1 (43)	\$6.7 (62)	\$13.7 (67)	\$9.7 (75)	\$10.6 (65)
Other transportation	\$0.6 (5)	\$0.2 (3)	\$0.01 (1)	\$0.3 (14)	\$1.7 (12)
Tax-exempt	\$20.2 (361)	\$23.2 (447)	\$35.6 (435)	\$32.1 (438)	\$27.2 (361)
Taxable	\$0.3 (24)	\$0.7 (33)	\$0.9 (31)	\$1.6 (36)	\$1.3 (32)
Alternative minimum tax	\$6.3 (84)	\$8.3 (82)	\$8.4 (91)	\$6.7 (72)	\$4.0 (68)

Source: Thomson Financial

Wide Prevalence of User Charges for Parking Suggest Customary Provision by State and Local Governments

We were unable to obtain the number of parking facilities constructed, financed, or operated by state and local governments. According to municipal finance experts parking facilities, like housing and transportation facilities, are commonly financed with tax-exempt bonds by state and local governments. We found the following details on debt financing for parking facilities.

According to Thomson Financial data, from 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$3.5 billion in 220 issues for parking facilities. Details on debt financing for parking facilities from Thomson Financial data are listed in the previous section on transportation facilities and in table 2. Total taxable and tax-exempt bond issuances for parking facilities ranged from \$0.5 billion to \$1 billion in 2004 constant dollars, accounting for on average 2 percent of total (taxable and tax-exempt) transportation bond issues. The data for parking facilities bond issues do not provide a breakdown between taxable and tax-exempt bond issuances.

According to government finance experts, determining the use of tax-exempt bonds to finance parking facilities can be difficult because a variety of capital projects are often combined into one bond issuance. In addition, state and local governments have relied on a combination of tax-exempt and taxable financing to construct parking garages that are meant to promote economic development in specific districts. For example, the City of Virginia Beach built several parking garages in two tax increment financing (TIF) districts wherein the incremental real property taxes above a base level are used to pay the revenue bonds issued to build the garages. As of December 2005, the city had issued \$34.9 million tax-exempt and \$4.7 million taxable revenue bonds to build parking garages in the TIF districts. In order to reduce the construction risk to the city, a private developer built the garages and the city's Development Authority purchased them as they were built.

User fees received by state and local governments for providing parking services are a direct indicator of the extent of their involvement in parking facilities in the form of on-street metered parking, off-street parking garages, or both. According to 2002 Census of Governments data, about 73 percent of the population of the United States lived in MSAs that reported user charges on government-owned parking facilities. Table 3 lists the largest 171 MSAs by their level of parking user charges. Figure 1 shows the location of the largest 171 MSAs and their level of parking user charges. These 171 MSAs accounted for about 75 percent of the population in the United States in 2002 and include all MSAs with populations of 250,000 or

more. Ninety-two percent of the MSAs listed reported positive user charges, and 97 percent of the population in the largest MSAs lived in MSAs that reported positive user charges. The prevalence of user charges suggests that most of the population is provided with some publicly supported parking by state and local governments.

Table 3: Level of Parking User Charges in 171 Largest Metropolitan Statistical Areas

User charge revenue (x)	171 MSAs	MSA distribution
Greater than \$25 million	11	6%
\$25 million > x > \$5 million	37	22%
\$5 million > x > \$1 million	57	33%
\$1 million > x > \$0 million	53	31%
No user charge revenue	13	8%
Total MSAs	171	100%

Source: U.S. Census Bureau, 2002 U.S. Census of Governments.

Figure 1: Levels of Parking User Charges across Largest MSAs



Sources: GAO analysis of U.S. Census Bureau data; Copyright © Corel Corp. All rights reserved (map).

We examined selected government comprehensive annual financial reports in large MSAs, and found that some cities report their parking operations in business-type proprietary funds that disclose operating results and debt levels. For example, in 2005 the City of Miami Beach’s Parking Fund reported \$30.5 million tax-exempt revenue bonds and \$10.4 million in income from operating the city’s 68 parking lots and garages.

Governments Provide Financing for a Wide Variety of Recreational Facilities

We did not find readily available data that identify community recreational facilities as a specific category and were unable to determine the number of these facilities financed, constructed, or operated by state and local governments. According to government finance experts, state and local governments play a large role in the financing and construction of a variety of recreational facilities. However, it is difficult to identify the specific amount of financing for these facilities because available information is presented in overlapping categories and single bond issuances can be used for more than one purpose. We found the following details on debt financing of different types of recreational public facilities.

From 2000 through 2004 municipalities borrowed, in 2004 dollars, a total of \$60.9 billion in 3,085 tax-exempt issues to build public facilities, according to Thomson Financial data. This general category includes several recreation-related facilities, including libraries and museums (\$7.5 billion in 470 issues); convention centers (\$11.1 billion in 236 issues); theaters (\$0.6 billion in 29 issues); parks, zoos, and beaches (\$6.1 billion in 723 issues); stadiums and arenas (\$5.3 billion in 119 issues); and other recreation facilities (\$4.6 billion in 420 issues). Table 4 shows nominal amounts of borrowings by category—convention centers; parks, zoos, and beaches; other recreation; and other public facilities; and tax-exempt, taxable and amounts subject to alternative minimum tax. From 2000 through 2004, state and local governments devoted between 2 percent and 5 percent of total bond issuances to public facilities. Of the municipal bonds issued over the period for public facilities between 6 percent and 13 percent were issued for facilities such as parks, zoos, and beaches, and between 5 percent and 11 percent were devoted to other recreational facilities. These bonds totaled from \$0.6 billion to \$1.7 billion in constant 2004 dollars.

Table 4: State and Local Government Public Facilities-Related Borrowings and Number of Issues

Dollars in billions. Numbers of issues sold in parentheses.

	2000	2001	2002	2003	2004
Total	\$9.3 (735)	\$11.1 (749)	\$15.5 (850)	\$13.0 (686)	\$9.4 (643)
Libraries and museums	\$1.0 (74)	\$1.5 (101)	\$1.2 (103)	\$1.8 (99)	\$1.7 (93)
Government offices	\$1.5 (131)	\$1.7 (110)	\$3.9 (155)	\$2.6 (107)	\$1.2 (43)
Fire stations	\$0.2 (120)	\$0.3 (117)	\$0.4 (150)	\$0.2 (112)	\$0.3 (104)

Dollars in billions. Numbers of issues sold in parentheses.

	2000	2001	2002	2003	2004
Jails and prisons	\$1.5 (69)	\$1.4 (65)	\$3.5 (87)	\$2.7 (76)	\$2.0 (116)
Police stations	\$0.2 (23)	\$0.2 (25)	\$0.3 (24)	\$0.2 (21)	\$0.2 (11)
Convention centers	\$2.0 (51)	\$2.1 (56)	\$3.3 (47)	\$2.0 (43)	\$1.2 (39)
Stadiums and arenas	\$1.2 (25)	\$1.8 (31)	\$0.8 (22)	\$0.7 (21)	\$0.5 (20)
Theaters	\$0.1 (2)	\$0.1 (6)	\$0.2 (5)	\$0.3 (8)	\$0.1 (8)
Parks, zoos, and beaches	\$0.8 (140)	\$1.4 (154)	\$1.0 (165)	\$1.7 (129)	\$1.1 (135)
Other recreation	\$1.0 (100)	\$0.7 (84)	\$0.9 (92)	\$0.8 (70)	\$1.0 (74)
Tax-exempt	\$8.7 (694)	\$10.5 (721)	\$15.2 (823)	\$11.9 (647)	\$8.8 (600)
Taxable	\$0.4 (36)	\$0.5 (25)	\$0.3 (26)	\$1.0 (35)	\$0.6 (42)
Alternative minimum tax	\$0.2 (5)	\$0.1 (3)	\$0.01 (1)	\$0.01 (4)	\$0.02 (1)

Source: Thomson Financial.

Given that the recreational facilities category overlaps with some of the other categories, such as golf courses and convention centers, additional information relevant to recreational facilities is available in other sections of this report.

Similar to parking facilities, we used the 2002 Census of Governments to obtain an indirect indicator of the state and local governments' support for community recreational facilities. However, this indicator is less precise than the Census indicator for user parking charges because Census defines park and recreational facilities to include many community recreational facilities, including swimming pools, marinas, golf courses, tennis courts, and museums. Also, determining the number and amounts of tax-exempt financings related to community recreational facilities was difficult because state and local governments can include these facilities with other capital projects in a single financing package.

Numerous Municipal Golf Courses Exist, Some with Lodging Facilities

According to National Golf Foundation data, in 2005 there were about 16,000 public and private golf courses in the United States. Of those, about 2,400 (15 percent) are municipal golf courses, that is, they are owned by state and local governments. Municipal golf courses do not include daily fee golf courses, about 9,000, that are not owned by a tax-supported entity but provide at least limited public access. Table 5 shows the regional distribution of municipal golf courses. All states have municipal golf courses.

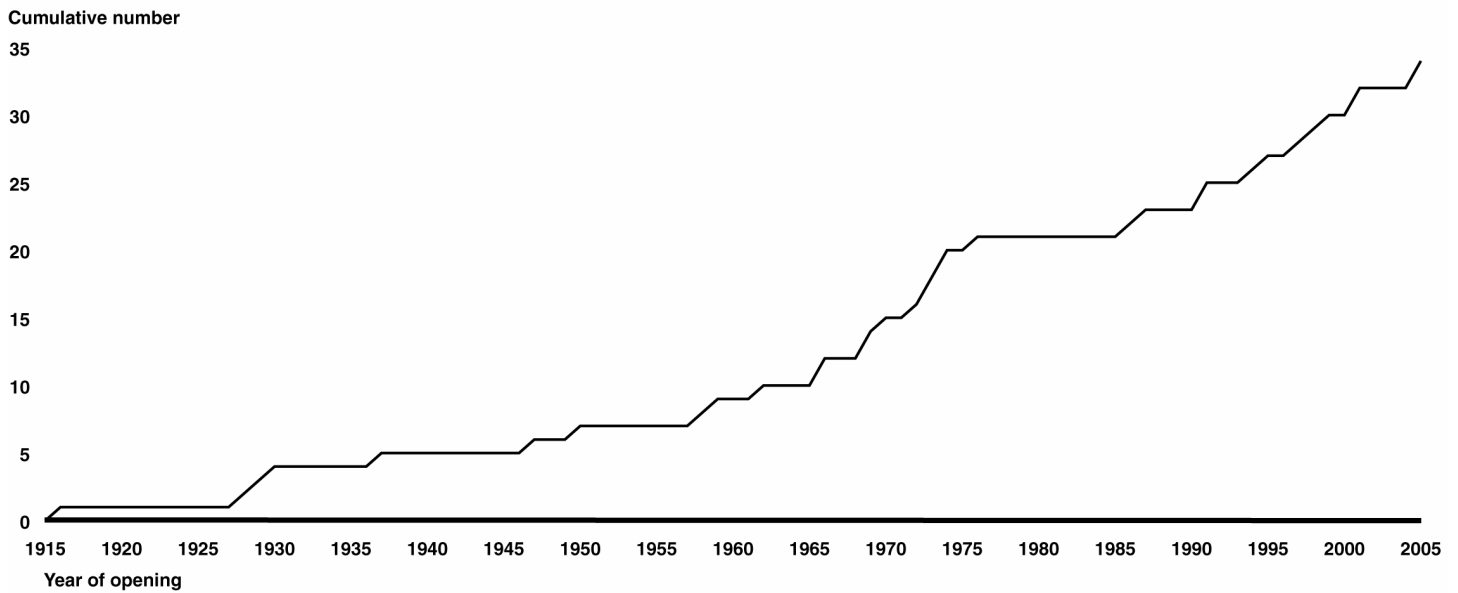
Table 5: Regional Distribution of Municipal Golf Courses

Region	Number and type of municipal golf courses					Total
	Resort	Real estate	Resort/real estate	Just golf/other	Park district	
New England	0	0	0	99	1	100
Middle Atlantic	0	0	0	191	17	208
East North Central	3	13	0	457	6	479
West North Central	2	11	1	374	1	389
South Atlantic	10	12	0	244	9	275
East South Central	4	2	0	122	36	164
West South Central	2	5	0	254	11	272
Mountain	5	20	0	256	1	282
Pacific	8	6	0	243	0	257
Total	34	69	1	2240	82	2426

Source: GAO analysis of National Golf Foundation data.

Three percent, or about 80, municipal golf courses have been constructed with different forms of lodging, ranging from cabins to resort hotels with convention facilities. In some cases, municipal resort golf courses have been built with resort hotels and facilities and have been constructed both as stand-alone courses and as part of park districts. These resort courses may vary significantly in different ways, including lodging and dining facilities and course design. Figure 3 shows the trend in nonpark municipal resort golf facilities. Over many years there has been a consistent increase in the number of nonpark municipal resort golf courses. In addition to the nonpark resort golf courses, there were an additional 24 resort golf courses inside park districts as of 2005.

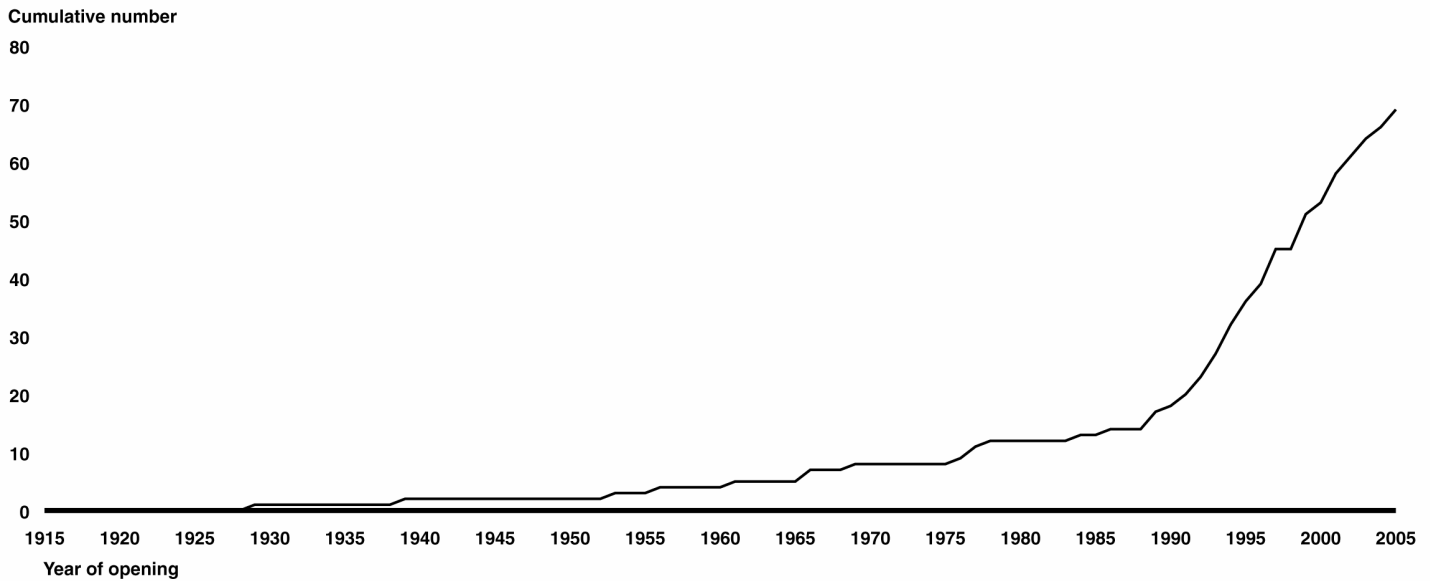
Figure 3: Cumulative Number of Nonpark Municipal Resort Golf Facilities



Source: GAO analysis of National Golf Foundation data.

According to the National Golf Foundation, there are also close to 70 municipal golf courses associated with real estate developments. These courses, which are owned by municipalities, have been built together with planning for private real estate abutting the course, or have been purchased by the municipality from private real estate developments that included golf courses. In some cases the private real estate development was planned in order to cover part of the costs of building the municipal course. Over the past 10 years an increasing number of golf courses have been built as part of larger real estate developments. Figure 4 shows the trend in municipal real estate development golf courses.

Figure 4: Cumulative Number of Municipal Real Estate Development Golf Facilities



Source: GAO analysis of National Golf Foundation data.

We did not find the full extent of tax-exempt financing of municipal golf courses. According to data provided by Akin Gump Strauss Hauer & Feld LLP, a major law firm, at least 120 golf courses in 29 states have been financed, at least in part, with tax-exempt bonds. We identified, using National Golf Foundation data, over 25 of these tax-exempt financed courses as associated with resort or real estate facilities. According to these data many more of these courses have banquet facilities and conference centers.

An illustration of the use tax-exempt bonds to build a municipal golf course is provided by the 27-hole municipal golf course in the City of North Charleston. In the late 1990s the city issued \$11.1 million in mortgage revenue bonds to build a municipal golf course and \$4.6 million in general obligation bonds to finance the construction of roads and infrastructure improvements in the surrounding area. In 2003 the city refunded the outstanding golf-related bonds by issuing \$11.7 million in mortgage revenue bonds, for an estimated \$1.6 million in debt service savings. In 2005 the municipal golf course had a \$1 million operating loss, but the city expects that the course's situation in the center of a residential and commercial development eventually will contribute over \$200 million in taxable property value.

Daily fee courses, while not explicitly owned by state or local governments could have been financed with municipal tax-exempt bonds. For example, the Maryland Economic Development Corporation (MEDCO) has issued about \$176 million limited-obligation revenue bonds to build two resorts that feature a hotel, a conference center, and a golf facility. MEDCO owns the Hyatt Regency Chesapeake Bay Conference Center, with 400 hotel rooms, 35,000 square feet of meeting and banquet space, an 18-hole championship golf course and 150-slip marina. MEDCO also owns the Rocky Gap Golf Course and Hotel/Meeting Center, with an 18-hole Jack Nicklaus signature golf course, a 243-acre lake, and a resort lodge.

Some municipal finance experts believe state and local governments can also provide indirect support to private golf courses through lower taxable property values. Private golf courses may be subject to agricultural assessment rules, which provide a tax break on property taxes, given that golf courses also provide an open space. They also noted that there may be other cases where land apportioned off by state and local governments near residential property is transferred to private companies in order to build golf courses.

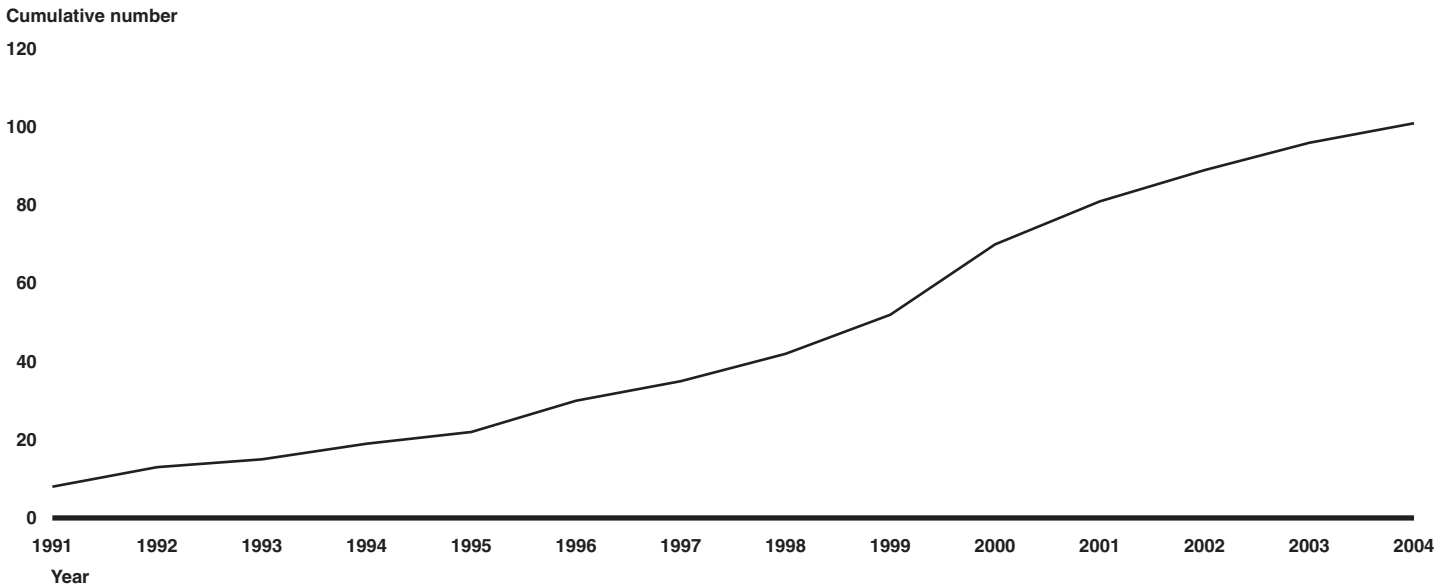
Public Financing Is Provided to Numerous Convention Centers

Although the number of convention centers financed, constructed, or operated by state and local governments is not known, we were provided information on over 300 convention centers owned by state and local governments by Akin Gump Strauss Hauer & Feld LLP. According to government finance experts, most convention centers are financed with tax-exempt bonds. We found the following details on debt financing of a number of different types of recreational public facilities.

From 2000 through 2004 municipalities borrowed in 2004 dollars \$11.1 billion in 236 issues for financing convention centers, according to Thomson Financial data. (See table 4 for details of debt financing of convention centers, in nominal amounts in billions.) The municipal bonds issued for convention or civic centers totaled from \$1.2 billion to \$3.4 billion in constant 2004 dollars. Figure 5 shows the cumulative number of major new bond issues for convention centers over the past 8 years.⁷

⁷Since new bonds could be issued for the same convention center, the cumulative number of issuances does not show the cumulative number of convention centers financed by state and local governments.

Figure 5: Cumulative Number of Major New Bond Issues for Convention Centers



Source: Thomson Financial.

According to some bond finance and convention industry experts, convention centers have been mostly financed by city governments. Experts we interviewed said that in order to promote urban economic development, a growing number of cities have in recent years built convention centers and also built hotels nearby in order to draw more convention visitors to their communities. Even though convention centers may operate at a financial loss, cities have financed them expecting to generate additional spending in related businesses, including restaurants and entertainment, and increased property values.

Different Sources Show Public Financing of Hotels and Related Facilities

According to lists we obtained from government finance experts, 39 hotels associated with convention centers or airports or golf courses that have been financed with tax-exempt bonds have been identified.⁸ These facilities may vary significantly in different ways. As table 6 shows, the value of tax-exempt bond financing for hotels totaled in the billions. According to selected government financial reports we examined, 12

⁸The data sources on hotels provided by government finance experts overlapped and thus the data do not necessarily yield a comprehensive list of all the publicly financed hotels.

hotels have been financed with tax-exempt bonds in recent years. Table 6 shows the location of these hotels and bond financing details.

Table 6: Selected Hotels and Related Facilities Financed with Tax-Exempt Bonds

Location	Financing details and related facilities
City of Bay City, Mich.	In 2004 Wenonah Park Properties, a nonprofit corporation of the city, financed a hotel and conference center with about \$15 million in tax-exempt revenue bonds along with other financing sources.
Cambridge, Md.	In 2005 MEDCO had \$173 million in bonds and notes outstanding, issued to finance the Chesapeake Bay Conference Center, a hotel with meeting and golf facilities.
City of Denver, Colo.	In 2003 the Denver Convention Center Hotel Authority issued \$354 million revenue bonds to finance a hotel near the convention center.
City of Houston, Tex.	In fiscal year 2001 the city's Convention and Entertainment Facilities Department issued \$626 million in bonds to finance a new convention center hotel and a parking garage, expand the convention center, and refund existing debt. In 2003, the year of opening, the hotel reported \$315 million in outstanding bonds.
City of Myrtle Beach, S.C.	In 2001 the Myrtle Beach Convention Center Hotel Corporation, a component unit of the city, issued \$64 million revenue bonds.
City of Omaha, Nebr.	In 2002 the city issued \$103 million tax-exempt convention center hotel revenue bonds. The hotel began operations in 2004.
City of Overland Park, Kans.	In 2001 the Overland Park Development Corporation, a component unit of the city, issued \$92 million in revenue bonds to finance the construction of a convention center hotel.
City of Phoenix, Ariz.	In 2005 the Downtown Phoenix Hotel Corporation, a nonprofit corporation of the city, issued \$320 million in tax-exempt revenue bonds and \$29 million in taxable revenue bonds to finance a downtown hotel near the city's convention center.
City of Sacramento, Calif.	In 1999 the Sacramento Hotel Corporation, a component unit of the city, issued \$97 million in revenue bonds to build a hotel to support the city's convention center expansion.
Village of Schaumburg, Ill.	In 2004 the village issued \$239 million in general obligation bonds to finance several projects, including a convention center and attached hotel.
County of Wayne, Mich.	In 2001 the county issued \$111 million airport hotel revenue bonds to finance an airport hotel and related improvements.
City of Vancouver, Wash.	In 2003 the City of Vancouver's Downtown Redevelopment Authority, a component unit of the city, issued \$68 million revenue bonds to finance a conference center and hotel capital project.

Source: GAO analysis of financial reports of municipalities and documents from Orrick, Herrington, and Sutcliffe LLP; HVS International; Akin Gump Strauss Hauer & Feld LLP; and Piper Jaffray.

State and Local Governments Support Gaming, but Extent of Public Financing Is Difficult to Estimate

We were unable to determine the number of state-owned gaming support facilities. According to government finance experts, it is common for states to issue large bond issuances for different capital projects. However, data are not available to determine the extent, if any, that these bonds have included facilities for public gaming activities and infrastructure projects that benefit private gaming enterprises. Facilities associated with lotteries are sometimes provided in some government buildings and in convenience stores with lottery ticket terminals. We found the following information on the prevalence of gaming throughout the states.

According to states' financial reports and gaming studies all but 2 states—Hawaii and Utah—have some form of legal gaming. Forty-one states and the District of Columbia reported assets and revenues related to lotteries. Some municipalities have provided tax-exempt and taxable financing to build transportation infrastructure in localities that depend on private gaming enterprises to generate employment and gaming revenues to finance basic government functions.

The prevalence of lotteries is one indicator of state and local governments' support of gaming facilities. Forty-one states and the District of Columbia have lottery systems, with annual operating incomes ranging from \$2 million to \$2 billion and net assets from lotteries from -\$12 million to \$290 million. Similar to other facilities, the number of state-owned gaming facilities that have been financed with tax-exempt bonds is difficult to estimate because a single bond issue may finance several capital projects, including lotteries' offices and equipment.

In lieu of or in addition to a state-sponsored lottery, some states allow for legalized private gaming, such as casinos. According to the American Gaming Association, in 2004 16 states had legal operational casinos and some states allowed gambling in the form of pari-mutuel activities, such as horse or greyhound racing, and gaming machines.⁹ Seven of these states have also introduced variations in gambling activities, such as racetrack casinos or "racings," which usually consist of slot machines associated with racetracks. Seven states have video lottery terminals (VLT), which are similar to slot machines.

⁹These included stand alone casinos and casinos at racetracks. According to the American Gaming Association there are four more states that have legal racetrack casinos that are not operational.

State and local governments can issue tax-exempt bonds to finance the infrastructure that directly benefits private casinos or gaming facilities. We found three examples of tax-exempt financing related to gaming facilities. New Jersey's Casino Reinvestment Development Authority (CRDA) relies on tax-exempt borrowings, casino parking fees, and investments to finance eligible projects. In 2004 CRDA issued \$93 million in tax-exempt hotel room fee revenue bonds to finance Atlantic City casino expansion projects and provide funds to the New Jersey Sports and Exhibition Authority for horse racing purse enhancements.

Another example of tax-exempt financing that benefits private casinos is the monorail in Las Vegas. The monorail was financed with a combination of tax-exempt and equity funds and provides seven stations - MGM Grand, Bally's/Paris, Flamingo, Harrah's/Imperial Palace, Las Vegas Convention Center, Las Vegas Hilton, and the Sahara.¹⁰

In 2005, California's Del Mar Race Track Authority sold about \$50 million in tax-exempt bonds to refund existing debt and improve facilities at the horseracing track. In addition to concessions and racetrack revenues, the bonds will also be backed by satellite-wagering receipts.

As agreed with your office, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days from its date. At that time, we will send copies to interested congressional committees, the Secretary of the Treasury, the Commissioner of the Internal Revenue Service, and other interested parties. We will also make copies available to others upon request. The report will also be available at no charge on the GAO Web site at <http://www.gao.gov>.

¹⁰GAO, *Highways and Transit: Private Sector Sponsorship of and Investment in Major Projects Has Been Limited*, GAO-04-419 (Washington, D.C.: Mar. 25, 2004) describes financing of the Las Vegas monorail project.

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or brostekm@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in black ink that reads "Michael Brostek". The signature is written in a cursive style with a large, stylized initial "M".

Michael Brostek
Director, Tax Issues
Strategic Issues

Appendix I: Objective, Scope, and Methodology

The objective of this report was to provide information on state and local governments' financing, construction, and operation of the following eight types of facilities:

1. Rental housing
2. Road infrastructure
3. Parking garages and parking lots
4. Community recreational facilities
5. Golf courses
6. Conference centers
7. Hotel and tourist accommodations
8. State-owned gaming support facilities

We performed an extensive review of possible data sources and did not find a comprehensive, reliable source of data for the above facilities. We provide instead limited data on the number and amount of financings of broader categories of facilities, describe tax-exempt financings of selected state and local governments, and provide other available indicators of public support. The following provides detailed descriptions of the data sources, limitations of the data sources we used, and the links between the information and the eight facilities in the original request.

Rental Housing

We used a recognized source for bond information, Thomson Financial data contained in the Bond Buyer Yearbooks to provide details on the bond issuances for single- and multifamily housing according to the category provided in the yearbooks as a related category to rental housing. This data source provides 2000-2004 aggregate values and the number of bonds issued. However, there are a number of limitations to these data. The category for multi-family housing could contain more than just rental housing, although bond experts have suggested that is unlikely. Because municipalities can issue large combined bond issuances some bond issues related to housing or rental housing could be contained in other categories, thus the information provided relies on the categorization of bond issues in the categories listed. The breakdown of bond issuances did not allow us to determine the amount of multifamily housing issuances

that were tax-exempt, only the amount of total housing issuances that are tax-exempt for the years covered.

This data source only provides information on a particular method of housing finance and therefore does not provide information on the total government rental housing expenditures; the number of rental housing units constructed, financed, or owned by state and local governments; or other forms of government financing for rental housing. However, the magnitude of debt financing on multifamily housing is suggestive of government provision of rental housing. Furthermore, we do not address the ultimate purpose of the housing projects financed by state and local governments, although bond experts stated these were almost always designed to provide affordable housing to lower-income individuals.

Road Infrastructure

As with the rental housing category we used Thomson Financial data contained in the Bond Buyer Yearbooks to provide details on the bond issuances for a variety of transportation categories, including toll roads and highways, bridges, and tunnels, according to the category provided in the yearbooks as a related category to road infrastructure. This data source provides 2000-2004 aggregate values and the number of bonds issued. However, there are a number of limitations to these data. Because municipalities can issue large combined bond issuances some bond issues related to road infrastructure, such as capital, could be contained in other categories—for example, economic development—and thus the information provided relies on the categorization of bond issues. The breakdown of bond issuances did not allow us to determine the amount of toll road and highway issuances that were tax-exempt, only the amount of total transportation issuances that are tax-exempt for the years covered.

This data source only provides information on a particular method of transportation finance and therefore does not provide information on total government transportation expenditures; the number of transportation facilities constructed, financed, or owned by state and local governments; or other forms of government financing for transportation. Particularly with transportation finance, state and local governments rely on other financing methods, including general funds and tolls. Furthermore, we do not address the ultimate purpose of the transportation projects financed by state and local governments or where they are constructed.

Parking Garages and Parking Lots

We used three main sources to provide information addressing state and local governments' construction, operation, and financing of parking garages and parking lots. We use Thomson Financial data on bond issuances, the U.S. Census Bureau's (Census) 2002 U.S. Census of Governments user charges, and selected comprehensive annual financial reports to provide some case studies.

We used Thomson Financial data, contained in the Bond Buyer Yearbooks, to provide details on the bond issuances for parking facilities according to the category provided in the yearbooks as a related category to parking garages and lots. This data source provides 2000-2004 aggregate values and the number of bonds issued. However, there are a number of limitations to these data. Because municipalities can issue large combined bond issuances some bond issues related to parking garages and lots could be contained in other categories, such as economic development, thus the information provided relies on the categorization of bond issues. The breakdown of bond issuances did not allow us to determine the amount of parking facilities issuances that were tax-exempt, only the amount of total transportation issuances that are tax-exempt for the years covered.

This data source only provides information on a particular method of parking facilities financing and therefore does not provide information on total government parking expenditures; the number of parking facilities constructed, financed, or owned by state and local governments; or other forms of government financing for parking. Furthermore, we do not address the ultimate purpose or location of the parking facilities financed by bond issuances.

We used the 2002 Census of Governments to provide user charges for parking facilities for the top 171 metropolitan statistical areas (MSA). There are some limitations to the use of these charges. User charges received by municipalities for parking do not provide any information on the number of existing facilities or the number of parking facilities constructed or financed by state and local governments. Since the data rely on user charges this source may not be representative of total parking provide nationally, as it would not include free public parking. We also do not provide total public expenditures on parking facilities.

There are also some limitations in the definition of the parking facilities category. The Census category defines parking as the "provision, construction, maintenance, and operation of local government public parking facilities operated on a commercial basis." These facilities include parking meters, on-street parking, and parking lots, but exclude parking

facilities for the exclusive use of government employees and parking areas connected to specific types of facilities, such as those for a public sports stadium, which are reported with the function of the facility involved, such as parks and recreation. The user charges, therefore, represent revenue from on-street and off-street parking meters and charges and rentals from locally owned parking lots or public garages.

Lastly, we used the selected state and local government financial reports of cities and counties located in large MSAs that contained detailed information to provide specific examples of parking facilities that have been financed by state or local governments. As these are examples they cannot be generalized to state and local financing, construction, and operation of parking facilities.

Community Recreational Facilities

We used the 2002 Census of Governments to provide user charges for parks and recreation facilities for the largest 171 MSAs. Community recreation facilities easily overlap into a numerous other categories, and we did not identify any data that specifically focused on this category.

There are some limitations with the use of user charges. User charges received by municipalities for parks and recreation do not provide any information on the number of existing facilities or the number of parks and recreational facilities constructed or financed by state and local governments. Since the data rely on user charges this source may not be representative of the total park and recreational facilities provided nationally, as it would not include free facilities. We also do not provide total public expenditures on parking facilities.

There are also some limitations in the definition of the park and recreational facilities category. The census category defines park and recreational facilities as the “provision and support of recreational and cultural-scientific facilities maintained for the benefit of residents and visitors.” This category includes a variety of facilities, such as golf courses, public beaches, swimming pools, parks, camping areas, recreational piers and marinas, but excludes any recreational facilities operated as part of a school system and marinas for commerce. It would also include support of private facilities; galleries, museums, zoos, and botanical gardens; auditoriums, stadiums, recreational centers, convention centers, and exhibition halls; community music and drama facilities; and celebrations, including those in public support of cultural activities. User charges represent revenue of facilities operated by a government; auxiliary facilities in public recreation areas (refreshment stands, gift shops, etc.);

lease or use fees from stadiums, auditoriums, and community and convention centers; and rentals from concessions at such facilities.

Golf Courses

We used data from the National Golf Foundation to provide details on the number and form of municipal golf courses in the United States. As verification, we interviewed those who maintain the database about their methodology for building and maintaining the database. A foundation representative considered the database to be largely comprehensive, as the foundation has measures in place to ensure its list includes all golf courses, and did not express any concerns regarding the reliability of the data.

This data source did limit the type of information we could provide. Data were not available on the public financing of golf courses, via tax-exempt bonds or other methods, or on any aid provided by state and local governments to privately owned public golf courses. While the database may be largely comprehensive, at any one time it may not include every single golf course in the United States. Since municipalities can engage in a variety of joint public and private golf courses establishments, the data may not be representative of the total number of golf courses constructed or originally financed by state and local governments.

We also used data on high-end golf courses provided by Akin Gump Strauss Hauer & Feld LLP to provide estimates of the number of golf courses financed with tax-exempt bonds. As verification, we interviewed the official providing the data about the methodology for determining the tax-exempt financing and golf course listings.

Conference Centers

We used two sources of data to provide information on the financing and ownership of convention centers: bond issuance data and data on the number of government-owned convention centers.

We used Thomson Financial data contained in the Bond Buyer Yearbooks to provide details on the bond issuances for a variety of public facility categories, including convention centers; parks, zoos, and beaches; and other recreation, according to the categories provided in the yearbooks as related to conference centers. This data source provides 2000-2004 aggregate values and the number of bonds issued. However, there are a number of limitations to these data. Because municipalities can issue large combined bond issuances some bond issues related to convention centers, could be contained in other categories, such as economic development,

thus the information provided relies on the categorization of bond issues into the categories. The breakdown of bond issuances did not allow us to determine the amount of convention center issuances that were tax-exempt, only the amount of total transportation issuances that are tax-exempt for the years covered.

This data source only provides information on a particular method of public facilities financing and therefore does not provide information on total government public facilities, and thus convention center, expenditures; the number of public facilities constructed, financed, or owned by state and local governments; or other forms of government financing for public facilities. Furthermore, we do not address the ultimate purpose of the public facilities projects financed by state and local governments or where they are constructed. However, bond experts have stated that state and local governments finance convention centers to attract outside revenue and stimulate economic development through tourism.

We also relied on a list of government-owned convention centers provided by Akin Gump Strauss Hauer & Feld LLP. We use this list as an estimation of the number of government owned convention or civic centers. As verification, we interviewed the responsible contact about the methodology and obtained financing data on selected observations using comprehensive annual financial reports (CAFR).

Hotels and Tourist Accommodations

We used four separate data sources to provide a combined listing of the number of hotels financed by tax-exempt bonds that have been identified by experts in the field of government finance. The individual lists came from Orrick, Herrington & Sutcliffe LLP; HVS International; Piper Jaffray; and Akin Gump Strauss Hauer & Feld LLP. Each of these data sources provided a listing of hotels financed with tax-exempt bonds along with estimates of the amount of financing. Because these lists were produced at different times and multiple bonds can be issued for single projects, the estimates of facilities from these lists may not represent all facilities financed with tax-exempt bonds or include all the bond issuances prior or since the date the data source. As verification, we conducted interviews to assess the methodologies for determining the lists and provide a list of hotels and their financing structure, which we determined from looking at selected government financial reports. The combined estimate from the lists may also not represent every hotel that has been financed in part or whole by state and local governments, but rather provide the number of identified hotels financed with tax-exempt bonds.

State-owned Gaming Support Facilities

We used three sources of data to provide limited information on state and local governments' support of gaming facilities: state lottery data, survey data on private casino gaming, and specific examples of government aid in connection with private gaming.

We used financial data on lotteries from state CAFRs to provide the number of states with lotteries and the capital assets for those lotteries. We use the level of capital assets for state lotteries as an indication of the financing of state-owned gaming facilities. However, there are a number of limitations to these data. The asset data do not provide information on other state-owned gaming facilities. Because government facilities may have multiple uses the asset figures may not represent the actual portion of assets devoted to lottery use. These data may also not include all forms of state-owned gaming facility assets, such as state gaming terminals.

We used information from the American Gaming Association's 2005 Survey of the States to provide contextual information on the number of states with legalized gaming. As verification we reviewed data from the source listed in the survey for selected states. The survey data also provide the number of states with publicly run video lottery terminals (VLT) at racetrack casinos. This data source does not provide any information on state and local expenditures related to either the public VLTs or private gaming facilities or the number of state-owned gaming support facilities.

We used gaming articles identified through the literature searches on the Internet and in finance and bond journals and testimony from bond finance experts including officials from the Government Finance Officers Association, and the Bond Market Association, to elaborate on examples of states' financing of projects directly related to or aiding private gaming. As these data provide examples they cannot be generalized to total state and local aid to private gaming.

We conducted our work from February 2006 through August 2006 in accordance with generally accepted government auditing standards.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Michael Brostek (202) 512-9110 or brostekm@gao.gov

Acknowledgements

In addition to the contact named above, Jose Oyola, Assistant Director; Robert Dinkelmeyer; Jennifer Gravelle; Cheryl Peterson; and Walter Vance made key contributions to this report.

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