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Arkansas Plans to Sell Muni Bonds to Build Lockheed Martin Plant.

(Reuters) - Lockheed Martin received a deal this week to expand a plant in Arkansas using \$87 million of state general obligation bonds, an unusual method of funding a private project with taxpayer debt.

The deal, which could be signed by the governor before week's end, is contingent on Lockheed winning a contract from the U.S. Department of Defense to manufacture joint light tactical vehicles.

States regularly utilize various tools to lure companies within their borders, such as tax abatements or low-risk conduit bonds. But Arkansas' plan to sell general obligation bonds to fund construction of Lockheed's new facility is more uncommon. In the case of default, the state would be responsible for paying bondholders.

Americans for Prosperity, a political group supported by billionaire brothers David and Charles Koch, called the deal a "multi-million dollar, debt-financed giveaway to a single corporation."

"Arkansas taxpayers should not be fronting the money for one of the largest and most successful companies in the world," the group posted on its website.

"This is out of the ordinary," said Mike Taylor, senior municipal bond analyst at Columbia Threadneedle Investments. Although legally authorized by the Arkansas legislature, "It's unusual for a state to provide funds for what would be considered a private activity like this."

Lockheed Martin, one of three firms competing to build ground vehicles to replace the iconic Humvee, would locate the plant adjacent to an existing facility in Calhoun County, population 5,200, in southcentral Arkansas.

Lockheed would not reimburse Arkansas for the debt, but it agreed to spend at least \$125 million on capital improvements and to provide almost 600 new jobs.

Republican Governor Asa Hutchinson described the deal as "a golden opportunity" and "exactly what we need to be doing, even in tight budget times, because growing our economy is going to allow us to address all of the needs."

"We would all like to be purists in which there is not any government involvement in high-stakes super-projects, but the fact is we've got a competitive environment with other states," Hutchinson said this week.

John Lenio, senior vice president at CBRE, a large commercial real estate services firm, said a deal this size comes to a region like southcentral Arkansas once every five years on average, which is why the state is pursuing it aggressively.

Lockheed Martin would be required to repay a portion of the money if it failed to meet its

commitment to hire workers.

“The state is being fiscally responsible,” said Lenio. “They are not just giving to a company without contingencies.”

But after one corporation enjoys a public financing, said Greg LeRoy, executive director of Good Jobs First, a policy resource center and subsidy watchdog, what stops other companies from expecting the same treatment?

“If I were an Arkansas taxpayer, I would be nervous about putting my public eggs in a private basket,” LeRoy said. “That’s a risky principle.”

By REUTERS

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(Reporting by Robin Respaut; Editing by Cynthia Osterman)

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