



United States
of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 97th CONGRESS, SECOND SESSION

Vol. 128

WASHINGTON, TUESDAY, MAY 18, 1982

No. 60

Senate

SMALL ISSUE INDUSTRIAL DEVELOPMENT BONDS

Mr. TSONGAS. Mr. President, today my distinguished colleagues from Rhode Island (Mr. CHAFEE), Missouri (Mr. DANFORTH) and Pennsylvania (Mr. HEINZ) are introducing legislation on industrial development bonds. In my view, IDB's have played a crucial role in business and economic development during times of economic uncertainty and record borrowing costs. Now, with a deepening recession brought on by the highest real interest rates in history, the administration has proposed restrictions which I believe would cripple this important program. I hope that the Senate will give this alternative proposal to reform the IDB program the thorough consideration that it deserves and will support its enactment.

Let me take a moment to discuss some of the broad issues which this legislation seeks to address and to briefly describe the experience which we have had in Massachusetts.

THE MASSACHUSETTS PROGRAM

In Massachusetts, three-fourths of the companies that have received IDB's had sales under \$20 million, and one-half had sales under \$5 million. These are the companies that depend almost totally on our local banks to finance their expansions. Today, our thrift institutions cannot make long-term loans to these companies, and commercial banks have moved to shorter maturities and to interest rates floating above the incredible prime.

In addition, Massachusetts has a strict program for targeting bonds for commercial real estate projects to the downtowns of our older communities. Only 10 percent of the Massachusetts IDB program is commercial, as opposed to as high as 60 percent in States with no commercial targeting. This innovative approach has resulted in \$140 million in new, private investment in 92 commercial revitalization projects in the downtowns of our older communities. IDB's, combined in many cases with urban development action grants, have been proved effective in revitalizing our distressed areas.

In short, the Massachusetts program is truly a national model for effective, but restricted use of IDB's. Our positive experience in targeting commercial IDB's has led us to adopt this focus in modified form in the legislation being introduced today.

RHETORIC VERSUS FACT

Mr. President, the legislation which my colleagues and I are introducing today represents, in our views, a responsible and comprehensive effort to reform the IDB program. Our proposal has support from public officials and small business. Let me add that this legislation is a discussion draft and that on some provisions we would anticipate, and may in fact ourselves, initiate amendments. However, this legislation is not by any means a panacea. The reforms proposed are tough and strict. They are intended to be so. More importantly, the legislation accomplishes what I strongly believe the administration's proposal does not: That is, this bill deals with the real abuses of the program.

If this program is to be reformed, I urge that reforms focus on ending the real abuses in the program. The administration's proposals fail to deal directly with the real abuses. Instead, I believe they aim primarily to reduce the volume of the IDB program.

One abuse has stood out. That is the use of IDB's for commercial real estate developments that are marginally productive, and often locally unpopular. A major reason for targeting in Massachusetts has been to curb this abuse—particularly the financing of anchor stores for regional shopping malls which cripple downtown commerce. Basically, if we want to stop the K-Mart and McDonald's syndrome, we should do it. But we should not enact restrictions that choke off the only effective means of cutting interest rates on highly productive investments.

It is essential, when looking at IDB's, to separate rhetoric from fact.

The rhetoric is that IDB's aid large national corporations. In fact, a CBO study found that IDB's have been used overwhelmingly by smaller businesses. Ninety percent of all IDB's issued in recent years went to closely

held, unlisted firms which were dependent on local financing. Only 7 percent went to Fortune 1,000 companies, and only one-half of these issues exceeded \$1 million.

The rhetoric is that IDB's result in massive revenue loss to the Federal Government. In fact, CBO projects that total elimination of IDB's would yield only \$200 million in 1982. The administration sees a net Federal revenue decrease in 1983 if its proposals are enacted. A recent University of Chicago study questioned the whole assumption of revenue loss. It showed that the private investment stimulated by IDB's actually increases tax revenues.

Although the estimates of revenue gain differ, this is hardly a crackpot notion. Consider the analysis of Dr. Norman Turé, a leading supply side economist, who is now Under Secretary for Tax Policy. In 1980, Dr. Turé wrote the following:

IDB's are productive instruments for promoting economic development by making saving and investment more attractive to individuals and businesses . . . The resulting expansion of tax bases—individual, corporate and payroll—would generate net gains in tax revenues for the federal government and for the state and local governments of the issuing jurisdictions.

The rhetoric is that the eligibility criteria for IDB's are too generous. In fact, the increase in IDB financings in recent years has been caused not by overly generous criteria but by high interest rates. In fact, the "window of eligibility" (\$10 million per facility) buys one-fourth less plant and equipment in real terms than the \$5 million limit enacted by Congress in 1968. And again, CBO has noted that "the \$10 million limit effectively keeps most large corporations from making much use of small issues."

NEW INVESTMENTS AND NEW JOBS

In Massachusetts, we have seen the lower interest rates from IDB's stimulate new investments and jobs. The 870 projects financed over the past 3 years will produce 47,000 new jobs and 18,000 man-years of construction work.

Clearly, not all these are net new jobs. But recent University of Massachusetts studies show that \$100 million in new manufacturing investment produces a net reduction in unemployment of over 4,800 jobs and an increase in personal income of \$139 million—in the first year alone. In addition, this investment would produce \$11 million in new State tax revenue in the first year, rising to \$23 million in the 10th year. These statistics do not even count the added savings in welfare and unemployment benefits.

Do IDB's stimulate new investments? IDB recipients in Massachu-

setts were surveyed last summer. Eighty-five percent responded that they would have reduced or cancelled plant expansions without the interest rate reductions from IDB's. One-third would have cancelled their expansion outright, another third would have delayed their growth, and one-fifth would have cut back plans by an average 40 percent.

Mr. President, these are the major reasons which in my view support continuation of the IDB program. Before turning to the provisions of the legislation, let me take a moment to discuss the Administration proposal to reform IDB's.

THE ADMINISTRATION PROPOSAL

As a matter of industrial policy, the administration proposal has two major weaknesses—and these provisions I strongly oppose.

First, the administration proposes to make business choose between IDB's and accelerated cost recovery. Most IDB users are small businesses without access to affordable capital for long-term expansion. IDB's provide reduced interest rate financing to these firms—offsetting their disadvantages in the financial markets. Under the administration proposal, small business would lose that stabilizing financial assistance. In my view, this proposal will result in a chilling of small business expansions at the very time we should be stimulating this type of activity. Furthermore, given the administration's very generous treatment of large business in last year's tax bill, their attitude toward small business as reflected in IDB's is intriguing. The safe harbor leasing provision in last year's bill allowed GE, for example, to make \$2 billion in profits and get a \$100 million tax refund. Evidently this lack of equitable treatment is not a consideration in the administration's proposal to force small companies to choose between ACR's and IDB's.

Second, the administration proposes a strict capital expenditure test for all small issue IDB's. In particular, I believe that limiting total IDB and non-IDB investments for companies to \$20 million over 6 years will have a severe negative impact on the high technology industry, which my State and the entire Nation depend on for our economic future. The administration proposes this limitation despite the severe challenge we face from the Japanese in the high technology area. From a long-term economic survival viewpoint, this proposal does not make any sense.

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**LEGISLATION PROVIDES A FRAMEWORK FOR
REFORM**

I urge my colleagues to approach IDB reforms in terms of the abuses. The restrictions on commercial IDB's contained in this legislation will, in my view, go a long way in the right direction. As I indicated earlier, Massachusetts has limited commercial IDB'S to downtown areas, and with great success. This legislation goes further, and allows only some types of commercial uses in "UDAG" eligible areas.

Given what is happening in the budget, there will soon be no assistance for distressed areas. Such a policy spells doom for the older urban communities in Massachusetts and throughout the Nation. Now the administration has proposed to use IDB's in connection with enterprise zones—a concept that may hold limited promise down the road. But I believe that the targeting that our legislation proposes, the IDB program right now will be critical.

In conclusion, I cannot help but recall the pressurized atmosphere in which Congress put restrictions on mortgage revenue bonds in late 1980. Today, the housing industry is flat on its back and the administration is talking about returning to mortgage revenue bonds. The lesson for reworkable restraints on IDB's should be clear.

With unemployment growing and small company failures rising at alarming rates, we should be certain that any restrictions are designed to make this program more effective and less subject to abuses. To cripple the program—with the resulting impact on small business investments, job creation and urban area revitalization—would damage our economy now and in years to come.

Mr. President, to conclude, and to summarize the major provisions of the legislation which we are introducing today, I ask unanimous consent that a section-by-section analysis of the legislation be printed in the RECORD.

There being no objection, the material was ordered printed in the RECORD, as follows:

**SECTION-BY-SECTION ANALYSIS OF THE SMALL
ISSUE INDUSTRIAL DEVELOPMENT BOND
REFORM ACT OF 1982**

Section 1. Sets forth the title of the act.

Section 2. Changes in exemption for certain small issues.

Section 2(a). Restrictions on Financing Certain Facilities.—This section adds a new subparagraph "(K)" to Section 103(b)(6) which prohibits the use of small issue industrial development bond financing for certain categories of commercial facilities which Congress finds to be inconsistent with the goals of encouraging job creation and business community development. Among these categories are those where substantially all

of the proceeds of an IDB are to be used directly or indirectly for restaurants, office buildings (excluding office buildings occupied by a single firm or corporation), stores or shopping centers, automobile dealerships, night clubs, massage parlors, race tracks, tennis and racquetball clubs, golf courses, skating facilities, sun tan facilities or any other entertainment or recreational facility. The restriction against using small issue IDBs for certain controversial facilities is designed to reduce the overall volume of IDB growth, thereby helping to preserve this valuable community development and business financing mechanism for more productive enterprises.

Section 2(b). Open Government Procedures: Public Hearing and Reporting Requirements.—This section adds two new subparagraphs "(L)" and "(M)" to Section 103(b)(6) of the Code. These new paragraphs would apply open government principles to the procedures for approving small issue industrial development bonds:

Public Notification and Finding Requirements.—Subparagraph "(L)" requires that obligations meet the following requirements: i) the obligation is approved at a meeting which is open to the public, ii) notice of the proposed obligation and the meeting (including the face amount and purpose of the issue and the application for and location of the facility to be financed) shall be published in a local newspaper, and iii) the issuer determines that the issue will benefit the local economy, result in job creation or retention, and will be a significant inducement to the acquisition, construction, reconstruction or improvement of the facility to be financed with the issue.

Subparagraph "(M)" provides that no later than June 1, 1984 and of each subsequent calendar year, each State shall submit a report to the Secretary of the Treasury about small issue industrial development bonds issued by the State or any political subdivision of the State during the preceding calendar year. The reports must include the following information on each bond issue:

(i) The name and address of the issuer.

(ii) The aggregate face amount of the issue of obligations.

(iii) The date of issuance of the obligations.

(iv) an estimate of the jobs to be created or retained as of the end of the third full year of operation of the facility being financed, and

(v) The name, address, employer and identification number of the principal user of the facility.

Section 2(c) Assistance to Economically Distressed Areas.—Subparagraph "(N)" provides that the face amount of an industrial development bond can be increased from the present financing limit of \$10 million to a total of \$15 million in those cases where the proceeds of the issue are to be used to finance a facility located in an "economically distressed area." Additionally, subparagraph "(N)" provides that office buildings, restaurants and stores or shopping centers may be financed within an "economically distressed area." Subparagraph "(O)" defines an "economically distressed area" as one which meets the standards of the Urban Development Action Grant program. As in the UDAG statute, an economically dis-

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tressed area would have to be eligible for an urban development action grant, would have to be in an area of chronic economic distress within the meaning of Section 103A(k)(3) of the Code, or would have to qualify as a pocket of poverty as provided in the UDAG statute.

Section 2(d) adds a new subparagraph "(P)" of Section 103(b)(6) entitled "Exemption for Research and Experimental Expenditures Not Taken Into Account." This subparagraph provides that any capital expenditure which is a research and experimental expenditure as defined in Section 174 of the Code shall not be considered when determining the total cost of the facility eligible for financing pursuant to subparagraphs M (ii) and (N) which establish the \$10 million or \$20 million financing and capital expenditure limits, respectively, for each project within an incorporated municipality or county. Generally, these are expenditures for research wages and research supplies which are deducted currently by the taxpayer and which pursuant to this section would no longer be considered for purposes of the capital expenditure limits.

Section 3. Limitation on proposed temporary regulations.—Section 3 repeals the proposed temporary regulations 1.103-7(b)(6), or any other regulation, ruling or decision reaching the same result as, or a similar result to, that set forth in the temporary regulations with respect to pooled issues of IDB's for projects located in only one state. In the proposed temporary regulations, the IRS proposed to redefine the term "issue" in a way which prohibits issuers from issuing umbrella or pooled bond issues. The proceeds of the issue are used to make loans available to small businesses in amounts smaller than those generally feasible for an individual industrial development bond.

Section 4. Transitional provisions.—Section 4(a) provides that the amendments to Section 103 made by this Act shall not apply if before the effective date of this Act: (1) the issuance was authorized by the governing body issuing the obligation; (2) the governmental unit has made a significant financial commitment in connection with the issuance; (3) an amount equal to at least 20 percent of the proceeds have been expended, or (4) in the case of projects where federal financial assistance is being provided, the governmental agency has approved the project or the application for financial assistance is pending.

Section 5. Effective date.—The amendments made by this Act shall apply to obligations issued after the date of enactment except certain capital expenditures which are research and development expenditures.