A COMPARISON OF CANADIAN AND UNITED STATES INDUSTRIAL FINANCING ARRANGEMENTS

CANADA
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A COMPARISON OF CANADIAN AND UNITED STATES INDUSTRIAL FINANCING ARRANGEMENTS

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By

Robert E. Simpson

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FOREWORD

Industrial development specialists in Canada and the United States can benefit from additional knowledge of the sources and methods of financing industrial projects. This paper provides a survey of selected sources of private, quasi-public and public industrial development capital. It does not attempt to cover all sources or methods available, but it does provide a guide to the various approaches taken in both countries and regions within each country.

No study of this type can remain up-to-date for very long, since industrial development policies, techniques and practices are changing almost daily. For example, when the writer completed this paper in February 1969, the new Regional Development Incentives Act had not been passed by the Canadian Parliament. Since that time many other changes have been made in provincial and state programs as well. However, the observations in the paper still have merit.

The Department of Regional Economic Expansion is pleased to publish Mr. Simpson's study for limited distribution to those federal, provincial and municipal government agencies involved in economic development and to the universities and other organizations having an interest in the subject.

We wish to thank the Industrial Development Institute and the American Industrial Development Council, Inc., and the University of Oklahoma for their permission to publish this paper. Observations and conclusions reached in the study are those of the author and do not necessarily reflect the opinions of the Department of Regional Economic Expansion.

W.J. Lavigne,
Assistant Deputy Minister

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INTRODUCTION

To be successful in the field of industrial development, it is essential that the industrial development specialist must be thoroughly familiar with the various sources and methods of financing an industrial enterprise. This paper will outline a number of private, semi-private and public agencies or corporations in Canada and the United States which can provide this type of financing. Each project may utilize one or more of these sources. It is the responsibility of the industrial development specialist to determine which group or combination of groups is best equipped to provide the assistance and to advise the entrepreneur accordingly.

The financing of any business must include money for fixed assets such as land, buildings, machinery and equipment, plus working capital for current assets. The fixed assets may be financed by equity or loan capital. Equity capital comprises funds invested in a business by the sole owner, partners or shareholders in the hope of deriving profits from the venture. Loan capital represents funds advanced to a business by individuals or organizations having money to lend for such purposes.

This paper will concentrate primarily on sources of loan capital, assuming that the applicant will have the required amount of equity capital available. When 100 per cent financing of fixed assets is available through loans or grants this equity may be used for working capital.

A variation of the approach of using equity and loan capital involves the "lease-back". Under this arrangement the industry leases the building and equipment for a specific period, at an agreed rental, and often has the subsequent option to purchase. In effect, long-term debt is incurred without having to issue securities or to borrow the funds.

Principles such as those outlined above are common to both the United States and Canada. This is also true of other principles and examples will be quoted in this paper. Some of the information to be presented will be familiar to most readers. However, it is essential to consider some of these common factors in order to reveal differences between the sources and methods available in the two countries and in the various regions.

For example, state and municipal industrial development bonds have been used extensively in the United States, encouraged by the exemption from federal income tax granted to interest on these bonds. With no equivalent exemption in Canada, industrial development bonds are rarely used. At the risk of covering material which is well known to developers in the United States, I have chosen to discuss this topic in some detail in Chapter VI.

No attempt will be made to outline the assistance which is available to sectors of industry other than secondary manufacturing, although some of the sources to be considered do provide assistance to primary industries such as agriculture, forestry, fishing and mining, and to the commercial, tourist and service sectors.

Only passing reference will be made to indirect assistance which is supplied mainly to the more remote regions. This assistance can take the form of freight rate subsidies or the provision of infrastructure such as highways, water and sewage systems and industrial parks in advance of requirements. It also includes Federal, state or provincial assistance in setting up and providing technical and financing assistance for local development groups.

The paper will treat each country separately, listing the various sources of funds and providing a few comparisons along the way. Part I will outline Canadian sources of industrial financing, starting with the chartered banks and then discussing other private sources such as trust companies, insurance companies, investment companies and certain private corporations, created specifically to provide loan or equity capital to industry. Ensuing chapters in Part I will discuss Federal assistance and the widely differing programs of three provinces.

Part II will follow a similar pattern, outlining the sources of industrial financing in the United States. Private sources, such as the banks, will be discussed first, followed by the Federal programs and agencies. The discussion of the financial assistance available in the various states will require two chapters due to the number and variety of approaches offered. Chapter VI will define some of the types of financing plans available and the organizations used to provide them. Chapter VII will quote examples from three states showing how the various agencies can be used.

The final chapter will compare the sources outlined in the paper and relate them to the industrial, financial and political environment of the two countries. Based on conditions as they exist at the time of writing, an attempt will be made to predict the future course of industrial financing in both countries.

PART I

CANADIAN SOURCES OF INDUSTRIAL DEVELOPMENT FINANCING

CHAPTER I

PRIVATE SOURCES

BANKS

The Canadian chartered banks have established a pattern over the years of providing short or medium term loans to industry. Longer-term and equity financing for industrial projects has been provided chiefly through the bond market, stock exchanges and other financial institutions.[1] One of the reasons for this has been the structure of the Canadian banking system, which has changed only recently.

The Canadian commercial banking system consists of nine privately owned banks, chartered by the Bank of Canada and operating under provisions of the Bank Act. The Canadian system can be traced back to the pattern of the first Bank of the United States as introduced by Alexander Hamilton in 1791.[2] It is based on a national system with branch banks across the country, large capitalizations, non-permanent charters and private ownership and management. The branch bank system has served Canada well, providing a medium to channel capital into the most remote regions and offsetting the problem of regional dislocations with normal or improved conditions in the rest of the country.

However, the Canadian banks cannot act as trust companies. At the

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[1] S. Sarpkaya, The Banker and Society, (Don Mills, Ont.: Institute of Canadian Bankers, 1968), p. 20.

[2] Ibid., p. 67.

time of the original Bank Act, it was not considered desirable to give extended trusteeship power to institutions whose charters were subject to renewal every ten years. This separation of powers limited the lending capacity of banks for loans based on the security of land, buildings or other fixed assets. Another restriction on term lending was the Bank Act's ceiling on the interest rates which could be charged for loans.

The Bank Act of 1967 freed Canadian chartered banks to engage in mortgage lending of all types.[3] Mortgages can now be taken up to 75 per cent of the appraised value of the land and buildings. It also removed the old 6 per cent ceiling on interest rates and permitted the banks to purchase up to 10 per cent of the shares of trust or loan companies and up to 50 per cent of the shares of other companies, to a maximum of $5,000,000.; over $5,000,000., the proportion which may be owned is limited to 10 per cent.

Now that the banks are free to take mortgages as security, to lend at rates which are commensurate with the risk of long-term lending and to take an equity position in an enterprise, one might expect a greater degree of participation in long-term financing by the banks. It is still too early to say what pattern will emerge. However, apart from participation in a few larger projects, it appears that the Canadian banks will continue to concentrate on short and medium term financing, leaving the longer term, mortgage secured financing to others. They do participate indirectly through their investments in other financial institutions such

[3] Ibid., p. 81.

as RoyNat Limited, and Canadian Enterprise Development Corporation.

TRUST COMPANIES

Prior to the Bank Act of 1967, the Canadian trust companies enjoyed the advantage over the chartered banks of being able to take mortgage security on loans and were active term lenders through the purchasing of corporate securities. The revised Bank Act has encouraged greater competition between the chartered banks and trust companies. However, the trust companies seem to favour mortgages for residential and commercial construction rather than industrial plants. Like the banks, they participate in industrial projects through other lenders such as RoyNat Limited and Canadian Enterprise Development Corporation, in which they have shares.

INSURANCE COMPANIES, INVESTMENT COMPANIES AND PENSION FUNDS

Insurance companies, investment companies and pension funds all contribute to industrial financing through bonds, mortgages and equities. Generally speaking, larger enterprises with connections in the larger financial centres are in a better position to use these sources. With a relatively conservative lending policy, such organizations prefer to assist in financing new, modern, multi-purpose, single storey buildings in good locations. Under Section 64A of the Canadian and British Insurance Companies Act, life insurance companies may invest their funds in the fully paid shares of any corporation incorporated to acquire, hold, maintain, improve, lease or manage real estate or leaseholds.[4] These would include real estate firms which deal in industrial properties.

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[4]Richard Humphries, Superintendent of Insurance, Department of Insurance, Ottawa, in a memorandum to Canadian Life Insurance Companies, July 12, 1965.

OTHER PRIVATE LENDERS

In 1962, two new firms were formed to provide capital for Canadian businesses. Similar companies have been formed since that time.

ROYNAT LIMITED

RoyNat Limited is owned by two chartered banks, The Royal Bank of Canada and Banque Canadienne Nationale and three trust companies, The Canada Trust Company, Montreal Trust Company and General Trust of Canada. It is a source of term capital for medium sized firms with growth potential. With referrals from over 1700 branch offices of its parent companies, this organization can undertake projects which the banks or trust companies might not be prepared to handle individually.

Loans are available to most business enterprises, including primary industry, manufacturers, service industries, transportation firms, tourist operators, wholesale and retail traders. Loans range from $25,000 to over $1,000,000 with repayment over periods up to fifteen years. Normally, RoyNat will purchase a mortgage bond, income bond or debenture which is secured by a first charge on the fixed assets of the company. In some cases it will purchase preferred or common shares in a company, seeking only a minor equity position, without representation on the client's board of directors. Interest rates are competitive but governed by the rates which RoyNat must pay to borrow its funds.

CANADIAN ENTERPRISE DEVELOPMENT CORPORATION LIMITED (CED)

Canadian Enterprise Development Corporation Limited is modelled after the American Research and Development Corporation of Boston. It is owned by a varied group of institutional investors, including banks, trust companies, insurance companies, investment houses, larger corporations and utilities.

Unlike RoyNat, which provides loan capital, CED is a risk capital investor, supplying part of the equity in a project and allowing other institutions to provide term financing on a secured basis. The investment may take the form of a subordinate note, preferred shares or common shares up to $500,000. Over that amount, other partners may be sought. Representation on the Board of Directors is required, although CED does not wish to become actively engaged in the management of affiliated companies.[5] If management assistance is required, it can be provided on a fee basis.

[5]Canadian Enterprise Development Corporation Limited, Fifth Annual Report, 1967, (Montreal, Quebec, 1968), p. 3.

CHAPTER II

FEDERAL SOURCES

THE INDUSTRIAL DEVELOPMENT BANK (IDB)

The Industrial Development Bank was established by the Canadian Parliament in 1944 as a source of medium and long term financing for small and medium sized businesses in Canada which are unable to raise funds on reasonable terms from conventional sources.[1] At the time the bank was established a study had shown that, unlike larger corporations that can float public issues of securities or stocks, the small or medium sized firms cannot justify the cost of this method.[2] In addition, most underwriters and investment houses prefer to handle the issues of nationally known companies.

Almost any business enterprise is eligible for IDB assistance. Two exceptions are loans to other financial institutions and loans to finance residential properties. Particular consideration is given to the needs of smaller firms. There is no upper limit on the amount of an IDB loan, but the rate of interest is graduated upwards with the size of loan. For the fiscal year ending September 30, 1968, the average loan was $48,000 and over 91 per cent of the loans were for amounts less than $100,000.

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[1]John McKeown, "The Industrial Development Bank's Role in Canada's Economic Growth" (unpublished thesis submitted to American Industrial Development Council, University of Oklahoma, 1966), p. 1.

[2]*Ibid.*, p. 2.

Since its inception the IDB has handled over 21,000 loans with a value of $1,100,000,000.[3]

The normal requirements for term lending are observed, including adequate company equity, the ability to repay the loan within a reasonable time from earnings and evidence of management capability. The term of the loan is usually ten to fifteen years at rates which are reasonable but do not reflect a government subsidy. Security usually takes the form of a first charge against the assets of the borrowing business such as a realty mortgage, chattel mortgage, mortgage bond or conditional sales agreement.

One of the reasons for establishing the IDB was the Bank Act regulation which prevented the chartered banks from accepting real estate mortgages as security. With the Bank Act revision in 1967 and the appearance of other lenders such as RoyNat and CED one might ask if IDB is still needed. It is still fulfilling a necessary function as the lender of last resort which will finance projects in the more remote regions of the country. The continuing growth of IDB activities in all ten provinces indicates the importance of this organization in promoting Canada's industrial growth.

THE SMALL BUSINESS LOANS ACT[4]

The Small Business Loans Act of 1960, as amended in 1967, provides for loans to be made through Canadian chartered banks to proprietors of

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[3]Industrial Development Bank, Annual Report of the President and Statement of Accounts, Fiscal Year 1968 (Ottawa, Ont., 1959), p. 5.

[4]Canada, Laws, Statutes, etc., Small Business Loans Act, 16 Elizabeth II, ch. 83.

small businesses. These loans are guaranteed by the Federal government. To qualify, the company must not have an annual gross revenue in excess of $500,000. Loans can be made for amounts up to $25,000 repayable in not more than ten years. In addition to the Federal guarantee, the banks may take other security such as a mortgage, lien or conditional sales agreement. The rate of interest is set at 1 per cent above a base rate calculated from the yields of Bank of Canada and Government of Canada bonds.

Loans may be used to finance up to 80 per cent of the cost, including installation, of fixed or moveable equipment and 90 per cent of the cost of construction or renovation of premises, excluding the cost of land.

With a maximum loan capability of $25,000 , the Small Business Loans Act is valuable only to a very small manufacturer or to an industry making a modest expansion. In times when loan capital is scarce and interest rates charged for conventional loans are high, the chartered banks will naturally prefer to lend their money where the return will be greatest, in spite of the Federal guarantee for loans under the Small Business Loans Act.

THE AREA DEVELOPMENT AGENCY (ADA)

The Area Development Agency was established in July 1963, under provisions of the Department of Industry Act[5] to assist in the economic development and industrial adjustment of those areas across Canada which have not achieved the measure of economic progress obtained in the

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[5]Canada, Laws, Statutes, etc., Department of Industry Act, 12 Elizabeth II, ch. 3.

country as a whole. The specific programs of the agency have been designed to encourage manufacturing and processing industries to locate facilities in these areas.

The original program offered a three year holiday from Federal income tax to manufacturers locating new plants in areas with high levels of unemployment. This method was successful, but it proved most beneficial to larger firms, with assured markets, who could forecast a good profit picture when planning a new plant. Smaller firms with limited resources often were not in a profitable position during the three year period following construction and were not able to enjoy the tax benefits.

Based on this experience, a new program was introduced with the Area Development Incentives Act of 1965.[6] This program provides cash grants up to $5,000,000 per project and accelerated capital cost allowances for income tax purposes to new or expanding manufacturing facilities in designated areas.[7] These non-repayable grants can provide up to one-third of the cost of new buildings, machinery and equipment. They are exempt from Federal income tax and do not reduce capital cost allowances for tax purposes.[8]

When ADA grants are combined with term financing from private sources, provincial agencies or the Industrial Development Bank, it is

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[6]Canada, Laws, Statutes, etc., Area Development Incentives Act, 14 Elizabeth II, ch. 12.

[7]Areas are designated on the basis of employment and income statistics as compared to National averages.

[8]Details of the ADA incentives are given in Appendix I.

possible to receive 100 per cent financing for land, buildings, machinery and equipment. However, ADA insists that the applicant must have equity capital invested in the project equal to or greater than the incentives grant. This investment may be used for working capital, inventories and start-up expenses if the fixed assets are financed completely by the grant and term loans.

The ADA program has had sufficient impact in the designated areas to cause two of the larger provinces, Ontario and Quebec, to embark on similar programs to counter its de-centralizing effect. The Ontario program will be discussed in Chapter III.

THE DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

Over a period of years a number of Federal agencies have been created to assist the economies of certain areas across Canada. In addition to the Area Development Agency, discussed in this chapter, the ARDA[9] and FRED[10] programs of the Department of Forestry and Rural Development sought to improve conditions in rural areas; and the Atlantic Development Board provided funds for highways, water and sewage systems, power plants and serviced industrial parks in the Atlantic Provinces. In spite of the good work that has been done by these groups, the economies of these areas have not grown at the same rate as the rest of Canada. For this reason, the Federal Government has decided to co-ordinate the efforts of these agencies for a more concentrated effort.

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[9]Canada, Department of Forestry and Rural Development, Federal - Provincial Agreement 1965-70 (Ottawa, Ontario: Queen's Printer, 1967) p. 3. ARDA refers to the Agricultural Rehabilitation and Development Act of 1961.

[10]*Ibid.*, p. 4. FRED refers to the Fund for Rural Economic Development, created in 1965 to extend the activities of ARDA to comprehensive rural development programs.

This co-ordination has been achieved by the creation, in 1969, of the Department of Regional Economic Expansion.[11] This department now administers most of the programs relating to regional development in Canada. It is presently reviewing these programs prior to introducing new legislation. Among the programs being reviewed is that of the Area Development Agency.

One criticism of the ADA program, particularly in the Atlantic Provinces, has been the rigid criteria for designation of areas, based on unemployment and income statistics.[12] Using this method, a relatively prosperous centre might be excluded from ADA benefits even though the entire region surrounding it might be designated. The new department will include these more prosperous centres in its special areas so that alternative employment can be created within the same region.

Another criticism of the ADA program was the so-called "windfall" effect for industries such as the pulp and paper industry which must locate close to resources but are often able to qualify for a maximum grant of $5,000,000 since these areas coincide with designated areas.[13] The new department will require feasibility studies for such projects and will insist that the need for assistance be proven.

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[11]Canada, Laws, Statutes, etc., Government Organization Act, 1969, Part IV, 17-18 Elizabeth II, ch. 38.

[12]Atlantic Provinces Economic Council, First Annual Review, The Atlantic Economy (Halifax, N.S.: Atlantic Provinces Economic Council Office, 1967), p. 70.

[13]"Sweeping Power for New Agency," Halifax Chronicle Herald, February 17, 1969, p. 6.

Other benefits such as roads, sewer and water systems and industrial parks will be included in the overall plans for special areas. These projects will be co-ordinated with the requirements of specific industrial projects. Planning and implementation will be done in co-operation with the provincial and municipal governments concerned.

The Department may offer assistance through capital grants, guaranteed loans, direct term loans and special grants towards the additional costs incurred by a company during its first three years of operation as a result of locating in a special area. This more flexible approach will be tailored to the needs of the region and of the industry.

CHAPTER III

PROVINCIAL FINANCIAL ASSISTANCE PROGRAMS

It has become part of the conventional economic wisdom in the developed countries that it is undesirable socially for any region to lag in its industrial development behind the progress of others in the national economy. Canada is no exception in the realization of this doctrine, and its adoption by Federal and provincial governments has led to public intervention to attract capital formation to particular regions.

Furthermore, provincial governments believe that national economic policies are often incompatible with their own needs, and this awareness has led to growing "provincial economic self-determination" in developing their industry. In pursuing this objective, these governments have resorted to policies which include purchasing, selling, area development and research, as well as to those providing financial incentives and support to industry. Two means by which they offer this financial assistance have been through their industrial development agencies and through the guaranteeing of loans to the private sector.[1]

Initially, these programs were introduced by the provinces which were lagging in their economic growth. Since that time, every province except British Columbia has created some sort of financial assistance program. This activity is not necessarily related to the needs of the poorer areas of the country, but reflects a growing desire of the provinces to compete with each other.

The current trend is for the province to lend funds or to guarantee loans through a provincial development agency, although this assistance

[1] Richard Hopkinson, "Government Financial Assistance for Industrial Development in Canada," The Conference Board Record, V (April, 1968), p. 20.

is still reflected in the provincial debt pattern.[2] In a few cases, a province or its agency has taken an equity position in a company, often to salvage an operation before it is forced into bankruptcy.

Examples of direct financial assistance will be outlined when discussing the programs of Nova Scotia and Ontario. Indirect assistance is provided by Manitoba, New Brunswick, Newfoundland, Prince Edward Island and Saskatchewan by guaranteeing loans to private industry and by guaranteeing loans made to their development agencies.[3]

It would be difficult to cover all of the programs offered by the ten provinces in this type of paper. Instead, three provinces have been chosen. Nova Scotia was one of the first provinces to offer such assistance. Ontario, the wealthiest province, has entered the field recently with an imaginative program to counter the decentralizing forces of the Federal ADA program and other provincial programs. British Columbia is discussed as the province which takes the "free enterprise" approach, offering no program of financial assistance for industry.

NOVA SCOTIA

The economy of the province of Nova Scotia, along with the other Atlantic Provinces, has not grown as fast as the Canadian economy generally. With limited natural resources, the provincial government realized that more emphasis was needed on secondary manufacturing. As early as 1948, under the Industrial Assistance Act, the province was able to make or

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[2] *Ibid*., p. 23.

[3] *Ibid*., p. 13 (a chart showing the extend of these guaranteed loans is included as Appendix II).

guarantee loans for the building or expanding of manufacturing facilities or tourist accommodation.

INDUSTRIAL LOAN BOARD (ILB)

The Industrial Loan Board, a division of the provincial Department of Trade and Industry, now provides term capital for manufacturing plants and tourist facilities under the Industrial Loan Act of 1951 and the Industrial Development Act of 1954. Loans are available up to 75 per cent of the value of the land, buildings, machinery and equipment. The applicant must have equity capital invested of at least 25 per cent of the value of the project. Loans for industrial plants are for a maximum period of fifteen years at a rate of interest which provides complete recovery funds plus a small percentage for servicing the loan.[4]

INDUSTRIAL ESTATES LIMITED (IEL)

In a further effort to stimulate the growth of manufacturing in Nova Scotia, a Crown Corporation called Industrial Estates Limited was established in 1957. As a Crown Corporation it is able to "operate as an autonomous corporation, subject only to the general policy provisions held to be in the public interest".[5] With broad terms of reference, IEL has been able to purchase and service industrial parks and construct fully equipped industrial plants for sale or lease. The corporation is financed mainly by debentures issued by the Province.

Initially the majority of the plants built by IEL had lease-back arrangements which provided for the complete repayment of the capital

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[4]Nova Scotia Department of Trade and Industry, Industrial Loan Board (Halifax, N.S., 1968), pp. 1-8.

[5]Nova Scotia, Industrial Estates Limited, First Annual Report, 1957 (Halifax, N.S., 1958), p. 3.

costs plus interest. With the introduction of the Federal ADA grants in 1965, IEL changed its emphasis to term financing, secured by a first mortgage. In this way, the applicant can meet the requirement that he must own the facility to qualify for the ADA grant.

IEL will finance up to 100 per cent of the value of the land and buildings and up to 60 per cent of the value of machinery and equipment. The applicant is expected to invest a reasonable amount of equity capital in the project. Repayment of the loan is normally based on a ten year period for machinery and equipment and a twenty year period for buildings at a rate of interest which covers the corporation's costs. IEL will also arrange with municipalities to limit the tax on a new manufacturing facility to an annual amount of 1 per cent of the construction cost of the building only for a period of ten years.[6]

CAPE BRETON DEVELOPMENT CORPORATION (DEVCO)

Cape Breton Island forms the most Easterly portion of Nova Scotia. For many years the economy of the area depended primarily on coal mining and a steel plant. As the market for Cape Breton coal diminished and the mines became more costly to operate, the economy of the area declined accordingly. In a temporary effort to support the area the Federal government introduced subsidies for Cape Breton coal. These subsidies proved costly and did not provide long term answers.

In an effort to rationalize production in the mines and to broaden

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[6]Similar arrangements for reduced municipal taxes can be arranged for companies not financed through IEL under Part III of the Bonus Act administered by the Nova Scotia Department of Municipal Affairs. Statutes of Nova Scotia, 1966 Chapter 4, An Act to Amend and Consolidate Chapter 26 of the Revised Statutes, 1954, the Bonus Act pp. 6-7.

the economic base of the area, a joint Federal-Provincial Crown Corporation called the Cape Breton Development Corporation was formed in 1967.[7] It is funded by both levels of government, with the larger portion being supplied by the Federal Government.

The Corporation has two divisions. The Coal Division is responsible for the gradual phasing out of most of the mines and the modernization of the remainder to produce at an economic cost. The Industrial Development Division is responsible, along with other Federal and Provincial departments and agencies, for the "financing and development of industry on the Island of Cape Breton to provide employment outside the coal producing industry and to broaden the base of the economy of the Island".[8]

In financing new industrial plants, DEVCO first approaches the various sources of term capital such as the Industrial Development Bank, the Industrial Loan Board, Industrial Estates Limited or RoyNat. It also uses its own resources to provide additional assistance such as serviced industrial parks and supplementary grants to cover break-in expenses for firms moving into the area. Assistance with term financing has also been arranged for companies that did not fit the programs of other lenders. In some cases DEVCO is prepared to take an equity position in a project.

ONTARIO

The province of Ontario, with a third of Canada's population,

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[7]Canada, Laws, Statutes, etc., Cape Breton Development Corporation Act, 1967, 16 Elizabeth II, ch. 6.

[8]*Ibid.*, p. 62.

accounts for over half of the manufacturing shipments in Canada. Most of this population and manufacturing capability is concentrated in the southern and south-western parts of the province. With mounting pleas for assistance from the northern and eastern regions, the provincial government recently introduced measures to assist in the financing of industrial plants.

Previous efforts in industrial development by the Department of Trade and Development were confined to assistance with plant location, manufacturing arrangements such as licensing, joint ventures with existing manufacturers, exhibitions and trade missions, market studies and the maintenance of up-to-date municipal data. In addition, a small group called the Ontario Development Agency was formed in 1962. This agency provided counselling for small businessmen to head off problems in manufacturing, marketing or finance. It was also able to guarantee loans made by chartered banks for working capital.

ONTARIO DEVELOPMENT CORPORATION (ODC)

In 1966 the Ontario Development Agency was replaced by a Crown Corporation, the Ontario Development Corporation[9], with authority to encourage and assist in the development and diversification of industry in Ontario by direct loans, guarantees of loans or the purchase of shares or other securities. ODC can borrow money by the sale of debt instruments or by bank loans which are guaranteed by the province. The province may

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[9] Ontario Department of Trade and Development, Ontario Industrial Review, 1967 (Toronto, Ont.: Information Services, Department of Trade and Development, 1968), p. 36.

purchase the shares and debt instruments of the Corporation and make advances to the Corporation.[10]

In 1967 after studying the effects of the Federal Area Development program, particularly in the Georgian Bay area of Ontario, the provincial government introduced its Program for the Equalization of Industrial Opportunity in Ontario. This program is similar in many ways to the Federal program, but has some interesting variations.

The schedule of benefits is similar to that of ADA with grants, based on one-third of the capital costs to $250,000 and one-fourth of the balance, to a maximum grant of $500,000. These grants are considered as "forgiveable loans", with one-tenth of the loan to be forgiven at the end of each year for five years and the balance forgiven at the end of the sixth year.

Ontario claims that its method has two advantages over ADA grants. First mortgage security can be taken on the facility during the six year period, whereas ADA has a three-year control period during which it can demand repayment of grants. ADA does not have mortgage security. In treating ODC advances as loans with mortgage security, progress payments can be made. ADA will only pay the first installment of its grant after the plant is completed and in commercial production. This often causes the company to seek additional loans for "bridge" financing.

One disadvantage of the ODC program compared to that of ADA is that the grant from the province does not qualify for special capital

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[10]Hopkinson, "Government Financial Assistance", p. 11.

cost allowances for Federal income tax purposes. For some companies this could offset as much as half of the value of the grant.

Originally, the ODC program was intended to encourage the establishment of industry in the more remote areas of the province. However, there are now communities designated in every part of the province. The maximum benefit of $500,000 is reduced to $250,000 for plants locating very close to the major centres such as Toronto. Supplementary term financing is also available from ODC, if required.

Ontario does not encourage industry with offers of free land or reduced taxes. The Ontario Municipal Board will not allow a community to sell land at a price which is lower than the total of its cost of acquisition plus the cost of installing services. It also insists that all property owners must pay taxes based on the assessed value of the land and buildings with no reduction in the mill rate.

BRITISH COLUMBIA

The province of British Columbia is the only Canadian province with no separate development agency. The British Columbia Department of Industrial Development, Trade and Commerce confines its activities to "the encouragement of industry, the development of trade and the collection and publication of statistics".[11]

Unlike some of the other provinces which offer elaborate incentive plans, British Columbia is richly endowed with natural resources. The government has apparently chosen to rely on the development of resources

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[11]British Columbia, Department of Industrial Development, Trade and Commerce, Establishing a Business in British Columbia (Victoria, B.C.: Department of Industrial Development, Trade and Commerce, 1968), p. 37.

such as timber, water, hydro electric power, petroleum, iron, coal, gold and base metals which will, in turn, generate additional secondary industry. Special attention has also been given to transportation, i.e., new highways, railways, port facilities and ocean ferry service.

In the words of Premier W.A.C. Bennett, "Secondary industry is expanding here at a good rate .... More companies have been formed since 1952 than in all the years before that date, but we don't want in British Columbia any 'hothouse' industries. All other provinces give tax concessions to industry but we will not. We want only those industries that can stand on their own feet, because if you have to help them to get started, they will likely be in trouble forever".[12]

It is interesting to note that the Okanagan Valley of British Columbia, an area designated for Federal ADA benefits, has made a significant contribution to the growth in secondary manufacturing in the province since 1965. Prior to designation, this area depended heavily on seasonal industries such as tourism and fruit production. It now has industries manufacturing products such as aircraft components, glass containers, travel trailers and distilled beverages.

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[12] The Montreal Gazette "73 Annual Business Review and Forecast", January 4, 1969, quoting excerpts from an exclusive interview with Premier W.A.C. Bennett, conducted by George MacKinnon, for Executive Magazine.

PART II

UNITED STATES SOURCES OF INDUSTRIAL DEVELOPMENT FINANCING

CHAPTER IV

PRIVATE SOURCES

BANKS

The banking system in the United States varies from state to state since banks can be chartered by both Federal and State Governments. It is basically a system of local banks with only a few of the larger banks such as the California based Bank of America providing a branch bank system.

Generally speaking, U.S. banks are free to engage in trusteeship activities. They can take mortgages on land, buildings and fixed equipment. "No loan for a specific customer can exceed 15 per cent of the paid-in capital of a state chartered bank or 10 per cent of national banks. Moreover, as a general rule, a bank cannot lend more than two-thirds of the value of the real estate unless a long term lease is given as security".[1]

Many banks are small, with less than $10,000,000 in deposits. Quite often state laws restrict the banks territorially.[2]. However, these difficulties can be overcome by the custom of large banks teaming up with a smaller one for a project in the small bank's area. Usually, the banks prefer not to become involved in financing equipment. They prefer to

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[1]Alan B. Lechner, Industrial Aid Financing (New York: Goodbody & Company, 1969), p. 24.

[2]Advisory Commission on Intergovernmental Relations, Report of the Commission, Industrial Development Board Financing (Washington: The Advisory Commission on Intergovernmental Relations, 1963), p. 39.

confine their loans to land and buildings, secured by a first mortgage.[3] They also participate in term lending through local development corporations or development credit corporations which secure funds from a number of financial institutions, thus lessening the risk for each of the participants.

INSURANCE COMPANIES

Insurance companies in the United States follow the pattern of the banks in providing industrial loans. Investment laws for insurance companies vary from state to state and the companies are obliged to operate according to the laws of the state in which each project is located.

> In some states the regulations provide greater leeway in the handling of surplus funds than reserve funds. In general the statutes provide insurance companies with considerable latitude providing the applicant can show proven earnings and a strong financial structure. Although this tends to militate against a new venture, insurance companies do not reject new ventures forthwith, but examine them on the same standards as old ventures.[4]

Insurance companies should be able to dispose of the assets if a venture should fail. For this reason, they usually insist on having a first mortgage on the assets. When working with local, state or Federal agencies, an insurance company would take the first mortgage with the other agencies getting second or third level security. For example, an insurance company might provide a 90 per cent mortgage, guaranteed by a state industrial building authority with the balance supplied by a State Industrial Development Corporation.

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[3] Robert M. Sparks, "Industrial Financing - Why and How", American Industrial Development Council, Inc. Professional Notes, IDX No.1-44 (Boston: American Industrial Development Council), p. 114.

[4] Ibid., pp. 4-5.

Second or third level financing can be provided indirectly when insurance companies lend money to other agencies such as a State Industrial Development Corporation. The companies have also contributed to industrial financing through large purchases of industrial development bonds.

CHAPTER V

FEDERAL SOURCES

SMALL BUSINESS ADMINISTRATION (SBA)[1]

The Small Business Administration is an agency of the Federal government which can make or guarantee loans to small business concerns, including manufacturers. To qualify as a small business, the firm should not employ more than 250 people, have total assets in excess of $5,000,000 nor have a net worth over $2,500,000. The company's average net income over the previous two years whould be less than $250,000 without the benefit of tax carry forward.[2]

SBA makes several types of loans including business loans, disaster loans, State development company loans (501 program) and local development company loans (502 program). It will also guarantee loans, made by others, for approved projects.

THE 501 PROGRAM[3]

SBA lends money to State Development Companies for use in supplying long term loans and equity capital to small firms. The SBA may loan to a State Development Company as much as the company's total outstanding

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[1]Small Business Administration, Annual Report, 1967 (Washington, D.C.: Government Printing Office, 1968), p. 24.

[2]Kentucky Department of Commerce, Industrial Financing in Kentucky (Frankfort, Kentucky: Kentucky Department of Commerce, 1968), p. 16.

[3]SBA Office of Publications, Small Business Administration, What It Is, What It Does (Washington, D.C.: Government Printing Office, 1968), p. 7.

borrowings from all other sources. Such loans may be for as long as twenty years.

THE 502 PROGRAM[4]

This program offers the community an opportunity to establish industrial parks, downtown renewal and shopping centres, as well as to give aid to small businesses. Twenty-five or more citizens may form a Local Development Corporation (LDC), either as a profit or a non-profit corporation.

SBA may lend up to $350,000. to a Local Development Corporation, for each small business to be aided, for up to twenty-five years, at five and one-half per cent interest. If a participating bank will charge a lower rate, SBA will match it to a minimum of 5 per cent. The Agency may also participate with banks, insurance companies, pension fund groups, and other agencies, authorities and commissions on development loans. Funds may be used for plant construction, expansion, modernization or conversion including the purchase of land, buildings, equipment and machinery.

GUARANTEE PLAN[5]

Under this plan the lending institution makes the loan to the applicant under a guarantee agreement with SBA. The agreement guarantees up to 90 per cent of the outstanding balance of the loan or $350,000 , whichever is less.

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[4] Ibid., p. 7.

[5] Kentucky Department of Commerce, Industrial Financing in Kentucky, p. 17.

FIRST MORTGAGE PLAN[6]

Under this plan the lending institution makes a loan equal to or exceeding the required percentage of the assets to be acquired. The lending institution obtains a first lien position on the collateral with SBA taking a second lien position. A schedule indicating the percentage necessary for the lending institution to acquire a first lien position is shown in Appendix III.

IMMEDIATE PARTICIPATION[7]

Under this plan either the lending institution or the SBA makes the loan and the other, upon disbursement, purchases an agreed percentage of the loan. The collateral secures the interest of both parties. The maximum participation by SBA in an immediate participation loan is $150,000.

SMALL BUSINESS INVESTMENT COMPANIES (SBIC)[8]

The Small Business Administration also helps to finance small businesses through Small Business Investment Companies. Under this program, state corporations are licensed by SBA to invest federally loaned funds to aid industries in the particular state. The SBIC invests equity capital in businesses and usually obtains one-half of its funds from SBA loans at 5 per cent over a maximum fifteen year period.

According to one authority the SBIC's have not been successful in stimulating industrial financing at the local level:

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[6]*Ibid.*, p. 17.

[7]*Ibid.*, p. 18.

[8]SBA Office of Publications, *Small Business Administration, What It Is, What It Does*, pp. 11-12.

The early pioneers in the field soon found that the minimum capitalization of $150,000 SBA with $150,000 local funds were insufficient to make a significant contribution to financing at the local level, and more important, at most local levels there were not enough applicants that could be reasonably helped by SBIC. The result was that most SBIC's became public, raising funds through sale of stock and broadening their horizon by looking for loan applications from all over the country rather than the local area that they were set up to help.[9]

The interest rate for loans from an SBIC may be as high as 12 per cent. However, in most cases the SBIC takes debentures in the company with the option to convert them into stock at a specified price. The average rate of return has been closer to 7 or 8 per cent per annum. The higher rates of return are designed to offset the losses that the SBIC expects from its investment operations.[10]

ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)[11]

The Public Works and Economic Development Act of 1965 authorized loans for industrial and commercial projects in designated redevelopment areas. The Act designated the U.S. Department of Commerce to administer the program through its Economic Development Administration (EDA). EDA-designated counties are eligible for loans for the purposes of this Act. The underlying principle of the Act is to stimulate the creation of additional long-term employment. Loans may be made to both private and public applicants; however, loans cannot be made for the relocation of an established firm from one area to another.

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[9] Adolph T. Schmidt, "Local Facilities Financing and a Comparison of Financing Plans", a lecture presented to Second Year Students, Industrial Development Institute, University of Oklahoma, August 12, 1968, p. 9.

[10] Lechner, Industrial Aid Financing, p. 22.

[11] Kentucky Department of Commerce, Industrial Financing in Kentucky, pp. 15-16. (The summary of EDA assistance is taken from this publication, which provides an excellent resumé of the Federal programs as well as those available from the State of Kentucky).

Business loans from EDA are long-term loans, not exceeding twenty-five years, at a relatively low interest rate, approximately five and one-half per cent. When projects qualify for EDA assistance, loans may be granted for up to 65 per cent of the aggregate cost of land, buildings, machinery and equipment for industrial or commercial plants. The remaining 35 per cent of the aggregate cost must be supplied by other sources, in accordance with the following restrictions:

1. Not less than 15 per cent of the aggregate cost must be supplied as equity capital or as a loan subordinated in lien position to the EDA share, and be repayable in no shorter period of time and at no faster an amortization rate than the EDA loan.

2. At least one-third of the 15 per cent equity capital or subordinate loan requirement must be supplied by the state, local government, or by a community or area organization which is non-government in character.

To stimulate investment by private lenders, EDA encourages the applicant to borrow as much of the project cost as possible from private lending institutions. Such loans may be repaid before the Federal loan and may be secured by a lien having precedence over the Federal lien. EDA may also provide a guarantee of working capital requirements up to 90 per cent of a project's outstanding balance. Guarantees are made to private lending institutions in order to encourage their participation with EDA for any portion of a loan except the 15 per cent equity capital or subordinate loan requirement.

CHAPTER VI

STATE FINANCIAL ASSISTANCE PROGRAMS

The assistance provided by the various states differs widely. Many of the programs began because of circumstances which existed in a particular state at a particular time.

> For example, State Bonds, Mississippi, 1936, as an integral part of their "Balance Agriculture With Industry" program; state-wide credit corporation, Maine 1949, to supply loans for industry that were beyond the capacity of banks; Industrial Park Authority, New Hampshire, 1955, to help finance industrial parks and speculative buildings; direct loans to industry, Pennsylvania 1956, to supply second mortgage money for new construction; guaranteed mortgage loans, Maine 1957, to finance new plants because local foundation money was drying up...[1]

If a program proved successful, neighbouring states soon adopted similar programs. As a result, many programs have been enacted but used very little or not at all. It will not be possible to discuss all the state programs or the combinations of local, state and Federal programs which have been developed. However, a few of the main types will be discussed, along with a discussion of the approach taken by three states.

DIRECT STATE LOANS

Fourteen states have direct loan programs for industrial development.[2] Among the early states in the field were Pennsylvania, New Hampshire

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[1]Schmidt, "Local Facilities Financing", p. 3.

[2]Linda Liston, "The 50 Legislative Climates Come Under Fire", Industrial Development (November/December 1968), p. 17. (Chart included as Appendix IV lists financial assistance by states).

Oklahoma and Kentucky.[3] More recent entries have been New York and Ohio. Capital for these loans is normally provided from general fund appropriations or state bond issues. The state authority participates with local development corporations, banks and other financial institutions. The state funds are usually made available at a low rate of interest that reflects the rate the state must pay when borrowing funds on a tax exempt basis. One of the most active authorities has been the Pennsylvania Industrial Development Authority (PIDA) which will be discussed in Chapter VII. Competition between states with direct loans can lead to the setting of artificially low rates of interest and the ultimate step of outright capital grants.

STATE GUARANTEE OF MORTGAGES

Under this program, an Industrial Building Authority provides loan insurance for industrial plants up to 90 per cent of the value of the land, buildings and in some cases the machinery and equipment. The loan is placed with a private lender such as a bank or insurance company. To back the loan, the state pledges its full faith and credit and usually provides a reserve fund for claims in case of a default.

The remaining 10 per cent is usually financed by a local non-profit corporation which owns and leases the building for a term sufficient to amortize the first mortgage loan. Usually the tenant may make arrangements to purchase the building at a nominal cost at the end of the loan period.[4] The cost of the insurance is borne mainly by the borrower and is reflected

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[3] "New War Between the States", New England Business Review, (December, 1963), p. 3.

[4] Schmidt, "Local Facilities Financing", p. 7.

in an interest rate which is usually about 1 per cent above conventional mortgage rates.

This method was pioneered in New England by the states of Maine and Rhode Island. It is now reported to be in use by nine states (Appendix IV). With the state guarantee, a commercial bank or institutional lender is able to provide mortgage funds in excess of the normal limits. It is also easier to resell the mortgages.

TAX CONCESSIONS

Perhaps the oldest incentive offered to attract industry is the tax concession. This normally takes the form of exemption from property taxes on a new plant for a specified period, usually five to ten years. Some states such as Maryland, exempt manufacturers from state taxes on machinery and equipment. Tax incentives of various kinds are now offered by twenty-one states.[5] In states where this incentive is not authorized, it is often arranged by assessing the new plants at an artificially low rate for tax purposes.

Another form of tax exemption which is available in thirty-eight states is "free-port legislation" which provides tax exemptions on some or all goods stored within the affected state.[6]

STATE INDUSTRIAL DEVELOPMENT CORPORATIONS (SIDC)[7]

State Industrial Development Corporations have also been known as

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[5] Liston, "The 50 Legislative Climates", p. 18. (Chart included as Appendix V lists tax incentives by states).

[6] Ibid.

[7] "The War Between the States", New England Business Review, (October 1963), pp. 3-5. (This article provides an excellent summary of the early growth of SIDC's).

Business Development Corporations (BDC). The first organization of this type was started in Maine in 1949. They are now authorized in thirty-eight states and being used in thirty-seven (Appendix IV).

The SIDC sells stock to that part of the business community which is interested in economic development and content to receive only token dividends on the investment. It can then borrow up to a certain multiple (usually ten) of its issued stock and surplus from member institutions such as banks, savings and loan associations and insurance companies. This borrowing is usually done at the prime rate of interest on unsecured commercial loans plus one-half of 1 per cent. The SIDC usually requires that the applicant company be turned down by a commercial lender before granting a loan.

A typical SIDC is designed to spur industrial development within a state rather than to make a profit. It differs from the federally assisted Small Business Investment Corporation (SBIC) which purchases equities or debentures and hopes for capital gains.

An SIDC often joins with a Local Development Corporation (LDC) in financing a project. Another approach is to work with an industrial building authority which can arrange a state insured 90 per cent first mortgage loan through a bank or insurance company. The SIDC would provide the remaining 10 per cent as part of a 100 per cent financing plan.

LOCAL DEVELOPMENT CORPORATION (LDC)[8]

The Local Development Corporation is a grass roots organization of

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[8]LDC's are also called Local Industrial Development Corporations (LIDC) by certain authorities. e.g. Alan B. Lechner, Industrial Aid Financing and John M. Nash, Industrial Aid Financing Supplement.

local businessmen who have formed a profit or non-profit corporation to promote and finance industrial development in a particular community. Money is raised privately through various means such as stock issues, bond issues, loans and donations. In some cases a Chamber of Commerce or municipal government may provide funds. There are now over 3,000 LDC's in the United States, many of which are quite active.[9]

Usually the amount of money raised within the community is not sufficient to finance a prospective industry. As a result, it is often necessary to combine with other sources. We have discussed the use of LDC's with the 502 Program of the Small Business Administration. Other combinations can be arranged with private, semi-private or public sources of equity and debt capital such as commercial banks, SIDC's or EDA.

Normally, the LDC provides funds to purchase a site and build a facility for a particular client under a lease-purchase agreement. However, some corporations have engaged in site preparation, training of personnel, installation of utilities, or other services to attract a company to an area. "It is ironic that the smaller, more economically depressed communities ... often find themselves at a disadvantage when attempting to compete with more developed areas in the amount of 'extras' they can offer companies."[10]

INDUSTRIAL DEVELOPMENT BONDS

The growth of industrial development bond financing in the United States is one of the most exciting stories in the field of industrial finance. Many excellent articles, reports, theses and books have been

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[9] John M. Nash, Industrial Aid Financing Supplement (New York: Goodbody & Co., 1969), pp. 89-90.

[10] Ibid., p. 90.

written on the subject and more are bound to appear following the recent decision by Congress to limit the tax-exempt feature of these bonds.[11] For the benefit of Canadian readers, who have not been exposed to this unique method of financing, and others who may not be familiar with the details of the controversy, a review of the history of industrial development bond financing and outline a few of the main features is included.

Industrial Development bonds may be issued by a state or by a community. The primary purpose is to attract new industry by using the proceeds of the bond issue to purchase a site, to build and often to equip a manufacturing plant to a company's specifications. The plant is then leased to the company for a period of time at a cost sufficient to cover the principal and interest on the bonds.

Federal laws grant state and local governments the right to issue tax exempt bonds. That is to say the interest from such issues would be free from Federal income tax. The original use of tax exempt bonds was to encourage the financing of public facilities such as schools, hospitals, roads, sewers and water systems. By extending this use to the construction of industrial plants, the state and local governments have used the Federal tax exemption to entice industry.

With the exemption, a person or firm in the 50 per cent tax bracket can receive the same income from the interest of a 5 per cent industrial development bond as from a 10 per cent corporate bond after taxes. As a result, it has been possible to sell these issues at a rate of interest

[11] See Lechner, Industrial Aid Financing; Nash, Industrial Aid Financing Supplement; Advisory Commission on Intergovernmental Relations, A Commission Report, Industrial Bond Financing.

well below corporate bonds. This saving is reflected in the rent paid by the lessee. The lease charges are also deductible as an expense for the company.

Another advantage for the company can be the savings in municipal or state "ad valorem" taxes. When the facility is owned by a municipality or state it is exempt from such taxes. However, many leases include provision for payments in lieu of taxes. Some states insist that these payments be included in the lease agreement.

The first industrial development bond was issued in the State of Mississippi in 1936. Mississippi had been dependent upon agriculture, particularly cotton, as its primary industry. The depression brought a sharp decline in the price of cotton and other areas such as California were creating competition, using more modern techniques. With no large financial institutions or private resources to finance industry, the state enacted the Balance Agriculture with Industry Program (BAWI) in 1936, making industrial aid financing available to all Mississippi communities. The first issue, for $85,000 , covered the cost of constructing a hosiery mill in Durant, Mississippi for the Realsilk Hosiery Mills.[12]

Mississippi was the only state with this type of legislation for about twelve years. Then Kentucky followed suit in 1948 and Alabama in 1949. Eleven more states joined-in during the 1950's and now there are a total of forty-five states with this type of legislation. Only California, Florida, Idaho, New Jersey and North Carolina have no provisions for this type of financing. However, several states have not

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[12]Lechner, Industrial Aid Financing, p. 2.

used the legislation. An example is the state of Illinois, which will be discussed in Chapter VII.

Even in states which have not authorized their use, bonds have been issued and have received the same exemption from Federal tax based on the 1963 ruling (63-20) of the Internal Revenue Service that non-profit corporations may, under certain conditions, issue tax-exempt industrial bonds.[13] This ruling has been used for companies in North Carolina, Arizona and Florida, where the bonds are not authorized by the state. In effect, using the IRS 63-20 ruling, they can now be used in any state.

There are two basic types of industrial development bonds. The Durant, Mississippi, issue used general obligation bonds, based on the full faith and credit of the issuing jurisdiction. With such a guarantee, it is easier to sell the issue, particularly for a firm which does not have a well established credit rating. However, the primary limitation on this type of bond is that most states restrict the amount of local bonded debt to a percentage of the total property assessment. For many small communities, once the plan has been used for one facility it cannot be used again. At the same time, the community may use its total capacity for municipal bonds when other projects such as roads or schools may require additional borrowing.

For these and other reasons, revenue bonds have emerged as the most popular type. These bonds are backed only by the revenue generated by

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[13] Ibid., pp. 18-19.

the project. Previous to 1948, when they were introduced by Kentucky for industrial facilities, revenue bonds had been used for toll roads or bridges, sewerage or water works projects where the revenue from tolls or special taxes would meet the bond payments.

When revenue bonds are used there is generally a disclaimer of any financial obligation on the part of the issuing municipality.

> In effect, the owner of an industrial revenue bond does not look at the credit of the issuing municipality, but rather to the financial strength of the lessee corporation and the manner in which provision of payment of rentals is made in the lease agreement. This has led to some unusual situations, such as the issuance of $50,000,000. in bonds by the City of Lewisport, Kentucky to finance a facility to be leased to the Harvey Aluminum Company. Lewisport has a total population of only 610 ....[14]

As more and more states entered the race and the bond issues grew larger and larger, opposition to revenue bonds grew more vocal. It will not be possible to mention all the arguments for and against these bonds. However, a few of the larger issues should be mentioned.

The growth of industrial bonds has had an effect on the market for other municipal issues.

> Industrial expansion was proceeding at a lower financing cost to our major companies, but that lower cost had become an added burden to every city that wanted to finance its schools, its police and fire departments and its water and sewage facilities. And so, every time a major industrial company shaved a couple of points off its financing costs, some city was shaving some policemen or teachers off its rolls. It was becoming clear that the municipal bond market could not handle the enormous expansion of State and local bond issues that was occurring under the explosive use of industrial development bonds.[15]

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[14]Robert G. Lovell, address to a meeting of Industrial Development Representatives, Aurora, Illinois, April 24, 1968.

[15]Nash, Industrial Aid Financing Supplement, p. 118. (Quoting an address given by Honourable Stanley S. Surrey, Assistant Secretary of the Treasury, June 13, 1968).

Another complaint has been the practice of "double dipping", where a company may lease a plant at rates based on the tax exempt bonds and then purchase the bonds to benefit from their tax-exempt status.[16] Proponents and opponents of revenue bonds agree that this practice should be outlawed.

The controversy reached the critical point during 1968 when tax-exempt bond sales went to $1.8 billion, up over one thousand per cent from the 1956 figure of $1.5 million.[17] In late March the Internal Revenue Service published proposed regulations stating that industrial development bonds would no longer be considered obligations of the state and local governments. The result would have been that interest on the bonds could be taxed. Congress and the Senate reacted to this move, feeling that the IRS was trying to legislate taxes. Two amendments were added to the Excise Tax Extension Bill which provided (1) that until the law could be changed by legislative process, the interest on ID bonds would remain tax exempt; (2) that the bonds would remain tax exempt until January 1, 1969 and that certain facilities, including sports and convention facilities and some transportation facilities could retain their tax exempt status.[18]

A House-Senate Committee of Conference then ironed-out some of the differences and eased some of the restrictions. It defined industrial development bonds as those issues which are to be used in a trade or

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[16]Advisory Commission on Intergovernmental Relations, A Commission Report, Industrial Development Bond Financing, pp. 13-14.

[17]"Battle Brews over Tax-Exempts," Business Week (December 28, 1968), p. 66.

[18]The chronology of events during 1968 is taken largely from Linda Liston, "The 50 Legislative Climates Come Under Fire," Industrial Development (November/December, 1968), pp. 15-22.

business by a taxable person (someone other than a governmental unit or tax exempt religious, charitable or educational organization) and issues which are secured by an interest in property used in trade or business. The law retained the tax-exampt status of bonds issued for state and local governments for projects such as convention facilities, transportation facilities, public works or utilities projects. Bonds for industrial parks also remained tax exempt.

The most important exception was the retention of the tax exemption for bonds which are part of an issue of $1,000,000 or less. In October, 1968, following a concerted effort by a group of state development officials and congressmen, the limit for exemption was increased to $5,000,000 for certain issues. The compromise measure was passed as a rider to bill HR 17324. The $1,000,000 limit of the Revenue and Expenditure Control Act is retained; however an issuing authority can choose to use the $5,000,000 limit, provided that the total capital expenditures on the facilities in the community for three years before and after the issue do not exceed $5,000,000. This would include expenditures from private sources.

The reason for including the three-year period before and after the issue is to prevent the larger companies from using the tax-exempt bonds to <u>partially</u> finance larger facilities and then proceed with further expansions usihg other sources of funds. Opponents of the measure point out that a smaller plant, which proves very successful, would also be restricted from further expansion during the control period, since the bonds sold previously would no longer be tax-exempt.

The battle continues, with the proponents of industrial development bonds lobbying for a further increase in the ceiling. The effect has been greatest in the southern states, which have led the field in both the number and amount of issues. In these states, as in many northern states which had only recently enacted enabling legislation, development officials are working on alternative plans to soften the impact. These plans will probably inolude greater use of direct state loans, state loan guarantees, SIDCs and Federal agencies such as SBA and EDA.

CHAPTER VII

STATE FINANCIAL ASSISTANCE

THREE EXAMPLES

KENTUCKY

The Commonwealth of Kentucky is an excellent example of a southern state that has used almost every possible device to attract industry. It was the first state to use revenue bonds for industrial development with an issue in 1948. Its Department of Commerce has a well organized program to encourage industrial development with financing "packages" composed of the most appropriate sources of funds.

KENTUCKY INDUSTRIAL DEVELOPMENT FINANCE AUTHORITY (KIDFA)[1]

The Kentucky Industrial Development Finance Authority was established in 1958 as a state agency to promote and develop industrial and manufacturing enterprises in local communities. It is modelled after the Pennsylvania second mortgage loan program but it is not restricted to depressed areas. Any non-profit local development agency (LDC) may apply for a loan for a specific industrial building or subdivision, either existing or planned, if it is unable to secure funds from conventional sources at going interest rates.

For industrial buildings, the Authority may loan up to 40 per cent of the project, providing that the local agency puts up at least 10 per cent and arranges for 50 per cent from conventional sources. For

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[1]Kentucky Department of Commerce, Industrial Financing, p. 10

industrial subdivisions, the Authority may loan up to 50 per cent, providing that the local agency has funds or commitments for the balance.

During 1968 loans were made for periods up to twenty-five years at interest rates of five and one-half per cent for industrial buildings and 6 per cent for industrial subdivisions. KIDFA may participate in first mortgage loans with local finance institutions or Federal agencies. It may also make loans secured by second mortgages and lease assignments.

BUSINESS DEVELOPMENT CORPORATION (BDC)[2]

The Business Development Corporation of Kentucky was incorporated in 1960 under provisions of an act of the Kentucky General Assembly of the same year. BDC is an example of a State Industrial Development Corporation (SIDC) or Statewide Development Credit Corporation (DCC) discussed in Chapter VI.

BDC will make loans to companies for new businesses, expansions and modernizations, but not to refinance existing debts. Security can be in the form of a first or second mortgage on real estate and/or chattels. The loans are usually for periods of twelve years or under at interest rates of 7 per cent or higher.

In 1966 General Assembly passed legislation enabling BDC to participate jointly with KIDFA to finance projects for applications other than LDC's. This is helpful since BDC can finance machinery and equipment while KIDFA is limited to financing land and buildings.

LOCAL INDUSTRIAL DEVELOPMENT CORPORATIONS (LDC)[3]

Local Industrial Development Corporations are encouraged in Kentucky.

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[2]Ibid., pp. 11-12.

[3]Ibid., p. 13.

They can provide private funds from local sources to assist in financing a project. Their most important contribution however is the control and development of industrial sites. They also identify the community with the project through their participation and encouragement. There were 142 LDCs in Kentucky during 1968.

STATE GUARANTEE OF MORTGAGES[4]

Kentucky does not provide mortgage guarantees for loans provided by banks or other institutional lenders. This assistance may be secured from EDA or SBA under certain conditions.

TAX CONCESSIONS

The legislative body of any city may, by ordinance, exempt manufacturing plants from city taxes for a period not exceeding five years as an inducement to locate in the city.[5] Kentucky has "free port" legislation providing tax exemption for goods in transit plus exemptions on manufacturers inventories and raw materials used in manufacturing.[6] New manufacturing equipment is exempt from state sales tax (Exhibit V).

INDUSTRIAL DEVELOPMENT BONDS

Kentucky has used revenue bond financing as its primary method of encouraging the construction or expansion of industrial parks. The state will permit any city or county the authority to issue negotiable revenue bonds for the purpose of defraying the cost of acquiring industrial sites and buildings, either by purchase or construction. An industrial building is defined to include the structure plus the required machinery and/or equipment.[7]

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[4]Ibid., p. 17.

[5]Lechner, Industrial Aid Financing, p. 83.

[6]Liston, "The Fifty Legislative Climates," p. 18.

[7]Kentucky Department of Commerce, Industrial Financing, p. 3.

Current issues have been for periods up to twenty-five years at interest rates varying from 5 per cent to just under the maximum allowable rate of 7 per cent. Kentucky has had 159 issues of industrial revenue bonds up to the end of 1968, having a total value of over $619,000,000 (See Table I). The number of issues increased most rapidly during the last five years while the average size of the issues increased dramatically during the last three years.

TABLE I

MUNICIPAL INDUSTRIAL REVENUE BOND ISSUES IN KENTUCKY, 1950-1968

Year	Number of Issues	Amount of Issues (000)	Interest Cost (Range)
1950	1	$ 300	2.565
1951	1	460	2.7244
1952	4	1,340	3.71 - 4.015
1955	2	770	3.75 - 4.00
1956	1	110	4.50
1957	1	180	4.75
1958	5	1,970	3.9804- 6.00
1959	5	10,400	4.00 - 5.99
1960	7	7,815	4.40 - 4.7396
1961	2	4,000	4.875 - 4.974
1962	10	10,183	2.50 - 5.5817
1963	8	53,595	3.5242- 5.00
1964	14	15,140	3.7444- 5.20
1965	20	20,065	3.485 - 6.00
1966	26	108,675	3.999 - 5.959
1967	30	160,792	4.50 - 6.00
1968	22	223,442	5.00 - 6.99
Total	159	$619,237	

Source: Kentucky Department of Commerce, Industrial Financing, p. 4. (plus letter, Jesse C. Dixon, Kentucky Department of Commerce, to R.E. Simpson, January 27, 1969, providing 1968 statistics).

General obligation bonds for industrial development may also be used by cities in Kentucky "under certain adverse economic conditions such as high unemployment and pursuant to a referendum".[8] This method has had only limited use, with a total of seven issues having a total value of less than $3,000,000.

The limitations imposed on tax exempt bond issues have created serious problems for Kentucky. In the words of James Coleman, director of the industrial development division of Kentucky's Chamber of Commerce, "It will just kill us. It absolutely will. It will cost us millions of dollars and thousands of jobs."[9] In the ten years up to 1967 revenue bond financing created over 27,000 new industrial jobs in Kentucky.[10]

PENNSYLVANIA

The Commonwealth of Pennsylvania represents a northern state that has steered a middle course in industrial development financing. It has not used a variety of approaches like Kentucky or avoided involvement financing like California. It is best known for the work of the Pennsylvania Industrial Development Authority which pioneered the "Pennsylvania Plan" for 100 per cent financing.

PENNSYLVANIA INDUSTRIAL DEVELOPMENT AUTHORITY (PIDA)

The Pennsylvania Industrial Development Authority was established in 1956 to promote the "health, safety, morals, right to gainful employment, business opportunities and general welfare of the inhabitants of Pennsylvania"[11]. It can finance manufacturing plants, distribution

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[8] Ibid., p. 9.

[9] "Lining Up to Battle Over Industrial Bonds", Business Week, (March 16, 1968), p. 136.

[10] "Congress Carves Tax Advantage off Industrial Development Bonds", Industrial Development, (July/August 1968), p. 29.

[11] Pennsylvania Department of Commerce, The Pennsylvania Development Authority Act, Preface, p. IV.

facilities, and research and development projects in labour surplus areas through second mortgage loans to LDCs for as long as twenty years with interest as low as 2 per cent. The method of financing is outlined in Table 2.

TABLE 2

METHOD OF FINANCING CONSTRUCTION COSTS USING PENNSYLVANIA PLAN

First mortgage loan obtained by local industrial development agency from banks, insurance companies or similar lending institutions.	50 %
Second mortgage loan from PIDA.	40 %
Subscribed by the community through its industrial development agency.	10 % *
Total financing; secured through local subscription and mortgage loans.	100 %

*In the case of research and development projects, PIDA will lend 45 per cent of the cost; the community subscribes 5 per cent.

Source: Pennsylvania Industrial Development Authority, 100% Financing for Your New Plant through Pennsylvania's Community State Building Programs (Harrisburg, Penn.: Pennsylvania Department of Commerce), p. 1.

The state defines its "critical economic areas" according to unemployment statistics over certain periods of time. The Authority will not provide assistance unless the LDC can provide "evidence that the establishment of the industrial development project will not cause the removal of an industrial or manufacturing plant or facility, or research and development facility, from one area of the Commonwealth to another ....[12]

[12]Pennsylvania Department of Commerce, The Pennsylvania Development Authority Act (Harrisburg, Penn.: Pennsylvania Department of Commerce, 1967), p. 15.

A 1965 amendment of the Pennsylvania Industrial Development Act[13] permits loans for:

(1) research and development facilities

(2) acquisition of existing buildings as part of an industrial park

(3) multiple tenancy building projects.

The PIDA program has been very successful. Up to the end of 1968, a total of 824 projects were approved. During 1968, the highest year to date, 142 loans were authorized committing $37,000,000. for projects that should employ 16,500 people with payrolls in excess of $100,000,000.[14]

STATE INDUSTRIAL DEVELOPMENT CORPORATIONS[15]

Statewide Industrial Development Corporations (SIDC) or Development Credit Corporations (DCC) are authorized in Pennsylvania.

LOCAL INDUSTRIAL DEVELOPMENT CORPORATIONS[16]

Local Development Corporations (LDC) are encouraged in Pennsylvania. They provide the local funds for projects involving PIDA or the Federal agencies.

STATE GUARANTEE OF MORTGAGES[17]

The Pennsylvania Industrial Mortgage Insurance Act of 1963, was cancelled in 1965. The state does not guarantee mortgages for industrial facilities.

TAX CONCESSIONS

Pennsylvania provides a range of tax incentives (Appendix V).

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[13] Ibid., p. 23.

[14] Pennsylvania Industrial Development Authority, Summary Report No. 26, Loan Activities 1956 - 1968, transmittal letter reproduced inside front cover.

[15] Lechner, Industrial Aid Financing, p. 96.

[16] Ibid., p. 97.

[17] Pennsylvania Department of Commerce, The Pennsylvania Development Authority Act (Appendix following p. 24 quoting Act 320).

INDUSTRIAL DEVELOPMENT BONDS[18]

The Industrial Revenue Bond and Mortgage Act of 1967 provides for the incorporation of industrial development authorities for municipalities, counties and townships. These authorities can issue revenue bonds and mortgages, the proceeds being used to finance the construction of new industrial projects of the expansion or renovation of existing facilities.

Industrial development projects have been defined as plants and machinery and equipment for manufacturing facilities, research and development enterprises, warehouse and terminal facilities, regional and national headquarter facilities. They do not include mercantile, commercial (including utilities) or retail enterprises.

The bond issues have the same requirement as PIDA financing, that no assistance will be given to a project that could cause the removal of a facility from one area of the Commonwealth to another.

All loans must be examined and approved by the Secretary of Commerce to assure the "non-removal" requirement, that the lease or purchase agreement is sufficient to amortize the loan, and that annual payments equal to ad valorem taxes will be made.

One difference of the Pennsylvania approach is the mortgage provision which allows funds to be provided by banks or financial institutions, backed by a mortgage against the facility. Interest on the mortgage payments would enjoy the same exemption from Federal income tax as the interest on revenue bonds.

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[18] Pennsylvania Department of Commerce, Industrial Development Authority Law, pp. 1-2.

The following quotation from the magazine Business Week sums up the reaction of officials in Pennsylvania to the Federal action in restricting the tax-exempt feature of revenue bonds.

> ...in signing the Pennsylvania bill, Governor Raymond P. Shafer admitted that it was simply a defensive action to maintain the state's "rightful place in the United States industrial scene."
>
> Says a spokesman for Pennsylvania's Regional Industrial Development Corp. "I think there are good reasons for eliminating industrial revenue bonds. If they are eliminated across the board, totally, effectively, nationally, then we don't need them. But as long as the name of the game is industrial revenue bonds, then we must have them".[19]

ILLINOIS

Illinois has been chosen as one of the states that, until very recently, has chosen not to provide assistance for industrial development through loans, guarantees or revenue bonds. Like many other heavily industrialized states, Illinois felt obliged to enact legislation for revenue bonds and for an industrial development authority in 1967. The Illinois Department of Business and Economic Development co-operates in providing information for industries concerning the industrial environment. It also can outline the assistance which is available from Federal programs such as SBA, EDA and the SBICs.

ILLINOIS INDUSTRIAL DEVELOPMENT AUTHORITY[20]

The Illinois Industrial Development Authority Act as amended in 1967 provided for the appointment of an authority. At that time, $1,000,000 was appropriated for this group. Since that time numerous proposals for assistance have been received but no test case has been

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[19] "Lining Up to Battle", Business Week (March 16, 1968), pp. 136-137.

[20] Conversation with Mr. Jay Tritelli, Supervisor of Industrial Development, Department of Business and Economic Development, State of Illinois, March 24, 1969.

presented to the Illinois Supreme Court. A change of administration has now introduced the requirement that the new Governor will need to reconstitute the authority and appoint new members. It is not possible at this time to determine what course will be taken.

STATE INDUSTRIAL DEVELOPMENT CORPORATIONS[21]

Privately owned SIDCs or DCCs are authorized in Illinois by the Illinois Development Credit Corporation Act of 1965. They are under the jurisdiction of the Illinois Department of Financial Institutions. Up to this date, no group has applied to the State for incorporation as an SIDC.

LOCAL INDUSTRIAL DEVELOPMENT CORPORATIONS[22]

LDCs are encouraged in Illinois. Legal authority for these groups is provided in separate statutes, one for those organized for profit and one for the non-profit groups.

STATE GUARANTEE OF MORTGAGES

Illinois does not provide mortgage guarantees for loans provided by banks or other institutional lenders (Appendix IV). This assistance may be secured mainly from SBA and from EDA in special areas.

TAX CONCESSIONS

Illinois limits its tax concessions to certain exemptions from corporate and personal income taxes, freeport legislation, and a tax exemption on raw materials used in manufacturing (Appendix V).

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[21] Illinois Department of Business and Economic Development, <u>Financing Industrial Development</u> (Springfield, Illinois: Illinois Department of Business and Economic Development, 1965), p. 10.

[22] <u>Ibid</u>., p. 9.

INDUSTRIAL DEVELOPMENT BONDS[23]

The first act to authorize industrial bonds was the Industrial Revenue Bond Act of 1951, which authorized municipalities to construct and equip industrial buildings. However, no commercial bond house would underwrite revenue bond issues until a test case had been presented to the Illinois Supreme Court to verify the constitutionality of the Act. When the first test case was presented to the Court in 1964, it ruled that, until a referendum was held, there was no controversy for a declaratory judgment.

> In an effort to bring this enabling legislation into focus, and make it workable, a new Industrial Building Revenue Bond Act was passed in 1967. The new act contains three major changes from the original Crissenberry Bill.
>
> 1. Expands issuing authority beyond municipalities to include counties, county airport authorities, and port districts.
>
> 2. Broadens definition of "industrial buildings" to include warehouses and distribution facilities and includes equipment and machinery.
>
> 3. Removes the public referendum requirement. The issuing authority can by majority vote authorize issuance of bonds. The right of public dissent is not restricted by this removal. Dissenters may petition for a court injunction to stop the authority from proceeding.[24]

No issues have been sold under the revised legislation to date. This would require another test case before the Illinois Supreme Court to establish the constitutionality of the new Act.

In spite of this, commercial tax-exempt bonds have been sold in Illinois by local not-for-profit development corporations, under the IRS

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[23] *Ibid.*, p. 11.

[24] Donald R. Pacey, Manager, Economic Development Department, Illinois State Chamber of Commerce, Memorandum to Economic Development Committee, (November 12, 1968), p. 2.

63-20 ruling. Information concerning the use of the IRS 63-20 ruling is available from the Illinois Department of Business and Economic Development.[25]

With a minimum of State intervention, Illinois has been able to increase its industrial growth each year. According to one senior State official, the greatest growth is from firms within Illinois who are satisfied with conditions and prepared to expand there. The following statistics for 1968 verify this conclusion.

TABLE 3

NEW PLANTS AND EXPANSIONS DURING 1968
STATE OF ILLINOIS

	Jobs Created	Capital Investment	No. of Plants
New Plants	12,623	$185,643,100*	191
Expansions	27,458	272,918,330	529
Total for 1968	40,081	$458,561,430	720

*Capital Investment figures are for land and buildings only.

Source: Conversation with Mr. Jay Tritelli, Supervisor of Industrial Development, Department of Business and Economic Development, State of Illinois, March 24, 1969.

[25]Illinois Department of Business and Economic Development, Revenue Bond Financing for Industry (Springfield, Illinois: Illinois Department of Business and Economic Development), pp. 1-7.

CHAPTER VIII

CONCLUSION

To make a valid comparison of the industrial financing arrangements available in Canada and the United States, it is necessary, first, to consider the industrial environment of the two countries.

The United States has the greatest industrial capacity of any world power, in technology, management skill and financial capability. Many of its larger corporations have production and marketing facilities located abroad. Canada has only one-tenth of the population of the United States, dispersed over a geographic area which is larger than continental U.S.A. With smaller domestic markets, separated by great distances, it has been necessary, in the past, for Canadian manufacturers to erect smaller plants and to produce a number of product lines in each plant. Under these circumstances it has been difficult to reduce unit costs with longer production runs and greater automation.

This picture is changing gradually as tariff barriers are relaxed and many of the larger industries, with United States head offices, decide to rationalize production on a geographic basis. An example of this trend is the Canada-U.S. Automotive Agreement which has increased production on both sides of the border. This has permitted greater specialization and longer plant runs in both countries.

As other industries follow the pattern of the automotive industry and create new, specialized manufacturing units to serve international markets, Canada has to compete with the generous packages of incentives being offered to industry by the United Kingdom, Western Europe and some of the emerging nations. Corporate decision makers often weigh the advantages of locating in several countries before making a decision concerning a plant location.

As a result of this situation, Canada has joined the group of nations providing the ultimate incentives of capital grants and tax incentives to stimulate industrial expansion. The Federal government through, the Area Development Incentives Act of 1965, offers cash grants plus accelerated capital cost allowances to attract industries to areas of slow growth. The new Department of Regional Economic Expansion will continue to use cash grants as the corner-stone of its program. However, it will also employ a variety of other measures such as guaranteed loans, term loans and assistance with local public works projects. In this way it will come closer to the approach of EDA and SBA in the United States.

Another reason for the greater dependence on government intervention in Canada has been the organization of the Canadian banking system. With the banks unable to engage in mortgage lending activities prior to 1967, industrialists looked to other sources of the financing, including the Federal and provincial governments.

The Canadian government filled the breach to a certain extent by creating the Industrial Development Bank. This organization has been effective in assisting small and medium sized industries, particularly in the more remote areas. The activities of the Canadian chartered banks using the Small Business Loans Act are of minimal importance for industrial expansion due to the low ceiling on loans which may qualify.

Most of the provincial governments have industrial development agencies to provide or to guarantee term loans for new or expanding industrial plants. The greatest concentration of provincial assistance is in the East with only the Western Province of British Columbia offering no financial incentives. The provincial agencies generally do not engage in the variety of approaches used by the state governments. However, two of the central provinces have followed the Federal government in providing cash grants.

In the United States there appears to be a greater emphasis on the free enterprise system and "grass roots" participation. The local banks are free to engage in mortgage lending, but are often restricted in the amount of funds they can devote to this purpose. This difficulty is overcome by the use of local groups such as LDC's to build and lease industrial plants. Perhaps this involvement may be attributed to the more active role of local Chambers of Commerce in the United States. Local participation is also encouraged by Federal and state sponsored organizations such as EDA, SBA, and state industrial development authorities. They usually insist that at least 10 per cent of the funds for any project be raised in the community and that a local group be responsible for building and leasing the facility.

The Federal programs in the United States offer a wide variety of assistance including direct loans, loans to state and local development corporations (often at low rates of interest), loan guarantees and assistance with public works projects. No capital grants have been offered by Federal government agencies in the United States.

The programs of the state governments are extremely diversified, depending upon the industrial development needs of each state. State assistance includes direct mortgage loans (sometimes at low rates of interest), mortgage guarantees, tax concessions, loans to SIDC's and LDC's and industrial development bonds. None of the states has offered capital grants. The greatest amount of assistance is available in the South-Eastern states, with some of the Northern and Western states joining in reluctantly to remain competitive.

The most significant difference between Canadian and U.S. practice involves the phenomenal growth of industrial development bond issues. The pattern of a local development corporation, authorized by a state development authority, using a Federal income tax exemption as its incentive to sell bonds to finance a plant to be leased to a private company, is a singularly American approach to industrial development.

Recent events such as the Federal curb on industrial development bond issues in the United States and the increase in interest rates in both countries are bound to affect the pattern of industrial development. However, we can be sure the industrial developers will continue to use imagination ahd ingenuity to offset these difficulties.

The states that have relied heavily on industrial development bonds will probably put greater emphasis on direct loan assistance and loan guarantees. Interest rates for industrial mortgages may be set below conventional rates by state or provincial development agencies. Other types of incentives such as transportation assistance, serviced industrial sites in urban renewal areas and manpower training may be featured instead of financial incentives. Ultimately the Federal and state governments in the United States may consider capital grants to attract industry to certain areas.

Professional industrial developers in both countries must continue to keep abreast of these developments as they occur and to adjust their programs accordingly. Flexibility and innovation will continue to be key factors in the challenging business of industrial development.

APPENDICES

Area Development Agency Incentives

I. Development Grant

A. A New Facility

The amount of the grant for a new manufacturing or processing facility is based on:
33 1/3% of the first $250,000 cost of new machinery, equipment and buildings, plus 25% of the next $750,000 of such costs, plus 20% of such costs thereafter, to a maximum of $5,000,000. per project.

B. An Expansion Facility

The amount of the grant for an expansion facility is based on the same rates except that the rates are applied to the cost of the expansion in excess of $10,000 or 10% of the value of the exisiting facility, whichever is the greater, to a maximum of $5,000,000 per project.

C. If it is necessary for a firm to make a capital contribution to a municipality for utilities or services such as water lines or sewage disposal facilities, such payments may be considered for inclusion in the eligible assets.

D. Payment of the grant is made in three instalments.

(1) 60% upon the commencement of commercial production.
(2) 20% one year later.
(3) 20% two years later.

E. Development grants are exempt from federal income tax and do not reduce the amount of capital cost which may be used for tax purposes.

F. Benefits are available to eligible firms in the designated areas whose projects were not committed prior to July 1, 1965. The plan continues until March 31, 1971.

II. Accelerated Capital Cost Allowances

A. Persons or firms who qualify for the development grants may be eligible for Accelerated Capital Cost Allowances on most of the assets which are eligible for the grant.

B. The depreciation rate allowed on most new industrial machinery and equipment is up to 50% per annum straight line instead of the normal 20% per annum on a diminishing balance.

C. The depreciation rate allowed on new buildings or significant extensions is up to 20% per annum straight line instead of the normal 5% or 10% per annum on a diminishing balance.

LOANS TO THE PRIVATE SECTOR AND TO DEVELOPMENT AGENCIES GUARANTEED BY

FIVE PROVINCIAL GOVERNMENTS

Amounts Outstanding: Millions of Dollars

	Manitoba	New Brunswick	New-foundland	Prince Edward Island	Sask-atche-wan	Total	Percent of Provincial Indirect Debt
1963	-	2.4	2.2	-	8.0	12.6	3.5
1964	-	2.8	3.2	-	7.2	13.2	3.0
1965	-	23.7	3.0	-	6.5	33.2	6.0
1966	2.1	23.8	8.4	4.0	5.8	44.1	6.6
1967	14.9	25.2	7.6	5.4	51.5	104.6	12.2

PERCENTAGES OF FIXED ASSETS

REQUIRED FOR LENDING INSTITUTIONS TO

ACQUIRE FIRST LIEN POSITION

UNDER SBA FIRST MORTGAGE PLAN

Size of Community	1st Lien Lender	2nd Lien SBA	Local Development Corporation
0 - 5,500	20%	70%	10%
5,501 -10,000	20%	65%	15%
10,001 -25,000	25%	55%	20%
25,001 -50,000	30%	50%	20%
50,001 or over	50%	40%	20%

Source: Kentucky Department of Commerce, Industry Financing, p. 18.

FINANCIAL ASSISTANCE FOR INDUSTRY

	State Sponsored Industrial Development Authority	Privately Sponsored Development Credit Corporation	State Authority or Agency Revenue Bond Financing	State Authority or Agency General Obligation Bond Financing	City and/or County Revenue Bond Financing	City and/or County General Obligation Bond Financing	State Loans for Building Construction	State Loans for Equipment, Machinery	City and/or County Loans For Building Construction	City and/or County Loans For Equipment, Machinery	State Loan Guarantees For Building Construction	State Loan Guarantees For Equipment, Machinery	City and/or County Loan Guarantees for Building Construction	City and/or County Loan Guarantees for Equipment, Machinery	State Financing Aid for Existing Plant Expansions	State Matching Funds For City and/or County Industrial Financing Programs	State Funds for City and/or County Development-Related Public Works	State Authorized to Issue Industrial Revenue Bonds Under IRS 63-20
Alabama	●				●	● 1									2		●	
Alaska	●	●	●	●	● 3	● 3	●	●							●		●	
Arizona		●			● *													
Arkansas	●	●			●	●					●	●						
California		* ● 4																
Colorado		●			●													
Connecticut	●	●		●		●	●	●			●	●			●	●	●	
Delaware	●	●	●	●											●		●	●
Florida	●	●																
Georgia					●													
Hawaii	● †	●			● †	● †	● 5	● 5			● 1	● †			● 5	● †	● †	●
Idaho		●																
Illinois		●			●												●	●
Indiana **	●	●	●	●	●	●					●	●					●	●
Iowa	●	●			●													
Kansas		●			●										2			
Kentucky	●	●			●	●	●	●							●		● 6	
Louisiana					●	●									2		●	●
Maine	●	●	●								●	●			●			
Maryland	●	●			●	●					●	●			●	● 7	●	
Massachusetts		●	● *		●											●	●	●
Michigan					●													●
Minnesota	●	●			●		● 8	● 8							●		●	
Mississippi	●	●			●	●									2			
Missouri		† ● 9			●	●												
Montana					●													
Nebraska	●	●			●										2			●
Nevada **					●													
New Hampshire	●	●	●				●				●	●			●		●	●
New Jersey	● 8	●																
New Mexico	● †		● †		●		● 1	● †	● †	● †							● †	● †
New York	●	●	●	●			●								●		●	
North Carolina	●	●	10															●
North Dakota		●		● 11	●	●												
Ohio	●	●	●		●		●	●	●	●	●	●			●		●	●
Oklahoma	●		●	●	●	●	●	●	●	●					●	●		
Oregon		●	● 12														● †	● †
Pennsylvania	●	●			●		●		●						●	●	●	
Rhode Island	●	●	●		●						●	●			●			
South Carolina	●				●			●	●	●							●	●
South Dakota	●	●			●												●	●
Tennessee		●			● 13	● 13									2			
Texas					● 14										●		●	●
Utah	●	●	●		●													●
Vermont	●	●			●		●	●			●	●			●			●
Virginia	●	●			●												● 6	●
Washington		●			●										2 †		●	
West Virginia	●				●		●	●							●			
Wisconsin					● 15	● 16			●	●							●	
Wyoming		●			●												●	
STATE TOTALS	30	38	13	7	39	15	13	11	6	5	10	10	0	0	24	8	25	19

*Indicates legislation was enacted in 1968 session.

**Indicates state did not respond to request for information. Data taken from a previous issue of Industrial Development.

†Indicates legislation previously reported to Industrial Development by state industrial development agency but not submitted in the state's current report of legislation.

1 Permitted only in specified municipalities.
2 State allows city or county to offer financial aid for existing plant expansions.
3 Permitted by the Anchorage Port Authority.
4 Non-profit Regional Job Development Corporations may be established in economically disadvantaged areas to provide loans to small businesses.
5—Capital loan revolving fund amounts to $250,000.
6—Applicable to industrial access roads.
7—In EDA-designated areas state may match local government participation.
8—Applicable in EDA-designated areas.
9- Legislation permits activity, but private development credit corporations not currently in operation.
10—The North Carolina Supreme Court ruled in 1968 that the issuance of revenue bonds for industrial purposes is unconstitutional.
11—North Dakota's Natural Resource Development Bond Act authorizes the state to issue obligation bonds to finance industrial projects that would convert natural resources to energy.
12—Responsibility is vested in Port Districts.
13—Also accomplished through local industrial development corporations.
14—Although enabling legislation was passed in 1967 to allow communities to issue industrial revenue bonds, voters defeated a constitutional amendment allowing revenue bond financing in November. Communities, however, can still issue tax exempt bonds under IRS Ruling 63-20.
15—County Industrial Development Corporations inactive in bond financing, pending favorable IRS ruling.
16—Authorized for purchase of industrial land.
17—Allows 15% reduction in assessed valuation on business inventories.

TAX INCENTIVES FOR INDUSTRY

State	Corporate Income Tax Exemption	Personal Income Tax Exemption	Excise Tax Exemption	Tax Exemption or Moratorium On Land, Capital Improvements	Tax Exemption or Moratorium On Equipment, Machinery	Inventory Tax Exemption On Goods In Transit (Freeport)	Tax Exemption on Manufacturers' Inventories	Sales/Use Tax Exemption On New Equipment	Tax Exemption on Raw Materials Used in Manufacturing	Tax Credits for Use Of Specified State Products	Tax Stabilization Agreements For Specified Industries	Tax Exemption to Encourage Research and Development	Accelerated Depreciation Of Industrial Equipment	State
Alabama				●	●		●		●					Alabama
Alaska	●	●	●	●	●	●	●	●	●				●	Alaska
Arizona						●	● †		●				●	Arizona
Arkansas						●		●	●					Arkansas
California							• ● 17	● 18						California
Colorado						● 21	● †		● †					Colorado
Connecticut	● 22					● 23	●	● 22	●					Connecticut
Delaware					● 24	● 24	● 24	● 25	● 24					Delaware
Florida						●		●						Florida
Georgia								●						Georgia
Hawaii	27 •		• ● 28		● †	● †	● †	† ● 29		† 30				Hawaii
Idaho						●	●	●	●				●	Idaho
Illinois	●	●				●			●					Illinois
Indiana **						●			●			●	●	Indiana
Iowa						●								Iowa
Kansas				● 31	● 31	●								Kansas
Kentucky				● 32	● 32	●	●	●	● 32				●	Kentucky
Louisiana	●			● 33	●	●			● 34	● 35			●	Louisiana
Maine	● 36	● 36	● 36			●			● 37					Maine
Maryland				● 38	● 39		38 ● 40	• ● 41	●			● 42		Maryland
Massachusetts					● 43	●		●	●					Massachusetts
Michigan	●	●			●	●		●	●					Michigan
Minnesota					● 45	● 23	● 45				● 46			Minnesota
Mississippi				●	●	●	●		●				● †	Mississippi
Missouri	●	● †			● †	●		●	●					Missouri
Montana		●		●	●	●								Montana
Nebraska						●	●		●					Nebraska
Nevada **	● 48	● 48				●								Nevada
New Hampshire	● 48	● 48												New Hampshire
New Jersey		● 50				● 23	●		●			● 51	●	New Jersey
New Mexico			● 53			●	● †		●					New Mexico
New York	• ● 54			• ● 55	● 56	●	●	●	●			● 57	●	New York
North Carolina		●				● 59			●				●	North Carolina
North Dakota	● 61		● 61	● 61	●	● †	● 62	● †	● 62					North Dakota
Ohio						●		●	●					Ohio
Oklahoma						●	●	●	●					Oklahoma
Oregon	● 63	● 63				●	● 64							Oregon
Pennsylvania			●		●		●	●	●			●	●	Pennsylvania
Rhode Island		● 66		● 32	● 32		●		●		●			Rhode Island
South Carolina				●	●	●	●		●					South Carolina
South Dakota	●	●	●		●	●		●	●					South Dakota
Tennessee		●		● 32	●	●	●	●	●					Tennessee
Texas	● 48	● 48				●								Texas
Utah						●	● 67							Utah
Vermont				●	●		●	●	●		●		●	Vermont
Virginia							68	●	●				69 ●	Virginia
Washington			●			●		●	●					Washington
West Virginia								• ● 70	70 ● •					West Virginia
Wisconsin						●	● 72	●	●				●	Wisconsin
Wyoming	● 48	● 48	●			●	● 74							Wyoming
STATE TOTALS	15	16	9	14	22	40	28	26	36	1	3	5	14	STATE TOTALS

18—Allows exemption in certain types of equipment, including rail freight cars and certain watercraft and vessels of more than 1,000 tons burden.
19—Applies to women and minors only.
20—Amortized depreciation over five-year period permitted for air pollution control equipment, and not necessary to be in compliance with control laws.
21—Law allows reduction of taxes but not exemption.
22—Sales/use and corporate tax exemptions apply only for air and water pollution control equipment.
23—Applicable to goods stored in public warehouses.
24—Delaware does not tax inventories, equipment, new materials or goods in process.
25—States does not levy a sales or use tax.
26—Equipment used to control air and water pollution is exempt from property taxes.
27—No income tax exemption is allowed, but new law permits affiliated groups of domestic corporations to make and file consolidated income tax returns for taxable year in lieu of separate returns, an activity that was formerly prohibited.
28—Exemption is allowed for selected industries, such as manufacture of pulp and paper from bagasse, petroleum products sold for further refining, scientific contracts with the U. S. government.
29—Applicable for certain scientific contracts with the U. S. government.
30—Bid preference given on state contracts for goods made of Hawaiian raw materials or processed by Hawaiian manufacturers.
31—Applicable to Industrial Revenue bond property only—10-year exemption.
32—Applicable at local level only.
33—Exemption applicable to capital improvements only.
34—Sales tax exemption only.
35—Credit allowed for use of natural gas—1¢ per 1,000 cu. ft.
36—State does not tax corporate or personal income and does not collect corporate excise tax.
37—Applicable to tanneries only.
38—Exemption may be applicable at county or local level.
39—Exemption applicable at state, county and local level.
40—State personal property tax (inventories included) credited against state income tax liability.
41—State recently enacted a tax reduction from 3% to 2%.
42—R & D equipment classified as manufacturers machinery and equipment, and as such is eligible for tax exemptions.
43—Exemption allowed for five years on new equipment, machinery.
44—Noise abatement law under study.
45—Manufacturer's option to take inventory or equipment exemption.

OTHER LAWS

	State Right-to-Work Law	State Minimum Wage Law	State Fair Employment Practice Code	Statewide Uniform Property Tax Evaluation Law	Statewide Air Pollution Control Law	Statewide Water Pollution Control Law	Incentive for Compliance With Pollution Control Laws	Statewide Industrial Noise Abatement Law
Alabama	●			●		●		
Alaska		●	●		●	●		
Arizona	●	●	●	●	●	● †	●	
Arkansas	●	●		●	●	●	●	
California		●	●	●	●	●	● 20	
Colorado			●	●	●	●		
Connecticut		●	●		●	●	• ● 22	
Delaware		●	●		●	●		
Florida	●			●	●	●		
Georgia	●		●	●	●	●	● 26	
Hawaii		●	● †	● †	● †	●		
Idaho		●		●	●	●	●	
Illinois		●	●	●	●	●	●	●
Indiana **	●	●	●	●	●	●	● 26	●
Iowa	●			●	●	●		
Kansas	●		●	●		●		
Kentucky		●	●	●	●	●		
Louisiana					●	●		
Maine		●	●	●	● •	●		● •
Maryland		●	●	●	●	●	● *	
Massachusetts		●	●		●	●	●	● •
Michigan		●	●	●	●	●	●	44
Minnesota	●	●	●	●	●	●	●	
Mississippi	●				●	●		
Missouri			●	●	●	●		
Montana				●	●	●	● 47	
Nebraska	●		●	●				
Nevada **	●	●	●	●	●			
New Hampshire		●	●	●	●	●	● 49	
New Jersey		●	●	●	●	●	○ 51	52
New Mexico		●	●	●	●	●		
New York		●	●	●	●	●	● 58	
North Carolina	●	●	●		●	●	● 60	●
North Dakota	●	●	● †	●		● †		
Ohio		●	●	●	●	●	● 26	
Oklahoma		●	●		●	●	●	
Oregon		●	●	●	●	●	● 65	
Pennsylvania		●	●	●	●	●		
Rhode Island		●	●		●	●	● 51	
South Carolina	●				●	●	● 26	44
South Dakota	●				●	●		
Tennessee	●			●	● •	●	• ● 75	
Texas	●				● 26	● 26	● 26	
Utah	●	●	●	●	●	●		
Vermont		●	●			●	● 26	
Virginia	●				●	●	● 69	
Washington		●	●	●	●	●	●	
West Virginia		●	●	●	●	●	• ● 71	
Wisconsin		● 19	●	●	●	●	● 73	
Wyoming	●	●	●	●	●	●		
STATE TOTALS	21	34	37	36	45	48	29	5

In the aftermath of recent federal legislation deflating the emphasis on industrial bond financing, many state agencies are looking for new ways to beef up programs to attract industry. With an eye to maintaining a competitive edge in the race for industry, most states are showing sharp interest in alternate proposals for financial aid and incentives for industry and have firmed up plans for major new legislative thrusts to benefit industry.

Alaska: Loan guarantee program and recreation loans for tourism development may be in the offing.

Delaware: Possible tax credits for capital investment in pollution abatement equipment are under consideration.

Florida: State anticipates approval of revenue bond financing for industry, an action now permitted under Florida's new constitution.

Minnesota: Mortgage insurance program and Regional Development Credit Corp. may be legislated.

Montana: Privately sponsored Development Credit Corp. may be forthcoming.

New Jersey: Legislators may authorize industrial revenue bonding and will look into the feasibility of other industrial financing programs.

North Dakota: Legislators will hear recommendations that the tax exemptions allowed under the Municipal Revenue Bond Law be expanded to include other means of industrial financing.

Ohio: State is looking for additional incentives for water and air pollution control by industry.

Oregon: Inventory tax relief is in sight.

Rhode Island: Elimination of inventory tax would bring an advantage to the state's development program.

South Dakota: State is anticipating more state funding of training facilities, establishment of a state credit board, and tax revisions to attract new industry.

Washington: Freeport legislation designed to bring property tax exemptions for goods-in-transit to the state's distribution firms is being prepared. Washington has had a freeport law since 1961, but it is inapplicable to the large number of distribution firms because it requires a strict identification of goods for which exemption is sought. Firms with a large number and variety of products have found strict identification impossible or too costly.

West Virginia: Legislature may raise the maximum interest industrial development bonds may bear from six percent per year to eight percent.

Wisconsin: Revenue bond financing for construction of industrial facilities may be added to bond financing provisions already in effect for purchase of land.

46—Tax stabilization agreements for copper-nickel mining and processing, and taconite mining and processing.
47—Tax credit allowed on abatement equipment.
48—State does not tax corporate or personal income.
49—Plant investment for water pollution control is exempt from local property taxes.
50—New Jersey citizens employed in New York not exempt from personal income tax.
51—Sales tax exemption.
52—Noise abatement codes recommended by state for adoption by municipalities.
53—State does not levy an excise tax on manufactured products.
54—Tax credit allowed to qualifying businesses in certain low-income areas.
55—Real property tax credit may be allowed on capital improvements to qualifying businesses in certain low-income areas.
56—State does not tax personal property.
57—New research and development facilities and equipment may be fully depreciated in one year.
58—Facilities may be fully depreciated in one year. Industrial waste treatment facilities are exempt from local real property taxes, and air pollution control facilities may be exempt at the discretion of local taxing jurisdiction.
59—Effective in 1969.
60—Five-year amortization of capital expenditures, plus exemption from local property taxes allowed.
61—Five-year exemption on projects financed by city or county revenue bonds.
62—Available under the "in-transit" law on inventories destined for sale outside the state.
63—Income tax exemptions allowed for property taxes paid on inventories.
64—Fifty percent reduction and/or offset on income tax allowed.
65—Manufacturer has option of property or income tax exemption on cost of water pollution abatement facilities.
66—State does not tax personal income.
67—A recent Utah referendum endorsed repeal of the inventory tax. The referendum was permissive in nature and allows the legislature to finalize legislation.
68—Inventories tax has been reduced from 75¢ to 30¢ per $100.
69—Accelerated depreciation applies to air and water pollution control equipment.
70—All machinery, supplies and materials sold to contractors or to persons engaged in contracting, manufacturing, transportation, transmission, communication or production of natural resources are exempt from consumers sales and service and use taxes. Charges made for services rendered to above are also exempt from tax.

SPECIAL SERVICES FOR INDUSTRIAL DEVELOPMENT

State	State Financed Speculative Building	City and/or County Financed Speculative Building	State Provides Free Land for Industry	City and/or Counties Provide Free Land For Industry	State-Owned Industrial Park Sites	City and/Or County-Owned Industrial Park Sites	State Funds for City And/Or County Master Plans	State Funds for City And/Or County Recreational Projects	State Funds for Private Recreational Projects	State Program to Promote Research and Development	State Program to Increase Export of Products	University R & D Facilities Available to Industry	State and/or Universities Conduct Feasibility Studies To Attract or Assist New Industry	State Science and/or Technology Advisory Council	State Recruiting, Screening Of Industrial Employees	State Supported Training Of Industrial Employees	State Re-Training Of Industrial Employees	State Help In Bidding On Federal Procurement Contracts
Alabama						●	●	●		●	●	●	●	●	●	●	●	
Alaska						●			●	●	●	●	●	●		●	●	●
Arizona				●		●		●		●	●	●	●	●	●	●	●	
Arkansas						●		●		●		●	●		●	●	●	
California						●		●			●	●			●	●	●	
Colorado						●				●	●	●	●	●	●	●		
Connecticut						●	●	●		●	●	●	●	●	●	●	●	●
Delaware												●		●	●	●	●	●
Florida						●		●		●	●	●	●	●	●	●	●	
Georgia		●				●	●	●		●	●	●	●	●	●	●	●	
Hawaii					●		● †	● †	● †	●	●		●	●	●	●	● †	
Idaho								●		●	●	●	●	●	●	●	●	
Illinois						●	●	●		●	●	●	●	●	●	●	●	●
Indiana **		● 76					●	●		●	●	●	●		●	●	●	●
Iowa						●	●	●			●	●	●		●	●	●	
Kansas						●				●	●	●	●	●	●	●		
Kentucky							●			●	●	●	●	●	●	●	●	●
Louisiana				●		●	●	●			●	●	●	●	●	●	●	
Maine						●	●	● 77		●	●	●	● 78		●	●	●	●
Maryland						●				●	●		●	●	●	●	●	●
Massachusetts						●		●		●	●	●	●	●	●	●	●	●
Michigan						●	●	●		●	●	●	●	●	●	●	●	●
Minnesota						●	●	●	●	●	●	●	●	●	●	●	●	●
Mississippi						●				●	●	●	●		●	●	●	●
Missouri				● †		●						3● †	3● †	3● †	●	● 82	●	
Montana						●						●	●	●	●	●	●	
Nebraska		●				●	●	●		●	●	●	●	●	●	●	●	●
Nevada **												●			●	●		
New Hampshire	●				●		●	●	●	●	●	●	●	●	●	●	●	●
New Jersey							●			●	●	●	●	●	●	●	●	●
New Mexico				●		● †	● †	● †		● †	● †	●	● †	●	●	●	●	●
New York						●	●	●		●	●	●	●	●	●	●	●	●
North Carolina										●	●	●	●	●	●	●	●	●
North Dakota				●		●		●		●	●	●	●		●	●	●	●
Ohio						●	●	●		●	●	●	●	●	●	●	●	●
Oklahoma		●		●	●	●	●			●	●	●	●		●	●	●	●
Oregon					●	●		● †		●	●	●	● †	●	●	●	●	
Pennsylvania		●				●	●	●		●	●	●	●	●	●	●	●	●
Rhode Island					●	●	●	●	●		●	●	●	●	●	●	●	●
South Carolina						●			80	●	●		●	●	●	●	●	
South Dakota				●		●	●	●			●	●	●		●	●	●	●
Tennessee						●	● 81			● †	● •	●		●	●	●	●	●
Texas						●	●	●			●	●	●	●	●	●	●	
Utah						79				●	●	●	●		●	●	●	
Vermont	●					●	●	●		●	●	●	●	●	●	●	● †	● †
Virginia		● 76				● 76	●	●			●	●	●	●	●	●	●	
Washington							●	●		●	●	●	●	●	●	●	●	●
West Virginia											●	●	●	●	●	●	●	●
Wisconsin		●				●	●	●		●	●	●	●	●	●	●	●	●
Wyoming						●	●	●	●	●	●	●	●	●	●	●	●	
STATE TOTALS	2	7	0	7	5	38	29	33	6	38	45	47	46	39	49	50	47	29

71—Pollution control equipment is exempt from sales and service and use taxes. Special adjustments to corporate net income tax are allowed for expenditures for pollution control facilities.
72—60% credit given in most cases.
73—State allows one-year amortization of pollution control equipment and permanent exemption from local real estate taxes.
74—Tax on manufacturer inventories will be phased out by 1972.
75—Abatement equipment is defined as industrial machinery and is taxed at use rate of 1%.
76—Carried out through local development corporations.
77—Boating access facilities only.
78—On a limited basis.
79—Communities have leased buildings to industry, but the Utah Industrial Promotion Board knows of no actual industrial park sites developed by municipalities.
80—State funds are used to promote private development.
81—Tennessee supplies matching funds for sub-metropolitan areas.
82—State supplied 75% of cost of administering program; no reimbursement to trainees.

The Best of Both Worlds — Industrial Revenue Bonds

WOULD you like to buy a tax-free bond guaranteed by a big solid corporation? That's exactly what you get with the industrial revenue bonds listed below. These bonds are issued by municipalities, so they are tax-free. Yet the municipalities issue them solely for the purpose of helping big corporations finance the construction of local plants. The municipality may be only a small village but it doesn't matter: the bond is safe because the company, usually a blue chip, guarantees payment. The Treasury regards it as a wide-open and unjustified tax loophole. Earlier this year, a bill passed Congress which restricted the tax advantage to issues under $1 million, effective next Jan. 1st. But the big issues featured below will not be affected.

The Guarantor or Lessee	Issuer of Bonds	Amount (millions)	Coupon Rate & Maturity	Recent Price	Current Yield	Standard & Poor's Rating
Air Reduction	County Court, Hancock County, West Virginia	$24.0	4⅜ — '83	90	4.9%	BBB
Allied Paper	Industrial Development Bd., Jackson, Alabama	10.0	5⅝ — '89	100	5.6	NR
Allied Supermarkets	Livonia, Michigan	33.0	6 — '97	102	5.9	BB
American Greetings Corp.	Corbin, Kentucky	7.0	5.60— '92	102½	5.5	NR
Armco Steel	Middletown, Ohio	82.5	4½ — '92	96½	4.7	A
Armco Steel	Ashland, Kentucky	34.4	4.20— '91	90	4.7	A
Armour & Co.	Cherokee, Alabama	25.0	4¾ — '86	91	5.2	NR
Ashland Oil & Refining	Ashland, Kentucky	27.0	6 — '93	107	5.6	NR
Automatic Electric Co.	Industrial Development Board, Huntsville, Alabama	18.0	5.40— '92	100	5.4	A
Beech Nut Life Savers	Holland, Michigan	12.5	4.40— '92	86	5.1	A
Calgon Corp.	Ashland, Kentucky	10.5	5¾ — '82	105	5.5	A
Carborundum Co.	Hickman, Kentucky	3.6	5 — '87	96½	5.2	NR
Carrier Corp	Warren County, Tennessee	12.5	5⅛ — '87	100	5.1	A
Chicago & North Western Ry.	Escanaba, Michigan	16.0	6½ — '96	106	6.1	NR
Combustion Engineering	Harrison County, Mississippi	3.7	4¾ — '87	101½	4.7	NR
Control Data	Douglas County, Nebraska	12.5	5½ — '87	99	5.6	BBB
Cooper Tire & Rubber	Texarkana, Arkansas	14.0	5½ — '97	100	5.5	B
Diamond Alkali	Delaware Industrial Building Commission	17.0	5¼ — '87	100	5.3	BBB
Fairmont Foods	Coshocton, Ohio	5.8	5⅜ — '97	98½	5.5	NR
Firestone Tire & Rubber	Albany Dougherty Payroll Devel. Auth., Georgia	53.0	5¼ — '92	103	5.1	A
Fruehauf Corp.	Delaware County, Ohio	2.8	5¾ — '87	101	5.7	NR
Georgia Pacific	Crossett, Arkansas	75.0	5⅝ — '92	103½	5.4	BB
Glen Alden Corp.	Industrial Develop. Board, Opp., Alabama	2.5	5½ — '89	97½	5.6	NR
B.F. Goodrich	Lawrence, Kansas	3.7	5½ — '97	103	5.3	NR
Goodyear Tire & Rubber	Industrial Develop. Board, Union City, Tennessee	46.0	5⅜ — '92	104½	5.1	A
Hammermill Paper	Industrial Develop. Board, Selma, Alabama	25.5	4 — '90	79	5.1	NR
Harvey Aluminum	Lewisport, Kentucky	50.0	5 — '88	97	5.2	NR
Hercules, Inc.	Iberville Parish, Louisiana	25.0	5¾ — '87	104	5.5	BBB
Hoover Ball & Bearing Co.	Cadiz, Kentucky	3.3	4 — '85	83½	4.8	NR
Litton Industries	Florence, Kentucky	8.0	5⅞ — '92	104	5.6	NR
Mead Corp.	Cornell Township, Michigan	56.7	5½ — '95	105	5.2	NR
Minnesota Mining & Mfg.	Trustees of Weatherford, Indust. Auth., Oklahoma	9.5	5 — '92	100	5.0	NR
Monogram Industries	Mentor, Ohio	9.8	5½ — '92	100	5.5	NR
National Steel & Southwire	Hancock County, Industrial	116.0	5⅜ — '93	101½	5.3	A
NeKoosa-Edwards Paper	Ashdown, Arkansas	46.0	4¾ — '88	88	5.4	BB
Olin-Mathieson	Industrial Develop. Board, Bradley County, Tennessee	13.5	5⅜ — '87	101½	5.3	BBB
Packaging Corp. of America	Macon-Bibb County, Indust. Auth., Macon, Georgia	4.4	4⅜ — '86	87	5.0	NR
Phelps Dodge	Calcasieu Parish, Louisiana	62.7	5⅛ — '89	100½	5.1	A
Phillips-Van Heusen Corp.	Cuyahoga County, Ohio	3.8	5¾ — '93	101	5.7	NR
Phoenix Steel	Northern Delaware Indust. Develop. Corp., Delaware	35.0	5¾ — '91	95	6.1	B
Radio Corp. of America	Marlborough, Massachusetts	12.0	5.40— '93	102½	5.3	A
Ralston Purina	Clinton, Iowa	10.0	5⅝ — '97	102	5.5	NR
Rand McNally & Co.	Versailles, Kentucky	7.0	5.40— '87	101¼	5.3	NR
Reliance Electric & Engineering	Athens-Clarke County Indust. Develop. Auth., Georgia	12.0	5½ — '93	102½	5.4	NR
Revere Copper & Brass	Industrial Develop. Board, Scottsboro, Alabama	55.0	4 — '87	84	4.8	BBB
Revere Copper & Brass	Industrial Devel. Board, Scottsboro, Alabama	97.0	6 — '90	105	5.7	BBB
Rockwell-Standard	Winchester, Kentucky	38.0	5½ — '91	102	5.4	BBB
Rubbermaid	Industrial Devel. Authority, Winchester, Virginia	3.0	5¼ — '92	102½	5.6	NR
Sinclair Petrochemicals	Fort Madison, Iowa	60.0	4½ — '85	96½	4.7	A
Skelly Oil	Clinton, Iowa	60.0	4.20— '91	89	4.7	A
Springs Mills	Chester County, South Carolina	35.0	5¾ — '93	105	5.5	BBB
Stanley Warner	Delaware Industrial Building Commission	11.2	6½ — '92	103	6.3	NR
Textron	Harrodsburg, Kentucky	2.8	5¾ — '92	104	5.5	NR
Trans World Airlines	Overland Park, Kansas	9.9	5⅞ — '92	103	5.7	NR
U.S. Plywood-Champion	Industrial Development Board, Courtland, Alabama	85.0	5¾ — '97	104	5.5	BBB
U.S. Steel	County of Lorain, Ohio	80.0	5⅜ — '88	105	5.1	A
Union Bag-Camp Paper	Industrial Development Board, Prattville, Alabama	45.0	4 — '87	80	5.0	NR
Uniroyal	Industrial Development Board, Opelika, Alabama	45.0	5¾ — '93	103½	5.6	NR
Uniroyal	Ardmore, Oklahoma	73.0	5½ — '93	100½	5.5	NR
West Virginia Pulp & Paper	Wickliffe, Kentucky	80.0	5⅛ — '92	100¼	5.1	BBB

Source: McDonald & Company, Cleveland; Forbes. NR—Not Rated.

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