cc: ~~L~~ Chapoton

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United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

October 5, 1983

The Honorable John E. Chapoton
Assistant Secretary (Tax Policy)
Department of the Treasury
Washington, D.C. 20220

RE: Industrial Development Revenue Bonds

Dear Buck:

Your September 2nd letter to Senator Stevens refers to various theoretical disadvantages of industrial development bonds ('IDBs') but notes that the Administration has not made a comprehensive legislative proposal in this area.

Congress adopted important reform and information-gathering measures in this area barely a year ago. More importantly, we have not had enough time to collect and study sufficient data which would reveal the effects TEFRA has had on the IDB program. Sound policy decisions cannot be made without such action. Present law, as amended last year by the Congress, stimulates private activity in a manner which we regard as highly beneficial to the State of Alaska's economic development efforts as well as our desire to aid our small businesses. In the past year IDBs have created (or preserved) over 2,400 jobs in our state.

In your letter you raised certain points that are in disagreement with the most recent information we have received. While tax-exempt financing for private activities may be growing rapidly, the figures which were released by Public Securities Association showed that in the first quarter of 1983, small issue growth was 53% lower than the volume of small issues in that same period in 1982. Furthermore, a CBO Study showed that in 1982 the volume of small issues was either the same as or slightly lower than the volume of small issues in 1981.

The statistics in regard to interest rates on tax-exempt bonds do not support the theory that the volume increases interest rates for all tax-exempt borrowing. According to Moody's Bond Survey, when the interest rates for taxable borrowings declined in late 1982 and early 1983, the interest rates for tax-exempts dropped from 76.3% to 71.8% of that for taxables despite the large volume of new issues that appeared in the municipal market.

IDBs are the most efficient means available to the Federal Government for encouraging job creation. The estimated cost of $560 per IDB job is far more efficient when compared to the $900 to $2,850 cost per job for a Targeted Jobs Tax Credit or the $12,000 for a CETA job. Moreover, IDB jobs are traditionally permanent additions to the tax roles. In addition, IDB jobs require no Federal funds to administer the program.

While Treasury estimated IDBs cost $30 to $40 million per $1 billion of IDBs, Dr. Roger Kormendi, a municipal finance expert from the University of Chicago (who has testified frequently before Congress) estimated that the cost is at most $3.6 to $4.8 million per $1 billion of IDBs. In most, if not all cases IDBs create permanent jobs and the resultant payroll taxes more often that not offset the revenues lost due to the tax-exempt status of IDBs.

Had IDBs not been available, the impact of the higher rates and unavailability of long term fixed rate financing would have resulted in at least 50% of the projects in the State of Alaska not being completed. IDBs are a great tool for our local and state officials to use in their economic development efforts. We would be happy to discuss with you the great help IDBs have provided to Alaska in this regard.

A state-by-state volume cap, as some have suggested, would pit communities against each other as they vie for space under each state's allotment, and would deny local officials the use of IDBs to solve their economic problems as governors or legislatures prioritize IDB use in the state.

First, IDB users should not be punished by further eliminating the ACRS benefits available to them. IDBs are used as an aid to businesses in their financing for the initial cost of capital and often are a critical factor for economic development, whereas the basic intent of ACRS is to provide an incentive for the accumulation of capital to encourage modernization that will enable these companies to become more competitive in international markets.

Second, imposing restrictions on medium and large businesses simply discriminates against high technology, energy, capital intensive or small businesses which need large capital investments in order to remain competitive.

Third, in Alaska, the $20 million worldwide capital expenditure limitation would eliminate many borrowers. An important goal of the Alaska Industrial Development Authority is to create development and jobs in the rural area, which requires very strong firms due to the massive expenditures necessary to handle development in the outlying areas. With the limitation, the resource extraction industries (mining and oil) would be eliminated. Additionally, most of the Native regional corporations would be impacted as well as village corporations which have been successful.

Fourth, prohibiting IDB financing to be used for the acquisition of land will harm all types of job creation projects whether they be industrial or commercial.

We think the Administration is right in not proposing to tinker with this newly refurbished incentive. We believe that when something is working well, we should leave well enough alone.

With best wishes,

Cordially,

FRANK MURKOWSKI

TED STEVENS

cc: The Honorable Donald Regan
Secretary of Treasury
The White House Office
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

The Honorable William Sheffield
Governor of Alaska
3rd Floor Capital
Pouch A
Juneau, Alaska 99811