CAPITAL MARKETS IN MAINE

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for the

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Preface

Lloyd D. Brace, Jr., is the primary author of this report. Section III, "Selected Characteristics of the Maine Economy," results from the work of Professor Thomas Warschauer of the University of Maine at Orono. The conclusions, recommendations, and opinions expressed in this report are those of the authors and not necessarily those of the State Planning Office or Governor Longley.

Editorial direction and assistance was provided by Steven L. Weems and Arlyn H. Weeks of the State Planning Office.

The resumes of Messrs. Brace and Warschauer are included in Appendix VIII.

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I. Summary

This report was prepared under a grant from the New England Regional Commission, which has funded similar capital markets studies in all New England states. This summary presents the major points of three sections of the Maine report.

A. Background

Maine's economy has historically lagged behind that of New England and that of the nation. In recent years, unemployment has remained about two percentage points above the national average, and per capita income has never exceeded 85% of the national average. The state's economy has been dominated by a few major industries, which with the exception of the paper industry, pay relatively low wages and have been in decline for many years. In terms of numbers of businesses, Maine is dominated by small businesses to a greater extent than the nation or New England. This preponderance of small businesses, Maine's scattered population, low per capita incomes, Maine's distance from major population and financial centers, and a traditional independent attitude of Maine's people have contributed to Maine's capital markets problems. Funds for smaller businesses have not always been available at reasonable rates. Entrepreneurs have not known where to go for funds or how to present their cases. Maine banks have been unable to provide large loans and have tended to require large amounts of collateral for smaller loans. In addition, Federal tax and regulatory policies which affect the availability of capital have also affected Maine.

B. Conclusions

1. Credit

In general, Maine banks which serve the needs of business have worked hard to put the maximum possible amount of their available assets to work in the Maine economy. On the basis of long-standing personal and corporate relationships, they have often served needs which out-of-state banks would not serve.

However, for several reasons, they have not served some of the larger and/or specialized needs of Maine businesses. They have concentrated on production-oriented manufacturing activities, with which they have considerable experience. Following are the major conclusions of this study in the area of credit availability in Maine:

- Business newcomers to Maine find it difficult to obtain bank credit at reasonable terms. This is true for both organizations which are new to the State and new developments begun by local firms.
- Banks tend to require excessive collateral, sometimes demanding parts of a company's or proprietor's debt capacity inappropriate to the nature of the loan.
- Banks in Maine have not found it attractive to provide fully trusteed accounts receivable financing and have so far ruled out factoring.
- Misunderstandings by proprietors about the nature and powers of banks and by banks about the nature and needs of businesses lead to avoidable shortfalls. Many borrowers forget that banks are also borrowers. Banks sometimes expand their custodial role from depositor to borrower.

- Strong support is frequently extended to firms by banks when trust, understanding and collateral are all in place.

- Poor support of fishery and farm financing needs has unnecessarily decreased the number of family proprietors and discouraged entry into fields by young adults.

- Quality services from the Federal Small Business Administration have filled some of the capital gaps created in other parts of the capital market, primarily at a level below $500,000.

2. Investment

Investment needs in Maine are often unmet due to problems of attitude, the desire of the entrepreneur to retain total ownership and the interpretation of sale of stock as loss of control. Maine's capital markets lack many of the financial intermediaries found in more urban areas. In addition, Maine's investment climate is affected by Federal financial policies which affect the nation as a whole. Following are the major conclusions of this study in the area of investment capital in Maine:

- Proprietors' outdated views of the place of equity financing (stock ownership) have prevented many firms from accomplishing needed growth.

- Shortages of investment capital have resulted from Federal tax and regulatory policies, which discourage investors from making equity investments.

- Lack of intermediaries who provide structure in market making and analysis in a capital market makes it unlikely that investment sources are properly presented with investment opportunities.

- Errors in perception of payout potential by users and providers of capital result in premature project abandonments and diversion of potential venture capital, out of the state.

C. Recommendations

1. <u>The executive and legislative branches of State government should take sustained and concerted action to improve Maine's business climate</u>. The State must decrease the costs and increase the convenience and predictability of doing business in Maine, which will lead to more jobs and income for Maine people. The total effect of taxes, regulation, and costs of energy, transportation, financing, and other factors must be considered. Proposed rules and regulations should be evaluated by a single agency for costs, benefits and impact on the business climate before they are issued. All State actions should be considered in the light of their impact on the business climate.

2. <u>Through private capital market mechanisms, increase the availability of short-term secured working capital to Maine businesses, particularly to finance seasonal raw materials or commodities, work in progress, or finished goods inventories</u>. This action will assist Maine businesses which have relatively large working capital needs to finance seasonal inventories. The risk involved in such capital needs is relatively high due to unpredictable market fluctuations; while the reluctance of banks to act in this area is understandable, public intervention does not appear to be justified.

3. <u>Maine bankers and savings banks, through their industry associations, should evaluate the need for a pooled-risk source of term loan funds. Should the need prove sufficient, they should design a vehicle through which such funds could be made available</u>. Such a source would replace the collateral of borrowers which is now used inappropriately to secure term borrowings for expansion activities. A particular means to establish this source is not recommended by this study, but should be left to the discretion of the Maine banks involved.

4. <u>Establish a small business loan insurance fund, similar to the Veterans' Small Business Loan Authority, to make business loans available to all Maine people</u>.

A single loan limit of $30,000 with an 80% guarantee would provide capital to small businesses which provide diversity in the economy and self-sufficiency to the proprietors. This recommendation will require legislative action.

5. Modify the Maine Guarantee Authority to allow it to issue industrial revenue bonds and umbrella bonds, to require it to prepare an annual investment strategy, and to remove the lower limit on the percentage of a loan which it may guarantee. In addition, eliminate the requirement for a local referendum on municipal industrial revenue bond issues. These changes will strengthen the State's loan insurance programs, extend long-term debt financing to smaller companies which have previously been unable to use tax-exempt bonds, and improve the municipal bond program by removing the costly and time-consuming referendum requirement. This recommendation will require legislative action.

6. The Maine Development Foundation (MDF) and the Maine Capital Corporation (MCC) now before the Legislature should be enacted and implemented. The MDF will provide coordination between the public and private sectors in economic development activities. It will help Maine businessmen evaluate opportunities, prepare plans, and locate sources of capital. The MCC will provide equity capital at a limited level for Maine businesses. The MDF will be funded on a matching public-private basis. The MCC will be funded through sale of stock with special state tax credits.

7. Small business investment corporations (SBIC's) should be encouraged in Maine through changes in the law to allow thrift institutions to invest in their stock and to exempt them from State income and capital gains taxation on in-state investments. Maine has no SBIC's, which can bring Federally guaranteed investment capital into the State. The potential gain to the State's economy from such investment outweighs the potential tax "loss" through the exemptions.

8. Support the recommendations of the Report of the SBA Task Force on Venture and Equity Capital for Small Business (January, 1977). Taken together, these recommendations at the national level have more potential benefit for the State than all of the preceding recommendations. They are printed in full in Section V.

9. Support elimination of the Federal income tax on dividends. Double taxation on corporate income and dividends is an unnecessary deterrent to investment. State officials should work for its elimination by the Federal government.

10. The State and the University of Maine should support services to Maine businessmen such as those provided by the New Enterprise Institute of the University of Maine at Portland-Gorham. The management assistance, market development, education, and other services of the Institute should be available throughout the State.

II INTRODUCTION

A. Need for an Analysis of Maine Capital Markets

A strong, productive economic system provides the basis for a stable and rewarding life. Maine is known for its rewarding life-style, which is enjoyed by more of its residents than might be expected, due to their personal ingenuity and thrift. But thrift brings no rewards to the 10% of Maine's work force which is unemployed. Per capita income continues to represent no more than 85% of the national average. As population continues to grow, it is unclear whether enough additional jobs and income can be generated to keep pace, let alone reduce the unemployment rate and close Maine's chronic income gap. The capital markets, the availability of money to finance business expansion and the means by which it is provided, provide basic support to an expanding economy. It is therefore important to understand the workings of Maine's capital markets in relation to the public need for a strong economy and to influence them to the benefit of Maine people while preserving the private nature of capital market decisions.

Differences in performance between Maine's economy and that of the rest of New England have perplexed government and business leaders for many years. Unemployment, which in Maine seems to persist through the ups and downs of economic cycles at a rate well above the national average, has widespread effects throughout the economy. When a worker cannot find a job, business and government lose the benefit of the money he might otherwise have had for taxes and consumption. If the unemployment persists, he must draw upon the society around him for support. Such cases direct society's economic surplus toward maintenance of the unfortunate instead of construction of a capital base for a stronger economy. A dollar of unemployment benefits or welfare payments supports direct consumption, which has a low multiplier effect, perhaps generating two or three dollars in its passage through the economy. If that dollar can instead be effectively employed in stimulating capital formation it may attract other capital and have a total effect on the economy of a multiplier of twenty to thirty.

That is, the dollar invested in stimulating capital will be invested in a business and spent for materials, plant, and wages before it is used in direct payment for goods and services as is the welfare dollar. Thus its indirect effect on the economy is much greater. This study was undertaken to explore the process of capital formation in Maine. While capital is only one of the elements of economic development, improvements in the capital market should improve the chances that capital formation and jobs expansion will occur.

There are occasional instances when a small business in Maine, with good management and a useful product with a reliable market, is unable to obtain any financing for continuity or growth. It is often said that management quality is low. Does every case of capital shortage occur because Maine "lacks good management"? Is there a capital shortage, or a credit shortage, or an equity* shortage? Does the money market operate in the best interests of the businesses, the wage earners and the taxpayers of Maine? For example, the use of a manufacturer's capital in a Maine expansion versus an Ohio acquisition might be a matter of indifference to him. If it is invested in Maine, there is the prospect of reducing Maine's social costs such as unemployment benefits, welfare payments and high per capita taxes. Maine's government needs to know what, if anything, it can do in the capital field to increase investment returns here**, thus making the Maine option more attractive to investors. Maine also has an interest in insuring that imaginative managers are present to use capital effectively. Answers to the preceding questions will provide the basis for proposing changes to improve Maine's economy through improvements in the operation of its capital market.

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* Equity - funds contributed by or resulting from the ownership of a business.

** - This implies making changes in capital markets to serve a public purpose as well as a private one. For a detailed exposition of the possibilities see Martin T. Katzman, "Toward a Positive-Sum Strategy of State Economic Planning: Reflections upon Two New England Regional Commission Studies," New England Journal of Business and Economics, Volume 2 Number 2, Spring 1976, and excerpts in Appendix I.

During the recent past, several major regional capital institutions which would affect capital markets in Maine have been proposed outside the State. Most important have been the New England Capital Corporation (NECC) and the Regional Energy Development Corporation. The NECC proposal was not endorsed by the area's financial community, whose support was necessary, primarily due to the lack of a unified regional perspective.

> Our problem in achieving this goal is that, among the leaders of the private financial sector, there is less agreement as to the desirability of forming an institution to plug the gaps, and only a few lonely voices which would agree that such an institution should be regional in scope. The apparent paradox of agreement that gaps exist without agreement that they should be filled by a special-purpose fund is based, for most individuals in that position, in the philosophic contention that the free capital markets allocate capital, a scarce resource, relatively efficiently based upon analysis for acceptable risk/reward ratios. To tamper with those forces by establishing a special-purpose fund, no matter how well managed, would create undesirable inefficiencies throughout our socio-economic system through the misallocation of scarce capital.*

The Energy Development proposal comes from the Council of Northeast Governors (CONEG) and is still being promoted by its New York sponsors. It is a financial markets and energy development scheme which would appropriate many key powers from states and localities. The existence of such proposals with such potential powers shows Maine's need for a body of data and conclusions from which to develop useful responses to external developments.

B. Objectives of Capital Markets Analysis

This report will document several months of work in the area of Maine's capital market. It contains recommendations to improve the operation of that market. Some of these recommendations are currently under consideration by the 108th Legislature. Many of them are currently being discussed in Maine's political and financial communities. Implementation of all of them would help the State's economy.

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* W. Denman VanNess, "Briefing Paper on the New England Capital Corporation," New England Regional Commission, n.d., p. 3.

The present study continues the work of the Governor's Economic Advisory Committee and the Task Force on Economic Development, both of which were advisory groups of businessmen appointed by Governor Longley. Original research performed for this study also provided the basis for some of the recommendations of the Task Force, including those dealing with the Maine Capital Corporation and the Maine Guarantee Authority (see Section V, Recommendations). This study also goes beyond the work of the Task Force to present additional analysis and recommendations.

Increased competence at the State level in dealing with the specifics of government's role in capital market developments is a most important goal for Maine. Manipulations of taxes, the money supply and regulations at the Federal level have a great effect upon Maine's economy. State government and the business and financial communities must come to a better understanding of each other's needs, abilities, and limitations. This study is intended to provide state government with a better understanding of the operations of the state's capital market, which is one part of that financial community, and what the State can do to improve those operations.

C. Related Work

1. NERCOM Regional Work

This study is an outgrowth of work begun at the New England regional level by the vote of the six New England governors acting as the New England Regional Commission (NERCOM). The NERCOM initiative stemmed from similar questions about capital markets and the regional economy, and for nearly two years studies have gone forward in the areas of capital and labor. Under the direction of Mr. W. Denman Van Ness, the Commission began work in May of 1976 on a study of the regional capital needs. It engaged two organizations, one to study the quality or nature of insufficiencies in the capital market, and the other to determine their depth. T. A. Associates was engaged to undertake the first tasks, which involved contact with capital and credit sources and users. Quotations from key passages of that report appear in Appendix II because of their relevance to the situation in Maine.

Price-Waterhouse was engaged to measure the depth of the gaps identified by T. A. Associates, which was a very difficult task. The capital markets vary almost daily. They are characterized by three major components: users, intermediaries, and sources. A thorough analysis of the specific situation in capital markets for week X may not be very meaningful in relation to week Z. Price-Waterhouse resorted to analysis of a data base of three thousand companies about which detailed financial data had been collected. For some of the capital markets gaps identified by T. A. Associates, Price-Waterhouse was able to define an order of magnitude of the situation.

The T. A. Associates and Price-Waterhouse studies were designed to help assess the feasibility of a proposal for a New England Capital Corporation developed by the NERCOM Task Force on Capital and Labor Markets. As originally proposed, NECC would have provided long-term loans for those of the region's firms which appear to have stable but unexciting futures, a need (or "gap") which the Task Force clearly identified over time. The contractors' reports substantiated the Task Force's premises but local preoccupation with corrective mechanisms has prevented acceptance of the NECC proposal.

In the course of evaluating the regional situation it became clear that the situations in each individual state had already given rise to projects of evaluation and possible remedies. Mr. Van Ness recognized the value of coordination and exchange among the states. He proposed a framework of effort and communication that would let the six programs share insights. Each governor designated a capital market coordinator who became responsible for completion of a NERCOM-funded study of his state's capital markets, and for communication with each of the other states and with NERCOM. This report is the result of that study in Maine.

2. Governor's Task Force on Economic Development

Not long after Governor Longley took office he appointed an Economic Advisory Committee to give him assistance in developing an overall program for economic development. Its report eventually led to formation of a Task Force on Economic Development. The Task Force was to formulate specific proposals for inclusion in the Governor's legislative program for 1977-1978. Headed by Mr. John M. Daigle of the Casco-Northern Corporation of Portland, Maine, the Task Force was drawn from the business and financial community to work on a pro bono publico basis. The Task Force met weekly during the summer and early fall of 1976. In the time allotted the group reviewed the Governor's concerns, the Advisory Committee report of November 1975 and issues brought up internally and by staff. From this was distilled a set of legislative proposals set forth in its report of October 1976.

The work of the Task Force provided a guide to fruitful areas of research and outreach possibilities to the business and financial communities that were most valuable to this study. This study verified the need for many of the Task Force proposals and provided refinements of those proposals.

D. Conceptual Approach

1. Factors Which Affect Economic Development

Capital markets are only one part of the economy, and capital is only one of numerous factors which affect economic development. This report assumes that economic development is a valuable goal for society in general and for the State of Maine in particular. Through economic development more and varied jobs become available, higher incomes are made possible, and standards of living improve. The concern of government is that economic development proceed in a manner which is of the highest possible benefit to the people in general. While capital is only one aspect in this process, and probably not the most important one, it is an area where government can have a direct effect on the process. At the same time the danger of over-regulation does exist.

Basic factors which affect economic development include:

markets - the need for goods or services

natural resources - the raw materials available in the nation or state, including people.

skills - the amount and diversity of human talent, including management, professional, labor, and entrepreneurial skills

energy - more properly a natural resource, but now more prominent due to costs and availability

financial resources and mechanisms - savings, capital, and financial markets

existing resources - underutilized or unused buildings, organizations, and mechanisms which may be used for new purposes

business climate - including actions of government, public attitudes, and relationships between government and the private sector.

These factors are inter-related, and a discussion of capital markets will include references to several of them. In analyzing capital markets in Maine, this report does not argue that the other factors are less important. It simply focusses on one factor which state government can affect rather easily in its effort to improve economic development and thus provide for the well-being of its citizens.

2. State Government and Capital Formation in Economic Development

The variety and importance of the ways in which state government affects economic development gives it a major role. What the state does with that role will affect local economics. The lack of state action can be seen as a negative action. Any activity or lack of activity which appears confused or ambivalent will have a negative impact on private enterprise.

Data is the most vital tool for a state's economic development effort. It provides a picture of the state's economic situation which must be matched with statewide economic goals.

One vital function in this area is the study of relationships and interactions of the state laws, policies, regulations, modes of operation, tax levels and types upon each other and, taken together, upon the process of economic development.

In matching the perceived situation with perceived goals, a state government needs a central point where unified data gathering, interpretation and development of proposed goals are undertaken. Without some such nerve center a state government will tend to be merely reactive. When the private sector feels that it may be acting in a vacuum it often chooses not to act at all. A visible and reliable state policy for economic development which the private sector can use as a standard will have beneficial results for both sectors. A strategy which consists of obscurity may provide freedom of action in contingencies, but it may not suffice to set the tone for good long-term development.

States have long competed for business relocations or expansions because they represent "new" jobs. It is not clear that, as a whole, this competition is productive.* However, there is a chance that a state's efforts will bring net benefits if it can show that it offers a series of unique or advantageous "fits" to the needs of the moving or expanding firm, and then offer a firm package of locale, labor, infrastructure, and financing. The state must have a thorough knowledge of its needs and advantages and match them carefully to outside firms' specifications. Capital markets are one part of the state's financing situation.

One year ago (6/15/76) Martin Katzman and Belden Daniels wrote in an extensive study of capital markets for NERCOM:

> Financial intermediaries facilitate the channeling of funds from economic units with excess savings, mainly households, to those with insufficient savings, mainly businesses and governments. While savers sometimes invest directly into productive enterprises, in general the assets they wish to hold differ markedly from the liabilities investors wish to incur regarding size of issue, maturity, yield, risk, redeemability, or marketability. Consequently, the major function of financial intermediaries, which comprise organized capital markets, is the _transformation_ of assets and liabilities of savers and investors into _corresponding_ liabilities and assets of the intermediaries themselves.

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* See Katzman, _op. cit_.

> While finance is one of the world's oldest professions, intermediaries have evolved and differentiated most rapidly in the last seventy years - in response to the growing financing needs of burgeoning economies in Europe and North America. Their evolution has comprised integrating geographically separated capital markets, reducing transaction costs, developing new ways of transforming assets and liabilities into financial instruments, reducing the risks to savers, and enhancing the liquidity of financial instruments through the creation of secondary markets. All of these developments can be viewed as market perfecting, because they reduce barriers to mutually profitable financial transactions.

Maine is a state where small business predominates. With the exception of a few large businesses, Maine's employers are small. For the purposes of this report, capital formation will equate substantially with the growth of business establishments. From the public point of view capital formation will come most readily through the expansion of existing businesses. In Maine, that means the expansion of small or medium-sized businesses.

Attracting new installations of large out-of-state firms is competitive, costly, and is not readily controlled by the state or its business sector as a planned process of growth. Still, the actual investments required are sometimes very low in comparison to the economic benefits which can accrue.

The most difficult of all forms of capital formation for a state would be in assisting start-ups of new industry within the state. Here the risks are high, and the benefits in terms of increased employment and tax revenue come slowly.

The effect of government intervention through tax and regulatory mechanisms on the financial market has made it less than an absolutely free market. It may better be called a private market because planned effects now operate on it, but choices are still made privately.

While the government should not try to change the process of private choice in the disposition of wealth, we should be aware that government policies already affect the private market for investment. In the absence of such policies, the private decision process might not result in socially profitable investments, which are those which serve the needs of society as well as those of the private sector. (See Appendix I for a further discussion of this point.)

Government has had some decades of experience in designing mechanisms that affect private choice and should be able to create new ones and dispose of old ones to suit a changing public purpose. For instance, installation of high income tax rates, coupled with reduced capital gains taxation, has had a profound effect on the way U. S. business has developed.

E. Study Approach

This study included two major activities. The staff worked with the recommendations of the Governor's Task Force on Economic Development and undertook independent study to probe the operation of Maine's capital markets in more detail. The staff was able to verify the need for several of the Task Force's recommendations and to provide an analysis of their application to Maine's capital markets. The study was accomplished through several means.

Time and resources available for this study did not permit extensive original work. Many of the basic concepts presented here are derived from the earlier work of others.* A review of other New England States' circumstances and capital markets enhancement efforts was conducted through existing literature and meetings with representatives from those states. A description of Maine's economy, based on published data, appears as Section III of this report. Analysis of this information and that gained from original case studies of more than forty Maine businesses and a limited mail survey provided the basis for the study's conclusions and recommendations. During the case development phase of the study, interviews were conducted with financial intermediaries of all kinds, consultants, regional and local planning officials, and firms which had had problems in finding capital. Results of the mail survey appear in Appendix V.

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*see Bibliography

III. SELECTED CHARACTERISTICS OF MAINE'S ECONOMY

A. The Demand for Funds

The demand for funds in Maine has historically been oriented toward manufacturing. Per capita investment is low, and resource-based industries predominate. For the majority of these small, locally-owned businesses, simple in-state financing has been available. The changes which are needed to improve the State's economy and the standard of living of its people will lead to a higher demand for all types of capital.

The most notable expansion of demand may be for equity capital, as capitalization increases in a shift from labor-intensive to more capital-intensive business. The increased demand will also follow improvements in productivity and increases in income. Maine is a small business state, so its government must appreciate the needs of small, unsophisticated businesses and exert its influence to serve those needs, including the actions of its capital markets. Maine's expanding rate of population growth and its need to modernize outdated industrial plants and equipment will also fuel the demand for capital. When sufficient capital is not available on reasonable terms, business start-ups which could be of great benefit to the State are stifled. These capital needs must not go unfilled.

In order to determine the capital needs of Maine business it is necessary to analyze the State's demographic and economic situation, including basic economic data such as the number, size and type of businesses operating in Maine and industry concentration ratios.

1. Basic Economic and Demographic Data

Table A shows population changes from 1950 to 1974 in Maine, New England, and the U. S. The average annual increase from 1950 to 1960, and from 1960 to 1970, for the U. S. was 1.5% and 0.75% in Maine. This shows that U. S. population increased at about double the rate that Maine did over the two decades.

However, from 1970 to 1974, Maine's average annual increase was estimated at 1.2% and the U. S. figure was only 0.9%. Recent data collected by Professor Louis Ploch of the University of Maine at Orono shows an influx of educated adults into Maine. The figures for the six New England states are below that of the U. S. for the 1970-1974 period. Although it is hazardous to predict demographic changes, it appears that, while New England population as a whole may grow very slowly in the future, at a rate below the national average, Maine may well be an exception. Due to the special advantages of lifestyle which it offers, population growth in Maine may be vigorous. This will lead to a high demand for capital of all kinds, perhaps at a much higher rate than in most of the Northeast.

The Price Waterhouse Profile and Analysis study accomplished for the New England Regional Commission in 1976 provides the data for Table B which shows current population, number of businesses, sales and net worth for the U. S., New England, and Maine. New England has 5.7% of the nation's population but has 6.3% of sales. Maine, however, has 8.5% of New England's population and only 3.9% of sales. Price Waterhouse feels that this is due to the leather industry in Maine which is ranked lowest among manufacturers in terms of sales per employee at $15,800 per employee. The wholesale industry is ranked highest at $104,000 per employee.

Per capita personal income for Maine, New England, and the U. S. is shown in Table C. Personal income in 1976 is about 2% higher in New England than U. S. figures, but Maine is about 16% below the U. S. average. Per capita personal income is 22% higher in the New England area as a whole than in Maine. In recent years, personal income growth in Maine has more nearly equaled the higher U. S. rate. In 1976, Maine had one of the highest rates of growth in per capita personal income in the U. S. (12.5%).

TABLE A

ANNUAL POPULATION CHANGE

Area	1950-60	1960-70	1970-74
United States	+1.7%	+1.3%	+0.9%
New England	+1.2%	+1.2%	+0.6%
Maine	+0.6%	+0.3%	+1.2%

Source: Statistical Abstract of the U. S., Department of Commerce, Bureau of Census, 1974

TABLE B

COMPARISONS OF MAINE, NEW ENGLAND, AND THE U.S.

	Population (millions)	Number of Businesses	Sales (billions)	Net Worth (billions)
United States	211	1,500,000	1900	
New England	12	92,000	120	40.8
Maine	1	7,680	4.6	1.2
New England/U.S.	5.7%	6.0%	6.3%	
Maine/New England	8.5%	8.3%	3.9%	2.9%

Source: Price Waterhouse, Profile and Analysis

TABLE C

PERSONAL INCOME PER CAPITA

Area	1960	1970	1974	1976	Annual Growth
United States	$2222	$3966	$5434	$6441	+7 %
New England	2430	4304	5697	6589	+6.5%
Maine	1881	3309	4439	5385	+7 %

Source: Statistical Abstract of the U. S., U.S. Department of Commerce, Bureau of Census, 1974

TABLE C

PERSONAL INCOME PER CAPITA

Area	1960	1970	1974	1976	Average Annual Growth
United States	$2222	$3966	$5434	$6441	+ 7%
New England	$2430	$4304	$5697	$6589	+6.5%
Maine	$1881	$3309	$4439	$5385	+ 7%

Source: Statistical Abstract of the U.S., U. S. Department of Commerce, Bureau of Census, 1974.

TABLE D

NEW INCORPORATIONS AND BUSINESS FAILURES

	New Incorporations (Per Month) (ave 1976)	Business Failures 1976	
		#	$(1000)
Maine	116	26	$4,835
New England	1,618	578	$192,566
U.S.	31,297	9,628	$2,778,504

Source: Federal Reserve Bank of Boston, New England Economic Indicators.

Relatively low personal income has restricted the total funds available for savings in Maine for many years. This is reflected in low per capita savings in Maine banks. A vicious circle is established: low income leads to low savings which can support only undercapitalized, labor intensive industries, which pay low wages, which means low income, etc. The recent improvement in the rate of growth of per capita income relative to the national average is encouraging. If it reflects an improving economic situation, it reinforces the perception of a need for outside capital to support continued improvement. These funds cannot be supplied by internal savings or retained earnings.

Another relevant factor is the impact of all business taxes. Business taxes as a proportion of business income is a figure which indicates the tax climate as perceived by businesses. It is 4.5% for the U. S. average, 6.12% for the New England average, and 6.7% for Maine. This is significant for firms considering location both in and outside New England. The average tax rate of the southern states is less than 3.5%; thus, Maine has a comparative disadvantage when considering this tax impact.

Another set of basic economic factors is the number of new incorporations and business failures. Table D shows this data. A lower rate of start-ups than the national average (Maine has 1/220 of national population but only 1/270 of new incorporations) indicates a potential lack of venture capital, especially equity capital. A lower than average failure rate shows that the lower start-up rate is <u>not</u> a result of below-average ideas or opportunities. It may be a result of a poor entrepreneurial "climate", including lack of skills, interest, contacts and wealth, or a lack of equity capital.

2. Number, Size and Type of Maine Businesses

According to Internal Revenue Service data there were 3,135 partnerships and 55,116 proprietorships in Maine in 1973. At that time there were about 9,500 corporations. Thus, according to 1973 tax data, there were about 67,750 businesses in Maine in that year.

However, the U. S. Commerce Department's Census Bureau, which recently completed its full 1972 census of businesses reached somewhat different conclusions. Tables IX-E through IX-U in Appendix IX show most of the relevant data from that census. This data shows about 40,000 businesses in Maine. Only about 5% of Maine businesses are manufacturers. The largest proportion by number (about 27%) are retailers.

Maine has a strong base in terms of manufacturers (Table IX-E). Maine's economy is based on manufacturing, but this sector is dominated by the paper industry, which is owned by out-of-state corporations and thus gets its capital primarily from out-of-state sources. The majority of businesses are small operations, adding little value to their products, and members of specialized segments of the economy such as farming, fishing, and wood-cutting. The smaller-scale economics of these businesses require special capital mechanisms which can operate at a smaller scale. Specialized segments have specialized needs, including a strong need for capital investment to increase productivity and support gradual growth in the value added by these industries.

The strength of Maine's retail trade base is evident (Table IX-F). Maine's service industries (Table IX-G) seem to have a proportionate share in terms of numbers, but that fact is not similarly reflected in employment. The wholesale trades account for a reasonable proportion of Maine's business, but sales in the wholesale area are considerably lower than the national average, as one would expect in a state with low personal incomes. The mineral extractive industries are relatively unimportant to Maine (Table IX-I), although in New England terms they are high and capital expenditures (almost 37% of the New England total) are relatively high. The construction area (Table IX-J) appears to be strong in Maine, although receipts are below proportion. Farming is very strong by New England standards but weak by U. S. standards, particularly in the valuation of farms.

The census lists a total of 37,207 firms. The study excludes certain service industries (such as medical professions and insurance), the transportation industries (separate Maine data is not available in the transportation survey), and smaller fishing vessels (less than five tons). Therefore, the total number of businesses was about 40-45,000 at the end of 1972. Table IX-M shows the summary of this data.

3. Important Non-Manufacturing Segments

Tables IX-N through IX-U show the important segments of each industry type. In the retail area (Table IX-N) building supply retailers and auto dealers seem to predominate. Apparel, furniture and restaurants are relatively less dominant. Service industry analysis (Table IX-O) shows hotels, motels and camps (the vacation industry) and amusement/recreation industries as important, but most services are distinctly less numerous than the Maine population would be expected to have. The wholesale trades analysis (Table IX-P) shows auto parts, machinery, fish and seafood, and petroleum as important areas. Mineral extraction (Table IX-Q)shows one important area, the sand and gravel industry. In agriculture, potato and dairy farms predominate with poultry another important area (Table IX-R).

4. Manufacturing Sectors and Concentration

Table IX-S presents a list of the largest manufacturing firms in Maine based on employment. The first part of the list includes firms active in Maine which are based in Maine. One could assume that these firms rely primarily on Maine's supply of funds. The second part of the list has firms located in Maine which are subsidiaries or affiliates of a parent company located outside of Maine. These firms are most likely to rely on external sources of capital because they are owned externally.

To test the common belief that Maine is a small business state, with the special capital market needs which that would infer, we shall define a small business as one with less than 50 employees and a large business as one with more than 250 employees. In the U. S., 97.5% of all businesses listed in County Business Patterns would then be classified as small. To a certain extent, then, the country is dominated by small business. However, in the U. S. .93% of businesses are large, and in Maine .77% are large.

Were Maine to achieve the national average for large companies, it would have about thirty more large firms, with employment of over 7000. Maine is characterized by an even greater concentration of small business than the nation as a whole.

A given industry can be broken down into eight size categories (U.S. County Business Patterns, 1974) based on number of employees. A comparison of the 25 largest Maine industries with the corresponding U. S. industries will show whether firms within an industry are more concentrated (fewer but larger firms) or less concentrated (many small firms). Table E shows the result of this concentration analysis.

A final element of analysis is the question of business type. Tables IX-T and X-U show the estimated net profit margin (net income/sales) for proprietorships and partnerships as shown on 1973 income tax returns. The analysis shows that Maine proprietorships are as profitable and Maine partnerships are more profitable than their U. S. counterparts.

Those Maine industries which tend to be larger in scale than the national average consist of relatively small firms, with the exception of the paper industry and utilities. These exceptions obtain their capital from outside the state. The capital needs of Maine are the capital needs of small business.

B. The Supply of Funds

Data regarding the supply of funds are much more readily available for banks than for other institutions, so most of this analysis of the supply of funds is devoted to banks. It is important to note that other suppliers of commercial capital are not nearly as subject to regulation and, hence, are apt to seek a broader spectrum of risk/return trade-off than is the banking industry. Therefore, analysis of the supply of funds through banks must study several factors: first, the banks' availability of capital (savings); second, the banks' asset portfolio; and third, the banks' risk spectrum (loan losses).

TABLE E
SCALE OF MAJOR MAINE INDUSTRIES

Industries Tending Toward smaller scale in Maine

Auto Dealers	Grocery Stores
Trucking	Boat Dealers
Telephone	Gas Service Sta.
Sports and Recr. Equipment Wholesale	Hotels, motels
Misc. Wholesaler	Hospitals
Department Stores	Old Age Home

Industries Tending Toward similar scale to U.S.

Canned & Frozen Foods	Commercial banks
Machinery, Equipment & Supplies	Variety stores
Shoe Industry	

Industries Tending Toward larger scale in Maine

Broad Wooven Fabric Mills, Cotton	Paper Mills
Broad Wooven Fabric Mills, Wool	Paper and Paper Products
Logging	Electronic Components
Misc. Wood Products, N.E.C.	Boat Building
	Electric Services

Source: County Business Patterns, and author's computations.

1. The Banks' Availability of Capital

The primary source of bank capital is deposits. Nationally only about 10 percent of banks' funds come from equity and over 80 percent comes from demand and savings deposits. In Maine, nearly ninety percent of banks' assets are provided by savings. Table F shows the status of savings time and demand deposits in Maine commercial and mutual savings banks compared to those of the U. S.

Per capita savings in Maine is $3,497 , while in the U. S. it is $4,176, nearly 20 percent higher. Were this disparity not to exist, Maine banks would have nearly three-fourths of a billion dollars more deposits with resultant higher lending ability. That is to say, Maine has about .5 percent of the U. S. population but only about .4 percent of its savings.

Table G shows growth rates of deposits over the last twelve years. Although New England's growth rate for deposits has fallen behind the national average of 8.27 percent, Maine has just about equaled the U. S. rate. Clearly, Maine is not falling further behind the U. S. in per capita savings.

The low per capita savings rate reflects a shortage of available capital due to lower personal income, not the lack of propensity to save. This suggests that the state's economy needs a more than good performance from its banks to serve its capital needs in the debt area. More debt capital from outside sources will improve the ability of Maine businesses to tap national financial markets and will make investment in Maine easier and more attractive.

2. Asset Portfolios and Risk Spectrum of Maine Banks

Detailed data and analysis on both of these subjects is presented in Appendix IV. In their asset portfolios, U. S. banks have about 5% more commercial and industrial loans than Maine banks, but Maine has about 8% more loans to individuals.

TABLE F

Total Deposits

Millions $
(June 30, 1976)

Institution	Maine	U.S.	Maine as a % of U.S.
All Commercial Banks	2,064	794,819	.26%
All Mutual Savings Banks	1,713	117,599	1.46%
All Banks	3,777	912,418	.41%
Population (est. thousands)	1,080	218,504	.49%
Per Capita Deposits	3,497	4,176	83.7%

Source: F.D.I.C., Summary of Deposits, June 30, 1976

TABLE G

COMMERCIAL BANK
DEPOSIT GROWTH RATES
1964 - 1976
(Millions of $)

Region	TOTAL DEPOSITS (1964)	TOTAL DEPOSITS (1976)	Annual Growth Rate
Maine	798	2,064	8.24%
New England	12,565	30,155	7.55
U.S.	306,230	794,819	8.27

Source: F.D.I.C., Assets and Liabilities, 1964.

F.D.I.C., Summary of Deposits, June 1976.

Maine has about 10% more loans devoted to real estate. Maine has a larger percentage of total assets made up of loans and a lesser amount invested in bank premises. In general, it appears that Maine banks have shown flexibility in granting loans, but consumer loans appear to have exaggerated importance relative to commercial and industrial loans in Maine.

New England banks tend to carry larger provisions for loan losses and reserves than the rest of U. S. banks. Maine banks have more substantial reserves as a proportion of loans than banks of any other area. Maine banks earn a higher return on total assets and on equity (or surplus for mutual banks) than the average U. S. Bank. It appears that Maine banks have preferred safety to volume.

IV. ANALYSIS OF CAPITAL NEEDS

A. Definitions of Capital Types and Sources.

1. Types

a. Credit

(1) Short duration

(a) Unsecured loans are not guaranteed by collateral. They are available from commercial banks as well as savings banks in Maine, usually for a short period or related to a season.

(b) Working capital loans are normally available from banks and finance companies. Working capital is capital which is readily convertible into cash. These loans are secured by accounts receivable and sometimes by finished or work-in-progress inventory.

(2) Medium duration

(a) Term loans are for medium-duration working capital needs, typically three to eight years, and usually come from commercial banks.

(b) Equipment financing, usually secured by the equipment itself, is available primarily from commercial banks.

(3) Long duration

Real Estate financing, secured by a mortgage on the property financed, is available from commercial and savings banks.

b. Investment

(1) Equipment leases are a form of investment undertaken by leasing companies and some banks. Leasing is known as an off-balance sheet form of financing because ownership of the equipment rests outside of the company while physical possession and use is within the company and the costs of use appear as expenses in the profit and loss statement.

Real estate sale and lease back, a mechanism similar to equipment leasing, serves the same function.

(2) Long-term notes or bonds which are securities in the definition of the Securities and Exchange Commission may be sold to individuals, insurance companies and other investment institutions. Such bonds are usually subordinated to (second level claim on assets) the types of credit described above, and because of this and their long-term nature, usually command higher interest rates than shorter term loans.

(3) Debentures are a specific type of interest bearing bond sold to the same types of sources. (Both bonds and debentures are often recognized to constitute equity for income tax purposes of the investors when provision is made for conversion to equity.)

(4) Equity or stock, which represent shares in the profit or loss of an enterprise rather than an interest-bearing debt, can be common or preferred. It is sometimes salable, under the rules of the SEC and the Maine banking laws, to individuals and various institutional investors.

c. Expertise. Often information and technique can be considered as a form of capital. Knowledge of how to use the above-defined forms of capital, in what proportions and from what sources, constitutes value brought to an enterprise which is sometimes uncountable. The same is true of management, technical and marketing assistance as applied to small and start-up firms whose managements are sometimes able to multiply the effect of their cash capital thereby.

2. Intermediaries

Banks, insurance companies, venture capital groups, and a wide range of other private and public financial organizations which serve to collect capital from original sources and make it available to individuals and organizations needing funds.

3. Original Economic Sources of Capital

   a. Individuals

      (1) Individuals as bank depositors are likely to possess checking accounts, that is demand deposit assets, and savings accounts, or time deposit assets, or certificates of deposit which might also be classified as time deposits.

      (2) Individuals, trusts and estates. The net worth of these is a source of capital either directly through their own initiative or via surrogates, such as investment bankers, venture capital companies, trust departments of banks, mutual funds, brokers, and underwriters.

      (3) Insurance policy holders. Capital is available out of the premiums of insurance policy holders, or investments by their intermediaries, the insurance companies.

      (4) Pension contributors are diverting surplus for investment by intermediaries.

   b. Business organizations

      (1) Collective organizations, such as corporations, governments, universities, hospitals, etc., may have demand deposits, that is, checking accounts, or time deposits, such as savings accounts, or certificates of deposit.

      (2) Banks. The capital surplus, and in the case of thrifts, reserves, are sources of capital.

B. Summary of Conclusions

   1. Credit

In general, Maine banks which serve the needs of business have worked hard to put the maximum possible amount of their available assets to work in the Maine economy. On the basis of long-standing personal and corporate relationships, they have often served needs which out-of-state banks would not serve.

However, for several reasons, they have not served some of the larger and/or specialized needs of Maine businesses. They have concentrated on production-oriented manufacturing activities, with which they have considerable experience. Following are the major conclusions of this study in the area of credit availability in Maine:

- Business newcomers to Maine find it difficult to obtain bank credit at reasonable terms. This is true for both organizations which are new to the State and new developments begun by local firms.

- Banks tend to require excessive collateral, sometimes demanding parts of a company's or proprietor's debt capacity inappropriate to the nature of the loan.

- Banks in Maine have not found it attractive to provide fully trusteed accounts receivable financing*and have so far ruled out factoring.**

- Misunderstandings by proprietors about the nature and powers of banks and by banks about the nature and needs of businesses lead to avoidable shortfalls. Many borrowers forget that banks are also borrowers. Banks sometimes expand their custodial role from depositor to borrower.

- Strong support is frequently extended to firms by banks when trust, understanding and collateral are all in place.

- Poor support of fishery and farm financing needs has unnecessarily decreased the number of family proprietors and discouraged entry into fields by young adults.

- Quality services from the Federal Small Business Administration have filled some of the capital gaps created in other parts of the capital market, primarily at a level below $500,000.

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* Fully trusteed accounts receivable loans are those in which the borrower's customers are directed to remit directly to the bank on accounts receivable; the bank provides the accounting and other services involved.

** Factoring - purchase by the bank of the borrower's accounts receivable at a discount.

2. Investment

Investment needs in Maine are often unmet due to problems of attitude, the desire of the entrepreneur to retain total ownership and the interpretation of sale of stock as loss of control. Maine's capital markets lack many of the financial intermediaries found in more urban areas. In addition, Maine's investment climate is affected by Federal financial policies which affect the nation as a whole. Following are the major conclusions of this study in the area of investment capital in Maine:

- Proprietors' outdated views of the place of equity financing (stock ownership) have prevented many firms from accomplishing needed growth.
- Shortages of investment capital have resulted from Federal tax and regulatory policies, which discourage investors from making equity investments.
- Lack of intermediaries who provide structure in market making and analysis in a capital market makes it unlikely that investment sources are properly presented with investment opportunities.
- Errors in perception of payout potential by users and providers of capital result in premature project abandonments and diversion of potential venture capital, out of the state.

C. Discussion

1. Credit Availability

In general, bank accessibility is very good. Table H provides some data regarding banking in Maine compared to the United States. Although there are fewer commercial banks in Maine than in the U. S. (per capita), there are nearly one and one-half times as many banking offices per capita in Maine as in the rest of the U. S. Table I provides similar data, by county, for the state. Per capita offices in Sagadahoc and Waldo counties may be sufficiently scarce to be inconvenient. Piscataquis, Somerset and Aroostook (the large Northern counties) have a very low bank office density. It should be noted that additional branches have opened since the data was collected.

Are there sufficient banks in the state to promote competition? The standard measure of economic competitiveness is the concentration ratio--the proportion of the business controlled by the largest units. The relative measure for Maine, as shown on Table J, is the second highest in New England. The largest ten commercial banking organizations do 88.1% of the banking business. Further, this concentration is increasing, primarily because of mergers. Table K gives a revised measure of concentration for each of several bank market areas (the Herfindahl Index). The Lewiston-Auburn market shows a relatively concentrated area. That is, competition may be less effective in the Lewiston-Auburn area than elsewhere in Maine. In general, Maine's banking concentration ratios are low for a rural state. Thus there are relatively more choices of banking outlets than one would expect. Even though certain elements of competition are lacking, commercial banking is structurally well-developed in Maine.

Maine has a second source of business loans: the mutual savings banks. Historically, the primary loan function of the mutuals has been real estate mortgages. In thirteen of the seventeen states where they operate, however, commercial and industrial loans are made by mutuals. In Maine, these amounted to only $4,739,000 at December 31, 1975 (as compared to $409,482,000 for commercial banks). However, this figure was up twenty-two percent in only one year and it is clear that mutual savings banks may become a much more important source of short-term business credit. Because Maine banking law permits demand-type services, mutuals may become fully competitive with commercials in this area. Table L shows the dispersion of mutuals in the state and Table M shows the same data for mutuals and commercials combined. Clearly, Maine banking institutions will be as numerous, relative both to population and land area, as the U. S. as a whole, if mutuals become fully competitive with commercial banks.

Unsecured Loans Based on the competitive structure of the Maine banking industry, the movement of mutual savings banks into this area of lending, and the relative desirability of this type of loan, it appears that business needs for unsecured loans will be satisfied adequately except under severely constricted money market conditions.

TABLE H

Commercial Banking Statistics

June 30, 1976

Commercial Banks	Maine	U.S.	Maine as % of U.S.
Number	44	14583	.30%
Number Per Capita	.042/Th	.068/Th.	.61%
Branches & Offices	331	45,192	.73%
Branches Per Capita	.31/Th	.21/Th	148%
Branches Per 1000 Sq. Miles	10.7	12.8	83%
Population (July 1, 1975)	1,059 (Th)	213,121(Th)	.50%
Land Area (Sq. Miles)	30,920	3,536,855	.87%

Source: F.D.I.C., Summary of Deposits, June 30, 1976.

TABLE J
CONCENTRATION RATIOS
FOR THE TEN LARGEST
COMMERCIAL BANKING
ORGANIZATIONS

	1963	1973
Maine	74.1	88.1
New Hampshire	58.2	66.4
Vermont	61.3	79.2
Massachusetts	72.1	80.0
Connecticut	78.1	81.8
Rhode Island	100.0	97.0

Source: Federal Reserve Bank of Boston, Research Report #59. p. 5.

TABLE I

COUNTY COMMERCIAL BANKING ANALYSIS

COUNTY	1975 Population (1000's)	Square Miles	BANKING OFFICES	Banking Offices Per 1000 People	BANKING OFFICES PER 1000 Sq.Mi.	Deposits (M$)	Per Capita Deposits
Androscoggin	96	483	27	.28	56	45,554	475
Aroostook	95	6451	29	.31	4	59,482	626
Cumberland	200	885	64	.32	72	68,333	342
Franklin	23	1759	12	.52	7	18,960	824
Hancock	36	1607	17	.47	11	37,747	1049
Kennebec	99	890	28	.28	31	45,845	463
Knox	30	368	10	.33	27	63,832	2128
Lincoln	22	457	8	.36	18	40,972	1862
Oxford	44	2061	14	.32	7	70,504	1602
Penobscot	126	3339	38	.30	11	239,429	1900
Piscataquis	16	3809	4	.25	1	22,606	1413
Sagadahoc	25	256	4	.16	16	26,241	1050
Somerset	41	3904	13	.32	3	52,326	1276
Waldo	24	726	5	.21	7	24,962	1040
Washington	30	2421	13	.43	5	39,462	1315
York	117	1001	31	.26	31	158,438	1354

Source: Population: Department of Commerce, U.S. Govt., P-6 Estimate.
Area: Maine Economic Data Book, 1973
Deposit and Office Data: F.D.I.C. Summary of Accounts and Deposits - June 29, 1974

TABLE K

SUMMARY TABLE OF MAJOR MARKETS - MAINE[1]

	Portland Market	Augusta Market	Bangor Market	Lewiston-Auburn Market	State Summary Statistics
Number of Commercial Banks	10	8	5	4	45
Number of Bank Holding Company Organizations	4	5	5	4	7
Number of Commercial Bank Offices	62[2]	31	22[3]	24	321
Office Growth Rate (1964-1974)	63%	121%	69%.	60%	76%
Number of De Novo banks (1964-1974)	2	3	0	0	8
Total 1970 Population	190,000	89,000	78,000	74,000	992,000
Population Growth (1960-1970)	4.4%	6.4%	-2.0%	3.8%	2.4%
Population per Commercial Bank Office	3,065	2,880	3,578	2,228	3,100
Total Deposits ($ mil.)	378.3	168.9	148.1	136.5	1,640.9
Deposits per Commercial Bank Office ($ mil.)	6.1	5.4	6.6	5.7	5.1
Deposits per Capita ($)	1,991	1,892	1,881	1,838	1,654
Concentration Ratio Top Three Commercial Bank Organizations	84.2	91.8	100.0	92.9	44.5
Herfindahl Index of Concentration	.243	.318	.381	.464	.115

[1] Deposit data as of June 30, 1973. All other data updated to reflect mergers, acquisitions, new banks, and office expansion through December 31, 1974, unless otherwide noted.

[2] Does not include branch of Depositors Trust Company of Protland which is currently under construction.

[3] Does not include United Bancorp de novo bank.

Source: Directly from Federal Reserve Bank of Boston, Research Report #59, p. 64.

TABLE L

Mutual Savings Bank Statistics

June 30, 1976

Mutual Savings Banks	Maine	U.S.	Maine as % of U.S.
Number	32	474	6.75%
Number Per Capita	.030	.002	1358%
Branches & Offices	93	2,404	3.87%
Branches Per Capita	.088	.011	780%
Branches Per 1000 Sq. Miles	3.01	.68	443%
Population (July 1, 1975)	1,059(Th)	213,121(Th)	.50%
Area (Sq. Miles)	30,920	3,536,855	.87%

Source: F.D.I.C., Summary of Deposits, June 30, 1976

TABLE M

Combined Bank Statistics

June 30, 1976

All Branches	Maine	U.S.	Maine as a % of U.S.
Number	76	15057	.50%
Number Per Capita	.072	.072	100%
Branches & Offices	424	47,596	.89%
Branches Per Capita	.400	.223	179%
Branches Per 1000 Sq. Miles	13.7	13.4	102%
Population (July 1, 1975)	1,059(Th)	213,121 (Th)	.50%
Area (Sq. Miles)	30,920	3,536,855	.87%

Source: F.D.I.C., Summary of Deposits, June 30, 1976

Working Capital Loans (Short Term Secured Credit) Commercial banks are often primary lenders for secured, short-term debt. Commercial finance companies and factors are two other important sources of this credit. Although marketable securities may be used as collateral, these are rarely available assets. Loans co-signed by substantial backers are usually preferred where unsecured loans are not possible.

Several Massachusetts banks (particularly Shawmut, The First National of Boston and New England Merchants) provide large secured short-term credit (usually at a minimum of $250,000) in Maine. Several commercial finance companies are able to provide secured short-term or revolving loans (CIT, Berkeley Service Corp., Commercial Credit Corp.)

The features of short-term secured credit are often misunderstood. Unlike unsecured short-term credit--which is usually seasonal or temporary--secured short-term credit is generally a form of permanent financing. As a company grows, most of its assets grow proportionately, including its current assets such as inventory and accounts receivable. Long-term creditors are often averse to financing these needs. As these needs are permanent, however, either equity or secured short-term financing is required.

In Maine, most of the expressed demand for secured short term credit is met, but this demand is lower than might be expected for three reasons. First, the use of short term secured credit is relatively sophisticated and generally not well understood by Maine business managers. Second, the typical Maine business is too small to require the large minimum loan established by private lenders. Third, it is difficult for out-of-state banks to be confident about the value of the security offered, thereby causing them to discount it unnecessarily. Therefore, there is an underdeveloped demand for this type of credit in Maine. Without sufficient demand, Maine lending institutions have not developed this type of loan service to any great extent.

Term Loans and Equipment Financing Term loans and equipment financing are usually arranged for the same reason: expansion or replacement of capital equipment. Unless the equipment is extraordinarily expensive or specialized, these are fairly safe loans. Therefore, it seems reasonable that medium-term (similar to the life of the equipment) amortized (to provide lender safety) loans are generally available from numerous sources. Because distance from the security is not as important for these longer term loans, larger size financing is available in the Boston area.

Another important mechanism for the supply of intermediate-term money is leasing. Primary sources for lease capital are leasing firms and manufacturers. Several out-of-state leasing firms are active in Maine. There is no reason to believe that Maine business encounters unusual difficulty in this area, in general. Certain industries, such as deep-water fishing, may present some special problems to which leasing companies may need to adapt.

A third source of funding term loans is insurance companies. This is the major problem in the intermediate term loan area, if there is one in Maine. Only one insurance company is active in Maine lending, and its minimum size loan is fairly high ($1,000,000). Smaller borrowers often turn to SBA loans arranged through banks.

In general, secured intermediate term lending is the easiest type of financing to arrange because lenders have a higher reward and a generally safer position.

Real Estate Financing Real estate financing is a well-developed financial activity in Maine. It is well-grounded in the State's production economy and enhanced by long-standing and active guarantee programs at both the Federal and the State level. In general, real estate financing is available in sufficient supply.

2. Investment Funds Availability

A number of sources of long-term funds are available to Maine business. The largest single source is owner's equity through both the owner's initial investment and retained earnings. A second source of new long-term capital comes from public security offerings. Here, the new issues markets are very weak nationally.

Only the strongest businesses have access to this source. A third source of long-term funds deals with private placement of funds. Here, the major suppliers of funds are insurance companies, a weak spot in the Maine institutional structure. This is, however, one of the strongest components of the overall New England financing picture, which partially offsets the problem for the larges Maine companies.

Another source of long-term funds would be the venture capitalist, who for the most part is missing in Maine.

The S.B.I.C. (Small Business Investment Corporation) is a final, missing element in Maine's institutional structure. Maine has none. The need for one is discussed elsewhere in this report.

Overall, start-up and takeover capital seems to be the most significant institutional problem in the long-term area. Equity financing for smaller businesses may also be a problem. In this area the concerns are national problems, however.

Expertise It is often said that a degree of parochialism and lack of sophistication on the part of Maine business managers restrict business development in Maine. Probably the lack of the interchange of ideas caused by distance makes Maine managers less sophisticated than those in more metropolitan business settings. The commercial lenders who make this criticism have cases of loss and default to support their comments. Bankers in Maine who know that they are communicators first and financial technicians second are the people who get high compliments about knowing their customer's business. They are also those who take the time to suggest, instruct, guide, and refer their clients toward better control and management techniques.

3. Intermediaries and Sources

Banks are the primary source of capital in Maine, but there are other potential sources. The lack of traditional capital market intermediaries in Maine has been mentioned previously. The discussion of sources and intermediaries which is presented here provides a basis for the recommendations which follow in Section V of this report.

Commercial Banks Maine's commercial banks are rooted in the history of a production-oriented economy. Commercial lending has been utilized primarily for the financing of the productive and natural resource based enterprises which characterize the State. The marketing and entrepreneurial functions, especially of large scale, are usually conducted outside the state. This has conditioned most Maine lenders to think in terms of secured loans for manufacturing facilities. In recent years, this attitude has been moderated by the wider experience of bankers hired during the bank holding company consolidations and growth of the last decade.

Other studies in the field have similar findings. Appendix II contains observations from the 1976 T. A. Associates report on New England and Appendix III reprints selected conclusions from the 1973 Golembe report on Maine.

During visits to Maine companies by the staff conducting this study, company managers often mentioned their view of the characteristics of commercial bank loan officers. The highest compliment that a businessman pays his banker is "He really understands our business". The highest compliment is not "they really swing". Despite all the legal protections and responsibilities of both parties, the borrower-lender relationship is one of trust, a deep feeling of mutual striving for worthwhile objectives. This dynamic has to work both ways, and it was observed frequently that borrowers referred to the bank as if it were the true owner of the financial resources it had to invest. It is easy for an entrepreneur to think of the bank as a monolithic force rather than a collective of individuals like himself. By the same token, it is easy for a loan officer to think of a corporate customer as an account in the bookkeeping sense, rather than as a dynamic enterprise composed of individuals. In this regard, the harshest judgment of Maine bankers by the businessmen interviewed was: "They don't care about my business. All they want to know is will my next payment be on time."

The Golembe study identified a common complaint concerning collateral. All too often, banks do not stop seeking guarantees or collateral when the loan is fully covered. They try to obtain all possible collateral and in the process they go far beyond their real needs. This can result in the loss of respect and the feeling of mutuality so important in the borrower-lender relationship.

Another potential problem in the bank-borrower relationship is illustrated by the fact that some commercial borrowers have been left to learn for themselves the significance of the universal commercial code filing (UCC Filing) which must be made with every bank loan. For example, a company operating in a field of trade where collections are always rapid may not notice that it is pledging accounts receivable in support of a loan, since the accounts receivable are negligible and therefore not important at the time. Too frequently the banker does not take the trouble to point out to the borrower that he may change his product line or add one which will trade in circles where accounts receivable are considered differently. The result is that later on, should the borrower wish to use the accounts receivable debt capacity, he often finds it impossible because his bank is more concerned about protecting its present position than building the customer's overall ability to generate cash flow. Such a collateral orientation can and does constrict business growth in Maine.

Savings Banks Savings banks have acquired new roles as sources of capital for economic development in Maine, as their deposits have continued to outstrip those of the commercial banks. With commercial banking powers granted in 1974, they are striving to develop standard business credit capabilities. Their emphasis has long been placed on conservation of their assets through secured lending. Their role in the commercial lending field is too new to be evaluated. As will be seen later, the need in Maine is not for more commercial lending institutions, but for more of certain types of credit, some of which savings institutions may be better able to provide than others.

Banks outside of Maine are often thought of in a favorable way by Maine firms, because a Boston or other out-of-state bank has made a loan that Maine banks are technically unable to handle (such as fully trusteed accounts receivable loans) or to provide because of size or policy limitations. However, most Maine firms could not use out-of-state banks for the full range of normal banking services, so this favorable image is biased by circumstances. Nonetheless, out-of-state banks often exhibit greater flexibility and creativity in considering difficult or specialized borrower needs.

Insurance Companies Insurance companies can be regarded as centers of high-volume investment activity. Long-term secured loans to medium-sized businesses are usually included in their portfolios. Very few insurance companies find it profitable to spend the time to analyze a $500,000 investment when the same effort could place $5 million elsewhere. Maine's only major insurance company has a higher minimum investment restriction than some Boston-based firms.

Some insurance companies have finance company subsidiaries which can play important roles in financing accounts receivable and inventory, as well as equipment financing for companies in Maine. Since finance companies often deal with credits unacceptable or too large for banks, they must charge higher interest rates to cover their risk-reward position. Interest rates as high as the teens can make a finance company unattractive to a borrower. Often customers using finance companies are in desperate straits and are in no position to judge the lender.

Pension funds In the past, pension funds were fairly important sources of long-term debt financing. With the recent Employee Retirement Income Security Act (ERISA) changes this source has been greatly diminished because pension managers are held personally liable for their funds' performance. Thus pension funds are now managed very conservatively. However, the State of Kansas has pioneered in the utilization of pension fund assets for development capitalization. The Kansas Development Credit Corporation (KDCC) pioneered the concept of remarketing* the SBA-guaranteed portion of medium-term (three to eight year) loans.

*Remarketing - a process in which a loan or security is bought from the original lender giving the original lender immediate funds to lend again, while the purchaser retains the obligation for its full term.

A major purchaser was that state's employee retirement fund. The Small Business Administration district offices in Vermont and New Hampshire have been successful in a similar way. The efforts of the Maine District SBA Office were rebuffed by the Maine State Employees Pension Fund. The reason reportedly given was that the securities offered do not carry a sufficiently high rating, despite the fact that the securities in question are loans by Maine commercial banks secured by the full faith and credit of the U. S. Government.

Fortunately there are other markets for SBA-guaranteed portions of loans, and there are intermediaries acting to bring these markets together. For example, the National Life Insurance Company in Vermont during the period July, 1973 to July, 1976 purchased $4,863,000 of these loans, and would probably have purchased more if the banks had presented them in the market place.* Such activity is possible in Maine but has not been undertaken.

Venture Capital Groups Venture capital groups have become less likely sources of capital over the past few years. Maine does not have a native venture capital company or small business investment corporation (SBIC). In the past a few Maine firms have used out-of-state venture capital company investments with a successful and profitable result for the investor, but venture groups do not normally look to Maine for opportunities. Conversely, Maine enterprises are not practiced in addressing deals to venture groups. This is unfortunate because venture groups and SBIC's provide a type of capital most severely needed in Maine. In addition, most potential Maine investments tend to be smaller than the sizes preferred by venture firms. These two facts speak strongly for the establishment of native venture capital sources. A fuller discussion of this issue is provided in Appendix VII , a background paper entitled, 'A Public/Private Partnership for Economic Development' written to explain certain economic development legislation submitted by Governor Longley to the 108th Legislature in Maine.

*Norton Cushman, Some Aspects of the Vermont Capital Market, Vermont Economic Development Department, August 2, 1976, DRAFT.

Others Accountants, lawyers, and various consultants are not usually capital sources themselves, but do sometimes act as intermediaries. Maine does not possess a deep or close network of financial contacts. There are pockets of expertise in Portland, Augusta, and Bangor, which can sometimes offer leads toward capital. These professionals do not constitute an industry, although their individual industriousness has benefitted some entrepreneurs. Without a focus for their effort, their success will continue to be only somewhat less random than that of the individual entrepreneur or investor trying to make contact with his counterpart.

Further observations on the workings of the elements of Maine's capital markets will be found in Appendix V.

The degree to which individuals supply capital needs in Maine could not be evaluated during this study. One of the clearest capital gaps in Maine is the void in intermediation between individuals with investable wealth and appropriate investment opportunities. Two of the major recommendations contained in this report, establishment of the Maine Development Foundation and the Maine Capital Corporation (see Section V), are intended to provide this intermediation. The following brief illustrations will give some perspective about the role of local, individual investors in Maine.

A successful restaurant owner in southern Maine was forced out of his facilities by redevelopment. He discovered a truly exciting relocation opportunity that required capital far beyond his means. Due to the volatility of the restaurant business in general, he was unable to secure any kind of institutional capital for his expanded enterprise until his bank put him in touch with a wealthy individual who personally guaranteed a loan of over one half million dollars. The project was a resounding success, the loan was paid off, and the guarantor made a fair profit. Another individual, with extensive experience in natural foods retailing, found an ideal site in a coastal town, but needed an extra fifteen thousand dollars in equity which he could not himself provide. His banker contacted every person of means known to him, but could not raise even this small sum. If any conclusion can be drawn from these and similar cases, it is that the effectiveness of individual investors in capitalizing development in Maine is a product of many random connections, levels of education, and predispositions to venture.

D. Existing Federal and State Capital Formation Mechanisms

1. Federal Programs.

The Small Business Administration, the Farmers Home Administration, and Farm Credit Administration operate federal loan and guarantee programs. The SBA has been especially active in Maine in recent years in part as a response to the equity shortages and attitudes of potential lenders explained elsewhere in this report. The Small Business Administration tends to limit its guarantees to loans of one half million dollars. As a result the State's loan guarantee programs under the Maine Guarantee Authority (see below) in recent years have begun to favor applications beginning at that level as a minimum, although this policy is not universal.

2. Maine Guarantee Authority

The MGA is the result of a 1973 legislative consolidation of several state financing activities: the Maine Industrial Building Authority, the Maine Recreation Authority and the Municipal Securities Approval Board. By statute, the MGA has a total industrial loan guarantee limit of $40 million, with a project limit of $2.5 million and a 95% limit on its guarantee of any loan. Machinery, equipment, buildings, agricultural ventures and fishing boats are all eligible for loan guarantees. The MGA charges a fee of from 1/2 to 2% interest above the loan's interest rate. The total limit for recreational projects is $17 million. The MGA also administers the Community Industrial Building Fund which is designed to build speculative industrial buildings in areas of high unemployment on a revolving fund basis.

The MGA or its components have guaranteed 80 industrial projects for loans of $65 million, involving 8,000 jobs, and 35 recreation projects for $16 million and about 1600 jobs. Defaults in the industrial program have run at 8% of total projects and 3% in the recreation program.

A major default in each program has brought the MGA some negative publicity. Both guarantees were made before current project limits were adopted. There are currently 47 outstanding industrial guarantees for $31.5 million and 18 recreation guarantees for $6.6 million. These numbers do not include firm commitments for additional guarantees.

The MGA board of directors consists of nine members: the Director of the State Development Office and eight appointed by the Governor. It meets monthly to consider the recommendations and reports of the Authority's professional staff of two. Applicants come to the Authority primarily through the recommendation of legislators or as referrals from banks. The applicant is asked to complete an extensive application form which is to include a business plan. Most applicants to the Maine Guarantee Authority have been existing firms seeking additional financing to preserve jobs.

The Authority also guarantees the borrowings of a non-profit organization which can be a local development corporation or other authorized non-profit development entity in the State. The applicant firm rents or leases the facility from this corporation and the payments must cover principal, interest, and the Authority's guarantee fee.

With a staff of two, detailed monitoring and oversight of some eighty investments is not possible. The MGA relies on the regularity of the monthly guarantee fees due from each project as an indicator of the health of its portfolio. Personal contacts by telephone are also made, but extensive regular visits for detailed analysis of the progress of the guaranteed projects does not occur. The banks, with up to ninety-five percent of the loan guaranteed by the Authority soon recover the funds which they have at risk and all too often turn their attention to other things.

The direct political flavor of a gubernatorially appointed Board has led to a tendency to place preservation of jobs ahead of sound business and financial strategies in the Authority's priorities. In recent years this approach has shifted toward a harder, more practical line. The Maine Guarantee Authority's major default situations have tended to overshadow its successes. It serves a real capital need in Maine, making loans available above the size limits of the SBA for credits which would not be accepted by banks without the MGA's help. A history of the Maine Guarantee Authority is presented in Appendix VI.

3. The Maine Veterans Small Business Loan Authority.

The Veterans Loan Program was set up by the 106th Legislature. In 1946 the Legislature had voted a 2¢ tax on cigarettes for the collection and distribution of a bonus fund for veterans. While the tax was imposed, proceeds went into the general fund and no bonus fund for veterans was ever created. The 106th Legislature proposed to confer a bonus in kind on those veterans wishing to go into small businesses for themselves. Accordingly, an authority was set up with two million dollars in guaranteeing powers, and a $200,000 operating budget. The Authority could guarantee up to 80 percent of a maximum $15,000 loan. To date some 190 businesses, representing approximately three million dollars in annual sales, have been guaranteed. There have been three failures totalling nineteen thousand dollars of loss to the Authority.

The program satisfies a genuine capital need which seems desirable to fill considering the oft-stated objective of enhancing self-sufficiency, independence and other traditional aspects of Maine life. In order to avoid the allocation of financial resources to inefficient activities, care must be taken to select business endeavors which can be conducted efficiently on a small scale. Otherwise, the State would find itself in the position of encouraging the formation of smaller business entities which will be less viable than their competitors.

The Authority insists that some kind of proprietor equity be invested in the business. It entertains guarantee requests from banks around the state.

While it provides a guide sheet for the bank and another for the applicant, it encourages use of the bank's regular loan procedures and forms. It monitors the interest rate and may negotiate in the interest of the prospective creditor, but it does not set a bank rate or limit. It charges a 1% a year fee on the outstanding balance of the principal.

The staff reported that eight out of ten applications are approved after a careful review of the proposal, the experience of the proprietor and references. The present Legislature (108th) has passed and the Governor has signed a measure doubling the limit to $30,000 on which an 80% guarantee will be made, and adding another $2,000,000 to the Authority's guaranteeing powers for a total of $4,000,000. The staff noted that there are 140,000 eligible veterans in Maine. Also noted was the greater density of participation in the southern and western parts of the state, with only one or two loans originating in Aroostook and Washington Counties. Nearly all the loans have originated from commercial banks.

Types of businesses assisted have included lobster fishermen (the largest single group), woods operators, tractor trailers, grocery stores, electricians, small meat operations, gift shops, lobster trap builders, several professional offices, and many others. These businesses tend to provide employment solely for the proprietor.

Further background on the operation of credit and investment markets in Maine will be found in Appendix IV.

V. RECOMMENDATIONS

The recommendations which follow are directed at special Maine capital needs as they have been observed by the study staff. The principal need is to mobilize equity and longer-term debt, both secured and unsecured. Other major considerations which were documented in Section IV include the following:

- the particular needs of small business
- relatively unsophisticated management with a traditional production orientation and without a marketing and/or financial orientation
- distance from major money centers
- need to import capital to Maine

The recommendations include both State and federal actions, because, in many financial areas, Federal actions have a much greater impact than anything a state can do. Of the following recommendations, those proposals likely to make the greatest impact are directed at the Federal government where the most pervasive rules are made.

The primary objective of all of the following recommendations is to retain and strengthen the private marketplace. Government should use its limited powers to create incentives and programs which will result in a private marketplace which will operate more to the advantage of economic progress in Maine and for the people of Maine.

A. General Recommendation

<u>The executive and legislative branches of State government should take sustained and concerted action to improve Maine's business climate</u>.

<u>Objectives</u>. To decrease the costs and increase the convenience and predictability of doing business in Maine, which will lead to more businesses and thus more jobs and income, State government must consider the total effect of taxes, regulation, energy costs, transportation, financing, and other factors.

Discussion. By being sensitive to the impact of seemingly unrelated policies on job and revenue generation in the private sector, the State can play a significant role in shaping its economic future. Other recommendations in this report will improve the availability of capital to meet demand within the State. Increased demand depends on a perception by business that it can use the capital profitably in Maine. That perception requires that the State control expenditures, undertake long-run tax reform which stimulates economic development, and attempt to deliver more services at less cost. Capital markets activities are but one part of the State's economy, but they can be improved along with other parts if the State implements carefully integrated programs that capitalize on its strengths, minimize its weaknesses, and foster growth areas of its economy.

Required Actions. The capability to evaluate the costs and benefits of proposed rules and regulations before they are promulgated must be developed in a single agency of State government. This can be accomplished through legislative action establishing a Council of Economic Advisors, charged with this responsibility, to serve both the legislative and executive branches. It can also be accomplished by administrative action of the Governor, establishing a review agency to serve only the executive branch.

Executive agencies of State government must be directed to consider the impact of their actions on the business climate, both before the action is taken, as a consideration of its advisability, and after the action is taken, as one measure of its necessity and effectiveness.

The State Planning Office should consider the State's competitive position in its economic planning activities. It should prepare recommendations for the Governor and Legislature on means to improve that position in areas where the State has some control.

B. Credit Recommendations

1. <u>Through private capital market mechanisms, increase the availability of short-term secured working capital to Maine businesses, particularly to finance seasonal raw materials (or commodity), work-in-process, or finished goods inventories</u>.

<u>Objective</u>. Increase the viability of certain types of Maine businesses which by nature have relatively large, risky working capital needs to finance seasonal inventories.

<u>Discussion</u>. Quite a number of Maine businesses are characterized by wide seasonal fluctuations in their working capital needs to finance inventories. Examples include:

- Farmers, who need capital to finance crops and may want to hold harvests for a time to gain a better price.
- Christmas tree sellers
- A range of recreational equipment manufacturers and sellers, whose sales are primarily seasonal
- Manufacturers of a variety of products requiring the seasonal purchase of raw materials

Compared to other types of businesses, the working capital needs of these firms are often relatively risky because of unpredictable fluctuations in the market prices of either critical raw materials and/or the finished product (or commodity). Therefore, commercial banks are understandably reluctant to finance these needs, even on a secured basis, because the value of the security is volatile.

The unsatisfied capital need in this case is one of degree. Certainly Maine banks do service this type of loan; just as certainly some of these businesses are constrained by their inability to get as much working capital as they need. Maine banks are more likely to finance those individuals and businessmen in which they have a high degree of trust, usually based on long experience. And, as discussed previously, out-of-state banks and factors do not seem to view Maine businesses requiring this type of credit to be worth the trouble, principally due to the size of each individual capital need.

In addition, this is a difficult need for banks to service fully, because of the very real trading (or market) risks involved. For the same reason, public intervention seems inappropriate, and no recommendation for direct public action is made or inferred. However, an innovative private sector solution (undefined at this stage) would be welcome. As incomplete a recommendation as this may be, it is included to point out a genuine problem and to invite imaginative people in the private sector to think about it, in the recognition that a public initiative is not justified.

Required Action. Maine banks making working capital loans should consider techniques to further the availability of this type of credit while maintaining their fiduciary responsibilities. Since this will continue to place definite limits on what banks can do, other in-state private financial interests may want to innovate as factors or otherwise attempt to serve this need more completely, with or without the participation of banking institutions.

2. Maine bankers and savings banks, through their industry associations, should evaluate the need for a pooled-risk source of term loan funds. Should the need prove sufficient, they should design a vehicle through which such funds could be made available.

Objectives. Such a vehicle could help finance marketing and other business expansion activities other than investments in real estate, plant, and equipment. It would replace the collateral of proprietors and businesses which is now used inappropriately to secure their term borrowings.

Discussion. Study staff concluded that there is a need in Maine for a pooled-risk source of term loan funds. Different means to accomplish this objective were considered, but a practical approach that would work in Maine was not determined.

The thrift institutions in Maine have an unusually high proportion of Maine's bank deposits but lack powers to deploy them where they are most needed. Thrift institutions' assets are predominately time deposits. Traditionally, these are considered long-term and the behavior of savers substantiates this as long as their return bears a reasonable relation to circumstances in the economy. Currently in Maine, thrift institutions are engaged in an expansion of capability in the commercial lending area. Least well served in this area are smaller business firms' needs for term loans of three to eight years' duration and from $25,000 to $100,000. This is not the first area one would expect the thrift institutions to look for new business.

Business borrowers use their "debt capacity", usually collateral, to finance hard assets like buildings, equipment, inventory and receivables. When they need longer-term money for general purposes only the firm's earning power remains as assurance that the borrower can pay interest and principal. If the company is small, new, or new to the area, there is no record of earnings from which to project future earnings. A banker then turns to other security, including the owner's personal assets, if these are not already committed. If the owner is lucky he can sometimes find a wealthy guarantor whose cosignature on the loan gives the confidence the banker needs to commit his depositors' funds.

Time deposits in savings and loan associations, savings banks and commercial banks are relatively slow-moving. They support the institutions' traditional commitment to private housing. With the higher availability of funds of recent years the thrift institutions now look toward other types of lending of reasonable durations. The three to eight year term loan is one such type, but it is lacking in security.

Required Action. Commercial and thrift institutions, perhaps through their private associations, should collaborate on this effort. One possible option to provide this source of capital would be a term loan reserve fund, financed by tax-exempt bonds sold through the banks.

The fund would guarantee a set portion of a lending bank's term loan to a Maine business, with a collateral limit on the unguaranteed portion. Loan rates would be tied to the Boston prime rate plus premiums for the lending bank and the reserve fund.

3. Establish a small business loan insurance fund, similar to the Veterans' Small Business Loan Authority, to make business loans available to all Maine people.

Objectives. This fund would enable individuals to establish small businesses more easily. It would encourage self-sufficiency and small-scale entrepreneurial activity, which are traditional in Maine. It would encourage diversity in the State's economy and fill a gap not covered by existing State or Federal guarantee programs.

Discussion. The program would duplicate the Veterans' Small Loan Authority described on page 50, but would not be limited to veterans. A $30,000 loan limit with an 80% guarantee would be imposed.

The Veterans' Program has primarily assisted one-man businesses. Although portfolio losses to date have been low--three of 190 businesses, $19,000 of $1,800,000 guaranteed--jobs created have been limited to those for the 190 proprietors. Some added help may be required, but no major employment multipliers act when this mechanism is put to work. Still, the businesses supported serve useful functions and form a key part of a community's services.

Required Action. The Legislature should enact and the executive branch implement such a fund.

4. Modify the Maine Guarantee Authority to allow it to issue state-level industrial revenue bonds and umbrella bonds, to require it to prepare an annual investment strategy, and to remove the lower limit on the percentage of a loan which it may guarantee. In addition, eliminate the requirement for a local referendum on municipal revenue bond issues.

Objectives. These changes will strengthen the MGA's loan insurance programs; extend low-cost, long-term debt financing through tax-exempt bonds to smaller companies which have previously been unable to use them; and improve the current municipal industrial revenue bond program by removing the costly and time-consuming referendum requirement.

Discussion. This recommendation will allow the State to make better use of the MGA without increasing its total guarantee limit, so that the State's credit rating should not be affected. The annual investment plan will provide a focus for MGA activities and provide a better understanding of its function to others. The State Treasurer should also become a member of the MGA board, to help protect the State's credit rating and provide assistance in the new programs proposed above.

Eliminating the current minimum of 75% of the total loan to be guaranteed, while keeping the 95% maximum, will allow the MGA to fill only the minimum need of each borrower, thus possibly making it possible for the MGA to guarantee more loans for the same total liability.

The new industrial revenue bond program would allow the MGA to issue such bonds, as Maine municipalities currently do. Industrial revenue bonds are bonds issued by public entities for private businesses; they have generally been used by larger, established firms. Because these bonds are exempt from Federal taxes, they allow a company to obtain long term debt capital and to save 1 1/2 to 3 percentage points on the rate of interest to be paid. The public entity has no financial liability; it simply serves as the conduit for the company involved.

The MGA is the logical state agency to issue these bonds because it has experience in business finance, can be assisted by the State Treasurer's Office, can provide rapid service at the least cost to companies, and is a major part of the State's economic development effort. The bonds can also be issued as "umbrella" bonds, which provide financing for several relatively small insured projects. This will be of most help to smaller firms which are currently unable to benefit from long-term tax exempt financing.

It will also improve the quality of the MGA's loan portfolio by filling a capital market gap in service to small, viable firms.

Required Actions. The 108th Legislature should enact L.D. 1886, which includes these changes. The State Planning Office, MGA, and State Treasurer should collaborate on business plans for the new programs and initiate them. The MGA should increase its professional staff to increase the amount of on-going contact between the portfolio firms and the MGA for the purpose of oversight and control. The MGA should consider emphasizing lower percentage levels for its guarantees so that the lending bank's exposure would last longer, giving it more interest in the on-going affairs of the borrowing firm.

C. Investment Recommendations

1. The Maine Development Foundation (MDF) and the Maine Capital Corporation (MCC) as presented in Legislative Documents 1243 and 1250 before the 108th Maine Legislature now in session should be enacted, signed and given the required resources to be put into effect.

Objectives. The MDF would provide a center for state and private sector economic planners and developers to coordinate proposals and policies. The MDF's independent ability to sponsor and start projects is intended to make it possible to draw forth from government, business and private citizens a concensus on developmental objectives upon which it will then act. It will help Maine businessmen and entrepreneurs evaluate business opportunities, prepare business plans, locate appropriate sources of capital, and make presentations to those sources. The objectives of the Maine Capital Corporation are to provide equity for entrepreneurs' new or expanded business projects which are likely to benefit the State's economy, and to use that equity to generate other equity and debt investment.

Discussion. The MDF will be a not-for-profit corporation designed to bridge the gap between the early stages of private and governmental project/policy development.

Run by development professionals supported by contributed funds matched by tax dollars, it is not to be dominated by either source. A balanced board presided over by the Foundation president will govern. With highly professional staff, it could undertake development projects on its own or it could help package and close industrial location deals, working cooperatively with existing State and local development organizations and private interests.

The Foundation would have significant responsibilities to encourage the creation and expansion of Maine businesses. It could do this directly by providing marketing, business development, financial, and other types of management and technical assistance or indirectly by arranging with others for this kind of assistance, such as provided by the University of Maine through the New Enterprise Institute or the Small Business Administration. In particular, it would assist worthy Maine businesses and entrepreneurs to get appropriate financing, by helping them evaluate their business prospects, prepare financial and business plans for potential investors, and find potential sources of capital. If the Maine Capital Corporation is established, the Foundation could refer deserving Maine businessmen needing equity funds to the Capital Corporation.

The Foundation could also monitor the climate for business in Maine and make recommendations to improve the business climate.

As a private corporation, the Foundation would be able to move more decisively than a governmental agency to address perceived needs and to take advantage of economic development opportunities.

The MCC will not be a staffed organization, but rather function as a for-profit equity financing force with a privately raised $1,000,000 fund invested by vote of its board of two gubernatorial appointees and seven members elected by investing stockholders. The State's presence on the board results from a state tax credit to investors of up to 50% of their investment.

Board actions will be taken on proposals originated or forwarded by the MDF staff. A prime criterion for favorable action will be the possibility that the MCC investment will initiate other equity commitments from both within and outside the state, to produce capitalizations which are capable of carrying debt financing without being weakened by debt service outflows.

The State Planning Office's background paper on these organizations and the Legislative Documents covering them are provided in Appendix VII.

Required Actions. The Legislature must pass L.D.'s 1243 and 1250 to create these corporations. The Governor, State Development Office and State Planning Office must then start work to implement them as soon as possible, under the terms of the legislation. The private sector should support these organizations with contributions of money, time, and expertise.

2. Executive and legislative encouragement of Small Business Investment Corporations (SBIC's) in Maine should be provided, including amendment of Sec. 555, Ch. 55 of the Maine Revised Statutes to allow thrift institutions to invest in stock in Maine-based SBIC's, and exempting Maine SBIC's from income and capital gains taxation on in-state investments.

Objectives. These actions will make more investment capital available in Maine for Maine business and bring in more capital from the Federal government.

Discussion. The U. S. Small Business Act of 1958 enabled the formation of private capital intermediaries which could obtain federal guarantees of loans to them for investing in small and developing business. The privately invested equity can now be matched by four times as much money in guarantees. Maine has no SBIC's. The SBIC program permits private investors in the SBIC to make investment decisions with their own dollars and then multiply their judgment by a factor of three for long-term debt and four for equity, by borrowings of that much more which are insured by the Treasury. Encouragement of SBIC's in Maine, in effect, will involve the U. S. Treasury in enhancing Maine business prospects.

An SBIC is a private corporation. Its capital is raised by sale of stock. It must raise at least $500,000 in this way, and should raise more. It entertains investment proposals from small or developing firms (usually not start-ups). Because a staff must be retained, some income is necessary. This accounts for the frequent long-term debt orientation many SBIC's display, because interest income provides maintenance until investments come to fruition. A typical investment will involve a long-term note plus warrants to buy stock at low prices or a convertible debenture .

In exempting SBIC's based in Maine from income and capital gains taxation on in-state investments, losses should be designated as income losses and allowed to be carried forward until exhaustion. This state action would follow a Federal precedent under Internal Revenue Service guidelines to encourage investment in small or developing firms by considering losses as income losses rather than capital losses, which, like the exemption from taxes on gains, would reduce the tax liability of the investor. The State's tax "loss" in this case is due to its interest in the potential gains for the State's economy through this mechanism.

Since the equity in an SBIC is at risk, a thrift institution's exposure should not be permitted to be great. It is recommended that investments of up to 2% of a thrift institution's deposits in Maine-based SBIC's be permitted. A single bank or savings and loan association should not be permitted to own more than 10% of the stock of an SBIC.

Required Actions. Legislation should be drafted by the Legislature or an executive agency such as the State Planning Office or the State Development Office, submitted and enacted by the Second Session of the 108th Legislature.

3. Support the recommendations of the Report of the SBA Task Force on Venture and Equity Capital for Small Business (SBA, January 1977).

Objectives These recommendations will improve the attractiveness of equity and venture capital investments in the nation and in Maine.

Discussion. Because the great majority of Maine's business concerns are small by Federal definition (500 employees or less), measures intended to encourage small business will produce an extra benefit for Maine. In January 1977 a Task Force on Venture and Equity Capital appointed by Mitchell P. Kobelinski, head of the U. S. Small Business Administration, made recommendations, a verbatim summary of which follows, which would dramatically improve the prospects for fruitful economic development in Maine. These measures, taken together, would have more useful influence than all of the previous recommendations of this study.

SUMMARY OF SPECIFIC RECOMMENDATIONS MADE BY THE TASK FORCE

Tax Laws and Regulations

- - - Increase the corporate surtax exemption from the present level of $50,000 up to $100,000;
- - - Allow greater flexibility in depreciating the first $200,000 of assets;
- - - Permit investors in qualified small businesses to defer the tax on capital gains if the proceeds of the sale of a profitable small business investment are reinvested within a specified time in other qualified small business investments;
- - - Increase the deduction against ordinary income of capital losses in a small business investment made under Section 1244 of the Internal Revenue Code from $25,000 in annual deduction to $50,000, and increase the limit on an offering from $500,000 to $1,000,000 and on issuer size from $1,000,000 to $2,000,000 in equity capital;
- - - Permit underwriters of the securities of smaller businesses to deduct a loss reserve against the risks inherent in the underwriting and carrying of such securities;
- - - Revise methods by which revenue impact of tax changes are estimated to reflect revenue gains from the business use of tax savings and the stimulus to capital formation that tax incentives provide.

Small Business Administration (SBA)

- - -Provide that some portion of the guaranteed borrowing available to SBICs take the form of debt with the interest partially subsidized, if the funds are used to make equity investments;
- - -Permit SBICs a deduction from ordinary income for loss reserves on both the equity and debt portions of their portfolios;
- - -Immediately make a substantial increase in the size standards for SBIC investments and also provide for either an annual revision of these standards or index them according to broadly accepted price indicators;

- - -SBA should require and encourage commercial banks to assume a larger portion of the risk in SBA loans and change its guarantee fee from a one-time fee of 1% of the amount of the guaranteed debt to an annual fee which more nearly reflects the value and cost of SBA's guarantee;
- - -Substantially expand SBA's Secondary Market Program by creation of a "Certificate" system for the sale of SBA-guaranteed loans.

Institutional Investors/Employee Retirement Income Security Act (ERISA)

- - -Amend ERISA to declare a policy that pension funds may invest in a broad spectrum of American companies within the "prudent man" rule and that it applies to the total portfolio rather than any individual investment. Also create a "basket" of 5% of the assets of any plan within which investment managers can invest according to standards of prudence and liquidity appropriate to higher risk small business investments;
- - -The development of professionally managed pools of capital should be encouraged so that pension fund managers, otherwise constrained by time or expertise, may participate in the investment in new ventures and in growing smaller companies. These special funds should be specifically exempted from the provisions of the Investment Company Act of 1940;
- - -In cooperation with the SEC and other regulatory bodies, exempt the illiquid securities of small companies from "mark-to-market" or "fair value" accounting treatment.

Securities Laws and Regulations (SEC)

- - -Increase the small offering exemption from $500,000 to $3,000,000;
- - -Enact the limited offering exemption as proposed in the American Law Institute project to codify the securities laws;
- - -Retain and simplify Rule 146;
- - -Amend Rule 144 to provide that the existing quantitative limits apply for only a three-month period rather than a six-month period. In addition, change those limits to one percent of outstanding shares or the average weekly volume, whichever is higher instead of whichever is lower;
- - -Develop procedures under which solicitation, with appropriate compensation to develop a market, may be undertaken if buyers are provided with copies of financial data and other disclosures regularly filed with the SEC along with a supplemental statement on mode of offering, identity of underwriters, price of securities offered, and information needed to update the data on file with the SEC.

Required Actions. Maine's public and private sector leadership should do all in its power to encourage the adoption of all of these recommendations. This could include an endorsing resolution by the legislature, initiatives by the governor for their adoption as NERCOM policy, and strong urgings by both governor and legislature that the Congressional delegation introduce and support enabling measures.

4. Support elimination of the Federal income tax on dividends.

Objective. This action will improve the climate for equity investment.

Discussion. This part of the nation's tax load is a double tax, because dividends are taxed after corporate income has been taxed. It is a major deterrent to equity investment and, as such, is pushing the country's overall debt/equity ratio toward excessive debt. Tax exemptions for interest from the obligations of governments also support this move. Those with investable funds are turned away from equities by low after-tax yields and toward tax-exempt government-backed debt. The attractions of these two forms of investment are out of balance, now favoring governmental participation in the financing of private business via tax-exempt revenue bonds. Elimination of dividend taxation would tend to make equities more attractive, strengthen balance sheets, and enable firms to obtain long-term debt without use of tax shields and government collateral.

Several approaches to accomplish this recommendation are now under discussion at the national level. This study does not support any particular single approach.

Required Actions. The economic analysis staff of the State Planning Office should monitor proposals in this area and provide support to a lobbying effort by State officials to preserve Maine's best interests while insuring that this recommendation is carried out.

5. The State and the University of Maine should support services to Maine businessmen such as those provided by the New Enterprise Institute of the Center for Research and Advanced Study of the University of Maine at Portland-Gorham.

Objectives. This service will improve the capabilities of Maine businessmen, especially in the areas of innovation, business and market development, and finance; encourage the formation of a business, financial, and innovation "network"; and help create higher value-added businesses in Maine.

Discussion. There is a critical need in Maine for this service; it must precede the proper use of capital. NEI has accurately defined the needs for managerial enhancement in Maine. The Institute's purpose of raising the Maine businessman's awareness of good management and financing techniques and possibilities is appropriate for all areas of the State. The beneficial effects of NEI's presence will multiply as its business extension capacities are added to the other campuses of the University, and as those who have had close contact with it increase. The benefits of the University-based agricultural extension movement are well known. Today the United States is reaping a rich harvest from its investments in the broad dissemination of agricultural skills across the land over the years. A repetition, this time in the field of business, is just as possible and just as important.

State government and the University should sponsor and fund enhanced facilities for business education in the form of post-graduate, mid-career outreach, and informational service resources for the business community.

Required Actions. The University of Maine should establish a blue ribbon task force to study the need for and means of delivery of such services throughout the State. The task force should be supported by State government and its findings implemented if possible. The Maine Development Foundation, once established, should encourage the New Enterprise Institute and similar efforts, and work closely with them.

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APPENDIX I

Selected Passage From
"Toward a Positive-Sum Strategy
of State Economic Planning:
Reflections Upon Two New England
Regional Commission Studies"

by

Martin T. Katzman

in

The New England Journal of Business & Economics
Volume 2 Number 2 - Spring 1976

Internalizing Externalities

All three conventional mechanisms for financing land, plant, and equipment are predicated on the notion that the private balance sheet is a good indicator of the social profitability of investment. Conventionally, it is assumed that market distortions are quantitatively unimportant in the American economy. Economists working in developing countries routinely make the contrary assumption, i.e., that product and factor markets are subject to such distortion that the market calculus rarely identifies socially profitable investments.

Moes (20) spelled out the nature and consequences of labor market distortions in the American context most clearly. In an economy where union agreements, minimum wages, and social insurance apply nationally, regions of chronic unemployment and underemployment will have wage levels substantially above the social cost of labor. Businessmen will underestimate the return on investment in these regions, since a large share of the return is appropriated by labor in the form of higher wages rather than being totally appropriated by capital as in the full employment regions. Consequently, there will be underinvestment in the former areas and overinvestment in the latter. Applying the Theory of the Second Best, we may conclude that no matter how much capital markets are perfected by reducing transactions costs and pooling risks, they will continue to misallocate capital so long as there are imperfections in labor markets.

The empirical relevance of this argument would appear to be of greatest consequence to urban ghettos where unemployment rates have chronically equaled two or three times the rest of the region, and to the peripheral areas of New England where underemployment or disguised unemployment prevails. For example, suppose an electronics plant is considering locating a $1 million plant in the Midwest (a full employment area), northern Maine (an underemployment area), or an inner city in Connecticut (an unemployment area).

Suppose a union wage scale applies uniformly to all three areas, and the wage bills are $500,000. Because of the skill of the labor force, the Midwestern location produces the greatest value added - $600,000; the less skilled workers of the inner city, only $400,000; and the workers in Maine, $450,000, when transportation costs are subtracted from sales. Clearly, the Midwest is the best location from the point of view of the businessman's balance sheet (Exhibit 2). This location does not necessarily result in the highest and best use of society's resources, when returns on investment that are not appropriated by capital are taken into account. The opportunity cost of labor in northern Maine is considerably less than the hypothesized union wage scale; to wit, it equals the value of money income an individual can scrape together by fishing and living off the land in a manner known as the "Maine way of life," plus the minimum compensation the worker would require for the regimen of the factory. In the inner city, the opportunity cost of labor is even lower, consisting of clothing and food expenses required on the job, less welfare services no longer demanded. When the opportunity cost of labor is taken into account, the balance sheet looks quite different. Labor costs to society are lower than before in Maine and Connecticut, and returns are slightly increased by the multiplier effects of the additional income. After these adjustments both New England locations are more attractive than before.

Exhibit 2

HYPOTHETICAL RETURNS TO INVESTMENT IN THREE LOCATIONS

	Private Balance			Social Balance		
	Midwest	Connecticut	Maine	Midwest	Connecticut	Maine
A. Value added	600	400	450	600	400	450
B. Less labor cost	500	500	500	500	200	300
C. Return of capital	100	-100	-50	100	200*	150*
D. Rate of return	10%	-10%	-5%	10%	20%	15%

Notes: A. Value added = sales less purchases, less transport costs. Assume especially low productivity in Connecticut; high transport costs in Maine.

B. Assume increased work related expenditures in Connecticut offset by reduced welfare services on social balance sheet.

C. Return to capital = A - B

D. Rate of return to investments = C/$1000

* Plus returns resulting from the local multiplier effect.

APPENDIX II

Selected Passages from
New England Business:
Verification of Capital Gaps
in New England

T. A. Associates

September 30, 1976

II. REVIEW OF CATEGORIES

Category (a) - "Mature businesses without growth potential but viable. Businesses which employ reasonably large numbers of people and which are the backbone of New England employment. These businesses could be subject to spin off by their parent companies because of their lack of growth potential, could be subject to take-over bids and asset stripping because their net worths were considerably higher than market value, etc. In other words, businesses which were vulnerable to being removed along with their attendant employment from New England."

The cases which filled this category were not companies subject to take-over bids but subsidiaries or divisions of large national companies or conglomerates which were being sold or abandoned by their parents. T. A. Associates researched three companies which were in the process of being sold or abandoned. In each case, financing was or is in the process of being obtained which will maintain the attendant employment in New England.

Although the financings for these entities were not the same, there were similarities in the final debt and equity structures. Each financing represented heavy leverage i.e. the debt was considerably larger than the equity. In two of the cases, the equity money was provided by E.S.O.T. (Employee Stock Ownership Trust). The senior debt in one case was provided by a commercial bank mainly and by a finance company and savings institutions secondly. In another case the senior debt was provided by savings institutions on a first mortgage basis. In the final case, the senior debt is planned to be provided by a commercial bank with a guarantee of 90% of the debt by an agency of the United States Government. As mentioned earlier, each case involved senior debt well in excess of effective equity. Although the profits and cash flow at current and projected levels are sufficient to service debt, the question arises of what will happen during a period of economic downturn. Will the companies be able to survive on such a meager equity base or will the heavy debt burden consume them?

Pivotal to the above financings being accomplished was the availability of subordinated debt, unguaranteed debt or senior equity. These financing vehicles were positioned between the senior debt and the equity. In each case, these issues were the most difficult part of the financial package to complete. As mentioned above, the senior creditors had collateral to lend against and the equity owners i.e. the employees (through the E.S.O.T. arrangement) had their jobs to protect. Those providing the filler money had no identifiable institutional characteristics, and were difficult to locate and organize. In one case the subordinated debt holder was the selling, parent corporation. In another, the savings institutions providing the senior money also subscribed to the preferred stock. And in the final case, the unguaranteed portion of the senior debt has still not been spoken for.

The absence of this filler type money made the deals outlined above difficult to accomplish. If the parent company or the interested savings banks were not willing and imaginative, the above financings would not have been completed, and close to 2,500 jobs would have been lost. A question arises -- should this vital type of financing which is not provided regularly by any existing financial institution be dependent upon the whim of the disinvestor or the charity of the local institution? Another question arises -- is it proper for institutions which have on occasion provided this financing to do so? Is it proper, for instance, for a savings institution to risk its depositors' money by investing in a heavily leveraged buy-out? These questions and many others point to the fact that existing institutions or, for that matter, new ones might be called for in order to meet this type of need. Before reaching a conclusion on this matter one, of course, would have to establish the depth of need for this type of financing. T. A. Associates believes, due to the configuration and age of New England industry, and what it has heard from a limited number of sources that there is some modest depth of unsatisfied need. Establishing the precise requirement is difficult.

<u>Categories (b) and (c)</u> - Since many of the cases are technology oriented, Categories (b) and (c) have been combined. A description of the combined categories follows:

"Mature businesses with growth potential which because of size and because of institutional bias toward their industry do not receive credit or equity from New England Institutions."

In the paragraphs below, T. A. Associates will deal specifically with Senior Debt and Junior Debt (effective equity) cases. For the purposes of this paper, the real equity market for companies in the \$10,000,000 - \$100,000,000 sales category does not exist today and has not existed for the past two years. During the years of recession, the public market for equity securities virtually did not exist for any type of company, let alone the technology oriented company in this category. Although the recovery period has allowed the larger company to market its shares to the public, the modest sized technology based firm still has not been able to access this source of capital. Although it is impossible to predict when conditions will become favorable enough to insure this access, there are no positive signs at this juncture.

For this reason which is generally known and accepted, the contractor, other than investigating the public equity market conditions with the major regional underwriters in a general way, did not expose the underwriting fraternity to each individual case.

In the Senior Debt area, three cases of long term, unsecured indebtedness were initially presented to the appropriate senior lending institutions of New England (Insurance Companies). In addition, one junior debt case became a senior case with the financial proposal being changed to conform to the suggestion of one of the area's investment bankers. The three senior debt cases ranged from a profitable company with sales of $100,000,000 to a profitable company with sales of $15,000,000. The products manufactured by these companies ranged from sophisticated computers and peripheral gear to very unsophisticated, garden variety components whose product lives were long and predictable. Regardless of the receptability of the companies' products to obsolescence, the long term senior lenders of New England almost universally consider any electronic product to be high technology and hence undesirable. Their fear of product obsolescence and inventory devaluation verges on being paranoid. If the inquiry goes beyond the knee-jerk reaction phase, it usually founders on how long it will take for the institution to really understand the company. It seems to be much easier for our long term lenders to understand back hoes, for instance, than electronic components. The junior debt case which became a senior long term debt case involved the finance company arm of a retail organization and was acceptable to the long term lenders because of their ability to secure protection from the collateral. It is safe to say, however, that manufacturing companies with any degree of involvement with electronics within the sales ranges we are talking about will have trouble financing on a long term basis.

Unfortunately, these kinds of companies represent one of the few growing or potentially growing elements in the New England economy.

Also in the Senior Debt area, one case of secured indebtedness was presented to the senior lending institutions of New England. This company had been forced out of its premises by fire and was seeking mortgage financing for a new building. The company is a very profitable concern operating in the time-sharing industry, and its building requirements were quite specialized. For this reason it was not able to arrange first mortgage financing in the amount necessary to complete the building. However, a development corporation was willing to investigate the possibility of second mortgage financing for this facility. T. A. Associates understands the unwillingness of mortgage institutions to lend against a costly, single purpose structure. Unfortunately, a number of high technology companies which are process oriented need this type of facility. Although once again it is difficult to assess depth of need, T. A. Associates doubts that the need for this type of financing is very deep.

In addition to the bias mentioned above, T. A. Associates found that almost all of the long term, lending institutions had passed through a period of trauma (recession, stock market losses, problems with R.E.I.T.s) and had become considerably more conservative. They were generally looking for companies with net worths of over $30,000,000 and with long sustained growth in earnings. They generally were looking for senior BAA credits and only seldom would back down to the BA category. They were looking for larger credits, on an average nothing lower than $3,000,000, in a desire to utilize their overheads more effectively and to put their enormous cash flows to work as quickly as possible. Although the money market is much looser and bidding for loans is more competitive now, the insurance company lender is generally upgrading its credits by dealing with larger companies which are thoroughly understandable. Unfortunately, New England is not overly endowed with this type of company with the result that the cash flows of these institutions are going elsewhere.

This more conservative posture means that the long term lender has no interest in the Junior Subordinated Debt area. The remainder of the debt cases which were all subordinated credits were rejected out of hand. The reason for this rejection was stated above. Although it is comforting to the senior lender to have subordinated debt in support of a senior position, it is still debt, still something to be repaid if it is not converted. Although represented as effective equity which upon improved performance and buoyant stock market conditions would become converted into real equity, the senior lender regards it now (in poorer times) as a form of "bastard" equity at best and bothersome debt at worst. Not only is this form of investment of no interest to the insurance company lender, it also is regarded as being a negative in a company's capitalization.

At present there is no source of subordinated debt for companies in this category. For smaller companies such as those in Category (d) and below, the SBIC is an active and available source of capital. For the larger company, this is not the case, and the absence of this "effective equity", is critical to the growth of New England companies, especially now when the public real equity market does not exist. Call it what you may, subordinated debt has been an important element in the growth of New England companies and its absence is being felt.

Category (d) - "Rapidly growing businesses with sales volume between $1,000,000 and $10,000,000. These businesses which would be profitable, typically would have the need of funding out heavy short term borrowings on a long term basis." This category might very well have been misdrawn. The question arises -- should a rapidly growing, profitable company ever seek to term out its debt on a permanent basis? The answer probably is no. This type of company should always strive to keep its debt structure flexible and work with its commercial bank to satisfy its needs. If a company did need equity support to handle a high level of indebtedness, this support is readily available from the SBIC community and from venture capitalists who recently have tended to move their investment criteria from the high risk to this more protected area. Through a combination of available equity and the willingness of commercial banks to design imaginative credits, there is no shortage of money for this category.

Category (e) - "Companies proceeding from the prototype stage to the pre-production stage." This category was expanded to include small companies with interesting products whose sales volumes were between \$100,000 and \$1,000,000. In most cases these companies would be losing money, but on a steadily reducing level as their volumes increased. Nine cases were developed in this category and were presented to the venture capital community, including SBICs and other venture capital organizations. The cases included a sample of those companies actually seeking financing at this time. Although the cases represented viable technologies and businesses, the quality of the company was not equal to the quality of company looking for capital six or seven years ago. The reason for this phenomenon is not clear at this time but will be discussed briefly in this report under Observations. There was, however, a willingness to actively review the cases and to commit to further study with a view to making an investment.

Of the nine cases it appears that one certainly could have been financed, and that two others had a reasonable opportunity of being financed. Of the remainder, four for various reasons including financial structure, product weakness, market size and unproven or weak management were not of interest to the venture community. The remaining two, although interesting and profitable, were growing at a rate that was too slow to merit the expected return.

T. A. Associates, despite the lack of firm evidence, draws the conclusion that the venture capitalist is willing to commit capital to this area. If a company has a prototype in the hands of a few users and if the users give indication of buying the units in quantity if they meet specifications, and if the market is of reasonable size, the venture capitalist will play. Unfortunately, other than the one clearly acceptable case mentioned above, the quality of company presented did not yield clear cut evidence that this was the case. The absence of the quality of deal that was available in the late 1960s was perplexing and frustrating to T. A. Associates.

However, one area of need was clearly established, i.e. lack of capital for the small, profitable, viable company growing at too slow a rate to be of interest to the venture capitalist. A small company growing at a 10% rate, operating in a small market, simply did not present the opportunity for gain and liquidity necessary for the venturer to be willing to take the risk. The lack of capital or subordinated debt for this type of company could potentially restrict the development of jobs and employment and represented a clear cut gap. Although the commercial banks and the SBA adequately served the debt needs of this type of company, capital was in short, if any, supply.

<u>Category (f)</u> - "Start up businesses which need seed capital to take their idea or product from the breadboard to the prototype stage." Two seed capital cases were presented to the venture capital community, and although one firm showed some interest in proceeding with an investigation, the overwhelming reaction was negative. The cases represented interesting technology and the observation was made that in the 1960s, these were cases that very well could have been financed. However, today, because of the altered risk-to-reward ratio caused by the lack of a public new issue market, the inability of the venture capitalist to remain liquid, the availability of other less risky avenues of investment, and an increase in conservatism generally, the venture capitalist is not interested in investing in the risky start up and is considerably more interested in investing in Category (d) mainly and Category (e) secondly. There is a clear cut need for seed capital because of the abdication of the venture capitalist from this area.

<u>Category (g)</u> - "Businesses which could become part of the economic infrastructure of New England but which cannot be financed by normal credit or equity sources because of the risks of the project and the large amounts of money required." When this category was drawn, the contractor had in mind infrastructure projects concerned with energy and transportation. It became obvious during the course of case development that the capital which is required to equalize energy costs and improve New England's transportation system is of a magnitude which could be provided by the Federal Government or by a coalition of States in the Northeastern region. For this reason, T. A. Associates developed only two infrastructure projects, one dealing with energy on a community

basis, and the other with waste recycling. The energy project was turned down by various financial institutions because of its developmental nature, long lead time, and money involved (even though the funds required were not open ended), and the waste recycling project was turned down because of the size of funding, the long time horizon, and the political uncertainties involved. It is safe to say that venture capitalists and senior lenders do not have the stomach to finance open-ended, long lead time projects of a developmental nature where it is necessary to react to the political realities involved. Smaller infrastructure projects such as the ones mentioned above do not necessarily have to rely upon the Federal Government to be financed and could very well become the domain of a new entity or restructured private entity.

OBSERVATIONS

a) Gaps were identified in the following areas:

(i) Funding primarily on a junior debt or senior equity basis for subsidiaries or divisions of large companies in the process of being spun off, liquidated or abandoned.

(ii) Senior debt for growing, profitable companies with sales volumes between $10,000,000-$100,000,000 which are or perceived to be technology dependent.

(iii) Junior debt for growing profitable companies with sales volumes between $10,000,000 and $100,000,000.

(iv) Junior debt and equity for small companies growing at a rate too slow to attract venture capital.

(v) Seed capital of any nature for new and interesting innovative products or processes.

The infrastructure gaps have not been listed since in most cases they can only be satisfied by massive inputs of capital available to the Federal Government.

b) Difficulty in developing depth of need.

It was impossible to develop the depth of need in each area mentioned above. Because of its inability to involve (for the reasons alluded to earlier on page 12) the commercial banks of the region in developing cases, the contractor was not able to define the depth of need. As sure as T. A. Associates is about there being gaps, as unsure T. A. Associates is about the depth of these gaps.

APPENDIX III

Selected Passages From
A Study of Financial Institutions
in the
State of Maine

Prepared by the State of Maine
Bureau of Banks and Banking

by

Carter H. Golembe Associates, Inc.

November 12, 1973

.....That is, while the portion of funds of Maine's financial institutions allotted to loans is relatively high, the absolute dollar amounts of credit are not. This is reflected in such figures as assets in financial institutions per capita and credit per capita. Nationwide, financial institutions[1/] have assets of $4,907 per capita; in Maine, the comparable figure is only $3,326. Total loans outstanding per capita nationally are $2,901; in Maine only $2,143. If Maine borrowers were to have the same level of debt as elsewhere, it would require Maine institutions to have an aggregate loan-to-asset ratio of 87.2 percent. Thus, assuming that the demand for credit in Maine is similar to elsewhere implies that either some needs will go unfulfilled because of a lower amount of funds (assets) per capita or that funds will have to be diverted from other uses into loans. The latter could decrease liquidity and/or the financing of others (for example, state and local governments). The evidence suggests that Maine institutions have taken somewhat of a compromise position -- i.e., the higher loan-to-asset ratio has partially but not fully met the credit shortage implied by the lower level of financial assets in Maine. (p. 7-9)

There are, however, substantial deviations from the national norms in terms of where farmers are obtaining their loans. Nationally, 50.4 percent of the the institutional loans to agriculture are provided by the FCA and FmHA; in Maine that figure is substantially higher at 82.7 percent. Moreover, it is the FmHA and not the FCA that has supplied the additional funds, and in an amount far in excess of what could be expected. Further, estimates made by the Department of agriculture indicate that of the total farm mortgage debt outstanding nationally, 42.7 percent is held by individuals; in Maine it was estimated that 64.7 percent was held by individuals.

1/ Commercial banks, savings banks, and savings and loan associations.

The conclusion seems inescapable that in terms of direct lending, the state's commercial banks are not actively serving agriculture. (p. 7-11)

The $334 million in business loans outstanding on that date was only 0.26 percent of the national total, an amount somewhat less than would be expected when compared to the extent of Maine's economy -- i.e., Maine's gross product is somewhat higher, at about 0.37 percent of the country's. In relation to output, this means that the level of business credit available in Maine is only about 70 percent of that available elsewhere. Similarly, using business credit as a proxy for capital investment, the state comes off poorly. That is, while nationwide business loans outstanding amount to $1,780 per non-agricultural employee, they are only $1,008 in Maine -- or expressed as a percentage, there is 76% more credit available per worker in the nation than in Maine. Thus it would appear, that in both absolute and relative terms, the amount of business credit in Maine is very low. While this is in part a reflection of labor intensive industry in Maine, that in turn is partially the result of inadequate capital availability. (p. 7-20)

Financial structure. At the present time, Maine is unusually well served in terms of number of financial institutions. In addition, despite the size of the state and remoteness of some communities there are few communities not served by at least one institution within the community. Cause for concern can be found, however, in the capacity of these institutions to serve present and potential demands or needs for financial services. The largest depository institutions in Maine are small by national standards and an unusually high proprotion of funds is held by institutions that can only use them in limited ways (mutual savings banks). This limits the ability of Maine's institutions to meet the credit needs of large borrowers, limits the risk bearing capacity of any one lender, and restricts the ability of the institutions to attract capital at competitive prices and to enter new financial markets through affiliate acquisition or *de novo* entry. In addition, while the state taken as a whole is competitive when measured by numbers of institutions, and while most markets within the state exhibit the same conditions, there are markets where competition appears to be limited or virtually non-existent. (p. 8-2)

The results of our survey thus indicate that the relatively small size of Maine banks is a significant problem in meeting the needs of about 1/3 of those firms in Maine employing over 100 employees.

In more general terms, there were a number of complaints and/or criticism of Maine's financial institutions by businessmen. While as expected there were objections to the rates charged for loans or services, that did not appear to bother them nearly as much as what might be called "excessive conservatism," primarily relating to the extension of credit. Included in this area are: excessive emphasis on collateral; pledging of personal assets for business loans; unwillingness to lend to agriculture; credit decisions apparently based on something other than the credit capacity of the firm; unwillingness to accept "new" types of collateral (i.e., almost anything other than land or buildings); and a lack of realization (or disregard) of their ability to contribute to economic development. (pp. 35-36)

APPENDIX IV

Background on Credit and Investment Markets in Maine

None of the capital needs in Maine are truly unmet, but neither are they fully satisfied. Measurement of the short-fall is beyond the capacility of this study or any of the known experts. The free market place for capital does not work perfectly, rewarding the fittest with survival. There have been situations in Maine, financed with scarce private seed capital, where the principals have later admitted that they knew very little about the business they were entering or about major functional sectors of those businesses. Some of those deals have led to successful companies but the majority noted for this study have failed. The investors' money and enthusiasm for future venturing are gone.

Capital does not of itself create capital formation, but there are entrepreneurs in Maine who never even started to try to find capital because of their perception that it was so scarce. It is probable that during the 1970's many thousands of useful businesses have not been started for this reason. Capital sources and intermediaries have informed the study staff that there is plenty of money for good deals. Staff experience in the field in Maine indicates that there may be almost enough money for those of the good deals that these people see. Other good deals go unfunded, or sometimes are financed from out of state, or are financed and set up in other states, where the climate is more conducive.

Many of the capital shortfalls mentioned below are due in part to the diseconomies of small scale. As mentioned in Recommendations (Section V), some of these should be capable of solution by various pooling mechanisms. For others, the answer remains to be found.

Credit.

Short-term working capital for small firms must always concern lenders who must look to their security and their ability to sell the debt obligations which they hold (liquidity) because the law says they must. Sometimes a firm's seasonal working capital problems can be solved through loans on accounts receivable or on inventory, either finished or in process. Bankers in Maine, who have known their customers personally and well for a period of years, routinely make loans that would be considered daring by metropolitan bankers. Yet, these loans are just as routinely repaid because the close relationship is working.

There are conditions, however, in which the close, trusting approach cannot work. Among these are new companies or the nature of some markets or variability in sales from year to year, due to market conditions in crops or commodities. These conditions are not unique to Maine, although as an agricultural and resource state, there are perhaps more of them than in more metropolitan places. Banks cannot afford to take very many trading risks. It may be that mechanisms to deal with short-term cyclical working capital problems may have to come from the private sector.

Term loans are the hardest for banks to make without collateral. Loans based solely on the earning power of a company projected up to eight years ahead are certainly causes for a lender's worry. To reduce the risk he seeks collateral and/or personal signatures, assignments of personal property, and property of principals, backers and families, or some kind of government guarantee from the FDA, EDA FmHA, or the MGA. (These also require the signatures of major stockholders.)

Prudence, born of experience or of seeing many cases, has led those who have the chance to advise would-be entrepreneurs to urge strongly against getting into a position where they must pledge the core of family assets (e.g., house). The convictions of an entrepreneur often know no bounds, however, and when the lender or the SBA reaches out for these assets he often obliges too readily. Later, when the business is either in trouble, or experiencing the success that breeds a need for more investment, the entrepreneur's regret is profound. A mature lender will not take so much collateral that the entrepreneur's motivation for success is removed. In the same way, it takes maturity for an investor to accept equity instead of over-pledging his assets in deference to his proprietary spirit. When that spirit dies, only too often so does the hope of repayment.

Term loans carry high interest rates which reflect the lender's concern about recovery and risk. The more concerned, the higher the interest rate; the higher the interest rate, the heavier the cash flow burden on the company; the heavier the burden, the less likely is success, and, therefore, the more cause for concern. The borrower frequently fails to understand this. In Maine where the notion of selling stock to provide working capital for growth seems to induce an irrational fear, especially among the more settled family companies, diseconomies of small scale often make an impact in smaller term loan situations.

This report has emphasized the importance of close relations between lender and borrower. These relations and the technical work that must go on with any size loan take time to establish and maintain, whether the principal is ten thousand dollars or five hundred thousand dollars. In the background of many decisions any loan officer must make is the lack of time needed to develop mutual trust. Again, the pooling mechanism may work here. One bank visited in Maine processes all of its loans through its Board of Directors. The pooled knowledge and contacts of all these men spread around the bank's service area have saved the bank from making many an imprudent loan and have sent credit in seemingly unlikely directions, where the rewards for both sides were great.

<u>Investment</u>.

Too many situations in Maine involve too much debt and insufficient equity due to lack of investment capital. It does not matter which form is spoken of here - long-term, junior debt, such as notes, bonds and debentures, or senior equity such as preferred stock, or common stock. Two broad factors determine that these needs will not be met: First, the principals sometimes will not make the trade-off necessary to properly capitalize their enterprise. Maine now suffers from the old-time ethos surrounding family ownership of enterprise. Too many short-sighted decisions have been made in its favor just for principle. Profits come from successful operation of a well-capitalized company. Field work for this study revealed several cases where principals chose bankruptcy over timely sales of sufficient equity to keep the business afloat. Where employees' jobs are at stake such an approach would seem to be at least ethically anti-social. This study cannot propose a cure for attitudes; only the example of businesses run successfully the other way, and time, will suffice. If the business education extension agencies in Maine can do one great service, it will be to teach that control is much more than fifty-one percent of the stock. Perhaps more important than that, control is competent management, backed by fear in the hearts of majority stockholders should that competence be lost to them.

The rest of the reasons for unmet investment capital needs in Maine lie with the structure of the market place and its depth. The statistics given elsewhere in this report give a picture of the level of affluence and liquidity in Maine. Because the state is currently enjoying a new in-migration of highly-trained young professionals and experienced executives, any estimate of private investment capital available to Maine businesses may be low. The point is that there is no way of knowing because there is no single center of activity and information where measurements over time might lead to some statistical confidence. Without a reliable clearing house for private small business investment opportunities, potential investors do not have the opportunity to look at and consider such investments. Such opportunities would not necessarily lead to investments, but the availability of reliable information is a precursor to activity.

Out-of-state investment capital does not flow easily to attractive situations in Maine. This is because, again, capital flows to opportunities which are perceived as sound. A venture capitalist in Boston or New York or San Diego, looking to place money a quarter of a million dollars at a time, knows that such opportunities are more frequent in Silicon Valley, California, Route 128, Massachusetts, southern New Hampshire, Houston or central Florida, than they are in Maine. Once he has acted in those places, he finds he has constructed a network of information amongst other intermediaries leading to more deals. Maine just isn't on his informational itinerary. If he's got nothing else to do in Maine, he may not want to come personally to look at a deal. If there is no potential investor in Maine whose judgment he trusts who is likely to act as a mentor and source of intelligence (i.e., director) after the deal is done, the out-of-state venture capitalist may be very cool indeed to the idea of investing here. Although a million dollars can be wired to Maine in minutes, and although there are many times the amount of capital available than Maine could use in the next ten years, Maine's capital needs are not being met. They are not being met because the process of intermediation is fragmented and incomplete.

APPENDIX V

Results of Case Visits and Survey

Interviews and a survey were undertaken to broaden the data base of this study. In order to obtain a high response rate in the survey a one-page form was devised so that brevity might encourage participation. Three hundred fifty surveys went to a balanced sampling of Maine businesses and ninety-two were returned. Of these fifty-five gave numerical answers to question 6 (see attached survey) which were used in the following conclusions. These fifty-five companies have approximately eight thousand employees. During the last three years, they borrowed some forty-two million dollars, while only five of them raised equity for a total of one half million dollars. Ten respondents were not able to raise the full amount needed and nine, mostly the same ones, did not feel terms were equitable. The extreme ratio of borrowed funds to equity raised is probably the most notable finding of the survey. It confirms the conclusions of this report and of others cited that what capital formation is going on in Maine is being funded almost entirely from earnings and credit. Since the growth of industry in Maine by almost any measure, including employment, capital employed per employee, etc., is well below national averages, it is clear that capital formation in Maine is proceeding at a low rate.

Unfortunately, question eight used the terms 'funds' and did not distinguish between debt and equity. Of the fifty-five, twenty-six gave no answer to this question; sixteen indicated banks; and ten simply wrote 'yes'. Of the five companies who raised equity, two gave banks as potential sources for needed funds, and these two represented the smallest amounts of equity raised. The survey confirms the interview conclusions that most managers erroneously expect banks to be able to lead them to equity capital should they need it. This is a false expectation, because a majority of the bankers interviewed could not propose sources of equity capital.

The interviews for this study focused on financial intermediaries, primarily banks, but included financial consultants. They identified managers of Maine firms which were short of capital or had recently raised equity capital who were then interviewed. Unlike the survey selection, these companies all had felt needs for more long term capital. A surprising number did not know, despite feeling that need, who could lead them to sources of capital or how to go about approaching sources. Many of the firms, though seriously in need of long-term capital, ruled out the sale of equity as a solution.

The attitude seemed to be that if one had to sell equity in one's firm in order to raise capital, the whole reason for being in business for one's self disappears. There seemed to be no moderation in this approach. <u>Any</u> sale of equity, at least to an individual, was anathema. For most firms this meant admitting a partner into corporate deliberations as well as the cash flow. Very few firms had given thought to the sale of a minority interest to an institutional investor, if such could be found. Most of the respondents in the interviews felt that they were being overcharged for bank credit. When it was pointed out that high interest rates are connected to high risk originating from low capitalization, most respondents stated the old truism about banks lending most readily to those least needing credit. One proprietor went so far as to admit 'if I had that much equity in my business, I would probably sell out and retire.'

The interviews found a number of cases of banks' unwillingness to loan to newcomers to the state. It did not matter whether the entrepreneur had personal wealth as a collateral or not. Nothing seemed to substitute for a lengthy previous presence on the business scene in Maine. As a general conclusion, it can be said that businesses in Maine are not adept at making maximum use of capital markets, and that this is true partly for lack of practice, partly for lack of commodity they seek where they expect to find it.

QUESTIONNAIRE ON THE AVAILABILITY OF CAPITAL

1. List primary products or services (by name or SIC) ____________

2. Number of years in business? _____
Number of years under continuous ownership? ____________

3. Are you a subsidiary of another company? YES ( ) NO ( )
Please name (optional): ____________

4. Number of employees:
1- 19 ( )
20- 49 ( )
50- 99 ( )
100-249 ( )
250-499 ( )
500 or more ( )

5. Sales:
Under $100,000 ( )
$100,000-$1,000,000 ( )
$1,000,000-$10,000,000 ( )
Over $10,000,000 ( )

6. Have you needed money from outside sources over the last three years? (If not, skip to #8). If you have, and were successful in raising it, please indicate the type of funds required, the uses to which they were put, the source(s) of funds and amount raised.

TYPE OF FUNDS	USE OF FUNDS	SOURCES OF FUNDS	AMOUNT RAISED
( ) Short term, unsecured			
( ) Short term, secured			
( ) Term loans (5-7 years)			
( ) Equipment loans (5-10 years)			
( ) Mortgage on real estate			
( ) Long term debt, unsecured			
( ) Equity, common or preferred			

Were you able to raise the full amount you needed? _____ In your opinion, were the terms and conditions equitable? _____ (If the answer is no in either case, please explain briefly).

7. If you have needed money during the preceding three years and been unable to raise it, please describe the type of funds required, the intended use, and the types of source(s) contacted.

8. If you had the need for funds, could you identify their potential sources?

9. Name of responding firm (optional) ____________

Responding individual (optional) NAME: ____________

Title ____________

PLEASE RETURN TO:

Dr. Thomas Warschauer
Assistant Professor of Finance
University of Maine
Orono, Maine 04473

4/29/77

APPENDIX VI History of the Maine Guarantee Authority

In May of 1956, the first meeting of a committee to investigate the possibilities of state assistance in industrial financing was held in Augusta to hear the ideas of the late Senator Seth Lowe of Rockland who believed the State should assist manufacturing enterprises by financing the lands and buildings they needed for job-producing industrial facilities.

Senator Lowe was a printer, working in the basement of a bookstore in Rockland, and badly in need of space to expand. After consulting with all the known markets for mortgage money for building, he found that at best, he'd have to invest all his working capital in plant and equipment. He concluded there had to be a better way. Several years before, the State had set up a School Building Authority to assist communities to build schools when they lacked legal debt capacity to do so on their own. The Senator's idea was to adopt this vehicle for industrial buildings. A few years earlier the State had begun an industrial development effort to replace the jobs lost by the emigration of the textile industry to the South. The effort to that date had had reasonable success and had brought in or helped stimulate new business to fill some of the vacated space. Considerable reluctance was encountered at this stage, however, from companies that refused to be located in multi-storied mill buildings, and the search turned to financing for new one-story structures.

After a regular and a special session of the legislature, and a referendum election to change the State Constitution, the Maine Industrial Building Authority resulted from the consolidation of these needs and ideas. It was authorized to guarantee first mortgages on land and new and all-purpose buildings for industrial tenants. It was funded with $500,000 in working capital and could charge from ½% to 2% fees for its guarantees with which to pay its expenses and claims. The original total limitation for the Authority was $10,000,000 with no limits on individual guarantees.

Over the years, the statute has been changed and additional referenda have been held. Today, $80,000,000 is authorized in total for industrial guarantees by the Constitution and $40,000,000 by statute with a $2,500,000 limit on individual guarantees, and a 95% maximum guarantee on any mortgage loan. Machinery and equipment may now be covered as well as agricultural ventures, fishing boats, etc., and old industrial buildings and special purpose industrial buildings are also eligible.

In 1961 an effort was made in the Legislature to enact a similar authority to guarantee mortgage financing for recreational ventures to enhance the tourism industry. It failed during that session, but was revamped by a committee of bankers and businessmen recruited by the governor and was finally adopted by the Legislature in 1965. It was approved by the people in referendum that fall, reenacted in special session early in 1966 and brought into existence in August of 1966 with a $10 million total capacity to guarantee, since increased to $17,000,000.

The same Legislature in 1965 approved the idea of the use of revenue bonds in Maine. To control their use and protect the municipalities from over-extending themselves a Municipal Industrial and Recreational Finance Approval Board was created to oversee the program. The program is now known as the Municipal Securities Approval Board. It allows municipalities to issue revenue obligation securities for any purpose for which Internal Revenue Service rules and regulations permit tax exempt status.

In the legislative session of 1973, in an effort to cut administrative costs, the three Authorities or Boards were consolidated into the Maine Guarantee Authority. At the same time, MGA was given a fourth function, that of administering the Community Industrial Building Fund, from which loans can be made to non-profit development corporations set up by municipalities to build speculation industrial shell buildings for industry. This fund consisted of $400,000 and allowed for direct first mortgage loans to these corporations, requiring repayment 90 days after the plants are sold and occupied. The idea is for the fund to revolve, building more buildings for more industries.

There have been a total of some 80 guarantees of industrial projects since MIBA began with a total amount involved of 65 million dollars, which has created or preserved facilities that are providing about 8,000 jobs. In recreation, there have been 35 recreation projects involving a total of 16 million dollars, and, although job creation is not the primary function of recreational guarantees, there are about 1600 jobs involved. The industrial program, with one exception, is paying its way, but the one exception so far overbalances the rest of the projects that it will take years for the fund to break even. The percentage of defaults is about 8% of the total number of loans guaranteed.

The recreational program's defaults stand at about 3%. This fund has one major loss, a $3,400,000 guarantee on a year-round resort, on which the net loss will exceed $2 million.

The MGA currently has 47 outstanding industrial guarantees for 31.5 million dollars and 18 recreational guarantees for 6.6 million.

The Revenue Bond Program has approved more than $300,000,000 in municipal bonds since its inception, much of which has been for pollution control facilities. Some notable additions to the State's industries have also resulted from the program, including Ethen Allen, Garcia, Clarostat, Reece Corp., Allied Container, Moore Business Forms, R.T. French, Hill Acme and Data General.

The Community Industrial Building Program has resulted in two shell buildings, one recently occupied in Brewer, and the other in Houlton ready to be furnished and occupied.

The board of directors, eight members appointed by the Governor on a staggered basis plus the State Development Director, meet monthly. They consider the recommendations and reports of the Authority's professional staff of two. Applicants come to the Authority primarily through the recommendation of Legislators or as referrals from banks. The applicant is asked to complete an extensive application form which is to include a business plan.

Over the years the Board has relied more on an investigation and judgment of the character of management than any concerted effort to analyze business plans. The staff notes that small and start-up firms do not often show an ability to prepare a complete, comprehensive business plan. Nearly all applicants to the Maine Guarantee Authority have been existing firms seeking additional financing to preserve jobs. Had there been more applications by smaller or start-up firms, the Authority staff would have insisted increasingly on well-documented and prepared business plans. This will be the policy in the future. MGA staff will meet with the applicant several times in order to become fully acquainted with the applicant, his management, and project. Staff will then prepare a concise memorandum with condensed financial specifications for consideration by the Board.

The Authority also guarantees the borrowings of a non-profit organization which can be a local development corporation or other authorized non-profit development entity in the State. The applicant firm rents or leases the facility from this corporation and the payments must cover principal, interest, and the Authority's guarantee fee.

BACKGROUND PAPER

A PUBLIC/PRIVATE PARTNERSHIP FOR ECONOMIC DEVELOPMENT

SELECTED ECONOMIC DEVELOPMENT PROPOSALS

FROM THE GOVERNOR'S LEGISLATIVE PROGRAM

FOR THE 108TH LEGISLATURE

Maine Development Foundation
Maine Capital Corporation
Maine Guarantee Authority
Council of Economic Advisors

Division of Economic Planning & Analysis

Maine State Planning Office

March 25, 1977

Steven L. Weems

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Maine Development Foundation
Maine Capital Corporation
Maine Guarantee Authority
Council of Economic Advisors

PART I. INTRODUCTION

Governor Longley is proposing major innovations in Maine's organization for economic development. Three new organizations -- the Maine Development Foundation, the Maine Capital Corporation, and the Council of Economic Advisors -- and changes in the capabilities of the Maine Guarantee Authority -- are the proposals covered in this paper.

Each proposal represents a separate idea or concept. With one exception, each could improve the prospect for economic development in Maine independent of the others. The exception is the Maine Capital Corporation. It would need to work in tandem with the Maine Development Foundation to be effective.

Although they have separate capabilities, these four organizations have been designed to work together and with the State Development Office and other key state agencies. Collectively these four proposals are designed to transform the present Statewide economic development effort into an energetic, productive partnership of public and private forces.

This paper has four sections. First, a summary is presented of the nature and purpose of the proposals. Second, the origins of the proposals and the assumptions behind them are stated. Third, the principal economic needs which must be met are defined. Then, fourth, the ways in which these four entities and three other existing organizations with economic planning and development responsibilities -- the State Planning Office, the State Development Office and the Governor's Cabinet -- would help meet these needs are discussed.

The legislative proposals resulted from the work of Governor Longley's Task Force on Economic Development, chaired by John M. Daigle. Lloyd D. Brace, Jr. supplied additional background material for this paper, and several other people have been helpful by reviewing it in draft form.

PART II. SUMMARY OF THE PROPOSALS

The four proposals are:

1. Maine Development Foundation

   The Maine Development Foundation ("the Foundation") would be established as a public-purpose, not-for-profit, private corporation. It could undertake development projects itself or assist others in their economic development initiatives. It would establish a creative partnership between private and public forces in an organization free to pursue specific economic development opportunities and to stimulate the complementary private and public actions necessary to capitalize on these opportunities.

   The Foundation would lead the Statewide effort to define and build consensus on realistic economic development strategies. These strategies could then be used by government and business leaders to organize their actions to implement the strategies. Through its joint public/private Board of Directors, the Foundation would stimulate the active participation and support of both the private business and government officials essential to implementation of any particular strategy.

   The Foundation would add new capabilities to the existing efforts of the State, cities, towns, and local development organizations to attract out-of-state industries to Maine.

With highly professional staff, it could undertake development projects on its own or it could help package and close industrial location deals, working cooperatively with existing State and local development organizations and private interests.

The Foundation would have significant responsibilities to encourage the creation and expansion of Maine businesses. It could do this directly by providing marketing, business development, financial, and other types of management and technical assistance or indirectly by arranging with others for this kind of assistance, such as provided by the University of Maine through the New Enterprise Institute or the Small Business Administration. In particular, it would assist worthy Maine businesses and entrepreneurs to get appropriate financing, by helping them evaluate their business prospects, prepare financial and business plans for potential investors, and find potential sources of capital. If the Maine Capital Corporation is established, the Foundation could refer deserving Maine businessmen needing equity funds to the Capital Corporation.

The Foundation could also monitor the climate for business in Maine and make recommendations to improve the business climate.

As a private corporation, the Foundation would be able to move more decisively than a governmental agency to address perceived needs and to take advantage of economic development opportunities. Its strength would come from the interests, resources and energies of its members, which would include private individuals and corporations, trade organizations, municipalities, local and regional development groups, major State agencies, and others.

Membership fees would be minimal ($50.00 for a public organization and $250.00 for a private individual or organization), so anyone interested in sustained economic development in Maine could be a member. A Board of Directors would control the Foundation. The members would elect twelve directors (seven private and five public), the Governor would appoint two additional public directors from among several State agencies, and the Chief Executive Officer would be the fifteenth. The Chief Executive Officer would be hired and appointed by the other fourteen members of the Board.

The Foundation would have a basic operating budget of up to $500,000 per year, to be financed equally by contributions from its members and an appropriation from the General Fund. The State support, up to a maximum of $250,000 per year, would be available only to match funds raised from contributors.

Additional information about how the Maine Development Foundation would work with other development organizations is on pages 21 - 25.

2. Maine Capital Corporation

The Maine Capital Corporation ("the Corporation") would be established as a for-profit, private corporation with a special public purpose. It would acquire a limited amount of equity capital ($1,000,000) for the express purpose of making investments in new or expanding Maine businesses.

It is expected that this capital would generate many times the actual investment of the Corporation itself, by encouraging other equity investors to participate and by creating additional debt capacity in the businesses in which it invested. The Corporation's million dollars could therefore generate total investment in Maine business on the order of $10 - 25 million dollars. With a limited capitalization, however, the Corporation would have to rely on someone else (e.g., the Maine Development Foundation) to refer bonafide investment opportunities to it.

The Corporation would have a maximum allowable capitalization of one million dollars ($1,000,000). As an incentive to mobilize the required capital, a limited income tax credit would be offered to those Maine income taxpayers (individual and corporate) who invest in the Corporation. This credit would be for up to ten percent (10%) of an investor's investment in the Corporation each year for five years or a maximum of fifty percent (50%) of the investment provided the credit never exceeded fifty percent (50%) of the individual's or corporation's Maine income tax liability. This kind of incentive is needed because equity funds back long-term situations where the payout is uncertain and usually far in the future.

To safeguard the public interest in granting the tax credit and in establishing the Maine Capital Corporation, other provisions are included in the legislation which:

1. Restrict the investments of the Corporation to Maine businesses only.

2. Limit the maximum amount of any one investment to $200,000.

3. Limit the stock any one investor can hold in the corporation to $100,000.

4. Require an audited financial statement to be made public.

5. Prohibit any distribution of earnings for five years (the duration of the tax credit). After five years dividends would be limited to a maximum of fifty percent (50%) of retained earnings, with the balance being reinvested in Maine businesses.

The activities of the Corporation would be controlled by a nine person Board of Directors. Seven would be elected by the shareholders and two would be appointed by the Governor.

The Corporation would be self-sustaining. No state appropriation would be required.

Additional information about how the Maine Capital Corporation would work with other development organizations is on pages 25 - 27.

3. Maine Guarantee Authority.

The Maine Guarantee Authority ("the Authority") already exists. It would be retained to fulfill its present special purpose: to enhance the availability of medium and long-term debt to Maine businesses. However, it would be given significant new capabilities.

It would be able to operate a state-level industrial revenue bond program, enhancing the access of individual business firms, particularly small companies, to lower-cost long-term debt capital. This capability would complement but not replace the existing municipal-level industrial revenue bond program. A state-level program would be desirable for two main reasons.

First, individual municipalities have differing propensities toward the municipal program and varying degrees of skill in using it. Many use it once. The delays inherent in doing anything for the first time are necessarily repeated when new towns use the program. Any delay is undesirable from an industrial concern's point of view. In some cases, a state-level program could provide for economies of scale, professional expertise and faster procedures, thereby saving industries' time and money and making revenue bonds a more attractive financing mechanism in Maine.

Second, and most importantly, a state-level program as proposed would allow the needs of two or more small companies to be combined into an "umbrella" revenue bond. This would allow smaller Maine companies access to this source of capital by ending the present discrimination against small companies caused by the relatively high fixed costs of issuing an industrial revenue bond, particularly through a public offering.

The Authority would also be able to insure its own industrial revenue bonds (necessary to make the "umbrella" program work) and those of municipalities; have the ability to insure land development projects up to the undeveloped market value of the land, provided municipal commitments were obtained to build the necessary infrastructure; be required to prepare an annual investment strategy to focus its activities; and be required to disclose publicly any contact by a legislator on behalf of a party doing business with the Authority.

The net effect of these changes would be to increase the Authority's flexibility to support economic development, <u>all within its existing financial limits</u>. <u>In no instance could these program changes, either individually or collectively, increase the State's potential financial liability as a result of the Authority's operations</u>. No state appropriation for operations would be required.

Additional information about the Maine Guarantee Authority is on page 27.

4. <u>Council of Economic Advisors</u>

The Council of Economic Advisors ("the Council") would be established as an independent State organization. Its special purpose would be to provide Maine citizens and the Executive and Legislative branches of State government with objective economic analyses of existing and proposed legislation, regulations and programs, with a maximum degree of freedom from any branch of government or special interest.

In its work, it would seek to consider all types of benefits and costs, impact on the climate for economic development, impact on the credit rating of the State and its instrumentalizites, and impact on the revenues and tax structure of the State.

The Council would not promote economic development or any other cause; nor would it prepare economic policy and strategy recommendations as is the case with the President's Council of Economic Advisors. This latter responsibility would fall to the State Planning Office, the State Development Office, and the Maine Development Foundation. The Council would generate information about the economic consequences of selected actions in the interest of making informed decisions. As noted, however, it would be responsible to consider the impact of proposed actions on the business climate of the State. This function is not performed as a matter of course in any other State agency, and the Council's work probably would have a stabilizing effect on Maine's business climate.

The Council would consist of three members appointed by the Governor and confirmed by the Legislature. The Chairman would serve full-time for a four-year term ending in the middle of each Governor's term, and the other members would serve part-time for staggered three-year terms. Council members would be required to have a working knowledge of Maine's economy and be capable of analyzing the impact of governmental actions on the economy.

Although the Governor and Legislature could request particular studies, the Council would be able to determine its own research agenda. Its findings would be available to the public.

An annual appropriation of $115,000 would be provided to the Council.

Additional information about The Council of Economic Advisors is on page 29.

It is intended that these four organizations would work in partnership with other organizations engaged in economic planning and development, not duplicating or interfering with their efforts. The objective is to bring major new capabilities to the complex process of economic development to achieve high-quality, lasting results.

PART III. ORIGINS AND ASSUMPTIONS

Maine's economy has lagged behind the national economy and served its people less well than the national economy has served the American people as a whole. Serious conditions of unemployment, underemployment, resource under-utilization, and low per capita income exist in Maine, despite an encouraging growth in personal income in Maine during 1976. Insufficient development is taking place in Maine to relieve these conditions.

These conditions have persisted over many years, despite the well-meaning and sustained efforts of many dedicated, talented people, both in the private sector and within government. The State has tried over the years through a variety of organizations to provide for a broad, effective economic development effort within state government, but this effort has not eliminated the chronic weakness of the State's economy.

The success level has been low for several reasons. The complexity of the process of developing business in an open society inherently limits the ability of a state or local government to generate economic activity. For example, state governments have varying degrees of impact on the basic factors affecting business growth. These factors include:

Markets
Management Skill
Capital (equity; long-term and short-term debt; working capital)
Labor
Material Resources
Land and Physical Plant
Community Infrastructure (water, schools, sewers, etc.)
Energy (availability and cost)
Transportation (availability and cost)
Overall Business Climate (taxes, regulatory framework, etc.)

State governments are virtually powerless to create markets. They can only marginally affect the quality and quantity of management talent through tax policy and educational support. Many of the basic factors are essentially beyond government influence, depending on natural locational advantages and disadvantages, private sector decisions, and federal government law and policy.

On the other hand, it would be a mistake to dismiss state government as irrelevant to economic development. Most of the major decisions made every day by state government have economic consequences, and these decisions should be consistent with established economic development objectives. If this is accomplished, State government can assist in controlling the costs and increasing the convenience of doing business; assist in the identification and encouragement of key investment opportunities; and manage its own activities and functions to provide an attractive climate for investment and expansion.

In the end, it is unreasonable to expect a state agency to be very successful in generating development. Government is not the prime mover in economic development; private initiative and investment is most important. The private marketplace operates according to the economic realities of an open society. At its best government can assist private development initiatives which are consistent with public goals through supportive public policies and investments.

Successful economic planning and development requires a high level of resources, in quantity and especially in quality. Great diversity of effort, directed at well-defined objectives, is required from the private sector, municipalities, local development groups, and a variety of quasi-public, state, and federal organizations. Most importantly, it is essential to establish a solid foundation for trust and creative cooperation between the private and public sectors, one in which the private sector can exercise its leadership skill and ability to innovate while governments participate in a supportive role. <u>The fundamental objective of the economic development legislation being proposed is to establish this kind of partnership</u>.

PART IV. PRINCIPAL ECONOMIC DEVELOPMENT NEEDS

There are four major development concerns which are appropriate for statewide attention. These are:

- The need to define economic strategies to exploit real business opportunities which are compatible with the aspirations of Maine people, and take complementary public and private actions to capitalize on these opportunities (Strategy and Coordination).
- The need to reach out of state to attract new industrial development to Maine (Outreach for Industrial Development).
- The need to encourage new and expanded business within Maine (New and Expanded Maine Businesses).
- The need to enhance the overall climate for business development in the State (Business Climate).

In each case the basic objective is to build diversity, permanence and growth into Maine's economy so that the need for high-quality jobs will be met and business activity enhanced where it will do the most good. A short explanation of each need follows.

Strategy and Coordination

State agencies regularly take actions which could enhance the likelihood of bonafide economic development opportunities being realized. This is especially true of those agencies dealing with Maine's natural resources. All too often, however, these opportunities pass for lack of a clear plan of action to guide state and local government activities in a way which will stimulate private business initiatives.

The need generated by these circumstances is clear. An overall theme must be articulated to generate a sense of economic destiny, to encourage the most beneficial use of the State's natural and human resources, and to guide public sector activities.

However, an overall theme by itself is not enough. Specific strategies to capitalize on the major assets of the State must also be formulated in enough detail to spell out the particular steps the public and private sectors must take to generate particular types of development (e.g., wood products, fisheries).

Coordination of effort to capitalize on such opportunities must follow. Neither private businessmen nor taxpayers can afford to waste increasingly more scarce financial and natural resources. For businessmen, the return on investment calculation must look favorable or the investment is not made. The State's interest is in the most cost-effective use of the resources it invests in public facilities. Such things as the highway network, sewage handling systems, schools and vocational technical training programs are examples. These and other investments in public facilities which form the necessary environment in which a business can function should be made with an understanding of which investments will generate the most private business activity.

This need for coordination is obvious but difficult to meet in practice. Government agencies operating programs and controlling infrastructure investments need to know what other agencies are doing and why. Most importantly, they must understand the forces operating in the private sector so that government actions can be taken which in fact will be complementary and encourage private investment.

Better coordination of public and private actions, which would be accomplished principally through the work of the Maine Development Foundation, is a major objective of the proposed legislation.

Outreach for Industrial Development

Regardless of the degree of success of in-state businesses, there will always be a need to reach out to attract new industrial development to Maine. Industrial concerns are the backbone of the State's economy. Replenishment and expansion of the manufacturing sector will always be required. As some businesses close or leave the state, others must be attracted to it.

On a national scale, however, the recruitment of out-of-state business establishments is a "zero-sum" game. Every time a state attracts a company another state loses one, for a net gain of zero. This fact will not discourage any state from playing the game; this would be economically irresponsible. On the other hand, it does mean the competition will escalate. Therefore, it will be increasingly more important to deploy highly effective, professional economic developers with the organizational freedom to enter into any kind of business arrangement necessary to bring new industries to Maine, and to use a selective approach aimed at maximizing the natural fit between conditions in Maine and companies sought. This will be the only way to be successful at a reasonable cost.

The Maine Development Foundation could play a key role in this respect, because it could pay competitive salaries to high-level industrial developers and act with the freedom of a private corporation.

New and Expanded Maine Businesses

Assisting indigenous Maine businesses is an important objective which deserves more attention. Interest in new technology and new markets is increasing in Maine, and an in-migration of managerial talent may have begun as well. Additional resources are needed to stimulate Maine-based business growth. There are two distinct requirements: managerial and technical assistance for new and expanding enterprises and the selective stimulation of capital investments for business expansion in Maine.

Many informed people believe that it is imperative to provide more management and technical assistance to Maine businesses. The state must develop a larger cadre of skilled, confident entrepreneurs and business managers with contemporary skills in finance, marketing, and new product and business development, as well as production and engineering. This need is well recognized and a few innovative programs designed to cope with it are underway, such as the New Enterprise Institute at the Center for Research and Advanced Studies. However, working on this need is costly and time-consuming. More attention to it is required.

The stimulation of capital investments is also necessary. Although capital does not create economic development, it is a necessary ingredient.

In the area of capital formation, the Foundation could be especially effective if it were backed up by the Maine Capital Corporation.

Business Climate

Satisfying the foregoing needs may have limited positive impact unless an attitude or "climate" supportive of economic development is maintained and enhanced in Maine. The business climate is composed of an intangible mix of the tax structure, regulatory actions, citizen attitudes and other factors which affect the cost and convenience of doing business. As a region, the south is currently perceived to have a much more favorable business climate than the northeast in general and the New England states in particular. This negative image needs to be reversed to make fundamental economic progress. The Maine Development Foundation and the Council of Economic Advisors could be extremely helpful in this area. The principal inhibitions to capital investment in Maine appear to have nothing to do with the availability of money. Natural economic forces are dominant. Beyond that, some Maine businesses simply choose to forego expansion because the owners are not willing to offer partial ownership in return for equity capital. In those situations where expansion is possible and the owners are willing, there often seems to be a critical need to assist Maine businessmen to (a) present their business situation and financial plan to potential investors and (b) locate appropriate sources of capital.

At the bottom of the hierarchy but still relevant is a somewhat limited availability of capital for long-term needs. This includes certain types of long-term debt capital and, in particular, equity capital to finance new business ventures and the expansion and recapitalization of existing Maine businesses.

For example, most small companies are effectively denied access to the municipal revenue bonding program (lower-cost long-term debt capital) because of the relatively high fixed costs of participating and poor investor recognition of the companies needing capital. A lack of equity capital may force some worthwhile businesses to use debt capital where equity capital would be more appropriate. This creates debt service demands which a new or expanding venture may not be able to meet successfully, causing the venture to fail.

The Maine Development Foundation could perform an extremely important service by establishing a Statewide capability to direct more attention to the management and technical assistance needs of Maine business.

In sum, these four basic needs must be attended to with imagination if Maine is to achieve real economic progress and overcome its traditional handicaps. This will be possible only if the private and public sectors can define a creative working partnership characterized by genuine understanding and mutually-defined objectives; and if public agency actions are managed to encourage business expansion which will help Maine people achieve their personal aspirations.

PART V. HOW SELECTED ORGANIZATIONS WOULD WORK ON THE ECONOMIC DEVELOPMENT NEEDS

It is envisioned that seven key statewide organizations would do work directly affecting the economic development needs just discussed. These include the four legislative proposals already summarized and three other existing institutions. The seven are:

1. Maine Development Foundation (new)
2. Maine Capital Corporation (new)
3. Maine Guarantee Authority (with new capabilities)
4. Council of Economic Advisors (new)
5. State Planning Office (existing)
6. State Development Office (existing)
7. Governor's Cabinet (existing)

Each of these will be discussed separately, to show its special functions and which of the principal economic development needs it would focus upon. Some of the relationships among these seven organizations and other important development forces in the state, such as cities and towns, local development organizations and trade associations, will also be mentioned. A summary of the major functions of the organizations with the most important economic development responsibilities is shown at Appendix A, page 33.

Maine Development Foundation

The Maine Development Foundation has been designed to be a major integrating force in Maine's economic development effort.

It should enhance the success of other development organizations by establishing an action-oriented partnership between the private sector and public agencies at several levels, thereby strengthening the commitment in both sectors to follow through and implement economic development initiatives. It would generate private sector initiative and participation in the statewide economic development effort, thereby tapping the private sector's great ability to generate business activity.

Strategy and Coordination. It is anticipated that the Foundation would be central to the successful development of a broad consensus about an economic theme for the state and more particularly in the preparation of specific economic development strategies. It could also play a vital role by monitoring the implementation of these strategies and encouraging the necessary private and public actions.

In this work, the Foundation would build upon the efforts of the Commission on Maine's Future and work in partnership with the State Planning Office, the State Development Office, other state agencies, towns and local development organizations. As noted, it would also be able to involve the private sector directly, which is probably critical for success and something State agencies cannot accomplish very well. The Foundation would also work with the proposed Maine Capital Corporation and the Maine Guarantee Authority to develop investment strategies which would support the indicated economic development needs and strategies.

During the critical phase of implementing strategies, the Foundation would work by persuasion with key private business interests, regional and local development organizations, and through the Governor's Cabinet.

Outreach for Industrial Development. The Foundation would enhance the industrial development capabilities of the State Executive Branch (Governor and State Development Office) by complementing it with the initiative and resources of the private sector and other local and regional interests. It is believed that through this partnership the State would be able to concentrate on generating initial interest in locating in Maine, while the Foundation could help finalize corporate decisions to operate in Maine by "packaging" the necessary ingredients. The Foundation could also undertake industrial projects itself to stimulate development in lagging areas.

It is recognized that because many of the factors considered by new industry are local in nature, local initiatives have worked well in attracting them. The Portland Area Development Council, the Action Committee of 50 in Bangor, and a business-government combine in Augusta can all point to recent successes in putting together attractive packages for incoming industrial firms. Where groups in municipalities and regions of the State are organized and functioning effectively, the Foundation would seek to help them as the local groups best saw fit. Wherever the "critical mass" for local effort is lacking the Foundation could provide the talent and focus for industrial development.

In such instances the Foundation could help secure land, road and utility access, municipal service commitments and, if necessary, land and building financing. In a case where the jobs needs were great, the Foundation itself might become involved in ownership, either temporarily for packaging purposes or for the longer-term.

New and Expanded Maine Business. A principal function of the Foundation would be to encourage the creation and expansion of Maine businesses. It could accomplish this directly by providing management and technical assistance to new and existing Maine companies. It could also arrange for this kind of help, in cooperation with the other groups already providing such assistance.

To encourage capital formation, it could operate financial subsidiaries and make direct investments (although no State funds are proposed for this purpose). At the outset, however, it is more likely the Foundation would work in cooperation with private Maine financial institutions, the proposed Maine Capital Corporation, the Maine Guarantee Authority, and federal financial intermediaries to help Maine businessmen recognize their financial needs, to assist them in preparing business and financial plans, to steer Maine businessmen and entrepreneurs to the appropriate sources of capital, and to alert financial institutions to worthwhile investments. To more directly initiate new and expanded business activity, the Foundation could sponsor start-ups; develop and submit investment proposals to the Maine Capital Corporation; identify Maine business opportunities for transmittal to corporators or start-up investors;

or purchase out-of-state concerns and move them to Maine for ownership by the Foundation or for sale to other Maine interests.

Business Climate. The Foundation would be in an excellent position to help improve the business climate in Maine, because private businessmen, State agencies, municipalities, and local development interests would be brought together as members to work at economic development. This should improve the public sector's awareness of business problems. In monitoring the business climate, it is expected the Foundation would provide input to the Governor's Cabinet and the proposed Council of Economic Advisors.

In all these endeavors, and others it might choose to pursue, the Maine Development Foundation would strive to generate private and public agreement on how to achieve objectives important to both sectors. Its special design with Board members from each sector, provides hope that it actually could bring together the diverse and complex factors necessary to sustain economic development in Maine.

Maine Capital Corporation

It appears that the establishment and expansion of worthy Maine businesses is being inhibited by an inadequate infusion of equity capital into these ventures. There probably are many reasons for this, most of which have nothing to do with the availability of money. The most serious problems seem to be (a) a lack of interest on the part of some owners to sell stock for equity capital and

(b) a lack of knowledge about how to locate sources of equity and present the business situation to them. In certain classes of situations (e.g., a small venture with a profitable but limited future) a lack of equity capital *per se* may be a real problem.

The Maine Capital Corporation would provide a limited amount of its own equity money for investment in Maine businesses. These investments should generate additional equity capital. Capital is mobile and has a tendency to flow to worthy projects. However, the capabilities for evaluating opportunities and monitoring investments are not uniformly distributed. Some equity capital sources prefer some local participation when making investments in physically distant or hard-to-understand projects. The Maine Capital Corporation would provide the anchor commitment and the monitoring capability that could attract additional equity capital to Maine.

This new equity base would increase the capacity of the affected firms to acquire additional debt capital (e.g., building and equipment loans, receivables loans), so the modest funds of the Maine Capital Corporation could easily lead to ten to twenty-five times that amount in cumulative new investment in Maine businesses.

Any lack of equity capital to finance new business ventures or the expansion or recapitalization of existing Maine businesses affects all the people of Maine adversely. It seems appropriate to use the profit motive of private investors to achieve additional economic development in the State, which would be accomplished through the Maine Capital Corporation.

The corporation would not be able to invest its paid-in capital and retained earnings wherever it chose; it would have to invest in Maine businesses.

Working together the Maine Capital Corporation and the Maine Development Foundation could be much more effective than either of them working alone. The Foundation could perform a variety of services to help Maine businessmen and entrepreneurs understand their needs, prepare business plans, and find sources of capital. The attractiveness of these services would be much greater if the Foundation were backed up by the equity pool controlled by the Maine Capital Corporation. The Capital Corporation could provide modest amounts of equity funds in special deserving situations where equity was hard to acquire from other sources, and it would be much more effective if it could rely on an organization like the Foundation to bring it quality investment opportunities. In fact this would be the only feasible way for the Corporation to operate. With a total capitalization of only $1,000,000 it could not afford to evaluate small or complex proposals, and it certainly could not provide any technical assistance to Maine businessmen and entrepreneurs.

Maine Guarantee Authority

The Maine Guarantee Authority would continue to help Maine businesses acquire medium and long-term debt, with several new capabilities. Most importantly this would include a state-level industrial revenue bonding program. Although it would continue to operate as an independent organization, the Authority would work with several other state-wide organizations.

The State Planning Office and the State Development Office would help prepare its annual investment plan, hopefully with input from the Maine Development Foundation. The Authority might also develop a close working relationship with the Maine Development Foundation and the Maine Capital Corporation, together with private financial institutions in the state, in the formulation of financial packages for deserving Maine businesses.

Council of Economic Advisors

The Council of Economic Advisors would provide a greater ability than now exists to specify and quantify aspects of the Maine economy affected by actions of State government, based on the understanding that all the social, cultural, human and natural resources of the State are part of the State's economy. The Council would not only analyze the direct and short term effects of an action, but would also identify the indirect and longer term effects, to the extent practicable.

Although established as an independent agency, the Council could work in a partnership with several other organizations. It would receive the annual investment plan of the Maine Guarantee Authority and could choose to review its likely consequences. It would probably work with the Maine Development Foundation in considering the impact of various actions on the business climate. And it almost certainly would work closely with the staff of several state agencies in its research and analysis.

State Planning Office

The State Planning Office (SPO) has responsibilities in economic planning and analysis. No changes are proposed in these responsibilities, although the creation of the Maine Development Foundation and the Council of Economic Advisors could materially improve the effectiveness of the State Planning Office.

For example, it is expected that the Maine Development Foundation, the State Planning Office, the State Development Office, and directly-concerned line agencies of State government would collaborate on the development of an overall growth and development policy and specific development strategies, drawing in other public and private organizations as appropriate. The State Planning Office, working closely with the Governor's Cabinet and the Bureau of the Budget, could also help the Foundation follow up to influence State agency actions in support of particular development strategies. The Governor's proposed legislation to strengthen the relationship between program planning and budgeting would be very helpful in this regard. Also, the State Planning Office would work to support the State Development Office and the Maine Development Foundation in their outreach efforts for new industry by supplying backup research.

State Development Office

The State Development Office (SDO) has a primary responsibility to promote and attract new and desirable industry to Maine and to assist in the well-being and expansion of existing industry.

For the reasons stated at the outset, the State Development Office and its predecessors have not had outstanding success at this task because of the inherent inability of a State agency to control the critical factors in economic development. It remains true, however, that the direct promotion of economic development is a vital state function. State government is the initial contact point for many businesses that are considering locating in Maine. The Governor of any state and his key development officials are extremely important generators of leads for industrial in-migration, and their efforts and attitudes can set the tone for all the detailed work which must follow. The state will always require a cadre of professional people to represent and promote Maine, which it now has in the State Development Office.

It is expected that the State Development Office and the Maine Development Foundation would work in close cooperation. Each has special contributions to make in the outreach effort. The proposals have been designed to enable the Governor and the State Development Office to concentrate on what the state can do best: stimulate general interest in locating industrial facilities in Maine and generating specific new business prospects. The Foundation could then follow up and perform much of the detail work to package individual projects, with appropriate local interests, and finalize corporate decisions to operate in Maine. In addition, it is expected that the State Development Office would collaborate with the State Planning Office and the Maine Development Foundation in the formulation of economic strategies, including investment strategies for the Maine Guarantee Authority and the Maine Capital Corporation.

Governor's Cabinet

The Governor's Cabinet has a basic responsibility to coordinate the individual efforts of state departments in problem-solving and decision-making. The Cabinet could help the Governor and State agencies formulate economic development strategies and coordinate department activities to implement these strategies, working with the Maine Development Foundation, the State Planning Office, and the Bureau of the Budget.

PART VI. CONCLUSION

Governor Longley has proposed three new economic development organizations -- the Maine Development Foundation, the Maine Capital Corporation, and the Council of Economic Advisors -- and significant additions to the capabilities of the Maine Guarantee Authority. These proposals address the pressing need to establish an effective private/public sector partnership with a mission of generating sustained economic development in Maine. Obtaining the willing initiative of the private sector and drawing its substantial expertise into the constellation of public and quasi-public organizations concerned with economic development is the primary objective.

The proposed organizations and key existing organizations would work together in a complementary way, but would not be wholly dependent on each other. The Maine Development Foundation is the most important of the proposed new organizations. It would provide a unique base for the private/public partnership envisioned and act as a vehicle to pull together the specialized and disparate functions of other organizations engaged in economic planning and development into a unified whole. It would be capable of singling out achievable economic objectives and it would be in an excellent position to encourage the necessary follow-up.

APPENDIX A

RESPONSIBILITIES IN SUPPORT OF ECONOMIC DEVELOPMENT

GOVERNOR

. Sets Executive economic goals and objectives
. Directs State agency actions to support economic goals and objectives
. Personally recruits industrial prospects

State Planning Office

. Helps the Maine Development Foundation formulate economic development strategies
. Helps the Governor coordinate Agency activities to support economic goals, objectives and specific development projects.
. Provides economic data and analytical support to the MDF, SDO, regional and local development agencies.

State Development Office

. Has principal responsibility for economic development within State government
. Promotes general industrial, commercial and tourism development
. Distributes basic information about Maine's attributes and available industrial sites
. Recruits industrial prospects (extension of the Governor)
. Helps the MDF formulate development objectives and strategies

Maine Development Foundation

. Assumes leadership for the formulation of economic development strategies..builds concensus for these strategies and resultant projects in the public and private sectors
. Packages specific industrial projects, with appropriate local interests, to finalize corporate decisions to operate in Maine.
. Undertakes selected development projects on its own.
. Provides management and technical assistance to Maine businesses...organizes other assistance of this type.
. Helps Maine businessmen prepare financial proposals and local appropriate sources of capital... recommends investments to the Maine Capital Corporation
. Promotes a healthy business climate in Maine.

Maine Guarantee Authority

. Operates existing programs
. Operates a State-level industrial revenue bond program
  - Single-company issues
  - "Umbrella" issues
. May guarantee revenue bonds on eligible projects.

Maine Capital Corporation

. Provides limited equity investments in worthy Maine buy-outs, expansions and start-ups.

ONE HUNDRED AND EIGHTH LEGISLATURE

Legislative Document **No. 1243**

H. P. 1012 House of Representatives, March 23, 1977

On Motion of Mr. Curran of South Portland referred to the Committee on State Government. Sent up for concurrence and 2,000 ordered printed.

EDWIN H. PERT, Clerk

Presented by Mr. Martin of Eagle Lake.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED SEVENTY-SEVEN

AN ACT Creating the Maine Development Foundation.

Be it enacted by the People of the State of Maine, as follows:

Sec. 1. 10 MRSA c. 107 is enacted to read:

CHAPTER 107

MAINE DEVELOPMENT FOUNDATION

§ 915. Legislative findings and intent

The State of Maine has long had serious conditions of unemployment, underemployment, low per capital income and resource underutilization which cause substantial hardships to many individuals and families, impede the economic and physical development of various regions of the State, and adversely affect the general welfare and prosperity of the State.

There is a need to establish a new basis for a creative partnership of the private and public sectors for economic development, a partnership which can capitalize on the interests, resources and efforts of each sector, but which does not compromise the public interest or the profit motive. The state's solitary burden to provide for development should lessen through involving the private sector in a leadership role.

§ 916. Establishment

The Maine Development Foundation is hereby established to foster, support and assist economic growth and revitalization in Maine. The foundation shall carry out its purposes in complement to and in coordination with the economic development activities of the private sector, community and regional agencies and State Government.

The foundation shall exist as a not-for-profit corporation with a public purpose, and the exercise by the foundation of the powers conferred by this chapter shall be deemed and held to be an essential governmental function.

§ 917. Purpose

The Maine Development Foundation is authorized and directed to provide services to the State and to quasi-public, public and private entities, and to foster, assist and participate in efforts for economic growth and revitalization, including, but not limited to, providing for or stimulating the provision of:

1. Management and technical assistance. Management and technical assistance to businesses and to communities for economic growth and revitalization, with a particular concern for assistance to the state's existing small and medium size businesses;

2. Debt and equity capital. Debt and equity capital, with a particular concern for assistance to the state's small and medium size businesses;

3. New product development and marketing. New product development and marketing, with a particular concern for the most productive use of the state's human and natural resources;

4. Industrial land and buildings. The development of industrial land and buildings;

5. Economic opportunities. Identification and development of specific economic opportunities in the State;

6. Climate for economic development. Promotion of an improved climate for economic development in the State; and

7. Coordination of development efforts. Coordination of development efforts for more successful project development through serving as a broad liaison with diverse groups and parties in all sectors and bringing together needed resources for particular projects.

§ 918. Corporators

Corporators, who shall elect members of the board of directors as provided in section 919, shall consist of individuals and organizations classfied as private sector corporators, public sector corporators and ex officio corporators.

1. Private sector corporators. Private sector corporators shall be those individuals, partnerships, firms, corporations and other organizations providing … ort of at least $250 annually to the foundation.

2. Public sector corporators. Public sector corporators shall be those agencies of government and other organizations providing support of at least $50 annually to the foundation. For the preposes of this chapter, public sector corporators shall include: Municipal and county government; councils

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of government; loca
commissions; develo
ities, including the
Maritime Academy,
tional-technical insti
may be approved by

3. Ex officio co
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the University of M
the following:

Director of the Sta
Director of the Sta
Commissioner of A
Commissioner of B
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Executive Director

4. Voting rights.
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§ 919. Board of dire

The Board of Dire
sist of 15 directors.

of government; local and area development corporations; regional planning commissions; development districts; state agencies; higher educational facilities, including the components of the state university system, the Maine Maritime Academy, private colleges and post-secondary schools, and vocational-technical institutes; and such other public or quasi-public entities as may be approved by the directors of the foundation.

3. Ex officio corporators. Ex officio corporators shall consist of the heads of the major state departments and agencies and the Chancellor of the University of Maine. State department and agency heads shall include the following:

Director of the State Planning Office;

Director of the State Development Office;

Commissioner of Agriculture;

Commissioner of Business Regulation;

Commissioner of Conservation;

Commissioner of Educational and Cultural Services;

Commissioner of Environmental Protection;

Commissioner of Finance and Administration;

Commissioner of Human Services;

Commissioner of Indian Affairs;

Commissioner of Inland Fisheries and Wildlife;

Commissioner of Manpower Affairs;

Commissioner of Marine Resources;

Commissioner of Mental Health and Corrections;

Commissioner of Transportation;

Executive Director of the Maine Guarantee Authority;

Executive Director of the Maine Municipal Bond Bank; and

Executive Director of the Maine State Housing Authority.

4. Voting rights. Each corporator shall have a vote in such affairs of the foundation as may involve the corporators, provided that, in the case where the corporator is an organization and not an individual, the governing body of that organization shall designate the individual who is to exercise the voting right.

§ 919. Board of directors; officers

The Board of Directors of the Maine Development Foundation shall consist of 15 directors. The corporators shall elect 12 directors from among the corporators, provided that 7 directors shall be elected from among the private sector corporators and 5 directors shall be elected from among the public sector corporators. The Governor shall appoint 2 directors from among the ex officio corporators. No person shall serve as a director for more than 5 years in succession. There shall be a chairman, a vice chairman and a treasurer elected by the corporators from among the board of directors. The president of the foundation shall be appointed by the directors so elected or appointed and shall become a director and chief executive officer of the foundation. The president shall not be appointed from among the other directors.

§ 920. General powers

The Maine Development Foundation is empowered to:

1. Suit. Sue or be sued in its own name;

2. Application for and receipt of funds. Apply for and receive funds from any private source or governmental entity, whether by way of grant, donation or loan or any other manner;

3. Economic development services; fees. Provide services to public or private entities to assist their efforts in economic development in Maine and to charge such fees for these services as it may deem appropriate;

4. Real and personal property. Purchase, receive, hold, lease or acquire by foreclosure, and operate, manage, license and sell, convey, transfer, grant or lease real and personal property, together with such rights and privileges as may be incidental and appurtenant thereto and the use thereof, including, but not restricted to, any real or personal property acquired by the foundation from time to time in the satisfaction of debts or enforcement of obligations;

5. Expenditures and obligations regarding real and personal property. Make all expenditures and incur any obligations reasonably required in the exercise of sound business principles to secure possession of, preserve, maintain, insure and improve real and personal property or interests therein acquired by the foundation;

6. Securities. Acquire, subscribe for, own, hold, sell, assign, transfer, mortgage or pledge the stock, shares, bonds, debentures, notes or other securities and evidences of interest in or indebtedness of any person, firm, corporation, joint stock company, partnership, association or trust, and, while the owner or holder thereof, exercise all the rights, powers and privileges of ownership, including the right to vote thereon;

7. Encumbrance of property. Mortgage, pledge or otherwise encumber any property right or thing of value acquired pursuant to the powers contained in subsections 4, 5 or 6 as security for the payment of any part of the purchase price thereof;

8. Equity investments and loans. Make direct equity investments in or loans to local and regional economic development corporations and to small and medium size businesses;

9. Contracts and liabi
ices and incur liabilities

10. Debt. Borrow m
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12. Bylaws. Adopt b
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§ 921. Limitation of po

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§ 922. Liability of office

All officers, directors,
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§ 923. Prohibited inter

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ciated by reason of own
development activities w
employment is made kno
from voting on matters r
not extend to corporators

9. Contracts and liabilities. Make contracts, including contracts for services and incur liabilities for any of the purposes authorized therein;

10. Debt. Borrow money for any of the purposes authorized herein: incur debt, including the power to issue therefor its bonds, debentures, notes or other evidences of indebtedness, whether secured or unsecured; and secure the same by mortage, pledge, deed of trust or other lien on its property, rights and privileges of every kind and nature, or any part thereof, or interest therein;

11. Cooperation with agencies and organizations. Cooperate with and avail itself of the services of governmental agencies; and cooperate and assist and otherwise encourage organizations, local or regional, private or public, in the various communities of the State in the promotion, assistance and development of the business prosperity and economic welfare of such communities and the State; and

12. Bylaws. Adopt bylaws not inconsistent herewith for the governance of its affairs, to have the general powers accorded corporations under Title 13-A, section 202, and do all other things necessary or convenient to carry out the lawful purposes of the foundation.

§ 921. Limitation of powers

The foundation, notwithstanding the foregoing, shall have no power or authority to enter into contracts, obligations or commitments of any kind on behalf of the State or any of its agencies, nor shall it have the power of eminent domain or any other power not provided to business corporations generally. Bonds, notes and other evidences of indebtedness of the foundation shall not in any way be a debt or liability of the State or constitute a pledge of the faith and credit of the State.

§ 922. Liability of officers, directors

All officers, directors, employees and other agents of the foundation entrusted with the custody of the securities of or authorized to disburse the funds of the foundation shall be bonded, either by a blanket bond or by individual bonds, with a surety bond or bonds with a minimum limitation of $100,000 coverage for each person covered thereby, conditioned upon the faithful performance of their duties, the premiums for which shall be paid out of the assets of the foundation.

§ 923. Prohibited interests of officers, directors and employees

No officer, director or employee of the foundation or their spouses or dependent children shall receive any direct personal benefit from the activities of the foundation in assisting any private entity. This provision shall not prohibit corporations or other entities with which an officer or director is associated by reason of ownership or employment from participating in economic development activities with the foundation, provided that such ownership or employment is made known to the board, and the officer or director abstains from voting on matters relating to such participation. This prohibition does not extend to corporators who are not officers or directors of the foundation.

§ 924. Donations to the State

The State of Maine, through the Governor, may accept donations, bequests, devises, grants or other interests of any nature on behalf of the foundation and transfer such funds, property or other interests to the foundation.

§ 925. Annual report, audit

The foundation shall provide an annual report and an independent audit of its activities to the Governor, the Legislature, its corporators and members. The foundation shall be subject to such further audit and review as deemed necessary by the Governor or the Legislative Council at the expense of the State.

§ 926. General conditions; dissolution

The Maine Development Foundation shall operate as a not-for-profit organization consistent with its composition and broad public purposes. The following conditions shall apply to the operation or dissolution of the foundation.

1. Net earnings of the foundation. No part of the net earnings of the foundation shall inure to the benefit of any corporator, officer, director or employee except that the foundation shall be authorized and empowered to pay reasonable compensation for services rendered, and otherwise hold, manage and dispose of its property in furtherance of the purposes of the foundation.

2. Dissolution of foundation. Upon dissolution of the foundation, the corporators shall, after paying or making provision for the payment of all liabilities of the foundation, cause all of the remaining assets of the foundation to be transferred to the State.

§ 927. Liberal construction

This chapter shall be construed liberally to effect the interest and purposes of the foundation for an improved economic development effort in the State and shall be broadly interpreted to effect such intent and purposes and not as a limitation of powers.

§ 928. Initial organization

In order to provide for the initial organization of the foundation, the Governor shall appoint an organizing committee of 14 persons, 7 of whom shall be eligible to be private sector corporators, 5 of whom shall be eligible to be public sector corporators and 2 of whom shall be state department and agency heads from among the list set forth in section 3. The Governor shall designate the chairman of the committee. The organizing committee shall solicit individuals and corporations from the private and public sectors as described in this chapter to be corporators of the Maine Development Foundation.

The committee shall call and hold an initial meeting of the corporators no later than 6 months from the effective date of this Act. The initial meeting shall be for the election of directors and officers of the foundation. The committee shall prepare an agenda for and the chairman shall chair the initial meeting. The committee shall serve as the nominating committee for the initial election only, and may submit suggested bylaws and procedures for consideration by the corporators.

After the initial meeting of the corporators, the organizing committee shall be dissolved and its members shall serve the foundation only as they may be qualified as corporators. The State Development Office and the State Planning Office may provide assistance to the organizing committee in the initial development of the foundation.

Sec. 2. Appropriation. There is appropriated from the General Fund the sum of $500,000 for the fiscal years 1977-78 and 1978-79 to assist the foundation in its efforts to foster, support and assist economic growth and revitalization in the State. It is provided, however, that no amount of the appropriation shall be provided to the foundation unless the foundation can demonstrate a matching and equal fiscal support from its private and public corporators and members described in Title 10, chapter 107. Any appropriated funds not matched by the foundation shall not lapse and shall be carried forward. The breakdown shall be as follows:

	1977-78	1978-79
MAINE DEVELOPMENT FOUNDATION		
All Other	$250,000	$250,000

STATEMENT OF FACT

This Act creates the Maine Development Foundation to foster and support economic growth in the State, as recommended by the Governor's Task Force on Economic Development.

The Maine Development Foundation serves to establish a partnership between the public sector and the private sector. In particular, the foundation should help the State to capitalize on the initiative and the investments of the private sector through involving the private sector in a leadership role in the economic development effort. The foundation involves State Government, community and regional agencies and the private sector in a wide range of economic development activities to assist and complement existing development efforts and to stimulate new efforts and approaches. Those activities may relate to technical and management assistance, land development, the availability of capital and the promotion of an improved economic climate in the State.

The broad strength of the foundation will come from the interests, resources and energies of its members. The State will provide basic support to the foundation by providing $250,000 annually to be matched evenly by contributions from other public and private organizations and from individuals. It will be directed by a board made up of 7 private directors, 7 public directors and a president. Its memberships will consist of private and public organizations and individuals contributing to the foundation, and of ex officio members from the University of Maine and major state agencies.

The Maine Development Foundation should not overshadow or replace the development effort of other public and private organizations but should serve to assist and complement those efforts. The foundation should serve as the basis for sustained economic development resulting from the partnership of the public and private sectors.

ONE HUNDRED AND EIGHTH LEGISLATURE

Legislative Document **No. 1250**

H. P. 1011 House of Representatives, March 23. 1977

On Motion of Mr. Curran of South Portland referred to the Committee on State Government. Sent up for concurrence and 2,000 ordered printed.

EDWIN H. PERT, Clerk

Presented by Mr. Martin of Eagle Lake.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED SEVENTY-SEVEN

AN ACT Creating The Maine Capital Corporation.

Be it enacted by the People of the State of Maine, as follows:

Sec. 1. 10 MRSA c. 108 is enacted to read:

CHAPTER 108

THE MAINE CAPITAL CORPORATION

§ 950. Statement of legislative findings and intent

The Legislature finds that one of the limiting factors on the beneficial economic development of the State is the limited availability of capital for the long-term needs of Maine businesses and entrepreneurs. In particular, the lack of equity capital to finance new business ventures and the expansion or recapitalization of existing businesses is critical. This lack of equity capital may prevent worthwhile businesses from being established; it may also force businesses to use debt capital where equity capital would be more appropriate. This creates debt service demands which a new or expanding venture may not be able to meet successfully, causing the venture to fail because of the lack of availability of the appropriate kind of capital.

This impediment to the development and expansion of viable Maine businesses affects all the people of Maine adversely and is one factor resulting in existing conditions of unemployment, underemployment, low per capita income and resource underutilization. By restraining economic development, it sustains burdensome pressures on State Government to provide services to those citizens who are unable to provide for themselves.

To help correct this situation, it is appropriate to use the profit motive of private investors to achieve additional economic development in the State. This can be accomplished by establishing an investment corporation to provide equity capital for Maine businesses and by establishing limited tax credits for investors in the corporation to encourage the formation and use of private capital for the critical public purpose of maintaining and strengthening the state's economy.

§ 951. Formation; name; purposes

There is hereby authorized the formation under Title 13-A, of a private investment corporation to be named "The Maine Capital Corporation" for the purpose of making equity investments in new Maine business firms or in existing Maine business firms needing equity capital for purposes of expansion in Maine.

§ 952. Limitations on purposes and powers

The Maine Capital Corporation shall have all of the general powers of business corporations enumerated in Title 13-A, section 202, except that:

1. Investments and related business dealings. Its equity investments and related business dealing shall be restricted to Maine business firms which, for the purposes of this chapter, shall be defined as Maine corporations, whether or not the same are subsidiaries of foreign corporations, which are doing business primarily in Maine or do substantially all of their production in Maine. Any funds so invested in Maine business firms by purchase of stock or otherwise shall be used by such firms solely for the purpose of enhancing their productive capacities or ability to do business within the State, or to facilitate their ability to generate value added within the State to goods or services for export to out-of-state markets;

2. Investment limited. Its investment in any one Maine business firm shall be limited to a maximum of $200,000;

3. Maximum capitalization. Its maximum capitalization shall not exceed $1,000,000 and shall consist of 10,000 shares of common capital stock having a par value of $100 per share. All shares offered for sale by the corporation shall be for cash at their par value;

4. Commencement of business. Before it commences doing business, the corporation shall have and thereafter maintain a board of 9 directors, 7 of whom shall be elected by the shareholders and 2 of whom shall be appointed by the Governor and shall represent the public interests of the State;

5. Amount of common stock held. No person, firm or corporation shall subscribe for, own or hold directly or indirectly more than 1,000 shares of the common stock of the corporation at any time. For the purposes of determining ownership hereunder, the attribution rules of section 318 of the Internal Revenue Code in effect as of the effective date of this Act shall apply;

6. Payment of dividends. It shall not declare or pay any dividends to its shareholders during its first 5 years of operation and thereafter any dividends

shall be limited to a maximum of 50% of retained earnings, with the balance being reinvested according to subsections 1 and 2; and

7. Financial statement. It shall cause to be prepared an audited financial statement, certified by an independent certified public accountant, within 60 days after the close of each fiscal year of its operations, which report shall be distributed to the Governor and Legislative Council and made available to the public, detailing its investment and financial activities.

§ 953. Initial organization; approval of Commissioner of Business Regulation

In order to provide for the initial organization of the corporation, the Governor shall appoint a committee to act as incorporators, consisting of 5 individuals having a business background and experience. The committee shall file with the Secretary of State the articles of incorporation of the corporation which shall reflect the purposes set forth herein. It shall further submit to the Commissioner of Business Regulation for his approval of their conformity with the limitations set forth in section 952, the proposed bylaws of The Maine Capital Corporation, which shall not be adopted or later amended without his approval.

§ 954. Subscription and sales of stock; first shareholders meetings

The committee, as and when it deems practicable, may solicit and receive subscriptions for the issuance and purchase of the shares of the common stock of The Maine Capital Corporation, provided that subscriptions for amounts exceeding 10 shares shall be reduced pro rata among subscribers subscribing for more than 10 shares in the event the issue is over-subscribed by such termination date as may be set by the committee. At any time in its discretion after the committee has received subscriptions for at least 2,500 shares, it may call and hold an organizational shareholders meeting for the purposes of adopting the proposed bylaws, electing directors and officers, issuing shares of stock and conducting any other business which may properly come before the meeting.

Sec. 2. 36 MRSA § 5129 is enacted to read:

§ 5129. Credit for investment in The Maine Capital Corporation

1. Resident individual. A resident individual shall be allowed a credit against the tax otherwise due under this Part for the taxable year for the amount of any investment in The Maine Capital Corporation.

2. Limitations on credit.

A. The credit allowed under this section shall not exceed 50% of the qualified investment.

B. The credit allowed under this section for any one taxable year shall not exceed the lesser of:

(1) 10% of the qualified investment; or

(2) 50% of the tax imposed on the individual for the taxable year.

3. Carry forward of the credit. If the amount of the credit determined under subsection 1 and subsection 2, paragraph A, exceeds the limitation provided in subsection 2, paragraph B, such excess shall be a credit carry-over to each of the 4 taxable years following the first unused credit year and shall be subject to the annual limitation provided in subsection 2, paragraph B.

4. Recapture for certain dispositions. If the taxpayer disposes of the stock in The Maine Capital Corporation within 6 years after the date on which the taxpayer acquired such stock in a transaction which gives rise to gain or loss for federal income tax purposes, then the tax imposed under this Part for the taxable year in which the disposition occurs shall be increased by an amount equal to the amount allowed as a credit in the year of disposition and all prior years.

Sec. 3. 36 MRSA § 5167 is enacted to read:

§ 5167. Credit for investment on The Maine Capital Corporation

1. Resident estate or trust. A resident estate or trust shall be allowed a credit against the tax otherwise due under this Part for the taxable year for the amount of any investment in The Maine Capital Corporation.

2. Limitation on credit.

A. The credit allowance under this section shall not exceed 50% of the qualified investment.

B. The credit allowed under this section for any one taxable year shall not exceed the lesser of:

(1) 10% of the qualified investment; or

(2) 50% of the tax imposed on the resident estate or trust for the taxable year.

3. Carry forward of the credit. If the amount of the credit determined under subsection 1 and subsection 2, paragraph A, exceeds the limitation provided in subsection 2, paragraph B, such excess shall be a credit carry-over to each of the 4 taxable years following the first unused credit year and shall be subject to the annual limitation provided in subsection 2, paragraph B.

4. Recapture for certain dispositions. If the resident estate or trust disposes of the stock in The Maine Capital Corporation within 6 years after the date on which the resident estate or trust acquired such stock in a transaction which gives rise to gain or loss for federal income tax purposes, then the tax imposed under this Part for the taxable year in which the disposition occurs shall be increased by an amount equal to the amount allowed as a credit in the year of disposition and in all prior years.

Sec. 4. 36 MRSA § 5202 is enacted to read:

§ 5202. Credit for investment in The Maine Capital Corporation

1. Taxable corporation. A taxable corporation shall be allowed a credit against the tax otherwise due under this Part for the taxable year for the amount of any investment in The Maine Capitol Corporation.

2. Limitation on credit.

A. The credit allowed under this section shall not exceed 50% of the qualified investment.

B. The credit allowed under this section for any one taxable year shall not exceed the lesser of:

(1) 10% of the qualified investment, or

(2) 50% of the tax imposed on the taxable corporation for the taxable year.

3. Carry forward of the credit. If the amount of the credit determined under subsection 1 and subsection 2, paragraph A exceeds the limitation provided in subsection 2, paragraph B, such excess shall be a credit carry-over to each of the 4 taxable years following the first unused credit year and shall be subject to the annual limitation provided in subsection 2, paragraph B.

4. Recapture for certain dispositions. If the taxable corporation disposes of the stock in The Maine Capital Corporation within 6 years after the date on which the taxable corporation acquired such stock, in a transaction which gives rise to gain or loss for federal income tax purposes, then the tax imposed under this Part for the taxable year in which the disposition occurs shall be increased by an amount equal to the amount allowed as a credit in the year of disposition and all prior years.

STATEMENT OF FACT

This Act establishes The Maine Capital Corporation to make available private equity capital for investments in new or expanding Maine firms. The structure of the corporation provides for an appropriate relationship between the public interest and the profit motive in order to fill a crucial gap in the capital markets available to Maine businesses.

In order to encourage investors, a limited income tax credit is provided for Maine taxpayers who invest in the corporation. The maximum revenue loss to the State from the tax credit cannot exceed $100,000 per year for 5 years, and the actual revenue loss, or net gain in revenue, will depend upon:

1. The amount of stock sold;

2. The nature of alternative investments which investors might have made;

3. The tax status of the investors; and

4. The additional taxes generated from new or expanded Maine businesses.

To safeguard the public interest in granting the tax credit and in establishing The Maine Capital Corporation, provisions are made which:

1. Restrict investment to certain Maine businesses only;

2. Limit the maximum amount of any one investment;

3. Limit the capitalization of the corporation;

4. Provide that 2 of 9 directors shall be appointed by the Governor;

5. Limit the stock any one investor can hold in the corporation; and

6. Require an audited financial statement to be provided to the Governor and the Legislative Council annually.

APPENDIX IX

MAINE BANKS

ASSETS, RISK SPECTRUM, DEMAND FOR FUNDS

Asset Portfolios of Maine Banks

Many comparisons can be made by analyzing data pertaining to the assets of commercial banks and mutual savings banks in Maine versus the rest of the United States. There will be three comparisons of the data. The first one examines 1975 data for both commercial and mutual savings banks using U. S. figures as a standard for comparison. Ratios are calculated in the separate loan categories as well as overall asset categories as a percent of total assets. The second approach deals with trends in Maine data over five years (1971-1975) for mutual savings banks, and six years (1970-1975) for commercial banks. The final analysis compares Maine's trends and changes with those of the U. S. over time.

Thirteen categories of mutual savings bank loans are analyzed for 1975 in Maine and are shown in Table IX-A. The raw figures are divided by total loans. Similar data is presented in this table for all insured mutual savings banks in the U. S. Mutuals in both Maine and the U.S. are most heavily involved in real estate loans secured by family residences. Maine is slightly more involved in the area of one to four family residences as opposed to multifamily residences. Maine has twice the amount of total loans in the category of loans to individuals as do U. S. banks, on the average. Both Maine and the U. S. have roughly 0.4% of total loans for commercial and industrial loans. These ratios are not unusual for mutual savings banks and they are allocated similarly for Maine and the U. S.

Categories 14-18 on Table IX-A represent major asset categories divided by total assets. Some of the categories, such as cash, securities, and Federal funds sold, are quite similar for Maine and the U. S. (The difference is about 1% for the sum of those categories.) The largest difference is category 17, total loans.

Maine has almost 70% of its total assets involved in loans, whereas U. S. mutual savings banks, on average, have about 66%. U. S. mutuals have twice as many total assets (.0480 versus .0243) tied up in bank premises compared to Maine banks.

The ratios concerning Maine vs. U. S. commercial banks are less similar than those of mutual savings banks. Table IX-B shows the breakdowns for commercial banks. Maine has about 10% more loans in real estate than the U. S. banks do, particularly in category 4, real estate loans secured by other properties. Both Maine and the U. S. have about one-third of their loans for commercial and industrial loan purposes. U. S. banks have about 5% more commercial and industrial loans than Maine, but Maine has about 8% more loans to individuals. Some of these loans to individuals might be for commercial purposes such as an individual's general store. The proportion of business loans is lower in Maine, however.

The ratios for asset categories for commercial banks are also similar. Maine has held proportionately less cash (3.9% less). Investment securities as a percent of total assets are very close for Maine and the U. S. in commercial banks. Once again, Maine has a larger percent of total assets (59.5% versus 52.6%) made up of loans and also a lesser amount tied up in bank premises.

The second part of this analysis of bank assets deals with the trends over time for Maine mutual savings banks and commercial banks. Percentage changes can be misleading if one does not also examine them in terms of absolute numbers. For example, real estate loans as a percent of total loans for Maine mutual savings banks has increased 50% over the five years while it has decreased 34.4% on the average for U. S. banks. This is a substantial difference but these loans represent less than 1.25% of total loans for both Maine and the U. S. Commercial and industrial loans have decreased 18.75% in Maine and 50.66% in the U. S., so one can say that Maine has decreased much less in terms of these particular loans.

In the major asset categories, loans/assets have increased 3.75% in Maine but have decreased 8.3% in the U.S. Bank premises have increased less than 1% in Maine but have increased 31.51% for U. S. mutual savings banks.

Trends for commercial banks in Maine and the U. S. show some larger differences. In the real estate loan categories, Maine has increased about 6%, while the U. S. banks have increased about 9%. One important area, commercial and industrial loans, has decreased 6.6% in the U. S., but only 0.8% in Maine as a proportion of total loans. Maine's loans to individuals have dropped 2.7% while these loans have dropped 4.7% for U. S. banks. Maine has increased its proportion of all other loans, including overdrafts, 17.1% with only a 2.8% increase in the U. S. However, even in Maine, this category represents only about 1.5% of total loans, or about 0.86% of total assets. Maine's proportion of cash and balances with other banks has decreased 20.1% while in the U. S. this decrease is 14.7%. Total loans have increased 4.4% for Maine and 1.8% for the U. S., with Maine having a higher percentage of its assets in loans. Finally, as shown earlier, Maine has a lower proportion of assets in bank premises than the U. S. This proportion has increased 3.6% for the six years in Maine and 29.9% for U. S. banks in general.

In conclusion, it appears that Maine banks have shown flexibility in granting loans, but consumer loans appear to have exaggerated importance relative to commercial and industrial loans in Maine.

The Risk Spectrum

The third factor affecting the supply of bank funds in Maine is the risk spectrum desired by bankers. Do Maine banks aggressively seek higher earning but riskier loans or do they demand safer loan parameters? Two indicative factors are loan losses and loan reserves, and the income of Maine banks.

The provision for loan losses as well as loan reserves is related to the amount of defaults or loan losses for banks. Table IX-C shows data for the six New England states, the U. S., southern New England, and northern New England pertaining to provisions for loan losses, provision for loan losses as a percent of loans, and loan reserves as a percent of loans. New England tends to carry larger provisions and reserves than the rest of the U. S.

Southern New England tends to carry much larger amounts or proportions of loan losses than northern New England, and these amounts have been increasing rapidly. This could imply that riskier loans have been serviced and that potential defaults have been larger or more frequent. It could also imply that northern New England has to some extent avoided the riskier loans even though the size of provision for loss is a management decision which fluctuates from year to year. Maine banks have more substantial reserves as a proportion of loans than any compared area.

A second factor that may be analyzed regarding the preferred risk spectrum of Maine banks is their earning power. If the capital market is efficient higher earning power could be achieved only by taking additional risk. Over-cautious banks would earn a lower return overall. Table IX-D compares Maine banks with U.S. banks. In every case Maine banks earn a higher return on total assets and on equity (or surplus for mutuals) than the average U. S. bank. There are at least three possible explanations for this. First, Maine's bank management may be more capable than average. Second, banks in Maine may have certain oligopolistic powers over their customers. Third, Maine banks may invest in a slightly higher risk spectrum than does the average U. S. bank. Of course, the capital market may not be operating at peak efficiency.

Although some institutional problems were mentioned earlier, no evidence exists that substantial problems exist with the supply of debt capital in Maine except that of insufficient savings.

The latter problem would only arise in periods of tight money. As Maine incomes approach the national average in the future, this problem will probably disappear.

ASSETS OF INSURED MUTUAL SAVING BANKS IN MAINE AND THE U.S.

Category 1-13 divided by total loans, 14-18 divided by total assets

CATEGORY (Maine / U.S.)	1975	1974	1973	1972	1971	% CHANGE
(1) R.E. loans - construction	.0123 / 0.116	.0108 / .0122	.0124 / .0166	.0154 / .0165	.0082 / .0131	+.5000 / -.3440
(2) R.E. loans - secured by farmland	.0011 / .0007	.0010 / .0007	.0011 / .0008	.0012 / .0008	.0014 / .0007	-.2143 / 0
(3) R.E. loans sec. by 1-4 family res.	.7622 / .6080	.7697 / .6202	.7716 / .6322	.7726 / .6498	.7725 / .6686	-.0133 / -.0910
(4) R.E. loans sec. by 5+ family res.	.0202 / .1785	.0185 / .1744	.0198 / .1661	.0168 / .1576	.0138 / .1522	+.4638 / +.1730
(5) R.E. loans sec. by other property	.1394 / .1667	.1381 / .1612	.1348 / .1551	.1303 / .1438	.1425 / .1324	-.0218 / +.2590
(6) Loans to dom. & for. banks (comm.)	.0002 / .0004	.0001 / .0003	.0000 / .0002	.0000 / .0005	.0008 / .0009	-.7500 / -.5555
(7) Loans to other financial inst.	.0004 / .0005	.0000 / .0000	.0001 / .0004	.0001 / .0005	.0004 / .0006	0 / -.1667
(8) Loans to brok. & deal. in secur.	.0000 / .0000	.0000 / .0000	.0000 / .0001	.0000 / .0005	.0000 / .0001	0 / 0
(9) Other loans for purchasing secur.	.0000 / .0000	.0000 / .0000	.0000 / .0000	.0001 / .0000	.0008 / .0001	Infinite / 0
(10) Loans to farmers (≠ R.E.)	.0000 / .0000	.0000 / .0000	.0000 / .0000	.0000 / .0000	.0000 / .0000	0 / 0
(11) Comm. & industrial loans	.0039 / .0041	.0035 / .0026	.0031 / .0026	.0045 / .0041	.0048 / .0083	-.1875 / -.5066
(12) Loans to individuals	.0586 / .0290	.0565 / .0269	.0541 / .0253	.0548 / .0238	.0483 / .0225	+.2133 / +.2890
(13) All other loans & o.d.	.0015 / .0005	.0018 / .0011	.0030 / .0005	.0042 / .0010	.0066 / .0004	-.7727 / +.2500
(14) Cash, balances w/ other banks	.0199 / .0205	.0172 / .0215	.0143 / .0199	.0163 / .0173	.0142 / .0164	+.4014 / +.2500
(15) Securities, total	.2473 / .2386	.2276 / .2373	.2366 / .2351	.2786 / .2588	.2981 / .2374	-.1704 / +.1946
(16) Federal funds sold	.0125 / .0084	.0165 / .0101	.0140 / .0135	.0101 / .0068	.0071 / .0063	+.7606 / +.3333
(17) Loans	.6959 / .6601	.7176 / .7056	.7194 / .7082	.6799 / .6954	.6707 / .7198	+.0375 / -.0830
(18) Bank premises	.0243 / .0480	.0384 / .0470	.0300 / .0432	.0314 / .0396	.0241 / .0365	+.0083 / +.3151

TABLE IX-B

ASSETS OF COMMERCIAL BANKS IN THE U. S. AND MAINE

(Category 1-12 divided by total loans, category 13-18 divided by total assets)

CATEGORY	U.S. / Maine	1975	1974	1973	1972	1971	1970	% CHANGE
(1)	R.E. loans-secured by farmland	.0079 / .0123	.0057 / .0116	.0056 / .0117	.0054 / .0122	.0054 / .0127	.0068 / .0145	+.162 / -.152
(2)	R.E. loans sec. by 1-4 family res.	.1634 / .1507	.1719 / .1453	.1789 / .1462	.1843 / .1451	.1912 / .1446	.1915 / .1403	-.147 / +.074
(3)	R.E. loans sec. by 5+ family res.	.0212 / .0115	.0203 / .0149	.0190 / .0150	.0079 / .0147	.0097 / .0121	.0044 / .0110	+3.82 / +.045
(4)	R.E. loans sec. by other properties	.1765 / .0911	.1799 / .0826	.1900 / .0836	.1797 / .0813	.1557 / .0797	.1453 / .0775	+.215 / +.175
(5)	Loans to dom. comm. & foreign banks	.0031 / .0249	.0013 / .0241	.0000 / .0222	.0000 / .0169	.0004 / .0140	.0007 / .0089	+3.43 / +1.79
(6)	Loans to other financial instit.	.0036 / .0584	.0075 / .0691	.0055 / .0663	.0058 / .0602	.0088 / .0517	.0079 / .0532	- .544 / +.098
(7)	Loans to brok. & dealers in secur.	.0007 / .0141	.0005 / .0103	.0008 / .0167	.0059 / .0291	.0086 / .0222	.0063 / .0213	-.888 / -.338
(8)	Other loans for pur. & carrying sec.	.0020 / .0077	.0018 / .0079	.0043 / .0093	.0026 / .0116	.0008 / .0111	.0017 / .0119	+.176 / -.353
(9)	Loans to farmers (not R.E.)	.0120 / .0397	.0096 / .0358	.0097 / .0377	.0106 / .0368	.0144 / .0381	.0164 / .0375	-.268 / +.058
(10)	Comm. & indus. loans	.3012 / .3528	.2924 / .3667	.2739 / .3465	.2873 / .3415	.2929 / .3617	.3038 / .3776	-.008 / -.066
(11)	Loans to individuals	.2937 / .2105	.2964 / .2026	.3007 / .2172	.2977 / .2245	.3000 / .2274	.3019 / .2209	-.027 / -.047
(12)	all other loans (includ. o.d.)	.0146 / .0261	.0136 / .0273	.0116 / .0277	.0126 / .0262	.0116 / .0246	.0121 / .0245	+.171 / +.028
(13)	Cash balance with other banks	.0996 / .1384	.0999 / .1392	.1050 / .1415	.1131 / .1530	.1134 / .1558	.1246 / .1623	-.201 / -.147
(14)	Investment securities	.2392 / .2324	.2208 / .2032	.2058 / .2156	.2149 / .2420	.2353 / .2562	.2432 / .2464	-.016 / -.057
(15)	Trading account securities	.0001 / .0055	.0001 / .0087	.0000 / .0104	.0000 / .0070	.0000 / .0083	.0000 / .0098	N.C. / -.438
(16)	Federal funds sold	.0287 / .0407	.0174 / .0434	.0197 / .0422	.0141 / .0360	.0200 / .0311	.0261 / .0281	+.099 / +.448
(17)	Loans	.5954 / .5255	.6264 / .5539	.6352 / .5506	.6238 / .5254	.5983 / .5112	.5702 / .5162	+.044 / +.018
(18)	Bank premises	.0372 / .0482	.0353 / .0515	.0342 / .0397	.0340 / .0366	.0330 / .0372	.0359 / .0371	+.036 / +.299

TABLE IX-C

PROVISION FOR LOAN LOSSES AND RESERVES: 1975

Area	Provision for Loan Losses/Operating Rev	Loan Reserves/Loans	Provisions for Loan Losses/Loans
United States	2.9	1.16	0.32
New England	4.6	1.22	0.52
Maine	3.3	1.35	0.36
Northern New England	2.7	1.27	0.27
Southern New England	6.5	1.16	0.64

Source: F.D.I.C., Bank Operating Statistics 1971-1975

TABLE IX-D

EARNING POWER OF BANKS
FOR THE YEAR 1975
(Dollar amounts in thousands)

	Maine	U.S.
Total Assets		
Commercial Banks	$2,283,234	$ 952,451,011
Mutual Savings Banks	1,750,552	121,070,592
All Insured Banks	4,033,786	1,073,521,603
Total Capital or Surplus		
Commercial Banks	$173,842	$68,716,522
Mutual Savings Banks	142,815	8,420,870
All Insured Banks	316,657	77,137,392
Net Income		
Commercial Banks	$19,716	$7,254,611
Mutual Savings Banks	11,367	365,391
All Insured Banks	31,083	7,620,002
Return on Assets (%)		
Commercial Banks	.86	.76
Mutual Savings Banks	.65	.30
All Insured Banks	.77	.71
Return on Capital Accounts (%) or Surplus (%)		
Commercial Banks (Capital)	11.34	10.56
Mutual Savings Banks (Surplus)	7.96	4.34
All Insured Banks	9.82	9.88

TABLE IX-E

Manufacturers
1972

		Maine as % of:
Number of Establishments		
United States	312,662	.66
New England	23,731	8.71
Maine	2,067	100.00
Number of Employees (th)		
United States	18,032.4	.55
New England	1,362.4	7.30
Maine	99.5	100.00
Value Added (M$)		
United States	353,973.4	.39
New England	22,500.5	6.09
Maine	1,369.7	100.00
Payroll (M$)		
United States	160,414.4	.43
New England	11,905.1	5.85
Maine	695.9	100.00
Capital Expenditures (M$)		
United States	24,073.1	.58
New England	1,244.0	11.14
Maine	138.6	100.00

Source: United States Department of Commerce, Bureau of the Census, 1972 Census of Manufacturers.

TABLE IX-F

Retail Trade
(Sic 5200-5999)

1972

# Establishments	1972	Maine as % of:
United States	1,912,871	.57
New England	110,800	9.91
Maine	10,392	100.00
# Employees		
United States	11,210,998	.47
New England	722,695	7.27
Maine	52,554	100.00
Sales (M$)		
United States	459,040	.49
New England	26,869	8.31
Maine	2,233	100.00
Payroll (T$)		
United States	55,372,140	.45
New England	3,521,776	7.12
Maine	250,694	100.00

Source: United States Department of Commerce, Bureau of the Census, 1972 Census of Retail Trade, Vol. 1, p 9.

TABLE IX-G

Selected Service Industries
(Sic 7000-8900)

1972

	1972	Maine as % of:
# Establishments		
United States	1,590,248	.51
New England	93,931	8.55
Maine	8,032	100.00
# Employees		
United States	5,305,181	.29
New England	291,249	5.26
Maine	15,315	100.00
Receipts (M$)		
United States	112,970	.28
New England	5,954	5.25
Maine	313	100.00
Payroll (T$)		
United States	33,424,040	.24
New England	1,823,383	4.32
Maine	78,727	100.00

Source: United States Department of Commerce, Bureau of the Census, 1972 Census of Retail Trade, Vol 1, p. 7, 28.

TABLE IX-H

Wholesale Trade
(Sic 5000-5199)

# Establishments	1972	% of United States
United States	369,791	.44
New England	18,577	8.75
Maine	1,625	100.00
# Employees		
United States	4,026,118	.41
New England	213,381	7.75
Maine	16,531	100.00
Sales (M$)		
United States	695,224	.27
New England	33,905	5.56
Maine	1,886	100.00
Payroll (T$)		
United States	36,892,920	.34
New England	2,052,744	6.10
Maine	125,247	100.00

Source: United States Department of Commerce, Bureau of the Census, 1972 Census of Wholesale Trade, Vol. II, Table 1, page Maine 20-5 and p. 8; p 17, Vol. I.

TABLE IX-I

MINERAL INDUSTRIES

(sic 1000-1500)

1972

# Establishments	1972	Maine as % of
U.S.	25,269	.15
New England	292	12.67
Maine	37	100.00
# Employees		
U.S.	595,100	.05
New England	3,700	8.11
Maine	300	100.00
Value Added (M$)		
U.S.	26,470.6	.02
New England	76.5	8.10
Maine	6.2	100.00
Capital Expenditures (M$)		
U.S.	5,035.9	.11
New England	14.4	36.81
Maine	5.3	100.00

only 4 over 20 employees

Source: U.S. Department of Commerce, Bureau of the Census, 1977 Census of Mineral Industries, Table 1-3, 1-9

TABLE IX-J

CONSTRUCTION INDUSTRIES

(sic 1500-1799)

1972

Number of Establishments	1972	Maine as % of
U.S.	920,806	.70
New England	61,990	10.44
Maine	6,473	100.00
Number of Employees		
U.S.	4,145,779	.48
New England	243,256	8.14
Maine	19,801	100.00
Total Receipts		
U.S.	164,457,691	.36
New England	9,620,026	6.05
Maine	586,153	100.00

Source: Department of Commerce, Bureau of Census, *1972 Census of Construction Industries*

TABLE IX-K

FARMS

1969

Number of Farms	1969	Maine as % of
U.S.	2,730,250	.25
New England	28,640	27.83
Maine	7,971	100.00
Land in Farms (1000 acres)		
U.S.	1,063,346	.17
New England	5,599	31.43
Maine	1,760	100.00
Value of Farm Land and Bldgs ($1000)		
U.S.	206,750,634	.14
New England	1,802,544	15.76
Maine	282,943	100.00

Source: U.S. Department of Commerce, Bureau of the Census
1972 Census of Agriculture

TABLE IX-L

FISHING VESSELS (over 5 tons)

1967

Number of Commercial Fishing Vessel Operators		Maine as % of
U.S.	10,267	1.07
New England	657	16.74
Maine	110	100.00
Gross Receipts ($1000)		
U.S.	$324,584	1.95
New England	44,682	14.13
Maine	6,315	100.00
Vessels		
U.S.	12,218	
New England	695	

Source: U.S. Department of Commerce, 1967 Census of Commercial Fisheries

TABLE IX-M

IMPORTANCE OF VARIOUS BUSINESS TYPES

1972

	Number of Establishments		Number of Employees		Payroll	
Type	#	%	#	%	$(M)	%*
Manufacturers	2,067	5.6	99,500	48.8	$695	60.2
Retail	10,892	29.3	52,554	25.8	251	21.7
Service(Most)	8,032	21.6	15,315	7.5	79	6.8
Wholesale	1,625	4.4	16,531	8.1	125	10.8
Mineral	37	.1	300	.1	6	5.2
Construction	6,473	17.4	19,801	9.7	n.a.	--
Farms	7,971	21.4	n.a.	--	n.a.	--
Fishing(5 ton)	110	.3	n.a.	--	n.a.	--
	37,207	100.0	204,001	100.0	1,157	

*Note: % shown as percent of available figures.

Source: Author's computations, from data contained in the Census of various business activities.

TABLE IX-N

RETAIL TRADE

INDUSTRY ANALYSIS

SIC	Industry & Region	#	Employees	Sales(M$)
520	Building - Maine	559	2,619	151
	-U.S.	83,842	405,325	23,844
	-Maine % of U.S.	.67	.65	.63
530	General Merch.-Maine	538	7,706	275
	-U.S.	56,245	1,887,153	65,091
	-Maine % of U.S.	.95	.41	.42
540	Food Scores - Maine	1,877	9,167	546
	-U.S.	267,352	1,722,486	100,719
	-Maine % of U.S.	.70	.53	.54
550(ex 554)	Auto Dealers-Maine	894	6,261	442
	-U.S.	121,369	1,035,372	90,030
	-Maine % of U.S.	.74	.60	.49
554	Gas Service Sta.-Maine	1,224	3,360	163
	-U.S.	226,459	747,668	33,655
	-Maine % of U.S.	.54	.45	.48
560	Apparel-Maine	535	2,799	87
	-U.S.	129,201	800,394	24,741
	-Maine % of U.S.	.41	.35	.35
570	Furniture & Appliances-Maine	515	1,904	77
	-U.S.	116,857	474,594	22,533
	-Maine % of U.S.	.44	.40	.34
580	Restaurants-Maine	1,604	10,573	140
	-U.S.	359,524	2,634,457	36,868
	-Maine % of U.S.	.45	.40	.38
591	Drug Stores-Maine	266	2,095	60
	-U.S.	51,542	453,928	15,599
	-Maine % of U.S.	.52	.46	.38
590(ex 591)	Misc. Retail-Maine	2,880	6,070	291
	-U.S.	500,480	1,049,621	45,960
	-Maine % of U.S.	.58	.58	.63

Source: U.S. Department of Commerce, Bureau of the Census, 1972 Census of Retail Trade.

TABLE IX-O

SELECTED SERVICE INDUSTRIES

SIC	Industry	#	Employees	(All) Receipts
701,703	Hotels, Motels, Trailer Pks, Camps	1,325	3,646	72,122
	-U.S. (Receipts in millions)	79,685	726,577	10,638
	-Maine as % of U.S.	1.66	.50	.67
720	Personal Services	2,349	3,195	49,287
	-U.S. (Receipts in millions)	503,378	976,709	14,050
	-Maine as % of U.S.	.46	.32	.35
730	Business Services .	1,067	2,365	42,838
	-U.S. (Receipts in millions)	326,077	1,759,438	37,802
	-Maine as % of U.S.	.33	.13	.11
750	Auto Repair	958	1,454	48,931
	-U.S. (Receipts in millions)	168,959	392,498	12,081
	-Maine as % of U.S.	.56	.37	.41
760	Misc. Repair	662	601	18,610
	-U.S. (Receipts in millions)	148,925	206,842	5,8[illegible]
	-Maine as % of U.S.	.44	.29	.31
780,790	Amusement & Recreation	865	2,184	30,300
	-U.S. (Receipts in millions)	145,983	653,047	13,445
	-Maine as % of U.S.	.59	.33	.22

Note: Excludes Dental Labs, Legal Services, Architecture

Source: U.S. Department of Commerce, Bureau of the Census, <u>1972 Census of Selected Service Industries</u>.

TABLE IX-P

WHOLESALE TRADE
IMPORTANT INDUSTRIES

SIC		Number	Employees	Sales (M$)
5013	Auto Parts and Suppliers	142	1,126	51
503	Lumber and Constr. Materials	64	539	56
506	Electrical Goods	77	910	116
507	Hardware, Plumbing, Heating	73	1,056	71
508	Machinery (except 5081, 5083)	150	1,413	107
5081	Commercial Machines	51	653	29
5083	Farm and Garden Machines	82	461	32
509	Misc. Durable Goods	66	325	22
511	Paper Products and Paper	37	357	29
514	Groceries (except 5146, 5148, 5149)	93	2,034	346
5146	Fish and Seafoods	119	774	60
5148	Fresh Fruits	76	814	62
5149	Groceries, N.E.C.	55	615	56
5171	Petroleum (Bulk Stations)	163	1,587	332
5172	Petroleum (except Bulk Stations)	54	377	45
519	Misc. Non-Durables (except 5191)	66	826	113
5191	Farm Supplies	61	411	51

Source: U.S. Department of Commerce, Bureau of the Census, 1972 Census of Wholesale Trade, Table 1, page Maine 20-5,6.

TABLE IX-Q

MINING INDUSTRIES

Mining Industry	SIC	# Producing Establishments
Copper Ores	102	1
Lead & Zinc	103	1
Mining Services	108	1
Oil & Gas Field Svc	138	4
Dimension Stone	141	3
Crushed Stone	142	3
Sand and Gravel	144	17
Non-Metalic Service	148	2
Misc. Non-Metalic	149	3
		35

Source: U.S. Department of Commerce, Bureau of the Census, 1972 Census of Mineral Industries Table 3 (New England States)

TABLE IX-R

FARMS

1974

	Number	%	Acres
Cash Grain	50	1.1	14,414
Sugar, Potato	1539	33.8	497,428
Vegetable	103	2.3	15,739
Horticultural	154	3.4	10,040
Livestock	282	6.2	61,793
Dairy	1217	26.7	413,310
Poultry	663	14.6	75,768
Total	4553	100	1,285,128

Source: U.S. Department of Commerce, Bureau of the Census, <u>1974 Census of Agriculture</u>

TABLE IX-S

LARGE MANUFACTURERS

PART ONE - DOMESTIC COMPANIES

Name of Firm	Employees
Hillcrest Foods, Inc.	500-600
Penobscot Poultry	451-500
Potato Service Inc.	701-800
Bates Fabric, Inc.	1001-1500
Edwards Mfg. Co. Inc.	701-800
Eastland Woolen Corp.	501-600
C.F. Hathaway Inc.	701-800
Forster Mfg. Co. Inc.	501-600
Bonan Footwear	701-800
Saco Tanning Co.	601-700
G.H. Bass & Co.	701-800
Dexter Shoe Co.	1001-1500
Eastland Shoe Co.	451-500
Jos. Herman Shoe Inc.	501-600
Knapp King Size Inc.	601-700
Sebago Inc.	451-500
Hallowell Shoe	451-500

PART TWO - FOREIGN RUN COMPANIES

Name of Firm	Employees	Parent Location
Biddeford Textile Co.	501-600	Illinois
Health Textile Inc.	501-600	New York
Diamond International Inc.	451-500	New York
Penobscot Co.	601-700	New York
Eastern Fine Paper	451-500	Quebec
Fraser Paper Ltd.	900-1000	New Brunswick
Georgia Pacific Co.	900-1000	Oregon
Great Northern Paper	1501-2000	Connecticut
Lincoln Pulp & Paper Co.	501-600	Massachusetts
Oxford Paper (changed)	2001-2500	Idaho
St. Regis Paper Co.	901-1000	New York
Scott Paper Co.	1001-1500	Pennsylvania
Statler Tissue	501-600	Massachusetts
S. D. Warren Paper Co.	2500-3000	Pennsylvania
Keyes Fibre Co.	1001-1500	New Jersey
Presque Isle Footwear	701-800	Massachusetts
Morningstar Corp. of Me.	501-600	Massachusetts
Pioneer Plastics	601-700	Michigan
Irving Tanning Co.	451-500	New York
Norwock Shoe Co.	1500-2000	Ohio
Livermore Shoe Co.	501-600	Massachusetts
S. Berwick Shoe Co.	601-700	Massachusetts
Viner Brothers Shoe Co.	601-700	Massachusetts
Bath Iron Works	3500-4000	Wisconsin
General Electric Inc.	601-700	New York
Maremont Corp.	1001-1500	Illinois
G.T.E. Sylvania Inc.	501-600	New York
Fairchild Semi-Conductor	2001-2500	California
Sprague Electric Co.	901-1000	Massachusetts

TABLE IX-T

PARTNERSHIPS

For the year 1973

	U.S.	Maine	
Number of Partnerships	1,039,191	3,135	.302%
Number of Partners	4,383,617	13,854	.316%
Receipts	121,913,613	199,986	.164%
Profits	9,195,780	31,814	.346%
Profit Margin	7.54%	15.9%	

Source: U.S. Government, Department of the Treasury, Internal Revenue Service, Pub. 438, Business Income Tax Returns, p. 63-68.

TABLE IX-U

PROPRIETORSHIPS

For the year 1973

	U.S.	Maine	Maine as % of US
Number of Proprietorships	10,648,202	55,116	.518%
Receipts	$311,374,523	$1,593,941	.512%
Net Profits	$ 46,673,063	$ 238,043	.510%
Profit Margin	14.9%	14.9%	

Source: U.S. Government, Department of the Treasury, Internal Revenue Service, Pub. 438, Business Income Tax Returns, p. 63-68.

APPENDIX VIII

AUTHORS' RESUMES

THOMAS M. D. WARSCHAUER
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EDUCATION: Doctor of Business Administration

Currently completing dissertation at the University of Colorado. Major area: Finance. Minor areas: Management science and economics.

Dissertation Topic: "The Magnitude, Importance and Situs of Uninsured Savings at Insured and Uninsured Intermediaries." Completion expected in 1976.

Master of Science

May 1971 at the University of Colorado. Degree granted with management science major and finance minor. Three point-nine (3.9) grade point average.

Bachelor of Science in Business

Degree awarded in January 1970. In top 15% of graduating class. Cited for excellent scholarship in Spring 1969.

ACADEMIC : Teaching Experience:

Assistant Professor of Finance
University of Maine
September 1974 to present.

Teaching responsibilities in Investments and Business Finance, both on graduate and undergraduate levels.

Teaching Associate
University of Colorado
January 1970 to September 1974

Taught statistics, programming, business finance, and investments.

Research Completed:

Publications and Professional Meetings

(1) "Estimating Social Security Benefits," The Financial Planner, July 1975.

(2) U. S. House of Representatives, Committee on Ways and Means. Financing The Social Security System, pp. 549-557.

(3) "Long-Term Growth Related Changes in Stock Prices and Price Inertia," Midwest Finance Association, April 2, 1976.

ACADEMIC (CONTINUED): Research in Progress:

(1) "Inflation-Stock Price Sensitivity and Industry Selection" proposal for the Southern Finance Association.

(2) "Rate of Return on A Social Security Investment--A Study in Regressivity."

Coursework:

Finance (33 hours)
Management Science (33 hours)
Economics (21 hours)
Accounting (18 hours)

PROFESSIONAL : Investment Counselor
Warschauer Investment Associates
Provides financial planning for individuals. SEC registered investment counsel. Licensed as NASD Principal, Boston Stock Exchange. Certified Financial Planner.

Real Estate Broker and Treasurer
Financial Surveys Realty, Inc.
Responsible for financial administration of development and syndication firm.
Licensed Colorado Real Estate Broker

Assistant Treasurer
Investment Managers International
Responsible for preparation of financing packages for major real estate developments.

MILITARY EXPERIENCE : United States Navy, 1962 - 1968
Navigation Supervisor, Polaris (E-6)

PERSONAL : Good Health, 6'0", 178 lbs.
Married, age 33, one daughter
Enjoy photography, hiking, sailing.

RESUME

LLOYD D. BRACE, JR.

Massachusetts Institute of Technology - B.S. in
Business and Engineering Administration 1956

U. S. Army Reserve 1956-1958 - 1st Lt., Aide-de-Camp
to Brig. Gen. Gunnar C. Carlson, Ordnance
MAAG Saigon 1957. Watertown Arsenal, Flexible
Overhead Accounting Project 1958

United Shoe Machinery Corp. 1958-1968
Business Staff - Atomic Power Department
Corporate Planning Staff
Assistant to Plant Manager - Roedelheim, W. Germany
Distributor Products Manager - USM Chemical Co.

Information Transfer Corporation - Wellesley, Mass.
Founder, Treasurer, Marketing Vice President

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Venture Analysis, Portfolio Management

Boston Safe Deposit and Trust Company
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