Council of Development Finance Agencies

Testimony Before The Ohio House of Representatives
HCR No. 7
June 8, 2015

Chairwoman Anielski, Vice Chairman Ryan, Ranking Member Rogers, Members of the Committee, thank you for allowing me to appear before you today to discuss HCR No. 7 and the importance of tax-exempt bonds. My name is Toby Rittner and I am the President and CEO of the Council of Development Finance Agencies. CDFA is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing thousands of public, private and non-profit development entities. Members are state, county and municipal development finance agencies and authorities that provide or otherwise support economic development financing programs, including tax-exempt and taxable bonds.

CDFA has over 50 member organizations headquartered in Ohio, including: the cities of Columbus, Cleveland, Hillard, Grove City; Butler, Clinton, and Franklin County; Mahoning Valley Economic Development Corporation; the Toledo-Lucas County Port Authority; JobsOhio; Development Finance Authority of Summit County; Southern Ohio Port Authority; and many other private and public entities.

As a representative of thousands of development finance industry members, we applaud the Assembly's action to urge the President and Congress to preserve the tax-exempt status of municipal bonds. We understand the need and support an overhaul of the nation's tax code to make it simpler, fairer, and more efficient. However, we believe the federal tax code already includes an incredibly effective tool that has served the nation for more than a century: Tax-Exempt Bonds (TEBs). We believe repealing or altering the current tax exemption for municipal and private activity bonds will not address the concerns driving tax reform and, in particular, will make infrastructure investments more difficult and more costly. Congress should instead be working to update the laws governing TEBs to make them more efficient and effective.

Tax-exempt bonds are a federally authorized development finance tool that helps stimulate public and private investment in job creation, business and industry expansion, economic and physical redevelopment, transportation and infrastructure, health care and higher education, and agricultural and renewable energy production. Three-quarters of the total United States investment in infrastructure is accomplished with tax-exempt bonds, which are issued by over 50,000 state and local governments and authorities representing a three trillion dollar industry. Throughout the country, state and local issuers support small- to medium-sized manufacturers through the issuances of low cost Private Activity Bonds that support jobs and investment in one of the nation's most critical economic engines.

State and local governments use TEBs to finance the construction of the majority of our nation's core infrastructure.[i] These bonds finance roads, highways, and bridges; public transportation; seaports and marine terminals; airports; water and wastewater facilities; schools; acute care hospitals; single- and multi-family housing; libraries; parks; town halls; electric power and natural gas facilities; and other public projects. In fact, TEBs financed more than $1.7 trillion in new infrastructure investments in the last decade.[ii] These public investments remove barriers to commerce and make our communities livable.

Private Activity Bonds (PABs), a small but powerful segment of TEBs, are critical job-creation tools that catalyze private investment in economic development. PABs have been used to help build and improve facilities and create jobs for small manufacturers, hospitals, airports, colleges, housing, and thousands of other projects throughout the country. The tax-exempt designation of PABs directs private investment toward carefully-defined sectors of economic development that communities need the most. This ensures that the public purpose afforded by the tax-exemption is meeting the critical job creating and quality-of-life improving demands provided by this important financing tool.

Industrial Development Bonds (IDBs), a type of PAB for qualified manufacturers, enable communities to provide up to just $10 million in tax-exempt financing for rigidly-defined manufacturing facilities. IDBs are efficient and safe investments compared to many alternatives, establishing a public-private partnership with the market determining prices. The tool enables community banks to support manufacturing clients through underwriting or privately placing the bonds. IDBs are issued on a conduit basis, meaning that there is no risk to the governmental issuer of the bonds. Thus, the nature of the tool shifts the project's risk to the private sector, providing a safe and more efficient alternative for the federal government than direct loan and grant programs provide.

In many smaller communities, IDBs are the best—and often, only—tool available to support capital access for small manufacturers and fulfill the public purpose of creating and supporting living-wage jobs. According to the ALF-CIO, nearly six million manufacturing jobs have disappeared since 2004. This has hit America's communities particularly hard, as manufacturing jobs have higher salaries and a greater economic impact than other jobs.

Low-cost capital access remains the primary strength of tax-exempt bonds, but today, job creation is one of the most critical elements in the use of this important tool for economic development purposes. Eliminating tax-exempt bonds will have dire consequences, not only for the hundreds of thousands of projects they finance, but also the jobs these projects create.

Tax reform ideas continue to show the growing disconnect between tax-reform discussions in Washington, DC and in state and local economies throughout the country. If eliminated, thousands of projects throughout the country would lose access to the affordable and flexible capital provided by the tax-exempt PAB market, almost certainly resulting in economic development stagnation. Important infrastructure, education, health care, and community amenity projects would be delayed, scaled back, or all together eliminated. If TEBs were eliminated outright, borrowing costs would increase by 25-30 percent for state and local governments, certainly causing a decrease in employment and stalled projects throughout the country.[iii] Congress should be working to strengthen this important tool, not eliminate it.

Again, I thank the Committee for allowing me to speak before you today and urge you to adopt this resolution.

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[i] Congressional Budget Office, Joint Committee on Taxation (October 2009). Subsidizing Infrastructure Investment with Tax-Preferred Bonds.
[ii] National Association of Counties, National League of Cities, The United States Conference of Mayors (February 2013). Protecting Bonds to Save Infrastructure and Jobs.
[iii] Council of Development Finance Agencies (2011). Built by Bonds.