- 2018 -
CDFA Policy Agenda

Introduction

In 2018, the Council of Development Finance Agencies (CDFA) aims to build off its recent legislative successes, which includes the reintroduction of the Modernizing American Manufacturing Bonds Act (MAMBA) in both the U.S. House and Senate, the reintroduction of the Small Business Access to Capital Act in the U.S. Senate, and fully preserving the rules governing tax-exempt private activity bonds in the reformed Internal Revenue Code (IRC). CDFA is now in an excellent position to fulfill many of its longtime policy objectives, which are outlined in the paragraphs below.

The CDFA Policy Agenda is borne out of CDFA's 36 years as a leader in the development finance industry. This Agenda identifies six critical policy areas crafted to address market-based challenges to capital formation, access, and private leverage. Each policy area provides a new look at how the federal government could and should approach capital formation and capital access. CDFA is prepared to assist Congress and the Administration with the implementation of the policy proposals contained within this agenda.

Policy Area 1: Pass the Modernizing American Manufacturing Bonds Act

Qualified Small Issue Manufacturing Bonds, also known as Industrial Development Bonds (IDBs), are a type of Private Activity Bond (PAB) that allows the public sector to pass considerable interest rate reductions on to private companies through the issuance of tax-exempt bonds in the capital markets. IDBs are the single most actively used bond tool for financing the small-to-mid-sized manufacturing sector, and are a key economic development tool for many state and local economic development agencies. Unfortunately, the last substantive improvements to the rules governing the usage of IDBs occurred in 1986, and the lack of reform has caused stagnation and decline in the bond finance industry. CDFA recommends:

- **Reform Manufacturing Bonds** – CDFA proposes a set of efficient and effective reforms to the laws governing Industrial Development Bonds. These four simple fixes would expand access to capital for manufacturers throughout the country and support America's most productive industry. The four reforms in ***"The Modernizing American Manufacturing Bonds Act" (MAMBA)*** would revolutionize one of the most beneficial tools provided by the federal government. MAMBA was introduced in both the U.S. House of Representatives and U.S. Senate in 2017, and it received significant bipartisan support. CDFA stands ready to build on this momentum in 2018 to see this important piece of legislation through to enactment. The full legislative proposal can be found online at www.cdfa.net.

Policy Area 2: Strengthen Tax-Exempt Bonds

Tax-exempt bonds are a federally authorized development finance tool that help stimulate public and private investment in a wide variety of economic sectors. 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 $3 trillion dollar industry. Tax-exempt bonds have served as the primary financing mechanism for public infrastructure and have been exempt from federal tax – just as federal debt is exempt from state and local tax – for more than a century. The Tax Cuts and Jobs Act of 2017 preserved the tax-exempt status of municipal and private activity bonds, placing CDFA in an excellent position to advance legislation that would strengthen tax-exempt bonds. CDFA recommends:

- **Remove Water and Sewer Bonds from Volume Cap –** Exempting water and sewer private activity bonds from state volume cap requirements would allow states and municipalities to finance more infrastructure projects through bond issuance than are currently possible. In 2016, $96.96 billion of the $97.36 billion in national volume cap available went toward financing projects *other* than water and sewage infrastructure.[i] The demand for bond financing creates a bottleneck with other political priorities using most of the cap. Water projects simply cannot access this resource on a level playing field. Freeing water and sewage infrastructure form volume cap constraints would drastically increase state and local capacity to finance essential water and sewage projects. Legislation to remove these bonds from volume cap restrictions has been introduced in the House as H.R. 3009, the Sustainable

Water Infrastructure Investment Act of 2017.

- **Improve Public Buildings through Public-Private Partnerships (P3s)** – According to the Performance Based Buildings Coalition (PBBC), America's public buildings are in a "historic state of disrepair." Shrinking budgets on the state and local level have led municipal governments to forgo regular maintenance on their public facilities, harming their long-term viability and raising the present cost of facility upgrades. To combat the negative impacts of shrinking budgets, Congressional leaders have introduced The Public Buildings Renewal Act of 2017. H.R. 960 and S. 326 would allow private entities to access tax-exempt private activity bonds for projects involving public facilities, incentivizing private groups to invest in public projects, and lowering the overall costs to state and local governments. CDFA supports The Public Buildings Renewal Act, and will work with legislative partners to ensure the bill becomes law.

Policy Area 3: Reauthorize and Fund the State Small Business Credit Initiative

Small businesses in the U.S. carry a disproportionately large burden to employ American citizens than do large enterprises. According to the 2014 Annual Survey of Entrepreneurs, nearly 61 percent of all firms with paid employees have a staff of just 4 people or less. Additionally, since 1970, 55 percent of all existing American jobs have been supported by small business, and 61 percent of all net new jobs have been created in the small business sector.[ii] To support the essential small businesses and entrepreneurs in America, CDFA recommends:

- **Pass the Small Business Access to Capital Act** – The State Small Business Credit Initiative (SSBCI) was a phenomenally successful federal financing program that delivered flexible, affordable capital to small businesses around the country. Unfortunately the SSBCI Program expired in 2017, leaving a void in the marketplace for affordable small business loans. Congress should pass the Small Business Access to Capital Act of 2017 (S. 1897), which would reauthorize SSBCI and allocate $500,000,000 to eligible participating states.

Policy Area 4: Reduce Barriers to Clean Energy through Credit Enhancement

For much of the past 15 years, the growth in the clean energy industry has relied on the provision of grants, incentives, rebates, policy initiatives, and technical support from state clean energy programs. While public funds have been essential in creating a market for clean energy production, the continued growth of this sector will be limited as long as it relies primarily on public subsidies. A more integrated approach is required; one that continues the important public role of providing incentives and technical support for the adoption of clean energy technologies, while at the same time providing public financial support in the form of credit enhancement to leverage private capital. CDFA recommends the following:

- **Introduce the Investing in Competitive Clean Energy (ICCE) Act** – The ICCE Act would authorize, through a one-time $5 billion appropriation, the creation of a federal program that would leverage $25 billion of private investment in clean energy. ICCE would achieve a 5:1 leverage ratio by creating a variety of state credit support programs, including loan loss and debt service reserves, letters of credit, loan guarantees, collateral support, and subordinated debt. The program would be housed within the U.S. Department of the Treasury as it is fundamentally a development finance credit tool, not an energy programs mechanism. The ICCE Act legislation has already been drafted by CDFA and awaits Congressional introduction.

Policy Area 5: Reform and Bolster Infrastructure Financing Tools

In their 2013 Report Card, the American Society for Civil Engineers (ASCE) gave the United States a D+ for the poor overall condition of its infrastructure. The ASCE analysis of American infrastructure evaluated drinking and wastewater infrastructure, aviation networks, highways, bridges, ports, levees, and railways. CDFA recommends that the Administration and Congress focus on improving the delivery method of existing federal infrastructure finance programs, expedite the rollout of authorized programs that will encourage public-private partnerships, and push for the approval of several small legal and tax code reforms that would unlock significant capital for infrastructure projects and redevelopment. Specific recommendations include:

- **Launch a Federal Credit Assistance Program for TIF Bonds** – TIF bond ratings are often tied to highly variable metrics like local neighborhood economic trends and taxpayer diversity. The variance in local economic trends can lower demand for TIF bonds, slowing project development and undermining potential area economic growth. To overcome the challenge of issuing TIF bonds, we advocate the creation of a federal bond credit enhancement program for bonds secured with revenue generated by a qualified TIF district. The credit enhancement program would create tools analogous to existing credit assistance products authorized under the Transportation Infrastructure Finance and Innovation Act (TIFIA) program through the Department of Transportation. CDFA stands ready to offer leadership and its expertise in the development of a federal guarantee program.

Policy Area 6: Stabilize and Improve the Federal Financing Delivery System

Access to federal capital is critical and extremely beneficial to state and local government and private sector investment in economic development projects. Access to capital is paramount to leveraging private capital as shown by dozens of creative federal programs aimed at encouraging private sector investment. Nonetheless, both the public and private sector have struggled with the use and engagement of federal resources due to the lack of predictability and reliability of the programs offered by the federal government. This uncertainty had hurt the implementation and long-term effectiveness of this assistance. Specifically, CDFA recommends the following:

- **Permanently Authorize and Fund the New Markets Tax Credit (NMTC) Program** – The CDFI Fund administers the highly effective New Markets Tax Credit (NMTC) Program. The NMTC program has been a model for attracting and catalyzing investment in America’s low-income census tracts. Unfortunately, the NMTC program has not had consistent program authorization, which impedes financing success by creating uncertainty. The private sector cannot effectively plan for investment and expansion if it’s uncertain that the NMTC program will be authorized and/or funded. The NMTC Program should be permanently authorized and indexed to inflation, with an annual appropriation of no less than $5 billion.

- **Permanently Authorize the EB-5 Regional Center Program** - The popular and extremely successful EB-5 Regional Center Program housed at USCIS has driven billions of private-sector led investment into American communities since the early 1990s. This program, which leverages direct foreign investment in return for accelerated citizenship opportunities, has not only proven to be very successful but also highly efficient. Unfortunately, the program remains under temporary authorization, requiring periodic reauthorization by Congress. Tools such as EB-5 need not be subject to speculative political pressures and should be a permanent program. CDFA recommends that Congress pass immediate and permanent reauthorization of the EB-5 Regional Center Program.

About CDFA

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 public, private, and non-profit development finance agencies. Members are state, county and municipal development finance agencies that provide or otherwise support economic development financing programs. The Council was formed in 1982 with the mission to strengthen the efforts of state and local development finance agencies fostering job creation and economic growth. Today, CDFA is the strongest voice in the development finance industry. CDFA is a non-partisan, non-political institution that supports sound public policy and the leadership involved in making important decisions affecting the development finance industry.

About this Policy Agenda

CDFA’s Policy Agenda outlines numerous recommendations to some of the nation’s most difficult development finance issues. CDFA hopes that Congress and the Administration will use these recommendations as a roadmap to improvements in these areas. This agenda outlines immediate action items to unlock development finance in the United States today.

To learn more about CDFA’s policy agenda advocacy efforts, visit www.cdfa.net.

[i] Fisher, Tim. *CDFA Annual Volume Cap Report.* Report. Council of Development Finance Agencies, 2017.
[ii] “Small Business Trends.” Small Business Trends | The U.S. Small Business Administration | SBA.gov. Accessed November 10, 2016. https://www.sba.gov/managing-business/running-business/energy-efficieincy/sustainable-business-practices/small-business-trends.