

# FUTURE OF AMERICAN MANUFACTURING HINGES ON ACCESS TO AFFORDABLE CAPITAL *BOND FINANCE CAN ENSURE THIS FUTURE*



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You may have noticed that this edition of *Development Finance Perspectives* is largely focused on the upcoming 2012 C DFA National Development Finance Summit.

Obviously, this event is the Council's hallmark moment each year, but it also represents a unique opportunity

to substantively address some of our nation's most pressing challenges.

Perhaps nothing is more pressing than the plight of American manufacturers over the past decade. Since 2001, nearly 5.7M manufacturing jobs have disappeared<sup>i</sup> due to overseas competition, industry contraction, poor public policy, lack of capital, and the general downturn in the nation's economy. A great deal of credit should go to all levels of government throughout the country for their handling of this significant challenge.

As the economy has begun to stabilize and improve, many economists and business leaders have pointed to a potential resurgence of manufacturing in the United States. In fact, many believe improved tax policy and regulations could enable the manufacturing sector to rebound considerably over the next decade.

One major element stands in the way of this resurgence: access to capital. For large, high credit worthy manufacturers, the availability of low-cost financing is easily attainable. Commercial banks and Wall Street are eager to support these companies and reap the profits. For

small- to medium-sized manufacturing, access to capital remains elusive and problematic. Congress and the Administration have both taken bold action over the past two years to support capital access and manufacturers, but much more can be done.

C DFA is embarking on an important and potentially game-changing endeavor to improve access to capital for thousands of small- to medium-sized manufacturers. Qualified Small Issue Manufacturing Bonds, commonly known as Industrial Development Bonds (IDBs), are a bedrock financing tool that has been assisting manufacturers for decades. This tool allows state and local issuers to issue tax-exempt bonds on behalf of manufacturers for qualified investments in the company. Strict rules and many regulations apply, but IDBs have been issued for decades to great success.

IDBs, like other bonds, have experienced the ups and downs of the economic climate over the past decade. For example, over \$3.1B in IDBs were issued nationwide in 2007, one of the highest years on record. The picture was much different in 2010, with just \$666M in IDBs issued nationwide.

The drop in IDB issuances is not only connected to the national economy, but also to the outdated rules and regulations that govern the use of IDBs. This tool has not been significantly reformed in nearly 30 years. C DFA has worked with Congress several times over the past three decades to tweak rules and regulations here and there, but no significant reform has occurred despite C DFA's continued push to support IDBs. C DFA, along with Senate and House

offices and thousands of issuers nationwide, is embarking this year on a comprehensive effort to reform IDBs through the American Manufacturing Bond Finance Act. The Act, currently being authored, will provide seven significant changes to the federal tax code governing IDBs. Notably, the definition of manufacturing will be expanded to allow for greater project opportunities. The limits on total bond issuance and capital expenditures will also be expanded to modernize the tool for 21st century financial considerations.

C DFA intends to have the Act introduced in both the Senate and House within the next few months, and our Congressional partners are actively engaged in helping to improve the municipal bond industry. American manufacturers are eager to access the capital markets and make investments in new machinery, equipment, buildings, land, and energy. The American Manufacturing Bond Finance Act would give tens of thousands of small- to medium-sized manufacturers the assistance they need to invest and, more importantly, create jobs.

In August, as part of the Development Finance Summit, we will hit Capitol Hill in force with our legislation and advocacy message. I hope you will join us as we once again work with our leaders during Capitol Hill Day to collectively support and improve IDBs. The timing of this legislation could not be better, and America's manufacturers need our help. Join C DFA and be part of a long-term solution to restore manufacturing in the United States.

<sup>i</sup> [www.alfcio.org](http://www.alfcio.org)