- 2017 -
CDFA Policy Agenda

Introduction

Access to affordable, flexible, and efficient public and private capital remains the primary barrier to economic development in the United States. Over the past four decades, federal support for capital formation and capital access has shifted from a heavily subsidized system to one focused on leverage, credit enhancement, and the removal of financing barriers. Despite this migration to a risk-reduced approach, access to capital for numerous sectors – small business, entrepreneurs, manufacturing, clean energy, agriculture, rural infrastructure, urban revitalization – remains a significant challenge.

The contents of the 2017 CDFA Policy Agenda are borne out of CDFA's 35 years as a leader in the development finance industry. They have been carefully crafted to address myriad challenges to capital formation, access and private leverage. Each 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: Support American Manufacturing

Strengthening the American manufacturing sector is one policy proposal that has always received strong bipartisan support, and for good reason. Nine percent of America's workforce is employed in manufacturing, equaling roughly 12 million Americans.[i] Of equal importance is the tremendous multiplier effect manufacturing has on the rest of the economy; for every $1 spend on manufacturing, another $1.81 is added to the economy.[ii] Yet for an industry that has such an outsized role as a growth engine for the American economy, the tools available to support manufacturers are limited and, in many cases, outdated. CDFA offers two recommendations to strengthen the American manufacturing sector:

- **Reform Manufacturing Bonds** – CDFA proposes a set of efficient and effective reforms to the laws governing Qualified Small Issue Manufacturing 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 2016, and it received significant bipartisan support. CDFA stands ready to build on this momentum in the 115th Congress to see this important piece of legislation through to enactment. The full legislative proposal can be found online at www.cdfa.net.

- **Permanently Reauthorize the Investing in Manufacturing Communities Partnership (IMCP) Program** – The IMCP Program has been an overwhelming success and should be made a permanent federal offering. From an efficiency standpoint, the program has aligned ten federal agencies within one focused program to assist regions with manufacturing initiatives. The IMCP Program currently receives no federal funding and is set to expire in 2017, thus eliminating the progress made to date. CDFA highly recommends that Congress permanently authorize the IMCP Program and provide an annual appropriation of just $10 million to facilitate programming.

Policy Area 2: Preserve and Strengthen Tax-Exempt Bonds

Tax-exempt bonds are a federally authorized development finance tool that helps 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. Attempts to curb or repeal the municipal exemption would dramatically increase the cost of infrastructure projects to the detriment of the public who will have to bear those increases, and undermine the efforts of America's state and local governments to move their communities forward. CDFA recommends the following to Congress and the new Administration:

- **Preserve and Protect Tax-Exempt Bonds** – The Administration must commit to preserving and protecting tax-exempt bonds under any and all circumstances. The restriction, capping and/or elimination of the tax-exempt status for municipal and private activity bonds should be dismissed outright.

- **Improve Tax-Exempt Bonds** – In the process of comprehensive tax reform, Congress should take any and all measures to ensure that the tax exemption for municipal and private activity bonds be preserved and strengthened. In addition, tax reform should respect and recognize the importance of private-sector led investment and the critical role that tax-exempt bonds play in generating private investment. Any talk of reform should include concepts and ideas that improve and expand tax-exempt bonds, and CDFA is prepared to provide leadership on this subject.

Policy Area 3: Catalyze Small Business and Entrepreneurial Expansion

Although large companies and multi-national corporations seem to dominate our national consciousness with news stories on major investments and the many high-profile commercial advertisements they generate, small business remains the backbone of the U.S. economy. 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. In fact 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.[iii] It is no exaggeration to say that small businesses in the U.S. carry a disproportionately large burden to employ the 149.5 million people in the labor force compared to large enterprises. To support the essential small businesses and entrepreneurs in America, CDFA recommends:

- **Permanent Authorization of the SSBCI Program** – The SSBCI program and office fills a critical economic development need and will strengthen America's continuing economic recovery. However, the program and office is not authorized beyond 2017. SSBCI needs permanent and immediate authorization to continue without interruption. Failure to do so will result in the program being shut down and years of work and success abandoned.

- **Fund SSBCI Annually** – With the program and office permanently authorized, Congress should fund the SSBCI program at a minimum of $400 million annually. Funds should be allocated to states on a competitive basis to encourage performance based funding. Funds should be appropriated every year to continue program success and efficient operation. Legislative language for the reauthorization of SSBCI has been drafted and awaits introduction before the 115th Congress.

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. The federal government has also invested heavily in the clean energy sector, with loans, grants, and other subsidies for energy development made available through 10 different federal agencies. 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:

- **Create the State Clean Energy Finance Initiative (SCEFI) Pilot Program** – The SCEFI program should be authorized for five years with a one-time $5 billion appropriation. During this timeframe, the pilot program will leverage an additional $50 billion of private investment nationally while simultaneously requiring little if any additional federal administrative burden. SCEFI should 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 expertise of SSBCI administrators, in coordination with energy experts, will be essential to getting SCEFI off the ground. The SCEFI Pilot Program 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:

- **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 2015, $12.25 billion of the $13 billion in national volume cap available went toward financing projects *other* than water and sewage infrastructure.[iv] 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 was introduced on a bipartisan basis in both the House and Senate in 2016.

- **Aid and Support Implementation of the Water Infrastructure Finance and Innovation Act** – The Water Infrastructure Finance and Innovation Act (WIFIA) program provides credit assistance in the form of loans for large water infrastructure projects and is modeled off of the highly successful TIFIA program. The goal of the WIFIA program is to accelerate investment in water infrastructure by providing supplemental credit assistance to creditworthy projects of major importance. WIFIA works separately from, but in coordination with, the State Revolving Fund (SRF) programs to provide subsidized financing for large dollar-value projects. WIFIA was authorized in 2014 and was appropriated funding to establish the program and the WIFIA office at the U.S. EPA.

- **Launch a Federal Urban Tax Increment Finance Program** – Congress should consider legislation that enables targeted urban tax increment financing (TIF) at the federal level. Under TIF local governments can redirect specific, future estimated tax revenue to pay the present cost of development. These funds can only be used for public infrastructure like roads, bridges, sewers, utilities, etc. A federal urban TIF mechanism would allow the government to redirect very specific federal income tax revenue to catalyze urban revitalization efforts. These taxes would only be redirected for the period of time needed to pay off the debt service on the investment. Once the debt is paid off, the taxes would once again flow to the federal government. With federal resources involved, the urban TIF program would help lower the cost of capital for some of the nation's most difficult revitalization and redevelopment projects. Tax increment finance is used in 48 states and the District of Columbia and is highly effective and efficient.

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. Typically, the program operates on two to three-year authorization and funding cycles. In some years, the program is retroactively authorized and appropriated to account for prior years that were not previously approved by Congress. Often, the program is authorized and appropriated at the very last minute causing ripples and consternation throughout the development finance industry. Nothing impedes financing success more than funding uncertainty. Simply put, the private sector cannot 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 tied to inflation, with an annual appropriation of no less than $5 billion.

- **U.S. Customs and Immigration Services 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. In recent years, the program has catalyzed thousands of development projects that otherwise would not have materialized and has created millions of permanent jobs. Unfortunately, the program remains temporarily authorized and requires regular reauthorization by Congress. This ongoing battle pits an important economic development tool against political barriers. 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.

What is a Development Finance Agency?

Development finance agencies (DFAs) can be either public or quasi-public/private authorities that provide or otherwise support economic development through various direct and indirect financing programs. DFAs may issue tax-exempt and taxable bonds, provide credit enhancement programs, and offer direct lending, equity investments, or a broad range of access to capital financing mechanisms. DFAs can be formed at the state, county, township, borough or municipal level and often times have the authority to provide development finance programs across multi-jurisdictional boundaries. Examples of development finance agencies include industrial development authorities, boards or corporations; economic development authorities; special purpose authorities (port, transportation, parking, development, energy, air, water, infrastructure, cultural, arts, tourism, special assessment, education, parks, healthcare, etc.); and redevelopment authorities, commissions or districts. There are over 55,000 authorized development finance agencies in the United States.

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.

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[i] "Top 20 Facts About Manufacturing." National Association of Manufacturers. Accessed November 21, 2016. http://www.nam.org/Newsroom/Top-20-Facts-About-Manufacturing/.
[ii] Ibid.
[iii] "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.
[iv] Mathews, Peter. *CDFA Annual Volume Cap Report.* Report. Council of Development Finance Agencies, 2016.