- 2020 -
CDFA Policy Agenda

Introduction

The 116th Congress presents a tremendous opportunity for the advancement of essential development finance legislation, as the new Congress contains both dynamic politicians with which to partner and new leadership on several key committees. CDFA is committed to fulfilling many longtime policy objectives, including the improvement of tax-exempt bonds and the creation of new credit enhancement tools.

The CDFA Policy Agenda is borne out of CDFA's 38 years as a leader in the development finance industry. This Agenda identifies four critical policy areas crafted to address market-based access to capital challenges. CDFA is prepared to assist Congress and the Administration with the implementation of the policy proposals contained within this agenda.

Policy Area 1: Revitalize Tax-Exempt Bonds

Tax-exempt bonds are the bedrock of public development finance, and they are issued and sold to the investing public to finance the costs of capital projects. The tax-exempt status of certain bonds is a vital feature, as it makes them a more attractive investment option for investors and lowers project borrowing costs. Unfortunately, many tax-exempt bond categories are governed by rules written over 30 years ago. The outdated regulatory code blunts the effectiveness of many tax-exempt bonds, which has negatively impacted several sectors of the economy. To improve the functionality of tax-exempt bonds, CDFA recommends:

- **Pass the Modernizing Agricultural and Manufacturing Bonds Act (MAMBA)** – CDFA proposes a set of six reforms to the Internal Revenue Code that would dramatically enhance the usability of small issue manufacturing and first-time farmer bonds. The reforms contained within MAMBA would lower capital access barriers for small manufacturers and first-time farmers by modernizing the ways in which the Internal Revenue Code regulates the issuance of small issue bonds. No substantive changes have been made to the rules governing small issue bonds in 30 years, and the common-sense reforms outlined in MAMBA would enable issuing authorities to better finance the needs of small manufacturers and first-time farmers in the 21st Century economy.
- **Pass the Public Buildings Renewal Act** – CDFA supports the expansion of qualified exempt facility bonds to include public facilities like schools, hospitals, courts, fire stations, and universities. While the development and maintenance of public facilities have historically been funded by governments through the issuance of GO bonds, the significant, present-day costs associated with public facility projects have forced many cash-strapped governments to forgo regular facility upgrades and improvements. The Public Buildings Renewal Act would expand the exempt facility bond category to include government buildings, enabling cash strapped governments to engage the private sector through public-private partnerships (P3s) and lower upfront project costs and long-term facility maintenance costs.
- **Create a Permanent Category of Disaster-area Recovery Bonds (DARBs) –**CDFA advocates for the creation of a permanent category of tax-exempt bonds for disaster recovery. In the aftermath of severe weather events and natural disasters, communities around the country often find themselves in dire need of federal assistance to enable recovery and rebuild essential infrastructure. While the federal aid offered through the Stafford Act provides a much-needed source of funds for communities affected by disasters, those funds are rarely available in the immediate onset of a disaster and are often insufficient for comprehensive recovery efforts. DARBs would offer American communities a permanent financing tool that could be accessed immediately after disaster strikes, and that would leverage private investment for a longer-term redevelopment of essential infrastructure.

Policy Area 2: Reduce Barriers to Clean Energy

For much of the past 15 years, the growth in the clean energy industry has relied on the provision of grants, incentives, rebates and technical support from state clean energy programs. While public funds have been essential in creating a market for clean energy, the continued growth of this sector will be limited as long as it relies primarily on 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 3: Support American Small Businesses

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. Unfortunately, many new businesses, particularly minority-owned businesses, struggle to access the affordable capital necessary to build a successful company. 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 reintroduce and pass the Small Business Access to Capital Act, which would reauthorize SSBCI and allocate $500,000,000 to eligible participating states.

Policy Area 4: Stabilize 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. Uncertainty has hurt the implementation and long-term effectiveness of federal assistance, and Congress must act to eliminate programmatic uncertainty. 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 communities. Unfortunately, the NMTC program has not had consistent 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 exist. The NMTC Program should be permanently authorized and indexed to inflation, with an annual appropriation of no less than $3.5 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 investments 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. To learn more about CDFA visit www.cdfa.net.