RESTORE

PRESERVE

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INVEST

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Development Finance Solutions for Building Back Better

POLICY PRIORITIES FOR THE BIDEN-HARRIS ADMINISTRATION

PROTECT

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FOREWORD

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 ideas offered in this paper provide a roadmap for the Biden-Harris Administration to use development finance solutions for building back better. These recommendations have been carefully crafted to address the multiple, interconnected challenges facing the U.S. economy. They focus on four key policy considerations:

RESTORE LOCAL ECONOMIES

The COVID-19 pandemic has exposed social and racial inequities and increasing income inequality in communities across the nation. In order to restore local economies, bedrock financing tools must be expanded and reformed to meet the needs of local governments to serve all residents and fuel local economic recovery.

PRESERVE SMALL BUSINESSES

Small businesses have been disproportionately impacted by the COVID-19 pandemic, particularly those that are owned by persons of color or those that are located in low-income neighborhoods. If enacted, several policies would assist in the preservation of small businesses through locally-driven financing initiatives.

INVEST IN OUR COMMUNITIES

Strong communities require investments in disadvantaged areas and sustainable infrastructure projects. Partnerships between the federal, state, and local governments must also exist. There are numerous policies that, if enacted, would ensure steady investment in communities that need it the most.

PROTECT OUR ENVIRONMENT

Climate change is rapidly accelerating and the wide-reaching impacts are being felt by all Americans. Several financing reforms must be immediately enacted in order to protect our environment and leave our planet in a better state for the future.

CDFA is prepared to assist the Biden-Harris Administration with developing the recommendations and opportunities outlined in this paper. Collectively, all of these recommendations could be tackled within the first two years of the new Administration. We believe enacting these development finance solutions will immediately unlock capital to fuel investment, create jobs, build infrastructure, and increase the quality of life for every American.

Toby Rittner, DFCP
President & CEO

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 has one of the strongest voices 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. Learn more at www.cdfa.net.

WHAT IS A DEVELOPMENT FINANCE AGENCY?

Development finance agencies (DFAs) are 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, facility, etc.); and development and redevelopment authorities, commissions or districts. There are over 55,000 authorized development finance agencies in the United States.

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EXECUTIVE SUMMARY

The ideas offered in *Development Finance Solutions for Building Back Better* provide a roadmap for the Biden-Harris Administration to address the multiple, interconnected challenges facing the U.S. economy. They focus on four key policy considerations: Restore Local Economies; Preserve Small Businesses; Invest in Our Communities; and Protect Our Environment. CDFA has outlined several key priorities that improve current policy or create new programs, all aimed at unlocking capital to fuel investment, create jobs, build infrastructure, and increase the quality of life for every American.

RESTORE LOCAL ECONOMIES

The COVID-19 pandemic has exposed social and racial inequities and increasing income inequality in communities across the nation. In order to restore local economies, bedrock financing tools must be expanded and reformed to meet the needs of local governments to serve all residents and fuel local economic recovery.

Reforming Manufacturing and Agricultural Bonds 7

Passing the Modernizing Agricultural and Manufacturing Bonds Act will update the tax code's private activity bond rules for Industrial Development Bonds and Agricultural Bonds. ➔ TOP PRIORITY

Creating Permanent Disaster Recovery Bonds 8

Create a permanent bond financing tool that can be accessed immediately after disaster strikes, and that can leverage private investment for longer-term redevelopment of essential infrastructure. ➔ TOP PRIORITY

Reinstating Advance Refundings 9

Tax-exempt advance refunding bonds were used by local governments to refinance existing debt at lower interest rates – until they were removed by the 2017 Tax Cuts and Jobs Act. State and local governments need a low-cost option for refinancing their debt.

PRESERVE SMALL BUSINESSES

Small businesses have been disproportionately impacted by the COVID-19 pandemic, particularly those that are owned by persons of color or those that are located in low-income neighborhoods. If enacted, several policies would assist in the preservation of small businesses through locally-driven financing initiatives.

Reauthorizing the State Small Business Credit Initiative 10

Reauthorizing the State Small Business Credit Initiative is a practical, pragmatic, and proven solution for helping America's small businesses access low-cost capital. ➔ TOP PRIORITY

Creating Local Economy Preservation Funds 11

Local Economy Preservation Funds would allow states, cities, or regions to establish holding trusts to acquire struggling but viable businesses facing closure, contraction, or external acquisition. ➔ TOP PRIORITY

Strengthening the SBA Microloan Program 12

Reform the SBA Microloan Program to meet the urgent lending needs of small businesses while addressing the disproportionate impact of COVID-19 on minority-owned businesses.

Enacting the RELIEF Act for Main Street 13

A Main Street Lending Program would provide funds to cities, counties, and states to seed and scale local small business relief funds that are flexible and can be tailored to meet local needs.

Enacting the Farming Support to States Act 14

Provide funding to state departments of agriculture to support food and agriculture systems, enabling states to tailor their responses to meet the needs of their unique food systems.

INVEST IN OUR COMMUNITIES

Strong communities require investments in disadvantaged areas and sustainable infrastructure projects. Partnerships between the federal, state, and local governments must also exist. There are numerous policies that, if enacted, would ensure steady investment in communities that need it the most.

Reforming Opportunity Zones 15

Conduct a thoughtful evaluation of how Opportunity Zones can be reformed to fulfill their promise of attracting long-term, patient capital to the places that need it most. ➔ TOP PRIORITY

Permanently Authorizing the New Markets Tax Credit 16

The New Markets Tax Credit program should be made permanent, as it is a vital tool to drive investment into communities struggling with unemployment, high poverty, and overall disinvestment.

Creating Qualified Infrastructure Bonds 17

Qualified Infrastructure Bonds would allow municipalities to issue taxable bonds and receive a direct subsidy from the federal government equal to a percentage of the bond’s interest.

Creating an Infrastructure Pre-Development Fund 18

A federal Infrastructure Pre-Development Fund would address long-term financing gaps while catalyzing public-private partnerships to support resilient, community-led infrastructure projects.

Federal TIF Bond Guarantee Program 19

To overcome the challenge of issuing Tax Increment Finance (TIF) bonds, we advocate the creation of a federal bond credit enhancement program for bonds secured with revenue generated by a qualified TIF district.

Permanently Authorizing the EB-5 Program 20

Permanently authorize the EB-5 Program to continue its success as a catalyst for direct foreign investment in American job-generating projects.

PROTECT OUR ENVIRONMENT

Climate change is rapidly accelerating and the wide-reaching impacts are being felt by all Americans. Several financing reforms must be immediately enacted in order to protect our environment and leave our planet in a better state for the future.

Enacting the Investing in Competitive Clean Energy Act 21

The Investing in Competitive Clean Energy (ICCE) Act would be an efficient means of attracting significant private investment to clean energy. ➔ TOP PRIORITY

Making Investment and Production Tax Credits Permanent 22

The Solar Investment Tax Credit (ITC) and Renewable Electricity Production Tax Credit (PTC) should be made permanent to ensure continued investment in clean, renewable energy technologies.

Removing Volume Cap from Water and Sewer Bonds 23

Water and sewer private activity bonds should be removed from state volume cap requirements to allow for more water and sewer infrastructure projects to be financed by bonds than is currently possible.

Creating a Bond Category for Electric Vehicle Charging Stations 24

The creation of a new Exempt Facility Bond category for vehicle recharging stations would complement existing federal programs by making bonds available for the rapid expansion of this type of clean energy infrastructure.

REFORMING MANUFACTURING AND AGRICULTURAL BONDS

RESTORE LOCAL ECONOMIES

Industrial Development Bonds (IDBs) and First-Time Farmer Bonds (Aggie Bonds) are vital financing tools for small manufacturers and first-time farmers. These types of bonds are key economic development tools used by state and local agencies to finance the small- to mid-sized manufacturing and agricultural sectors. IDBs and aggie bonds could be used in times of crisis to quickly ramp up agricultural and manufacturing production.

Unfortunately, IDBs and Aggie Bonds have not been modernized in over 30 years. Over the past decade, IDB and Aggie Bond issuances have substantially declined due in major part to outdated rules and regulations. These bond tools need quick reforms to allow for greater flexibility and use during and after the COVID-19 pandemic.

The Modernizing Agricultural and Manufacturing Bonds Act (MAMBA) is a common-sense, bipartisan, targeted reform package that will modernize IDBs and Aggie Bonds and update the Internal Revenue Code's private activity bond rules.

CDFA encourages the following actions related to IDBs and Aggie Bonds:

- Expand the definition of “manufacturing facility”
- Eliminate restrictions on “directly related and ancillary facilities”
- Increase the maximum IDB size limit from $10 million to $30 million
- Increase the limit on small issue bond proceeds for first-time farmers
- Repeal the separate dollar limitation on the use of small issue bond proceeds for depreciable property
- Modify the definition of “substantial farmland”

ACHIEVES THESE PRIORITIES:

- ✓ Build immediately toward a future, flexible American-sourced and manufacturing capability
- ✓ Mobilize American manufacturing and innovation to ensure that the future is made in America
- ✓ Build a strong industrial base and small business-led supply chains to retain and create jobs
- ✓ Support domestic auto supply chains
- ✓ Spur the building retrofit and efficient-appliance manufacturing supply chain through low-cost financing
- ✓ Address longstanding inequities in agriculture

ADDITIONAL RESOURCES

MAMBA Policy Paper – CDFA
MAMBA Overview – CDFA
BDA to Join CDFA in Support of Industrial Development Bonds Legislation – Bond Dealers of America
Bond Finance Resource Center – CDFA

CREATING PERMANENT DISASTER RECOVERY BONDS

RESTORE LOCAL ECONOMIES

In the aftermath of severe weather events and natural disasters, communities often find themselves in dire need of federal assistance to enable recovery and rebuild essential infrastructure. While federal aid offered through the Stafford Act offers 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. American communities are in need of a permanent financing tool that they can access immediately after disaster strikes, and that can leverage private investment for longer-term redevelopment of essential infrastructure.

After the devastation of Hurricane Katrina in 2005, Congress responded with the Gulf Opportunity Zone Act of 2005 (the “GO Zone Act”) in order to provide Alabama, Louisiana, and Mississippi federal assistance to aid such states in recovery and promote economic development. Given the destruction caused by hurricanes, wildfires, tornadoes, and other extreme weather events, legislation is needed from Congress for the benefit of the states and territories to support economic recovery and redevelopment.

CDFA encourages the following actions related to Disaster Recovery Bonds:

- Create a permanent category of Disaster Recovery Bonds so that Congress does not need to create a special allocation after each disaster
- Provide flexibility for tax-exempt financing for governmental working capital requirements, in order to provide access to funds for crucial operating cash flow and to replenish “rainy day” reserves.
- Ease the burden of servicing debt on Disaster Recovery Bonds to permit state and local governments to extend repayment schedules for these bonds.

ACHIEVES THESE PRIORITIES:

- ✓ Mobilize American ingenuity to build a modern infrastructure and an equitable, clean energy future
- ✓ Righting wrongs in communities that bear the brunt of pollution
- ✓ Build a more resilient, sustainable economy
- ✓ Ensure equity in bold infrastructure and clean energy investments

ADDITIONAL RESOURCES

Disaster Recovery Bonds Policy Paper – CDFA
Disaster Recovery Bond Financing: Considerations for Congress – National Association of Bond Lawyers
Gulf Opportunity Zone Financing Report – U.S. Government Accountability Office

REINSTATING ADVANCE REFUNDINGS

RESTORE LOCAL ECONOMIES

Tax-exempt advance refunding bonds were used by local governments to refinance existing debt at lower interest rates, ultimately saving money over the life of the bond issue. Unfortunately, these critical tools were removed by the Tax Cuts and Jobs Act of 2017. CDFA, along with the National Association of Bond Lawyers, the Municipal Bonds for America coalition, the Bond Dealers of America, and thousands of other stakeholders ask that the Administration prioritize the reinstatement of advance refunding bonds.

ACHIEVES THESE PRIORITIES:

- ✓ Help state and local governments prevent budget shortfalls
- ✓ Build a more resilient, sustainable economy
- ✓ Provide state, local, and tribal governments with the aid they need so educators, firefighters, and other essential workers aren't being laid off
- ✓ Build a modern infrastructure from roads and bridges to energy grids, schools, and universal broadband

ADDITIONAL RESOURCES

Advance Refundings One-Pager – National Association of Bond Lawyers
Restore Tax-Exempt Status of Advance Refunding Bonds – National Association of Counties
Suggestions to Congress and Treasury Relating to Impacts on Tax-Advantaged Bonds of COVID-19 – National Association of Bond Lawyers
Three Measures in the House's Infrastructure Package Most Fiscally Important to Cities and Towns – National League of Cities
Paving the Way for Funding and Financing Infrastructure Investments – National Association of Bond Lawyers

REAUTHORIZING THE STATE SMALL BUSINESS CREDIT INITIATIVE

PRESERVE SMALL BUSINESSES

As the COVID-19 pandemic evolves, small businesses and communities across the country are continuing to struggle. Despite federal intervention with grants and programs from legislation, small businesses are facing bankruptcy, further layoffs, and many are having to choose between acquisition or closure. Cities and towns are losing their small businesses – the vital engines of every local economy – and this disturbing trend will continue to worsen without swift action.

Reauthorizing the State Small Business Credit Initiative is a practical and pragmatic solution for helping America's small businesses access low-cost capital. The overwhelming success of this program is evidence that flexible delivery of capital through states to the private sector and small businesses will help economic recovery occur faster than Congress creating new programs. The reauthorization of SSBCI aligns with the Biden Administration's economic priorities and is a critical step toward restoring capital access and preserving local economies.

The SSBCI program leverages private capital, is incredibly cost-effective, and highly impactful: 80 percent of all SSBCI loans and investments went to businesses with 10 or fewer employees, and 42 percent went to businesses in low- and moderate-income communities. More than 16,900 small businesses in the U.S. received financial support from SSBCI, resulting in the creation or retention of 190,000 American jobs.

CDFA encourages the following actions related to SSBCI:

- Immediately reauthorize SSBCI with $10 billion in funding
- Distribute a proportional allocation to every state and create a competitive pool available to any state needing additional funding

ACHIEVES THESE PRIORITIES:

- ✓ Provide a comeback package for Main Street businesses and entrepreneurs
- ✓ Spur public-private investment through a new small business opportunity plan
- ✓ Support second chances for economic success
- ✓ Build a strong industrial base and small business-led supply chains to retain and create jobs

ADDITIONAL RESOURCES

SSBCI Policy Paper – CDFA
SSBCI Resource Center – CDFA
Program Evaluation of the State Small Business Credit Initiative – U.S. Treasury
SSBCI: A Summary of States' 2016 Annual Reports – U.S. Treasury
Best Practices from Participating States: Partnering with CDFIs – U.S. Treasury
SSBCI: Implementation and Funding Issues – Congressional Research Service

CREATING LOCAL ECONOMY PRESERVATION FUNDS

PRESERVE SMALL BUSINESSES

Local Economy Preservation Funds (LEPFs) would allow states, cities or regions to establish holding trusts to acquire struggling, but viable, businesses that face closure, contraction or external acquisition during the COVID-19 crisis. Through an equity injection, the local businesses would be given the resources needed to survive while ensuring that they stay open and locally owned. Upon exit, the companies could transition to a local or employee-owned structure keeping the business local and supporting the next generation of company ownership. The Municipal Liquidity Facility could potentially be used as the mechanism for states and cities to generate funding for this program. CDFA and The Democracy Collaborative have presented this concept note to the Biden-Harris Transition Team as a potential new program offered by the federal government.

CDFA encourages the following actions related to Local Economy Preservation Funds:

- Create a national task force to examine non-traditional, character-based lending practices and the launch of a new and reimaged SBA Microloan Program
- Fund the program with $5 billion to be disseminated on a competitive basis to development finance agencies (DFAs) and Community development financial institutions (CDFIs) for the purpose of microlending.
- Allow Development Finance Agencies to act as loan intermediaries
- Increase maximum loan size and acceptable default ratio
- Strengthen impact reporting requirements and documentation

ACHIEVES THESE PRIORITIES:

- ✓ Provide a comeback package for Main Street businesses and entrepreneurs
- ✓ Spur public-private investment through a new small business opportunity plan
- ✓ Support second chances for economic success
- ✓ Build a more resilient, sustainable economy

ADDITIONAL RESOURCES

LEPFs Concept Note – The Democracy Collaborative & CDFA

STRENGTHENING THE SBA MICROLOAN PROGRAM

PRESERVE SMALL BUSINESSES

The Small Business Administration's Microloan Program is an important component of the federal government's assistance to small businesses. Through the Microloan program, the SBA provides loans to non-profit intermediary organizations, who in turn provide small-scale working capital loans to small businesses. The program is aimed particularly at businesses owned by minority entrepreneurs, women, veterans, and businesses that operate in low-income areas.

Unfortunately, the program has not seen significant new funding since 2017 and has not been fully utilized or included recent economic recovery efforts. COVID-19 has presented a desperate need for lending to the smallest of the small businesses and has disproportionately impacted minority-owned businesses that already faced credit and capital access challenges before the pandemic.

CDFA encourages the following actions related to the SBA Microloan Program:

- Create a national task force to examine non-traditional, character-based lending practices and the launch of a new and reimaged SBA Microloan Program
- Fund the program with $5 billion to be disseminated on a competitive basis to development finance agencies (DFAs) and Community development financial institutions (CDFIs) for the purpose of microlending.
- Allow Development Finance Agencies to act as loan intermediaries
- Increase maximum loan size and acceptable default ratio
- Strengthen impact reporting requirements and documentation

ACHIEVES THESE PRIORITIES:

- ✓ Provide a comeback package for Main Street businesses and entrepreneurs
- ✓ Spur public-private investment through a new small business opportunity plan
- ✓ Build a more resilient, sustainable economy
- ✓ Help small businesses manage through the pandemic and recover

ADDITIONAL RESOURCES

SBA Microloan Program Policy Paper – CDFA
SBA Microloan Program Overview – U.S. Small Business Administration

ENACTING THE RELIEF ACT FOR MAIN STREET

PRESERVE SMALL BUSINESSES

The bipartisan RELIEF Act for Main Street would create a Main Street Lending Program to respond to the growing need of very small businesses with under 20 employees. The Treasury Department would provide funds to cities, counties, and states to seed and scale local small business relief funds. These funds are flexible and can be tailored to meet local needs such as topping off loan fund(s), seeding new funds, capitalizing loan fund or guarantee programs, and more.

ACHIEVES THESE PRIORITIES:

- ✓ Provide a comeback package for Main Street businesses and entrepreneurs
- ✓ Spur public-private investment through a new small business opportunity plan
- ✓ Help small businesses manage through the pandemic and recover
- ✓ Build a more resilient, sustainable economy

ADDITIONAL RESOURCES

RELIEF for Main Street Act – S. 3742
RELIEF for Main Street Act: The Next Phase of COVID-19 Recovery – The New Localism

ENACTING THE FARMING SUPPORT TO STATES ACT

PRESERVE SMALL BUSINESSES

The Farming Support to States Act would provide $1 billion for food and agriculture aid to the states, enabling them to effectively respond to the needs of their unique food systems. State departments of agriculture would be empowered to use this funding for various uses, including keeping workers and food safe with PPE, expanding food processing and distribution, crafting relief programs for local and regional food systems, or supporting rural recovery efforts. This bipartisan legislation is supported by the National Association of State Departments of Agriculture, the American Farm Bureau Federation, CDFA, and many other stakeholders.

ACHIEVES THESE PRIORITIES:

- ✓ Address longstanding inequities in agriculture
- ✓ Create jobs in climate-smart agriculture, resilience, and conservation
- ✓ Provide state, local, and tribal governments with the aid they need so educators, firefighters, and other essential workers aren't being laid off
- ✓ Help small businesses manage through the pandemic and recover

ADDITIONAL RESOURCES

COVID-19 Relief: Farming Support to States Act – NASDA
COVID-19 Relief Letter to the Senate – American Farm Bureau Federation

REFORMING OPPORTUNITY ZONES

INVEST IN OUR COMMUNITIES

Opportunity Zones have helped to spur private investment in distressed communities across the United States. Estimates show that somewhere between $75-90 billion has been invested in zones since the creation of the incentive. Because the final regulations guiding OZ investment took two years to complete and because the COVID-19 pandemic occurred immediately after the first major deadline to invest in zones, it is important to conduct a thoughtful evaluation of how this investment tool can be reformed to fulfill its promise of attracting long-term, patient capital to the places that need it most.

CDFA encourages the following actions related to Opportunity Zones:

- Create a fund that allocates flexible capital to states to help them build capacity and support local economic activity in zones that are not automatically generating investor interest
- Continue to support Opportunity Zone policy at the highest levels of the administration and strengthen the federal delivery system of support to zones. Providing clear and consistent support to zones through a coordinated federal approach across agencies will help communities be able to identify all of the resources that are needed to attract investment.
- Evaluate the extension of investor deadlines to allow a larger and more diverse pool of investors to receive the full value of their OZ investment.
- Evaluate the need for additional investor reporting requirements to help state and local governments better understand where investment is flowing and analyze when transfer of OZ assets could occur in the future.
- Evaluate how 2020 census numbers change the demographic and economic data of zones and whether states should be given the opportunity to select new qualified zones.

ACHIEVES THESE PRIORITIES:

- ✓ Reform Opportunity Zones to fulfill their promise
- ✓ Help state and local governments prevent budget shortfalls
- ✓ Righting wrongs in communities that bear the brunt of pollution
- ✓ Strengthen the Federal Government's focus on racial economic gaps
- ✓ Expand the availability of affordable housing

ADDITIONAL RESOURCES

Leveraging Development Finance Tools to Attract Opportunity Zone Investment – CDFA and Skeo Solutions
Opportunity Zones Resource Center – CDFA
Navigating Opportunity Zones: A Playbook for Community Development – LISC and CDFA
The Impact of Opportunity Zones: An Initial Assessment – Council of Economic Advisors

PERMANENTLY AUTHORIZING THE NEW MARKETS TAX CREDIT

INVEST IN OUR COMMUNITIES

The New Markets Tax Credit (NMTC) program is a vital tool to drive investment into communities struggling with unemployment, high poverty, and overall disinvestment. Since its inception in 2000, the NMTC program has delivered over $105 billion in total project financing to more than 6,300 businesses and projects in economically-distressed areas. Unfortunately, the program is not permanently authorized and is therefore subject to uncertainty.

Recently, the Consolidated Appropriations Act of 2021 extended the New Markets Tax Credit for 5 years through 2025. Over 700 organizations, including CDFA, have voiced support for the permanent extension of the NMTC. The NMTC program should be permanently extended with a $5 billion annual allocation.

ACHIEVES THESE PRIORITIES:

- ✓ Make bold investments in homeownership and access to affordable housing for Black, Brown and Native Families
- ✓ Strengthen the Federal Government's focus on racial economic gaps
- ✓ Righting wrongs in communities that bear the brunt of pollution
- ✓ Support second chances for economic success
- ✓ Build a more resilient, sustainable economy

ADDITIONAL RESOURCES

700+ Organizations Urge Congress to Extend and Expand the NMTC – New Markets Tax Credit Coalition
Three Measures in the House's Infrastructure Package Most Fiscally Important to Cities and Towns – National League of Cities
New Markets Tax Credit Receives Five Year $5 Billion Extension – New Markets Tax Credit Coalition
Tax Credits Resource Center – CDFA

CREATING AN INFRASTRUCTURE PRE-DEVELOPMENT FUND

INVEST IN OUR COMMUNITIES

Creating a Federal Infrastructure Pre-Development Fund is a pathway to economic recovery from the coronavirus pandemic that fills current gaps and ensures preparedness for future crises. Such a fund would support Pre-Development and project de-risking for resilient community-led infrastructure projects.

A report from the Build America Investment Initiative Interagency Working Group found that although pre-development costs only accounting for a small percentage of total costs, pre-development activities have considerable influence on which projects will move forward, where and how they will be built, who will fund them and who will benefit from them. Furthermore, the report noted that additional investment in predevelopment costs also may enable state, local, and tribal governments to utilize emerging technologies, reduce long-term costs, and provide other benefits, such as improved environmental performance and enhanced resilience to climate change.

Past economic studies estimate that each $1 spent on predevelopment will generate $16-17 in total economic outcomes and funding leverage. Therefore, a $10 to $15 billion Federal Infrastructure Pre-Development Fund would address long-term financing gaps while acting as a catalyst for public-private partnerships and better overall infrastructure performance.

ACHIEVES THESE PRIORITIES:

- ✓ Mobilize American ingenuity to build a modern infrastructure and an equitable, clean energy future
- ✓ Ensure equity in bold infrastructure and clean energy investments
- ✓ Righting wrongs in communities that bear the brunt of pollution
- ✓ Build a more resilient, sustainable economy
- ✓ Build a modern infrastructure from roads and bridges to energy grids, schools, and universal broadband

ADDITIONAL RESOURCES

The Case for an Infrastructure Pre-Development Fund – Milken Institute
Recommendations of the Build America Investment Initiative Interagency Working Group

CREATING QUALIFIED INFRASTRUCTURE BONDS

INVEST IN OUR COMMUNITIES

Modeled after Build America Bonds from the American Recovery and Reinvestment Act of 2009, Qualified Infrastructure Bonds would allow municipalities to issue taxable bonds and receive a direct subsidy from the federal government equal to a certain percentage of the interest on the bonds. These direct-pay bonds would be for capital expenditures or operations and maintenance of infrastructure projects.

Qualified Infrastructure Bonds were included in the Moving Forward Act, which was passed by the House of Representatives in 2020. This proposal has received broad support from organizations across the development finance industry and would provide a useful tool for investing in needed infrastructure projects across the United States.

ACHIEVES THESE PRIORITIES:

- ✓ Mobilize American ingenuity to build a modern infrastructure and an equitable, clean energy future
- ✓ Ensure equity in bold infrastructure and clean energy investments
- ✓ Righting wrongs in communities that bear the brunt of pollution
- ✓ Build a modern infrastructure from roads and bridges to energy grids, schools, and universal broadband
- ✓ Create jobs rebuilding American infrastructure

ADDITIONAL RESOURCES

Paving the Way for Funding and Financing Infrastructure Investments – National Association of Bond Lawyers
Moving Forward Act – H.R. 2
Invest in Infrastructure with Qualified Infrastructure Bonds – Natural Resources Defense Council
Three Measures in the House's Infrastructure Package Most Fiscally Important to Cities and Towns – National League of Cities
Bond Finance Resource Center – CDFA

CREATING A FEDERAL TIF BOND GUARANTEE PROGRAM

INVEST IN OUR COMMUNITIES

To overcome the challenge of issuing Tax Increment Finance (TIF) bonds, CDFA advocates for the creation of a federal credit enhancement program for bonds secured with revenue generated by a qualified TIF district. The credit enhancement program would build upon existing credit assistance products authorized under the Transportation Infrastructure Finance and Innovation Act (TIFIA) program through the Department of Transportation. It could provide credit assistance (guarantees or a letter of credit) for qualified projects.

A federal credit enhancement program designed to support qualified TIF bonds would lower the borrowing costs for eligible projects around the country, thus spurring economic development and job creation in struggling, disinvested areas. From a legislative perspective, federal credit enhancement programs require no cash from the federal government, and the final legislative score would simply be the projected default rate – 0.9% according to a 2014 study. The combination of low costs to the federal government and major economic benefits makes a federal credit enhancement program a win-win proposition.

Possible TIF district criteria for the guarantee could include:

- Located in a designated Opportunity Zone or Enterprise Zone
- Located in an area with an unemployment rate of at least 1 percent higher than the national average
- Located in a Qualified Rural Area
- Development on a brownfield site that is subject to enrollment in voluntary environmental cleanup or remediation actions
- Usage of public, private, or non-profit workforce training programs that serve high unemployment areas

ACHIEVES THESE PRIORITIES:

- ✓ Create jobs rebuilding American infrastructure
- ✓ Ensure equity in bold infrastructure and clean energy investments
- ✓ Mobilize American ingenuity to build a modern infrastructure and an equitable, clean energy future
- ✓ Build a modern infrastructure from roads and bridges to energy grids, schools, and universal broadband

ADDITIONAL RESOURCES

Tax Increment Finance Resource Center – CDFA
TIF Best Practices Reference Guide – CDFA

PERMANENTLY AUTHORIZING THE EB-5 PROGRAM

INVEST IN OUR COMMUNITIES

The EB-5 Financing Program housed at USCIS has driven $41 billion of private sector-led foreign direct 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. 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. Most recently, the EB-5 Program was extended by the Consolidated Appropriations Act of 2021 until June 30, 2021. 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 part of the development finance toolbox. CDFA recommends that the Biden-Harris Administration seek immediate and permanent authorization of the EB-5 program.

ACHIEVES THESE PRIORITIES:

- ✓ Mobilize American ingenuity to build a modern infrastructure and an equitable, clean energy future
- ✓ Build a modern infrastructure from roads and bridges to energy grids, schools, and universal broadband
- ✓ Support second chances for economic success
- ✓ Spur public-private investment through a new small business opportunity plan

ADDITIONAL RESOURCES

EB-5 Economic Impact Data – Invest in the USA
EB-5 Regional Center Program Extended Through June 30, 2021 – EB-5 Daily
EB-5 Investor Markets Data – Invest in the USA

ENACT THE INVESTING IN COMPETITIVE CLEAN ENERGY (ICCE) ACT

PROTECT OUR ENVIRONMENT

The Investing in Competitive Clean Energy (ICCE) Act, modeled on similar federal approaches like SSBCI and Opportunity Zones, would be an efficient means of attracting significant private investment to clean energy. The program would be housed in the U.S. Treasury, however, the underwriting and credit enhancement roles would be placed at the state and local levels. Treasury would develop broad guidelines outlining acceptable state financing structures, and Treasury would also approve each state's clean energy credit support programs. Each state would have the right to select only the programs that the state wants to operate.

The ICCE Act would achieve a leverage ratio of $5 private of investment for every $1 of federal contributions to state programs. This 5:1 leverage ratio is higher than many other current federal programs supporting competitive clean energy. It is estimated that a $5 billion federal appropriation would result in approximately $25 billion in private energy investments.

ACHIEVES THESE PRIORITIES:

- ✓ Mobilize American ingenuity to build a modern infrastructure and an equitable, clean energy future
- ✓ Generate clean, American-made electricity
- ✓ Build a modern infrastructure from roads and bridges to energy grids, schools, and universal broadband
- ✓ Build a strong industrial base and small business-led supply chains to retain and create jobs

ADDITIONAL RESOURCES

Investing in Competitive Clean Energy Act Policy Paper – CDFA
State Clean Energy Finance Banks – Brookings Institute
Clean Energy Victory Bonds – Green America

MAKING INVESTMENT AND PRODUCTION TAX CREDITS PERMANENT

PROTECT OUR ENVIRONMENT

The Solar Investment Tax Credit (ITC) and the Renewable Electricity Production Tax Credit (PTC) are important incentives for renewable energy projects by providing tax credits on a per-kilowatt-hour basis. Making these two credits permanent would incentivize continued investment in clean, renewable energy technologies.

The Consolidated Appropriations Act of 2021 extended the 26% Solar Investment Tax Credit for projects that begin construction by the end of 2022 and phases it out after the end of 2023, while also extending the 40% Tax Credit for Renewable Electricity Production for facilities through the end of 2021.

The American Wind Energy Association and numerous other industry stakeholders, including CDFA, support the permanent extension of the ITC and PTC.

ACHIEVES THESE PRIORITIES:

- ✓ Mobilize American ingenuity to build a modern infrastructure and an equitable, clean energy future
- ✓ Generate clean, American-made electricity
- ✓ Build a modern infrastructure from roads and bridges to energy grids, schools, and universal broadband
- ✓ Build a strong industrial base and small business-led supply chains to retain and create jobs

ADDITIONAL RESOURCES

Tax Policy - American Wind Energy Association
The Solar Vision for 2021 & the 117th Congress – Solar Energy Industries Association
Tax Credits Resource Center – CDFA

REMOVING VOLUME CAP FOR WATER AND SEWER BONDS

PROTECT OUR ENVIRONMENT

Exempting water and sewer private activity bonds from state volume cap requirements would allow states and municipalities to finance more infrastructure projects through bond issuances than are currently possible. In 2019, less than 5% of national volume cap available went toward bond financing for water and sewage infrastructure projects.

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 from volume cap constraints would drastically increase state and local capacity to finance essential water and sewage projects. Water and sewer bonds are some of the market's most secure and safe investments.

These bonds have historically low default risks as they are tied to specific revenue streams for repayment. Freeing these bonds from state volume cap limitations would allow the private sector to enter into public-private partnerships for a new era of critical water and sewer infrastructure investment. Legislation to remove these bonds from volume cap restrictions was included in H.R. 2, which passed the House in 2020.

ACHIEVES THESE PRIORITIES:

- ✓ Ensure equity in bold infrastructure and clean energy investments
- ✓ Mobilize American ingenuity to build a modern infrastructure and an equitable, clean energy future
- ✓ Righting wrongs in communities that bear the brunt of pollution
- ✓ Build a modern infrastructure from roads and bridges to energy grids, schools, and universal broadband

ADDITIONAL RESOURCES

Bond Finance Resource Center – CDFA
CDFA National Volume Cap Map & Report

CREATING A BOND CATEGORY FOR ELECTRIC VEHICLE CHARGING STATIONS

PROTECT OUR ENVIRONMENT

Bloomberg New Energy Finance predicts that 57% of passenger vehicle sales, and more than 30% of the global passenger vehicle fleet, will be electric by 2040. New technologies will enable the American economy to shift toward clean energy, but municipalities need financing tools available in order to invest in them.

Certain modifications to Exempt Facilities Bonds would fulfill the financing gap that currently exists for electric vehicle charging stations. The creation of a new Exempt Facility Bond category for vehicle recharging stations would complement existing federal programs by making bonds available for the rapid expansion of this type of clean energy infrastructure.

ACHIEVES THESE PRIORITIES:

- ✓ Mobilize American ingenuity to build a modern infrastructure and an equitable, clean energy future
- ✓ Build a modern infrastructure from roads and bridges to energy grids, schools, and universal broadband
- ✓ Ensure equity in bold infrastructure and clean energy investments
- ✓ Build a more resilient, sustainable economy

ADDITIONAL RESOURCES

Financing EV Charging Infrastructure – Norton Rose Fulbright
Financing Models to Expand Access to Electric Vehicles in California – Financial Innovations Lab

ABOUT THE AUTHORS

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Toby Rittner is the President & CEO of Council of Development Finance Agencies (CDFA), a national association dedicated to the advancement of development finance concerns and interests. Mr. Rittner runs the day-to-day operations of the Council including the organization's various educational, advocacy, research, resources and networking initiatives. Rittner is one of the most vocal and recognized leaders of the development finance industry nationwide and has advised state and federal government leaders, including several Presidential Administration Transition Teams, on economic development finance policy.

Rittner focuses on sustainable finance with an emphasis on infrastructure, clean energy food systems, small business and innovations in the development finance industry to drive sustainable outcomes. He has written extensively about impact ready initiatives that leverage and engage capital in ways that drive local sustainability in both the environment and economy. He is the author of CDFA's highly acclaimed *Practitioner's Guide to Economic Development Finance*.

Rittner is an adjunct faculty member at The Ohio State University teaching planning and finance for sustainable economic development. He is also a Development Finance Certified Professional (DFCP) and has completed the prestigious Oxford University Sustainable Finance Foundation Course. Rittner holds a Bachelor of Arts in Political Science and a Master's of City and Regional Planning degree from The Ohio State University. Rittner was awarded the Ohio State University College of Engineering Distinguished Alumnus Award in 2016.

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The Council of Development Finance Agencies 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 nonprofit entities alike. For more information about CDFA, visit www.cdfa.net or e-mail info@cdfa.net.

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