

**Economic Development Finance Policy Paper
Prepared For
President-Elect Barack Obama**

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Respectfully Submitted by:

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(CDFA)**

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Introduction

The economy has become a major issue throughout the country over the past several months. Programmatic and legislative remedies that stimulate the economy should be a top priority of the new Administration. In an era where domestic economic development spending and program development has been nearly eliminated, the federal government will now play a crucial role in providing solutions to the challenges facing our nation's communities.

The Council of Development Finance Agencies (CDFA) respectfully submits the following recommendations and strategies for improving the economic development finance delivery system as a means to stimulate local economies to help create and retain jobs, encourage new investment and support the development of innovative businesses and technologies.

CDFA's members and stakeholders focus on creating access to capital for small and mid-sized companies, catalyzing real estate transactions and encouraging new economy industrial development. CDFA recommends the following two-pronged approach to addressing federal economic development finance delivery systems.

Immediate Strategy Recommendations

There are both macro and micro level strategies that should be incorporated into an immediate economic development stimulus package.

Macro-Level

Macro elements include far reaching and significant project investment, program confirmation and support for highly successful existing financing tools.

- Invest in a "Shovel Ready Projects First 100-Days" stimulus package that focuses on large, \$10 million+ infrastructure, energy and green development projects. Allocate funds directly to the top 200+ projects nationwide through a state application process with submissions by state leadership.
- Create an Urban Grants Program, to debut in 2010, focused on the top 50 urban cities with grant allocations available for major development initiatives focused on public-private partnerships. Projects should focus on energy self-sufficient and green principle-driven development that reduces urban sprawl, catalyzes urban infill and accelerates central business district revitalization.
- Make permanent the federal Green Bonds Demonstration Program and authorize the allocation of \$10 billion in non-volume cap subjected, tax-exempt bonds for qualified projects.

- Expand and permanently authorize the Clean Renewable Energy Bonds (CREBs) Program. CREBs are tax-credit bonds that offer the interest paid in the form of federal tax credits. This allows qualified issuers/borrowers to finance projects at 0% interest and allows the holder of the CREB to off-set on a dollar-to-dollar basis current year tax liability.
- Authorize the New Markets Tax Credit Program through 2014 with an annual per round allocation of \$4.5 billion.
- Reauthorize the federal Empowerment Zone, Renewal Community and Enterprise Community Programs. These programs have been proven to provide significant benefits to designated areas through favorable bond and tax credit treatments. Consider significant reforms that allow for greater program flexibility and eliminate policies that do not work in the traditional bond and tax credit markets.

Micro-Level

Micro-level elements are specific items of the federal tax code and finance delivery system that could have significant and immediate impacts nationwide on smaller scale projects. These common sense changes are heavily supported by the thousands of bond issuers working nationwide to support small to medium sized manufacturers.

- Change elements of the federal tax code for improving and expanding the use of tax-exempt bond financing for manufacturers and non-profit development. This includes the following very specific changes that will have major impacts nationwide:

Industrial Development Bonds:

- ♦ Update the definition of manufacturing to reflect new economy industries. Current law does not allow high-tech, innovation and intangible manufacturing practices to be eligible for IDB financing. This change was introduced as S. 2885 in 2008 and will be reintroduced immediately in 2009 in both the House and Senate.
- ♦ Increase of total bond limit on IDB issuances from \$10 to \$20 million and adjust annually for inflation. The \$10 million limitation was set over 20 years ago and has never been adjusted for inflation. In today's terms, the \$10 million bond size limit has the spending power of less than half of what it had back when the limit was set. Many manufacturers simply cannot complete a project that otherwise would fit into this category for less than \$20 million. Staying under the \$10 million bond limit is arbitrary and places an unnecessary burden on small to medium sized manufacturers.
- ♦ Currently, if an issuer of the bonds issues less than \$10 million in bonds in a calendar year, the bonds purchased by a bank are classified as "bank-qualified." "Bank-qualified" means that the bank is allowed to deduct 80% of the interest on monies that the bank borrows to purchase the bond for the eligible project. If the issuer of the bonds issues more than \$10 million of bonds in a calendar year, the bonds are then "non-bank-qualified," and the bank is not allowed to deduct any of the interest on monies that the bank borrows to fund the bond. CDFA recommends making IDBs and 501(c)(3) non-profit bonds of \$3 million or less be allowed to be "bank qualified." This modest change will open the market for small manufacturers and non-profits across the country to once again work with their local bank to place an industrial development bond or 501(c)(3) non-profit bond. This change will "level the playing field" and allow small manufacturers and non-profits access to an economic development tool that most have not been able to access cost effectively since 1986. Maintaining and growing manufacturing jobs through capital investments ultimately increases tax revenues at all levels of government.

- ◆ Make permanent the new Federal Home Loan Bank Letter of Credit (LOC) provisions for the issuance of IDBs. This new provision, set to expire in 2010, allows more deals to be completed through community banks who are now able to use the supporting FHLB LOC. FHLB LOCs provide local issuers with increased access to this credit enhancement tool and makes borrowing for local communities and small manufacturers more affordable. Approved in 2008, the provision has shown an immediate impact. The second project completed under this new provision was a standby LOC provided for an IDB financed project in California. This single project generated a \$7.65 million IDB issuance and the considerable expansion of a valuable manufacturing company in the community.

Longer-Term Strategy Recommendations

CDFA also recommends the following longer-term strategies for improving the economic development finance delivery systems. These programs and financing sources are critical economic development drivers and should be addressed after the economic stimulus package has been implemented.

- Reauthorize the EPA Brownfields Program; increase the funding and raise the cap for the Brownfields Cleanup grant program to more realistically reflect true cleanup costs.
- Create a national Brownfields Tax Credit Program focused on post clean-up development of former brownfield sites while promoting more use of the federal Brownfield Tax Expensing Program for site remediation.
- Permanently reauthorize the Economic Development Administration (EDA) and provide a minimum funding of \$400 million for agency programs. In particular, expand the economic assistance, public works and planning programs to provide substantive resources to communities struggling with regional economic development challenges.
- The Community Development Block Grant (CDBG) program is the most significant federally managed economic development program. HUD allocates CDBG funds to over 1,100 communities who rely on this funding for critical economic development programming. CDFA recommends increasing CDBG funding to reflect the needs of struggling local communities. These funds provide flexibility to states and communities to address a number of needs and projects that are vital to economic development efforts. A significant reform of CDBG should also be conducted to identify and implement changes that will strengthen the program to meet current economic challenges.
- Review and ensure that rural development programs administered by USDA address changing demographics, industry shifts, and other economic challenges and opportunities.
- The Small Business Administration is one of the most successful and significant financing entities in the federal government. Consideration should be given to strengthening and reaffirming the SBA's role and focus. Suggested reforms include expanding the 504 Loan and 7(a) Programs and rebuilding the Small Business Investment Corporation (SBIC) Program.
- Additional steps should be taken to review and increase funding for successful programs such as the Manufacturing Extension Partnerships (MEP), National Science Foundation SBIR/STTR Technical Assistance and the federal Research & Development tax credit.

Conclusion

While the focus of CDFA's members and stakeholders is on creating access to capital for small and mid-sized companies, catalyzing real estate transactions and encouraging new economy industrial development, the current financial constraints are making much of this work nearly impossible. CDFA urges swift action to implement these recommendations to help states and local leaders provide financing options for their local economies. More information regarding these recommendations is available upon request.