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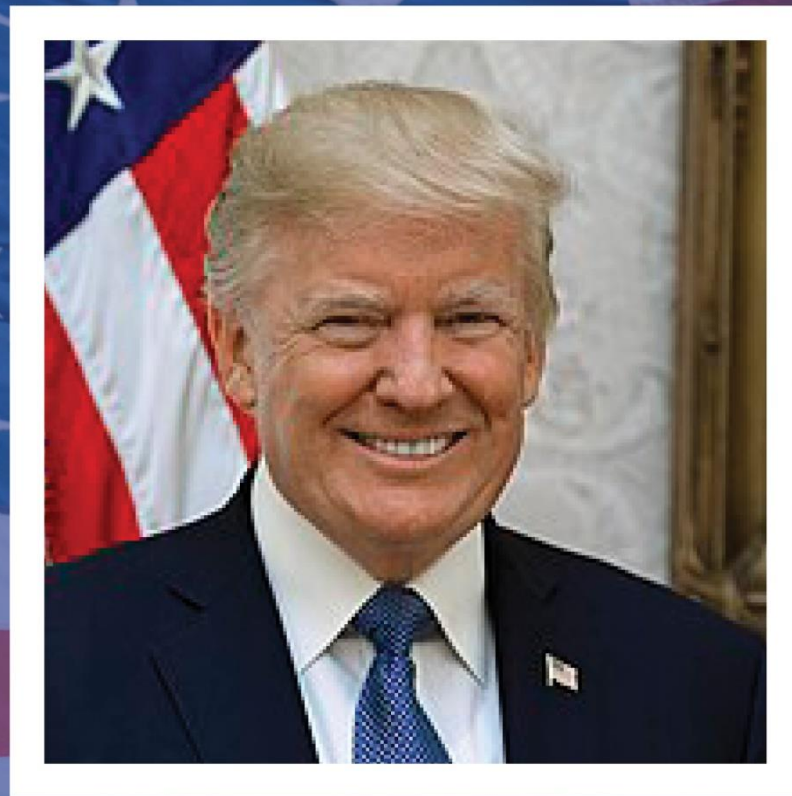

NOVEMBER 2024

CDFA Administration Transition Paper

Development Finance Solutions for Supporting President Trump and 119th Congress

AUTHORED BY:

Toby Rittner, DFCP, President & CEO

Andres Caro, Manager

CDFA.NET

Development Finance Solutions for Supporting President Trump and 119th Congress

With the national election concluded, President Trump and the 119th Congress will take office in January 2025. With this change comes the opportunity for the development finance industry to work with our newly elected federal leaders to continue to improve the tools that support local, regional, and state economic development. New leadership affords us the opportunity to explore new ideas, improve existing financing tools, and usher in a new wave of collaboration between our federal leaders and local economic development stakeholders. The following policy paper provides a snapshot of the ideas, concepts, reforms, and innovations that CDFA supports under President Trump and the 119th Congress.

Access to affordable, flexible, and efficient public and private capital continues to be a major obstacle to economic development in the United States. Over the last half-century, federal efforts to support capital formation and access have evolved from a highly subsidized model to one centered on leverage, credit enhancement, private sector engagement, and reducing financing barriers. Despite these changes, many sectors—small businesses, housing, entrepreneurs, manufacturing, energy, agriculture, rural infrastructure, and urban revitalization—still face significant difficulties in obtaining capital.

The recommendations outlined in this paper provide a strategic roadmap for the Trump Administration and the 119th Congress to introduce development finance solutions to address our nation's most pressing issue. These proposals have been carefully designed to tackle the complex and interrelated challenges confronting the U.S. economy. In addition, these policy ideas can be easily achieved by both administrative action by the White House and legislative action by Congress. These ideas are all geared towards engaging more private sector investment and driving capital in our communities. Nearly all of these ideas can be achieved in the first 100 days of the Trump Administration and the 119th Congress.

BOND FINANCE

Bonds are the bedrock of public development finance and serve as the primary source for financing many types of projects, including infrastructure, industrial development, housing, farming, nonprofits, hospitals, and urban development. Bonds are issued and sold to the investing public by governmental entities to finance both governmental activities and private-sector business expansion. With that said, bonds have not been significantly reformed in nearly four decades. To achieve greater efficiency and to drive private sector investment, CDFA proposed the following actions.

1. **Preserving and Protecting Tax-Exempt Bonds (Priority)**
   It is imperative that the Administration and Congress preserve and protect tax-exempt bonds as part of any update to the federal tax code. Proposals to restrict, cap, and/or eliminate the tax-exemption status of municipal and private activity bonds should be opposed, while the tax exemption itself should be strengthened where possible. Bonds provide the largest area of investment in the United States and are relied upon by thousands of communities to finance infrastructure, amenities, nonprofits, housing, hospitals, airports, energy facilities, farming, and manufacturing. It is critical that the Administration and Congress preserve, protect, and strengthen all tax-exempt bonds.

2. **Enhancing Manufacturing and Agricultural Bonds (Priority)**
   Passing the Modernizing Agricultural and Manufacturing Bonds Act (MAMBA) will update the tax code's private activity bond rules for Industrial Development Bonds (for smaller manufacturers) and First-Time Farmer Bonds or "Aggie Bonds." These resources are a bedrock tool of economic development finance but the rules have not been modernized in more than three decades and bond activity has declined. This has hindered efforts to expand domestic agriculture and manufacturing production. MAMBA has already been introduced in the House and Senate on a bipartisan basis and is ready for reintroduction and passage under the 119th Congress.

3. **Creating Permanent Disaster Recovery Bonds (Priority)**
   With continuous funding shortfalls in the Federal Emergency Management Agency's (FEMA) disaster relief fund, America's communities need a permanent bond financing tool that can be accessed immediately after disaster strikes. This will help leverage private investment for longer-term redevelopment of essential infrastructure. Over the past several years, the need for a more effective development finance tool for disaster has become apparent. This provision has received bipartisan support within Congress and is ready for introduction and passage under the 119th Congress.

4. **Reinstating Advance Refunding**
   Advance refunding bonds, when tax-exempt, allow state and local governments to lower borrowing costs by capturing more favorable interest rates, allowing resources to be used for other capital projects while saving taxpayer money. The Tax Cuts and Jobs Act of 2017, while retaining tax-exempt status for municipal bonds, eliminated the tax-exempt status of advance refunding bonds. In an effort to support the borrowing needs of state and local governments, there is massive, industry-wide support for reinstating Advance Refunding. This provision has received bipartisan support within Congress and is ready for introduction and passage under the 119th Congress.

5. **Removing Volume Cap from Water and Sewer Bonds**
   Water and sewer development has become one of the most critical needs in local communities. The need for large-scale private investment in this infrastructure has been hampered by federal law limiting the amount of private activity bonds that can be issued under volume cap limitations. Water and sewer private activity bonds should be removed from state volume cap requirements so that more water and sewer infrastructure projects can be financed by bonds than under current limits. Removing water and sewer from volume cap would unlock billions of private sector dollars that are keen to purchase these highly secured bonds. This change would immediately change the landscape of finance for water and sewer development and provide a new and expanded bond finance asset class for investors. Legislation to remove water and sewer bonds from volume cap has already been introduced in the House and Senate on a bipartisan basis and is ready for reintroduction and passage under the 119th Congress.

SMALL BUSINESS & AGRICULTURE

Although large companies and multi-national corporations seem to dominate our national consciousness, small business remains the backbone of the U.S. economy. Small businesses create jobs, drive innovation, and boost economic growth. In addition, agriculture finance is one of the most important components of state and local development finance efforts. Agriculture remains one of the country's most important and productive industries and is the primary economic engine for most rural communities. These two areas of community need, small business and agriculture, crisscross throughout our country and resonate in every community. The importance of both of these economic engines can no longer be ignored and the Administration and Congress can act quickly to shore up federal support for these important contributors to our local economies.

6. **Supporting Rural Development**
   Following the expiration of the 2018 farm law, a new farm bill in 2025 must prioritize rural development, including housing, workforce development, water infrastructure, broadband and telecommunications, business development, energy, and utilities. The new farm bill should also provide states access to immediate, flexible funding to respond to urgent issues in the agriculture economy and food supply chain. The farm bill has historically received bipartisan support within Congress and is ready for introduction and passage under the 119th Congress.

7. **Strengthening the State Small Business Credit Initiative (Priority)**
   The State Small Business Credit Initiative (SSBCI) is a practical, pragmatic, and proven program that is helping America's small businesses access lower-cost capital, thereby creating high-quality jobs – especially in underserved communities. An opportunity exists to bolster SSBCI by expediting Treasury's review of applications and disbursement of funds for this program. In addition, additional funding for the SSBCI program would go a long way toward ensuring an evergreen state presence in supporting small business development. The SSBCI program leverages $10 for every $1 of federal support. This program is largely considered the most efficient and effective small business lending program ever created and has received bipartisan support over the past decade. During the next Administration and the 119th Congress, renewal and expansion of the SSBCI program should be a major focus to continue to drive private sector investment within the small business community.

8. **Creating Local Economy Preservation Funds (LEPFs)**
   Over the past decade, thousands of small businesses have closed or been sold to larger, multi-national firms (and eventually closed) due to a lack of capital for success planning. Local Economy Preservation Funds (LEPFs) would allow states or local governments to establish holding trusts that could acquire viable businesses facing closure, contraction, or external acquisition. LEPFs would help retain local small businesses and jobs at scale. LEPS would allow for these trusts to hold small businesses until they can be sold locally or sold under an Employee Stock Ownership Plan (ESOP) model. This is a revolutionary concept that would create a new and innovative capital formation strategy for ensuring that local small businesses remain local. Concept papers for LEPFs have been created and this idea is poised for introduction and passage in Congress.

COMMUNITY DEVELOPMENT & HOUSING

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. Furthermore, the United States is experiencing a housing crisis, with unaffordable housing and high mortgage rates. Expanding housing programs and converting vacant and underutilized commercial properties into residential housing could lead to the development of more affordable housing. The following policy ideas would support and accelerate development finance resources in these most critical areas.

9. **Revitalizing Opportunity Zones (Priority)**
   Opportunity Zones, created by the Tax Cuts and Jobs Act in 2017, were established to spur economic development and job creation in stressed or rural parts of the country. While the program has been a success, key provisions of the program have already sunsetted and the entire program is set to expire in 2026. The program has been immensely popular for spurring private investment in disadvantaged communities. But, the value of this program can no longer be achieved in key areas as the timeline for the capital gains deferral component of the program has passed and uncertainty around long-term program existence has slowed private investment. Simply put, this program needs to be revamped and renewed to maintain the momentum created in the TCJA of 2017. A thoughtful evaluation should be conducted to determine how Opportunity Zones can fulfill their promise of attracting long-term capital to the areas of most need. Numerous proposals exist to extend and reform the program and passage of a new Opportunity Zones 2.0 should be a major policy effort by the Administration and 119th Congress.

10. **Expanding Affordable Housing Inventory (Priority)**
    Affordable housing development must be a critical focus of the Administration and the 119th Congress. In 2024, bipartisan, thoughtful legislation known as the Revitalizing Downtowns and Main Streets Act was

introduced and would create a temporary federal tax credit to encourage the conversion of vacant and under-utilized commercial properties into residential housing. Modeled after the successful Historic Preservation Tax Credit program, the bill would provide a 20% credit in any taxable year for qualified conversion expenditures. For 30 years after a conversion, at least 20% of the residential units in converted buildings would need to be reserved for individuals with incomes at 80% or below the area's median income. This type of new housing tax credit would drive the expansion of affordable housing and create significant private-sector investment. This legislation has already been introduced in the House and Senate on a bipartisan basis and is ready for reintroduction and passage under the 119th Congress.

11. **Permanently Authorizing New Markets Tax Credit (Priority)**
    The New Markets Tax Credit program, created in 2000 to incentivize community development and economic growth in under-resourced neighborhoods, will expire in 2025. This important development finance tool should be made permanent to drive investment in communities in need of quality jobs and projects. Numerous pieces of legislation have been introduced over the years to permanently authorize the program. The lack of program certainty creates significant challenges for communities and private-sector investors. Uncertainty has been shown to drive a lack of engagement and also inhibits the ability of a community to focus on long-term investment. Making the NMTC program permanent would catalyze a long-term vision for community investment and give private sector investors a great ability to drive capital where it is most needed. Legislation to permanently authorize the NMTC has already been introduced in the House and Senate on a bipartisan basis and is ready for reintroduction and passage under the 119th Congress.

12. **Establishing a Federal TIF Bond Guarantee Program**
    Tax Increment Finance (TIF) is a local targeted financing tool that drives private sector investment by using future incremental taxes to fund the present cost of public improvements. Authorized in 49 states and DC, TIF is the most widely used redevelopment tool. However, transformative projects in struggling communities cannot access the necessary credit enhancements to maximize TIF to attract institutional investors. To solve this challenge, the Administration and the 119th Congress should consider creating a federal TIF credit enhancement for bonds secured with revenue generated by a qualified TIF project. This would be designed in the form of a federal guarantee which the federal government has supported previously for energy, water, and small business. The federal government currently operates a half-dozen guarantee programs but none are focused on transformative real estate investment. This program would be focused on supporting the most transformative and hardest to achieve projects in communities of greatest needs by aiding local efforts to attract new development, eliminate blight, support housing, drive tax generation and job creation, and enhance quality of life. Concept papers for a Federal TIF Bond Guarantee Program have been created and this idea is poised for introduction and passage in Congress.

NEXT STEPS

CDFA is prepared to assist the Trump Administration and the 119th Congress with developing the recommendations and opportunities outlined in this paper. We believe enacting these development finance solutions will immediately unlock capital to fuel private sector investment, create jobs, build infrastructure, drive affordable housing development, and increase the quality of life for every American. To engage with CDFA on these bipartisan policy concepts, reach out to info@cdfa.net or visit www.CDFA.net to learn more.

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.

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 operate bond, tax increment, tax credit and revolving loan fund programs, access federal funding and engage private capital routinely. DFAs are 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.

ABOUT THE AUTHORS

TOBY RITTNER, DFCP

President & CEO

trittner@cdfa.net

Toby Rittner is the President & CEO of CDFA. Rittner is one of the most vocal and recognized leaders of the development finance industry nationwide and has advised local, state, and federal leaders, including the past four Presidential Administrations, on economic development finance policy. He has written and crafted dozens of strategic finance plans for development finance agencies and advised communities through the world. Rittner is the author of CDFA's highly acclaimed Practitioner's Guide to Economic Development. Rittner is an adjunct faculty member at The Ohio State University and Carnegie Mellon University. He is also a Development Finance Certified Professional (DFCP) and has completed the prestigious Oxford University Sustainable Finance Foundation Course. Mr. Rittner holds a B.A. and Masters from The Ohio State University.

ANDRES CARO

Manager, Advocacy & Government Affairs

acaro@cdfa.net

Andres Caro is the Manager of Advocacy and Government Affairs at CDFA. He is responsible for managing CDFA’s vast advocacy, legislative, policy, public affairs, and federal relations activities. This includes production of the annual policy agenda, Federal Policy Conference, and leading Capitol Hill engagement. Caro is also responsible for managing the CDFA Legislative Committee and works to provide access to CDFA Federal Services to communities throughout the country. His responsibilities have also spanned research, technical assistance, and coordination of grant contracts. He holds a B.S. in Political Science from The Pennsylvania State University.