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The federal agenda according to NYSEDC and CDFA

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In past columns, I have written about the diversity of Industrial Development Agencies with respect to the many types of projects they can finance. Whatever the development goals are of a county, city, or town in New York State, an IDA can play a leading role.

However, federal law needs to be modernized in order to allow IDAs to finance many types of small and medium-size high tech manufacturing firms. Legislation has been developed by our national association, the Council of Development Finance Agencies (CDFA), which would remedy this deficiency. That legislation, S.2885, would expand access to tax-exempt IDA financing to these once non-traditional manufacturing firms. Today, businesses in these high tech industries are the economic engines for our state and its communities.

The proposed change would allow high tech companies that produce both tangible and intangible property to use IDBs. The changing U.S. economy is creating new and exciting employment opportunities in the areas of software development and life sciences. Traditional tax-exempt bond finance programs operated by state and local agencies do not extend to these important and growing sectors of our manufacturing economy. This legislation would fix this problem.

New York ranks second in the United States in three critical high tech categories including university R&D ($2.76 billion); life sciences R&D expenditures ($1.89 billion); and, biological scientists in the workforce (33,000). New York ranks third nationally in NIH grants ($1.72 billion), as well as advanced degrees in biological sciences (6,400).

With these assets in place, New York is a leader in high tech R&D. Our objective is to not only lead in R&D, but to put in place state and federal policies that would allow New York to capture the manufacturing benefits resulting from technologies developed in our university and private sector labs. Expanding access to IDBs would help in this regard.

This legislation is important to New York's growing technology sectors, and would help communities, especially in Upstate, replace mature manufacturing that is going off shore with high tech industries that will provide job opportunities now and in the future.

Another important priority on NYSEDC and CDFA's federal agenda is to increase the maximum amount of tax-exempt IDBs that can be issued on behalf of manufacturers. Industrial Development Bonds (IDBs) are tax-exempt bonds which provide low-cost debt to small and mid-sized companies that may not otherwise have access to credit markets. The $10 million maximum bond size limit imposed by Congress twenty years ago, is arbitrary and fixed. The $10 million limitation has not been increased since 1979 during the Carter Administration and has not been adjusted for inflation since.

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 companies simply cannot complete a project that otherwise would fit into this category for less then $20 million.

As a result of this limit many manufacturers turn away from lower coast tax-exempt financing and settle for other higher cost financing. Many times projects are simply dropped or reduced, which effectively chokes economic development and job creation.

Raising the bond limit to $20 million would provide relief for hundreds of manufacturers nationwide searching for affordable capital to grow their businesses

Another important priority on our agenda is to allow small issue IDBs of $3 million or less issued on behalf of a small manufacturer or a non-profit borrower to be purchased by a bank and still be eligible to deduct 80 percent of the interest from money it borrows to purchase the bonds.

In 1986, Congress enacted legislation to limit industrial development bonds. One of the changes made: small issue manufacturing bonds "non-bank-qualified." This change was made to lower the cost of the program. By making the manufacturing bonds "non-bank-qualified," banks were no longer allowed to deduct the interest on monies the bank borrowed to purchase a tax-exempt bond (or loan) to a manufacturer or non-profit project owner that qualified for industrial development bonds. This penalty was so onerous that banks virtually exited from the direct purchase of industrial development bonds.

NYSEDC and our national association CDFA are proposing that small issue IDBs and 501(c)(3) bonds under $3 million be eligible as "bank qualified" bonds. This focused change will open the financial markets for industrial development and smaller non-profit transactions by giving them the ability to place their bonds with their local community banks. This change will significantly ease the complexity and cost of smaller nonprofit bond transactions.

With these federal law changes, IDAs can become even more valuable partners in building strong, sustainable local economies.

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