

July 1, 2020

The Honorable Nancy Pelosi  
Speaker  
United States House of Representatives  
H-232, U.S. Capitol  
Washington, DC 20515

The Honorable Kevin McCarthy  
Minority Leader  
United States House of Representatives  
H-204, U.S. Capitol  
Washington, DC 20515

Dear Speaker Pelosi and Minority Leader McCarthy:

Congress will soon consider H.R. 2, the Moving Forward Act, a major upgrade to the nation's infrastructure finance system. We are pleased to see that Section 90105 of H.R. 2 incorporates HR 5422, the Modernizing Agricultural and Manufacturing Bonds Act, bipartisan legislation to expand the use of small issue Industrial Development Bonds (IDBs). We thank you for including this important provision in H.R. 2 and we urge quick congressional action.

One important function of state and local governments is economic development. States and localities implement strategies to attract private employers to their jurisdictions and to aid and encourage existing businesses to expand. An important economic development tool for states and localities is small issue IDBs. These are bonds nominally issued by a state or local government authority but where the proceeds of the borrowing are used by small manufacturing companies or first-time farmers, who are also solely responsible for repaying the debt.

Congress created small issue IDBs to encourage state and local governments to provide below market rate financing for eligible small borrowers in the manufacturing and agricultural sectors. Because the interest on IDBs is exempt from federal and often income taxation for investors, borrowers receive a lower interest rate on their borrowing than they otherwise would.

In order to ensure that the assistance provided by small issue IDBs remains targeted, the tax code places significant restrictions on their use. For manufacturing companies, the borrower may not have undertaken capital investments of more than \$10 million over the six-year period of 3 years before and after the bond issuance. For farmers, the program is available to first time farmers only, and a borrower is limited to a loan of \$450,000. There are other limitations that apply to first time farmer loans as well.

Section 90105 would improve the small issue IDB program by raising the capital investment limitation for manufacturing companies from \$10 million to \$30 million and index that limit for inflation thereafter. The \$10 million limitation imposed in 1986 is worth only \$4.2 million in today's dollars.

Although the first-time farmer authorization for IDBs has not existed as long as for manufacturing companies, inflation has eroded the value of that ceiling as well. Section 90105 would also index these limitations for inflation going forward and make other changes designed to make the program more effective.

The story of American manufacturing is well known. Manufacturing has gone from representing nearly 30 percent of GDP in the 1950s to just over ten percent today. As a result, we have lost millions of high paying manufacturing jobs. An important part of restoring American manufacturing is to promote and assist small manufacturers to grow and expand. That is exactly the goal of Section 90105 as well as to encourage and aid small farmers.

Tax-exempt bonds are the most important tool available to state and local governments in financing infrastructure investment. In addition to Section 90105, we encourage Congress to adopt other bond-related changes in the Tax Code designed to promote capital investment. These include restoring advance refundings (Section 90102), expand small issue bank qualified bonds (Section 90103), and restore direct pay bonds (Section 90101). Together with small issue IDB provision, these initiatives would help ensure a quick economic recovery and would promote substantial new investment in our nation's infrastructure. A section-by-section plain English description of the HR 2 [is available here](#).

We urge Congress to act quickly on these measures.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Nicholas".

Michael Nicholas  
Chief Executive Officer  
Bond Dealers of America