2017 Commercial Real Estate Government Day
March 15, 2017

Member Talking Points

Senator ____________ or Representative ______________ (give a business card and our packet) – thank you for meeting with our group today. It is so important for us to spend time together to educate each other on the commercial real estate industry and key public policy items which are vital to a strong Wisconsin economy.

(Ask each member of the group to introduce themselves – name, business, and specialty)

GENERAL BACKGROUND

- 9 organizations and WRA are at the State Capitol today to discuss the importance of real estate on Wisconsin's economy
- The markets have been strong, and our industry depends on good public policy decisions which have a major impact on the continued strength
- Commercial real estate accounted for $2.1 Billion dollars in construction spending in Wisconsin, over 16,000 jobs and personal earnings of more than $696 million in 2016 – commercial real estate has a tremendous positive impact on Wisconsin's economy
- Our organizations, while each representing a unique section of the industry, all work together and support public policy that promotes growth, economic development and job creation
- Taxes and regulations continue to limit that growth and must be a priority for state leaders
- We have outlined a number of priorities however each group will throughout the session identify individual pieces of legislation to contact Legislators – we encourage Legislators and their staff to use the organizations and our members as resources

Many Reasons to say Thank You

Coalition Message*:* The Coalition sincerely thanks Governor Walker's administration and each of the 132 state legislators that helped us pass, as an industry, over 40 of our legislative priorities for the 2015-16 legislative session and have been willing to work closely with members of the industry on issues related to commercial real estate.

Background:
In January of 2017, the Coalition associations' boards of directors approved a comprehensive and ambitious list of legislative priorities for the 2017-18 legislative session. The list consisted of numerous legislative priorities designed to improve all sectors of Wisconsin's real estate industry -- commercial, industrial and residential – and achieve a number of goals such as: (1) removing hurdles to successful real estate transactions; (2) making property and home ownership more affordable; (3) keeping real estate professionals at the center of the real estate transaction; (4) revitalizing our downtowns; both in urban and rural areas; (5) removing regulatory barriers to commercial and residential development.

Throughout the legislative session, the Coalition has worked closely with Governor Walker's administration and legislators on both sides of the aisle to pass our legislative priorities. From reducing property taxes to protecting property rights to modernizing the regulations affecting real estate brokers and land owners, state lawmakers have shown tremendous support for the Coalition and the issues that are important to the real estate industry.

Issue 1: Transportation Funding – (2017-19 State Budget)

Coalition Message:
Thank you to Governor Walker for acknowledging that transportation issues are important for Wisconsin's economy and for addressing local road repair in the budget proposal. The Coalition supports an adequate and permanent increase in funding for transportation infrastructure projects to maintain existing and provide new highways, roads, airports, railroads, public transit, bike paths and bridges that support our state's economic development and quality of life. Although we don't have a position on the specific funding source, we look forward to working with lawmakers and other stakeholders on finding an appropriate solution. In addition, the coalition supports the enumeration of the E/W I-94 Corridor.

Status:
The transportation solution in the proposed budget supports the allocation of existing transportation dollars to local decision makers for repairs and infrastructure spending. No new funding for increased costs and needs are explored. In addition, the E/W I-94 Corridor was excluded from the 2017-19 budget.

Background:
Transportation infrastructure is critical to Wisconsin's economy, tourism, and the real estate industry. Wisconsin's economic future and the safety of its residents and visitors depends upon a high-quality transportation network that can efficiently move people to jobs, raw materials to factories, finished products to markets, and tourists to their destinations. It is particularly important for Southeastern Wisconsin and the East-West I-94 Corridor. Consider the following:

- One of every 5 jobs in Wisconsin is located within 2 miles of the metro Milwaukee highway megaprojects corridor.
- According to national transportation research group TRIP, Deficient roads cost Wisconsin motorists $6 billion annually - $3.2 billion in extra vehicle operating costs; $1.7 in congestion costs; and $1.1 billion in safety costs.
- Poor roads cost the average Milwaukee area driver $2060 a year. (TRIP)
- 56% of Milwaukee area roads are rated in mediocre to poor (TRIP)
- $264 billion a year in product is shipped from Wisconsin with 82% shipped by truck (TRIP)
- Annual cost to drive (fuel taxes and registration fees) in Wisconsin is low compared to our neighbors:
    - WI - $274 | MI - $335 (will be $404 next year due to a funding package they passed last year) | IL - $470 | IA - $488 | MN - $501
- Nearly 1 in every 5 dollars in the Transportation Fund is currently going to debt service not to road construction or maintenance.
- In the last 10 years, Gas Tax revenue has increased by 4% compared to a 20% increase in sales tax and income tax revenues.
- The current DOT budget request is $449.3 million short of the level it would need to fully fund existing southeast WI freeway megaprojects. (Note: this does not include new funding ($30.9 million) for the enumeration and initial design work on I-94 EW.)

Our transportation infrastructure, however, is getting older and more congested in many areas of the state. Moreover, a critical part of our workforce and our aging population is becoming more dependent upon public transportation. The need for a greater investment in transportation infrastructure is clear. However, Wisconsin's heavy reliance on the gas tax and vehicle registration fees to fund our transportation infrastructure is an outdated model that does not address existing or future demands. Moreover, the revenues generated by the gas tax have been decreasing due to (a) elimination of gas tax indexing in 2006, and (b) an increase in vehicle fuel efficiency and the growing popularity of electric and hybrid vehicles. As a result, additional revenue is necessary for the state to maintain adequate funding for transportation infrastructure.

Talking Points

- Transportation infrastructure is critical to Wisconsin's economy, tourism and the real estate industry.
- Our highways, roads, bridges and other infrastructure are in decline and are congested in many areas.
- Wisconsin's current funding mechanism for transportation infrastructure is outdated and inadequate to address current and future needs.
- We need to come up with a new way to provide adequate funding for our transportation infrastructure to ensure that we can support and grow the state's economy, especially the major highway corridors including I-94
- While the Coalition does not have a position on any particular funding source, the recommendations provided by the Wisconsin Transportation Finance and Policy Commission deserve careful consideration.

We applaud the efforts by lawmakers to keep our taxes, fees and overall spending low, but Wisconsin must make an adequate and permanent increase in our transportation funding to maintain existing and provide new roads, highways and other infrastructure.

Issue 2: HTC (Historic Tax Credit) – (2017-19 State Budget)

Coalition Message: We oppose the proposed changes to the historic rehabilitation tax credit (HTC) program, which would have a crippling effect on one of Wisconsin's most successful economic development programs.

Status: Included in the 2017-2019 state budget and is currently being considered by the Joint Finance Committee.

Background:
Since 1989, the State of Wisconsin has offered a 5% Historic Tax Credit (HTC) of the qualified rehabilitated expenditures on building projects and renovations across the state. On January 1, 2014, the Wisconsin Legislature increased the credit to a 20% HTC. Wisconsin is one of 34 states that offer Historic Tax Credits, and is one of 16 states that have no aggregate cap on credits. Five additional states have annual aggregate caps that exceed Wisconsin's recent annual historic tax credit awards.

While details to each state's program vary, ten states match Wisconsin's 20% HTC allowance and 20 states exceed Wisconsin with a higher HTC, most commonly in the form of a 25% credit. Prior to the 2014 tax credit program expansion, Wisconsin's HTC program averaged 11 projects a year. Since its expansion, 31 projects have been approved for a total of $35,071,257 in HTC.

Talking Points:

- **Successful economic engine** -- The current HTC program has been very successful in meeting its objectives -- producing economic development, creating jobs, growing local tax bases, restoring historically significant buildings, and generating state and local tax revenues. Ironically, because the program has been more successful than projected, significant changes are being proposed to hinder that success.
- **9 x ROI in year 1** -- In 2014, 25 commercial, residential and mixed-use projects were approved and received approximately $35M in HTCs. In the first year after being awarded the HTCs, these projects have become a successful economic engine, generating an economic impact that is approximately 9 times greater than the original investment, or 9:1 within the first year, based on direct spending alone.
    - $277.7M in private investments/expenditures
    - 2,185 new jobs (construction and permanent)
    - $22M in annual state income, sales and payroll tax revenues
    - $ 2.11M in annual local property tax revenues
- **Ripple effect on economy** -- In addition to these direct economic impacts, the HTC program also has a "ripple effect" that results in new economic development activity on surrounding properties and neighborhoods.
- **Immediate payback** -- The tax credit is not a drain on state revenue. 40% of the credit is paid back in other taxes (sales, income, etc.) <u>before</u> the credit is paid out, and the remainder is recouped in 7 years.
- **Midwestern states** -- Other Midwestern states have 20% historic rehabilitation tax credit similar to Wisconsin.
    - Minnesota – 20% HTC + No annual cap
    - Iowa – 25% HTC + $45M annual cap
    - Illinois – 25% HTC + No annual cap
    - Indiana – 20% HTC + $450K/project cap
    - Michigan – 20% HTC (eliminated HTC program in 2012)
- **Very low risk program** -- The HTC program is one of the only "very low risk" programs in the state -- the tax credits are awarded only after the project is completed and thus provides the state with an immediate ROI and a guarantee that significant economic development activity and new jobs will be created.

Problems with the proposed changes in the state budget:

- **$10M cap on credits** – The cap would artificially limit amount of economic development activity, jobs and tax base generated by program.
    - 4,912 jobs will result from Wisconsin tax credit projects in 2016. With the proposed $10 million annual cap, Wisconsin would lose 4,003 jobs.
    - If the proposed $10 million cap were applied to 2016 projects, only 7 of the 38 projects would have received tax credits. A single, large project could deplete the entire cap, and many small communities would lose out on economic development.
- **Competitive grant process** – Would award grants annually on a competitive basis based upon number of jobs and tax revenues generated, which would significantly delays projects, make smaller projects ineligible, and prevent residential projects from qualifying despite the fact they would increase jobs in surrounding areas.
- **Clawback provision –** Would require recipients to pay back the tax credits if the economic development activities and job creation numbers fall short of estimated projections, which will make it difficult to sell tax credits on secondary market and will harm an owner's ability to secure project financing, since banks must underwrite the additional risk of a potential credit recapture.

Issue 3: Reducing Property Taxes

Coalition Message -- The coalition supports the property tax relief and school funding provisions contained in the 2017-2019 state budget bill. Governor Walker's proposed budget will 1) maintain the current levy limits on local governments, 2) significantly increase k-12 school aids to fund education, and 3) eliminate the state-portion of the property tax levy.

Status – Included in the 2017-2019 state budget that is currently being considered by the Joint Finance Committee.

Background
Last session, lawmakers and Gov. Walker made property tax reduction one of their top priorities. This was achieved due to discipline on property tax controls that protect property taxpayers and significant property tax relief provided to k-12 school districts and technical college districts. The 2015-2017 budget provided $506 million from general purpose revenues to fund technical colleges and k-12 schools.

The 2017-2019 state budget maintains this commitment to lower property taxes in this biennium. The proposed state budget eliminates the state-portion of the property tax levy (forestry tax) by providing $180 million over the biennium from general purpose revenues to fund forestry programs equal to the amount that the state-levied property tax would have raised, saving the average commercial property owner hundreds of dollars per year. In addition, the budget lowers property taxes by increasing the School Levy Tax Credit by $87 million and increases school aides by nearly $73 million. These funding increases for schools, while maintaining the controls on property tax levies, will ensure continued property tax relief for homeowners and property owners in 2017-2019.

The property tax burden for homeowners and property owners must be reduced

- **Wisconsin property owners pay among the highest property taxes in the country.** The property tax is Wisconsin largest tax, with homeowners and businesses paying approx. $9.6 billion in in property taxes, compared to $7.5 billion in income taxes and $4.8 billion in sales taxes. In 2015, Wisconsin's property tax rate was the 5th highest in the country, while our income tax (8th) and sales tax (37th) rankings were lower. (Wallethub.com)

- **Surveys and polling consistently shows that the property tax is the most onerous tax for Wisconsin businesses and residents alike.** In 2014, Wisconsin business leaders identified the property tax as the most onerous tax. (Roundtable discussions held by Lt. Gov. Rebecca Kleefisch and DOR Sec. Rick Chandler). This is consistent with polling showing that 60% of Wisconsin voters feel that property taxes are too high. (WRA Poll, February 2014) When asked which tax they would like to see cut, 42% of Wisconsinites identified property taxes, compared to 34% for income taxes and 22% for sales taxes. (Marquette Law School Poll, January 2014)

Talking Points

- **Thank you for your efforts last session to reduce property taxes, and we are asking for you to maintain this commitment as part of this state budget.**

- **We support property tax reductions, and we support good schools.** Property taxes affect the affordability of homes and the profitability of businesses. High property taxes create a barrier to economic development and job growth in Wisconsin. The Coalition understands the importance of good schools and strong local communities to businesses and a successful real estate market. Good schools have a positive impact on neighborhoods and local real estate markets. In fact, surveys show that the quality of local schools has a significant impact the quality of our workforce, which has a direct impact on where businesses choose to locate. **We strongly support the additional school funding provided in the state budget.** Gov. Walker has proposed a $650 million increase over two years, which would be the most state aid provided to k-12 schools over the last decade. The Coalition supports an increase in k-12 funding.

- **We believe the proposed state budget maintains the governor's commitment to reducing the overall property tax burden in Wisconsin.** The budget maintains the local levy limits on local governments, which caps how much local governments can charge property owners to pay for local spending.

- **The budget also permanently reduces property taxes by $90 million per year by eliminating the state portion of the property tax.** This will save commercial property owners hundreds of dollars per year (for every $1M in value, commercial property owners will save $167 per year), and will increase in the future as value increase.

The following issues are not addressed in the Governor's budget but are currently in discussion or drafting with legislators. We ask that law-makers call upon the commercial real estate industry for council, information, and case-studies in order to make the legislation better. The following issues are of top importance to our coalition:

Tax Increment Financing (TIF): The Coalition supports the ability of municipalities to utilize TIF (Tax Increment Financing) in order to assist the commercial real estate industry to develop and improve communities and cities, create jobs, and bring companies to communities. A Legislative Council Study Committee was formed in 2014 to look at current TIF legislation and evaluate the effectiveness and impact of the existing TIF laws. They developed a 'TIF Modernization Package' which consists of 8 bills intended to update Wisconsin's TIF Law to make TIF a more effective and flexible economic development tool. Four of the eight proposed bills originating from the Legislative Council Study Committee (Senate Bills 50, 51, 53,54) passed both houses and were signed into law in 2016. Unfortunately, Senate Bills 52, 55, 56 and 57 did not pass both houses last session. (Note – SB 52, SB 56 and SB 57 passed the Senate, but not the Assembly.) We are hoping both houses in the legislature will pass these four remaining bills, which will help continue to make TIF an important tool for economic development.

Tax Assessment: Our coalition encourages legislators to work with the commercial real estate community on proposed bills that would impact the tax assessment of commercial properties. We ask that, before any changes are proposed, a thorough review of the fiscal impacts and consequences of any proposals may have on all real estate classes, including all of commercial real estate, be considered. Commercial real estate is home to the employers and job creators in Wisconsin. To change how commercial real estate is taxed (or any legislative change for that matter) without involving commercial real estate in the solution could have negative impacts on the employers and job creators who occupy our buildings. Wisconsin can look more closely at what has been done in other states including Michigan and Indiana to learn from what others have already done. Our coalition is willing to help identify the problem and work collaboratively towards a solution.

Brownfields Legislation: New legislation has been introduced to reform current regulations associated with Brownfields Redevelopment. These reforms were identified as consensus recommendations of the Wisconsin Brownfields Study Group, an external advisory group to the DNR comprised of professionals in economic development, environmental remediation, county and municipal government, and including industry stakeholders. Brownfields redevelopment often spurs revitalization by increasing property values, new job creation and environmental restoration.