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To: Senate Committee on Revenue, Financial Institutions, and Rural Issues
From: Curt Witynski, J.D., Deputy Executive Director, League of Wisconsin Municipalities
Date: January 10, 2018
Re: **SB 668, Increasing the limit on historic tax rehabilitation tax credits**

The League of Wisconsin Municipalities strongly supports SB 668, increasing the per parcel limit on the historic tax credit from \$500,000 (as established in the state budget) to \$3,500,000. The historic tax credit program is a critical tool for helping municipalities work with private developers to revitalize older buildings that are often located in prominent places within our communities. A successful historic rehabilitation can serve as the centerpiece of a community's downtown and spark other redevelopment projects nearby. The Historic Preservation Tax Credit is one of the Legislature's and the State's economic development success stories. Large and small communities across the state have benefited from the program.

Unfortunately, the \$500,000 per parcel limit established in the state budget cripples the program going forward. This bill increases the per parcel cap to a compromise amount that limits the impact on the state's budget while keeping the program viable.

We urge you to recommend passage of SB 668. Thanks for considering our comments.



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Historic Tax Credits: Property Tax Impact

<u>Property</u>	<u>Municipality</u>	<u>Original Assessed Amount</u>	<u>2016 Assessed Value</u>	<u>Total Increase in Tax Base</u>
Belle Harbor	Racine	\$69,000	\$3,040,000	\$2,971,000
Blue Ribbon Lofts	Milwaukee	\$2,200,000	\$5,427,000	\$3,227,000
Brewhouse Inn & Suites	Milwaukee	\$1,000,000	\$13,729,700	\$12,729,700
Dr. Wesley Scott	Milwaukee	\$450,000	\$1,997,000	\$1,547,000
Fairbanks Flats	Beloit	\$110,000	\$502,400	\$392,400
Garton Toy Factory	Sheboygan	\$31,200	\$2,600,500	\$2,569,300
Gund Brewery Lofts	La Crosse	\$839,200	\$2,518,000	\$1,678,800
Historic Lofts on Kilbourn	Milwaukee	\$2,000,000	\$3,573,300	\$1,573,300
Knitting Factory	Milwaukee	\$1,432,400	\$4,828,000	\$3,395,600
Kunzelmann-Esser Lofts	Milwaukee	\$19,500	\$3,092,500	\$3,073,000
Majestic	Milwaukee	\$1,879,000	\$6,203,000	\$4,324,000
Mitchell Wagon Factory	Racine	\$250,000	\$5,200,000	\$4,950,000
Quisling Terrace	Madison	\$1,230,000	\$3,332,600	\$2,102,600
Red Brick School*	Oregon	\$ -	\$ -	\$ -
Seminary Park	Evansville	\$128,600	\$630,500	\$501,900
Sherman Park*	Milwaukee	\$ -	\$1,529,000	\$1,529,000
		\$11,638,900	\$58,203,500	\$46,564,600

500% Increase in Tax Base

* Previously a school and exempt from taxes

Alberta Darling

Wisconsin State Senator

Co-Chair, Joint Committee on Finance

TESTIMONY BEFORE THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND RURAL ISSUES

Senate Bill 668

Wednesday, January 10, 2018

Thank you, Chairman Marklein and committee members for holding a public hearing on Senate Bill 668. The legislation before you would raise the per project cap on Wisconsin's Historic Rehabilitation Tax Credit (HTC) from \$500,000 to \$3,500,000.

The HTC is one of the most significant economic development tools for communities both small and large. It is a unique program that incentivizes the revitalization of desolate, rundown and vacant buildings.

The Wisconsin supplement to the federal historic rehabilitation tax credit was created in 1987. Under 2013 Act 20, the Wisconsin credit rate for qualified expenses was increased from 5% to 10% and then later increased to 20% under 2016 Act 62. Most recently, 2017 Act 59 made drastic changes to this important program by placing a per project cap of \$500,000 effective July 1, 2018.

The economic benefits of this program are unparalleled. A recent Baker Tilly study shows over a 10-year period, the state receives \$8 for every \$1 invested. Furthermore, the HTC creates jobs, increases property values, and boosts economic activity. The same study found that credits issued between 2014 and 2016 are projected to generate more than \$600 million in economic output.

The pending cap from 2017 Act 59 creates uncertainty among investors, developers, and local communities that are relying on this credit to rehabilitate their often times vacant buildings. In addition to the uncertainty created with a low per project cap, there is a level of complexity to the application process for investors. This harms smaller projects in small communities which often have the greatest difficulty attracting developers. The \$500,000 per project cap diminishes competitiveness, decreases access to small communities, and creates a chilling effect that disincentivizes restoration work in Wisconsin.

SB 668 ensures the longevity of the program by raising the per project cap to \$3.5 million. The bill before you balances the fiscal needs of the state with the necessity of the credit. This program provides a low-risk, high-return opportunity for the state, while stimulating development in struggling communities. Increasing the per project limit will support the rehabilitation of Wisconsin's historic buildings for years to come and guarantee that future generations will have the opportunity to see these extraordinary buildings.

I would like to thank Senator Dan Feyen and Representatives Mike Rohrkaste, Rob Brooks, and Cody Horlacher for their leadership and support on this crucial issue. Thank you committee members for holding a hearing on SB 668 and I hope I can count on your support.



MIKE ROHRKASTE

STATE REPRESENTATIVE • 55TH ASSEMBLY DISTRICT

Senate Bill 668

Relating to: the limit on tax credits that may be certified under the historic rehabilitation tax credit.

Testimony of State Representative Mike Rohrkaste

Senate Committee on Revenue, Financial Institutions, and Rural Issues

January 10th, 2018

Thank you, Chair Marklein and members of the Senate Committee on Revenue, Financial Institutions, and Rural Issues, for holding this public hearing.

The Historic Tax Credit program has been incredibly successful both nationally and here in Wisconsin and has helped to revitalize over a hundred properties across the state. The program is a low-risk, high-return program that has helped to breathe new life into buildings in both rural and urban Wisconsin. Because of the proven success of the tax credit, it is important to ensure the program remains stable going forward.

Senate Bill 668 does exactly that. This legislation raises the amount of credits that can be claimed per project under the program from \$500,000 to \$3.5 million, starting July 1st, 2018. Raising the limit will increase the feasibility of more projects across the state while still ensuring cost controls on the program. The cap also ensures that communities and developers across the state will have certainty when applying for the Historic Tax Credit.

Importantly, the Historic Tax Credit program is also accountable. The credit cannot be claimed until a project is complete, and if a project fails, the state does not pay out the credit. The program has already helped to create thousands of jobs across the State of Wisconsin and has benefitted communities both large and small. Recent studies have indicated that Wisconsin receives an \$8-to-\$1 return on investment over a 10-year period from the program. Between 2014 and 2016, credits issued to development projects are expected to generate more than \$600 million in economic output, and more than \$90 million in new state tax revenue. This program also helps to increase property values while reducing blight through the revitalization of often vacant buildings.

Thank you for your time, and I encourage members of the committee to support Senate Bill 668.

For immediate release:
September 13, 2017

STATE'S HISTORIC TAX CREDIT PROGRAM POISED TO CONTINUE AS ECONOMIC DEVELOPMENT ENGINE

*State Legislature works to maintain important
revenue- and job-creating program generating unmatched \$8 to \$1 ROI*

Madison, Wis. – The Wisconsin Legislature has agreed to keep the state's Historic Tax Credit program positioned to be a catalytic tool for economic development in communities statewide. The low-risk, high-return program is projected to generate more than \$600 million in economic output and more than \$90 million in new state tax revenue on approved projects utilizing the credit between 2014-16.

Legislators from both the state Senate and Assembly stepped up to support keeping the program viable in the 2017-19 state budget bill with no overall cap and a \$5 million per project cap beginning in July 2018.

“Our Legislature should be applauded for its effort to keep intact a program that is paying off in jobs, tax revenue and catalytic development,” said Matt Jarosz, director of the Historic Preservation Institute at the University of Wisconsin-Milwaukee. “The Historic Tax Credit program is generating additional investment in historic properties in communities throughout Wisconsin. The result is preservation of community and state heritage that will have a positive impact on our economy.”

The credit is a job creator with nearly 11,000 full-time construction jobs to be generated on projects started between 2014-16, and nearly 5,000 full-time jobs created once those projects are operational after construction, according a report issued by Baker Tilly.

Additionally, the credit cannot be claimed until a project is complete, which means the state benefits immediately from tax revenue generated by construction activity, as well as job creation, before any credit is used.

On average, the credit is fully repaid by the end of the fourth year after construction is completed, and over a 10-year period, the state receives an \$8 to \$1 return on investment.

Communities across the state are also benefitting from the program. Notably, there's an emerging trend of more small communities benefitting from the program. In 2016, 67 percent of all such projects were in smaller communities, up from 46 percent in 2015 and 39 percent in 2014.

Smaller communities benefitting from the credit include Darlington, De Pere, Evansville, Fond du Lac, Kenosha, La Crosse, Manitowoc, Neenah, Oshkosh, Platteville, Prairie du Chien, Superior, Watertown, Waupaca, and Wausau.

The Historic Tax Credit program also received support from a broad coalition of businesses, industry associations and historic preservation advocates, some of which are listed below.

Historic Tax Credit Coalition

Commercial Real-Estate Development Association
Alexander Company
Brown County Trust for Historic Preservation
Wisconsin Homebuilders Association
Wisconsin Relators Association
Milwaukee Preservation Alliance
Mandel Group
Gorman Company
Owl Eight
UW Milwaukee Historic Preservation Institute
Milwaukee Downtown
Mueller Communications
Wisconsin State Council of Carpenters
WI Economic Development Association
Commercial Association of Realtors
Wisconsin Bankers Association
Wisconsin State Historical Society
Legacy-Architecture
Wisconsin League of Municipalities
Waukesha Preservation Alliance
National Trust for Historic Preservation
AIA Wisconsin;
Madison Trust for Historic Preservation;
The Kubala Washatko Architects, Cedarburg, WI
Coakley Brothers/Brothers Business Interiors, Milwaukee, WI

Wisconsin Historic Tax Credit Program

Low Risk- High Return

- The Wisconsin Historic Tax Credit (HTC) program is a **low risk–high return** program. The credit may not be claimed until the project is complete. If the project fails, the state does not pay out its credit. No project, no credit.
- The credit is a **job creator**. Nearly 11,000 full-time construction jobs will be generated on projects started between 2014-16, and nearly 5,000 full-time jobs created once those projects are operational after construction.
- The credit is fully repaid by the end of the fourth year after construction is completed, and over a 10-year period the state gets an **\$8 to \$1 return on investment**.
- **Communities small and large are benefitting** from development supported by the credit. In fact, there's an emerging trend of more small communities benefitting from historic tax credit projects. In 2016, 67 percent of all such projects were in smaller communities, up from 46 percent in 2015 and 39 percent in 2014.
 - **Smaller communities benefitting** from the credit, include Plymouth, Superior, Fond du Lac, Evansville, Platteville, Darlington, Waupaca, Wausau, Prairie du Chien, La Crosse, Manitowoc, Watertown, De Pere, Oshkosh, Neenah, and Kenosha. In 2016, 38 projects received approvals to proceed, 30 of which were in cities other than Madison or Milwaukee.
- **The state benefits immediately**. While a credit is not paid until a project is completed, tax revenue is generated immediately during the construction period. Credits issued to development projects between 2014 and 2016 are projected to generate more than **\$600 million in economic output**, more than \$90 million in new state tax revenue, while generating more than 10,000 new construction jobs.
- The credit stimulates an **increase in property values**. Reviewing tax records and mill rates for 118 projects using the credit between 2014-16, more than \$3 million in various state and local property taxes were paid on properties assessed at a total of more than \$113.1 million at the start of their redevelopment. Upon completion, it is estimated the properties will have a cumulative property tax assessment value of approximately \$687.1 million and will pay more than \$19.1 million in state and local property taxes.
- The credit is playing a significant role in **reducing blight** and opening the door for new utilization of older buildings in communities. In 2014, **60% of all projects using the credit were vacant more than 20 years**. These projects would not occur without the historic tax credits and the buildings will continue to blight their communities.
- **Projects currently stalled** because of uncertainty regarding the credit's future, include:
 - Fraternal Order of Eagles building in Oshkosh
 - W62 N630 Washington Ave. in Cedarburg
 - Odd Fellows Temple in La Crosse
 - Old Governor's Mansion in Madison
 - 161 South Main in Fond du Lac
 - 200 Green Bay Road in Thiensville
 - Palm Shoe Shop in Madison.
- The credit is **stimulating development** throughout the state. Since 2014, when the credit was elevated from 5 percent to 20 percent of expenditures on qualified rehabilitation projects of historic buildings, Wisconsin has experienced a **67 percent increase** in redevelopment of such properties.

Historic Tax Credit Coalition

NAIOP-WI ;
Alexander Company;
Brown County Trust for Historic Preservation
Wisconsin Homebuilders Association;
Wisconsin Realtors Association;
Milwaukee Preservation Alliance;
Mandel Group;
Gorman Company;
Owl Eight;
UW Milwaukee Historic Preservation Institute;
Milwaukee Downtown;
Mueller Communications;
Wisconsin State Council of Carpenters;
WI Economic Development Association;
Commercial Association of Realtors of Wisconsin;
Wisconsin Bankers Association;
Wisconsin State Historical Society;
Legacy-Architecture;
Wisconsin League of Municipalities;
Waukesha Preservation Alliance;
National Trust for Historic Preservation;
AIA Wisconsin;
Madison Trust for Historic Preservation;
The Kubala Washatko Architects, Cedarburg, WI;
Coakley Brothers/Brothers Business Interiors, Milwaukee, WI.

Figures used in this outline are taken from a report issued by Baker Tilly earlier this year that analyzed 118 projects throughout Wisconsin that filed for historic tax credit applications between 2014-16 and are expected to be completed and receive final approval for the credit.



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Unfortunately, the \$500,000 per parcel limit established in the state budget cripples the program going forward. This bill increases the per parcel cap to a compromise amount that limits the impact on the state's budget while keeping the program viable.

We urge you to recommend passage of SB 668. Thanks for considering our comments.



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SOCIETY

Information Paper on SB 668/AB793

The Wisconsin State Historic Preservation Office (SHPO), funded mostly through federal grants from the Historic Preservation Fund, has facilitated billions of dollars of economic development in Wisconsin communities through the state and federal tax credit programs it administers. For every \$1 million spent, between 18 and 28 jobs are generated. In state fiscal 2017, tax credit-related historic preservation projects generated \$599.4 million in construction and generated nearly 9,000 jobs in Wisconsin. From 1982 through state fiscal 2017, rehabilitation project investments in Wisconsin have totaled \$1.8 billion.

State Historic Preservation Office (SHPO) supports a \$3.5 million dollar per project cap on the 20% state tax credit for historic buildings. We also support the adoption of criteria for exemplary larger projects to become exempt from or exceptions to the cap.

The clear economic impacts of tax credits are supported by the following information:

- This program applies only to a limited pool of buildings that are listed or become listed on the National Register of Historic Places and are income-producing. Approval is a lengthy and complex process involving multiple reviews by the SHPO and National Park Service.
- The state tax credit provides essential bridge financing. If a \$500,000 cap were applied to projects since 2014, 80 projects or nearly 50% would not receive the full credit, jeopardizing those projects.*
- The credit is fully repaid in increased value, sales tax, payroll tax, and other taxes within 4 years.**
- New property tax as a result of investment reflects a 637% increase, providing funding to local governments and schools.**
- In 2016, 69% of projects occurred in Wisconsin small towns, spurring badly needed investment.**
- The tax credit leveraged private investment of over \$700 million dollars from 2014 to 2016, resulting in over 15,000 jobs including nearly 5,000 operational jobs.**
- Tax credits are a national market. States compete for development dollars. Developers bring their capital to states that provide the best return and partner with in-state investors who use the state credits. Currently 25 other states have a state income tax credit of 20% or higher.

Jim Draeger
State Historic Preservation Officer
Wisconsin Historical Society
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*Historic Preservation tax credit database, Wisconsin Historical Society. Data accessed 12/18/17.

** Baker Tilly, Wisconsin Historic Tax Credit Analysis, April 2017

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wisconsinhistory.org



To: All Legislators

From: Tom Larson, WRA Senior Vice President of Legal and Public Affairs and Chief Lobbyist for NAIOP-WI

Date: January 10, 2018

Re: AB 793/SB 668 – Historic Rehabilitation Tax Credits

The Wisconsin REALTORS® Association and NAIOP-WI support AB 793/SB 668, legislation that would increase the per project caps on historic rehabilitation tax credits (HTC) to \$3,500,000.

The HTC program has been very successful in meeting all its objectives – promoting economic development, creating jobs, growing local tax bases, restoring historically significant buildings, and generating state and local tax revenues.

From 2014 to 2016, 118 historic projects received approval for state historic tax credits, totaling \$171,095,000. A recent analysis by Baker Tilly of the impact of those projects clearly illustrates the success of the current HTC program.

1. Powerful economic engine – The HTC program generated \$683 million dollars in direct economic output during the construction period alone. This illustrates how public investment successfully leverages private investment.
2. Tax revenue generator – At the state level, the HTC program resulted in \$92.4 million dollars in additional state taxes in the same period including the ripple effect caused by the investment throughout the local economy. Owners pay sales tax on materials, income tax, payroll tax and others that immediately begin to pay back the state investment. At the local level, the HTC program resulted in 637% increase in cumulative property tax base. Project buildings are generally underutilized and contribute little property tax until after their rehabilitation work.
3. Job creation – The HTC program created 10,950 new jobs in the three year period, including 9,882 construction jobs.
4. Smaller communities benefit too – 69% of projects in 2016 were in communities of less than 100,000 population, attracting \$167,400,629 dollars of total investment to those communities.
5. Blight elimination and urban renewal – 60% of all projects in 2014 were vacant more than 20 years. These projects will not occur without the historic tax credits and the buildings will continue to blight their communities.
6. Repayment is immediate and quick – The credit is fully repaid by increased state taxes at the end of the 5th year after completion and over a ten year period the state gets an \$8 to \$1 return on investment. Because the tax credit is fully repaid in 5 years, it generates new state tax revenue that makes other economic development programs possible.
7. The historic tax credit is low risk-high return -- The credit may not be claimed until the project is complete. If the project fails, the state does not pay out its credit. No project, no credit. The

credit is used as collateral for bridge financing that pays for construction, so the credit is invested in bricks and mortar and does not go to the owner as profit.

The HTC program is one of Wisconsin's most important economic development programs and increasing the per project cap from \$500,000 to \$3,500,000 will ensure its continued success. We respectfully request your support for