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To: The Senate Committee on Universities and Revenues
From: Sen. Dan Feyen
Re: Senate Bill 585

Hello Chairman Hutton and members of the committee, thank you for taking the time to hear testimony on Senate Bill 585.

Wisconsin's Business Development Tax Credit is an incredible tool at our disposal that gives businesses a competitive advantage. This program is designed to spur development, job creation, and employment through performance based tax credits to employers.

Currently, the major focus of the credit is on job creation, requiring businesses to increase net employment in Wisconsin every year for ten years in order to qualify. This sounds great on paper, who doesn't want more jobs? In practice, however; this just doesn't line up with our current economic conditions. Businesses can create all the jobs they want, if they don't have the people to fill the positions, the job is meaningless. Wisconsin needs to continue incentivizing growth, while reframing how we measure success. 'Jobs created' just isn't cutting it anymore.

Instead, SB 585 focuses the BTC on capital investments and job retention. Capital investment leads to long-term growth and productivity improvements. This will encourage businesses to invest in technologies, equipment, and infrastructure that will enhance their overall output and competitiveness. One business's capital investment can also have a ripple effect, benefiting suppliers, service providers, and the local economy. By shifting the focus from job creation to investment, we will be providing more flexibility for businesses in how they choose to grow and improve their operations. The bill also maintains a job retention requirement, to prevent awards from going to businesses that are cutting jobs.

SB 585 also creates a tax benefit of up to 15% of their investment in workforce housing or up to 15% of their investment in child care programs for eligible employees. SB 585 requires WEDC to either approve or deny BTC certifications within 90 days.

The substitute Amendment maintains all of these requirements, but also expands the bills scope to include Enterprise Zones as well.

This amendment came about through conversations with WEDC to clean up definitions, effective dates, and make a few technical changes that will aid in the administration of both credits while also refocusing the Enterprise Zone Tax Credit on capital investments and job retention.



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Enterprise Zones and Business Development Tax Credit use some of the same definitions in statute. Changing the definition of full time job creates uniformity between the two credits.

The change to the definition of Zone Payroll in the substitute amendment allows a business to claim credit for wages paid to full time employees that are based within the zone instead of wages paid to employees for tasks completed within the zone.

This amendment changes definition of Base Year to the immediate 12 month period prior to WEDC certification rather than the calendar year prior to the creation of the enterprise zone.

Lastly, the substitute amendment maintains the current credit for 3% of a business's personal property investment and 5% of their real property investment rather than the increase to 10% for each that was in the original bill. I would still prefer to see an increase in this credit to spur growth, but I understand WEDC is currently in the process of evaluating these credits and would like to see the results of this evaluation prior to any suggested increases.

Recently, we also introduced Senate amendment 1 to the substitute amendment which simply lowers the threshold for a project to qualify for a credit from a total of \$1,000,000 in capital investment to \$250,000. This will open up the credit to smaller projects, helping more businesses in our state.

Thank you very much for taking the time to hold a public hearing on this bill.



DAVE ARMSTRONG

STATE REPRESENTATIVE • 75TH ASSEMBLY DISTRICT

Testimony on Senate Bill 585 January 31, 2024

Thank you for the opportunity to speak again on behalf of Senate Bill 585, which makes a number of changes to Wisconsin's Business Development Tax Credit (BDTC) to reflect changing economic realities.

As you may know, the BDTC, which is administered by the Wisconsin Economic Development Corporation, is a performance-based, refundable income credit designed to encourage business development in this state. Under current law, WEDC awards the BDTC to businesses that increase their net employment in Wisconsin from year to year. However, because of the ongoing workforce shortage, certified businesses have found it difficult to meet their contractual obligations to WEDC and maintain their certification.

SB 585 updates the BDTC by allowing WEDC not only to award credits to businesses that meet the current job creation requirements, but also to businesses that *retain* existing jobs and make capital investments in Wisconsin. SB 585 also addresses two critical elements of Wisconsin's workforce problem – housing and childcare. Under the bill, businesses may claim tax benefits for up to 15% of their investment in housing for their employees and up to 15% of their investment in childcare for their employees. Lastly, SB 585 imposes a 90-day deadline for WEDC to approve or deny BDTC certifications. Businesses need and expect timely action.

Senate Substitute Amendment 1 incorporates several technical and substantive suggestions from WEDC. The biggest change from the original bill is that SSA 1 removes language that would have increased current caps on tax benefits for personal and real property investment. Otherwise, SSA 1 still shifts the BDTC's focus from job creation to job retention and capital investment. Both creation and retention would require capital investment, which the substitute amendment makes clear (the original bill language was ambiguous). SSA 1 also continues to authorize credits for employers that invest in workforce housing and childcare for their employees. The substitute amendment also imposes the 90-day deadline.

Also at WEDC's request, SSA 1 makes several changes to Wisconsin's Enterprise Zone Jobs Tax Credit. For example, the substitute amendment alters a few definitions, such as by saying that "zone payroll" is state payroll attributed to full-time employees *based* in an EZ. In addition, SSA 1 updates the definition of "full-time job" for the purposes of both EZs and the BDTC. Under the substitute amendment, a full-time job is a non-seasonal job that pays at least 2,080 times 150% of the federal minimum wage *and* offers retirement, health, and other benefits. This change ensures that the jobs for which employers are rewarded under these programs are quality.

Senator Feyen and I have also introduced an amendment to SSA 1 that would lower the current minimum threshold at which employers may claim benefits for personal and real property investment in a capital investment project from \$1 million to \$250,000. I believe this will allow more small- or mid-sized employers to benefit from this part of the BDTc.

Thank you for your consideration. I am happy to hear your feedback and to answer any questions you may have.



MEMORANDUM

TO: Senator Rob Hutton, Chairman
Honorable Members, Senate Committee on Universities and Revenue

FROM: Jennifer H. Campbell, Chief Legal Officer

DATE: January 31, 2024

SUBJECT: Support for Substitute Amendment 1 to Senate Bill 585

The Wisconsin Economic Development Corporation (WEDC) supports the substitute amendment to Senate Bill 585, relating to the Business Development (BTC) and Enterprise Zone (EZ) tax credit programs.

Representative Armstrong and Senator Feyen worked closely with WEDC to incorporate our recommendations into the substitute amendment. The substitute amendment incorporates needed changes to make our administration of the tax credit programs clear and efficient for all parties. As amended, the bill will enable WEDC to continue offering attractive incentives to businesses interested in expanding or locating in Wisconsin. WEDC respectfully requests the Committee adopt it.

Specifically, in WEDC's view, the substitute amendment improves current law by:

- Maintaining current rates at which capital expenditure incentives can be earned. This will ensure WEDC can continue to assist businesses of all sizes across the state, while maintaining the ability for WEDC to offer competitive incentive packages.
- Removing the requirement for a business to create new jobs in each year to earn tax credits. Under the substitute amendment, a business that retains its existing Wisconsin workforce and makes a capital investment can earn credits. This allows WEDC to support businesses in the current economic environment.
- Incentivizing businesses to invest in workforce housing and childcare for their employees.
- Eliminating the requirement under EZs that a company may only earn credits for the time during which an employee is "performing services in the zone." This change reflects current workforce realities companies are facing without imposing undue reporting burdens on tax credit recipients.
- Clarifying and cleaning up language that was confusing or had unintended consequences in administration:
 - Updating the definition for "Base Year" for EZs.
 - Updating the definition for "full-time employees" for both BTCs and EZs. The new language (1) eliminates the current law phrase "regular employees," which can cause some shift-workers to not qualify; and (2) ensures that WEDC only awards tax credits for employees that are offered benefits.

LOOK FORWARD ➤

- o Updating the language related to when WEDC may require a business to repay credits for both BTCs and EZs.

Again, WEDC thanks Representative Armstrong and Senator Feyen for their work on this legislation. WEDC believes the bill as amended will enable our state to assist businesses more effectively as they retain their existing workforce and make much-needed investments to increase productivity and remain globally competitive in the current workforce environment.



Testimony on Senate Bill 585 before the
Senate COMMITTEE ON Universities and Revenue

January 23, 2024

Wisconsin Economic Development Association

Good morning, Chairman Hutton and members of the committee. My name is Michael Welsh, and I serve as the Legislative Affairs Director for the Wisconsin Economic Development Association (WEDA). Thank you for the opportunity to testify today in favor of Senate Bill 585. This important legislation will align the Business Development Tax Credit (BTC) with today's economic realities, making it a more flexible and effective business attraction and retention tool for the state.

I would like to thank Chairman Hutton for holding a public hearing on SB 585, as well as Sen. Feyen and Rep. Armstrong for introducing this legislation. WEDA certainly appreciates their efforts to strengthen Wisconsin's economic development toolbox.

By way of background, WEDA is a statewide association representing over 400 public and private sector economic development professionals. We are dedicated to advancing economic prosperity in Wisconsin and providing our members with the necessary tools to encourage business expansion, promote private investment, and attract much-needed talent to the state.

The BTC, which is administered by the Wisconsin Economic Development Corporation (WEDC), is a performance-based, refundable income tax credit designed to encourage business development in Wisconsin. While the tax credit has been used successfully to attract new businesses to the state, the program has lost considerable value due to the state's changing economic environment.

Under current law, BTC awards are based on job creation, which is extremely challenging amid a growing and likely long-term workforce shortage. As you know, one of the biggest challenges currently facing Wisconsin employers is their inability to find enough workers, and they are increasingly turning to automation and other substantial capital expenditures to bridge the labor gap. In fact, BTC recipients have created less than 50 percent of the planned jobs specified in tax credit agreements with WEDC.

The economy is constantly changing, and it is important for economic development policies to be regularly reviewed and updated. Senate Bill 585 will help ensure the BTC remains relevant by changing it from a job creation-focused program to a capital expenditure-focused program. The bill will steer primary eligibility for BTC awards away from job creation and equally emphasize capital investment. By modernizing eligibility requirements and stressing capital expenditures, SB 585 will make the BTC more flexible and competitive. The bill also recognizes the importance of business decision timelines by streamlining the tax credit approval process at WEDC.

WEDA is also excited about the provisions in the bill that create additional BTC tax awards for businesses that invest in workforce housing and childcare for their employees. The lack of affordable

housing and childcare access challenges are two key factors exacerbating Wisconsin's labor crunch. SB 585 will help address these two major problems threatening productivity and growth across the state.

In short, SB 585 will align the BTC with the current economic climate; boost its effectiveness as a business incentive; allow WEDC to pursue key projects more aggressively; and provide Wisconsin with a competitive advantage. As such, I would urge your support for SB 585 and ask that you pass it out of committee as soon as possible.

Thank you for your consideration.

WAUKESHA COUNTY BUSINESS ALLIANCE

ADVOCATE / DEVELOP / ENGAGE / GROW

To: Senate Committee on Universities and Revenue

From: Suzanne Kelley, President & CEO, Waukesha County Business Alliance

Date: January 22, 2024

Re: Support for Business Development Tax Credit Modernization Bill (SB 585)

As regional chamber of commerce, the Waukesha County Business Alliance is committed to creating a strong business climate. We work closely with our 1,200 member companies, representing over 75,000 employees in Southeastern Wisconsin. The Alliance supports the Business Development Tax Credit (BTC) Modernization Bill, which would make needed updates to Wisconsin's business tax credit program. The bill would make the following changes and additions to the current program:

- A business would be eligible for BTC awards if they create jobs **or** retain existing jobs **and** make a capital investment in their business located in Wisconsin. This provision would steer primary eligibility for BTC awards away from job creation and instead emphasize capital expenditure and job retention.
- BTC awards for capital expenditures would be increased to 10 percent of an investment by a business in personal property and real property in Wisconsin. Under current law, capital expenditure related BTC awards are limited to 3 percent and 5 percent.
- BTC tax benefits would be awarded to businesses that invest in workforce housing for their employees. Under the bill, businesses would be able to claim tax benefits of up to 15 percent of their investment in workforce housing for eligible employees.
- BTC tax benefits would be awarded to businesses that invest in childcare benefits for their employees. Under the bill, businesses would be able to claim tax benefits of up to 15 percent of their investment in childcare programs for eligible employees.
- WEDC must approve or deny BTC certifications within 90 days after receiving an application for certification from a business.

We know that employers across the state face an ongoing shortage of workers, which will only continue to worsen with the state's demographics. Far too often, we hear from Waukesha County manufacturers that they are declining orders, putting expansion plans on hold or choosing to expand in other states because of workforce shortages. We know that workforce development is the number one issue facing Waukesha County, the Milwaukee 7 region and our state. We meet with our member companies often and the themes are consistent – workforce is the top issue for their business and demographics are working against them.

Many industries, especially manufacturing, continue to use advanced technology to improve productivity and support growth. Our members are retaining existing jobs, reskilling employees, adding jobs when they can find candidates, and investing in technology. These are the building blocks for growth.

When speaking with our Manufacturing Executive Council to get feedback, our manufacturing CEOs enthusiastically supported the proposal. Several shared past examples in which they have struggled to achieve

WAUKESHA COUNTY BUSINESS ALLIANCE

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job growth numbers currently required to achieve business tax credits. Their businesses are growing, but the persistent hiring challenges have made it nearly impossible to fill open positions. Here is one comment:

- *Hydro-Thermal Corporation in Waukesha has made two capital investments in the last two years. In 2022, we purchased an automated horizontal machining cell with twenty automated pallets and tool storage. Through automation and efficiencies, we have grown the throughput by 175% in this cell, without adding jobs, which is challenging in the current hiring environment. Further, we have purchased significant tooling from local vendors. In 2023, we purchased a vertical storage unit that reduced our footprint of inventory by 70% and applied the equivalent of 1.5 people from material handling to other important and higher paying supply chain jobs. The bottom line is we are now capable to continue our compounded growth and export capacity by +6% for the ninth consecutive year. A tax credit for this investment would have made the decision even faster and further enhancements necessary to compete in the global economy.*

Wisconsin is one of the top two manufacturing states in the country. To continue as a manufacturing powerhouse, we must modernize our business development tax credits to reflect the way our manufacturing industry is going.

Please support the Business Development Tax Credit Modernization Bill and help our Wisconsin companies continue to grow.