



## **SUPPORT FOR SENATE BILL 291**

Testimony submitted by James Otterstein, Legislative Co-Chair

Good morning, I am James Otterstein and today's remarks represent two distinct, yet related constituency groups. First and foremost, I am the Legislative Co-Chair of the Wisconsin Economic Development Association (WEDA). WEDA is a membership-based group that represents the collective economic development interests of over 400 + public and private sector members throughout Wisconsin. Secondly, I represent Rock County's Economic Development Agency. The message from both constituency groups is to SUPPORT SB 291.

Wisconsin's business climate, regardless of which year or publication cited, has historically been ranked less favorably than its counterparts. Coupled with its relatively lean economic development toolbox and various socio-economic variables (e.g. higher than average unemployment rates, decreased property values, reliance upon the manufacturing sector, etc.), it is painfully clear that Wisconsin is facing an uphill economic recovery. Fortunately, the Legislature has been open to considering or adopting innovative policies / programs to help advance Wisconsin's business climate forward.

In response to the 2006 Legislative Audit Bureau's *State Economic Programs Report*, WEDA offered several forward thinking recommendations to address Wisconsin's anemic tax credit portfolio. Per that Report, Wisconsin's tax credits were characterized as ineffective because they were under utilized, narrowly defined and to some extent duplicative in nature. Since that Report, tax credit changes – such as program consolidation, increased allowable or eligible activities and some portability measures – have been implemented.

SB 291 proposes to enhance this portability measure by creating a mechanism to facilitate the transfer or sale of tax credits between eligible Wisconsin taxpayers. The economic climate, the performance based nature of tax credits (i.e. one must have a tax liability to use them), the net present value of tax credits and the increasing number of tax credit programs that permit some form of portability at either the federal or state level, warrants the exploration and subsequent adoption of programs such as SB 291.

By increasing the flexibility of these tax credits, Wisconsin is sending positive signals into the marketplace. First, this change acknowledges the challenges that new start-ups – particularly those anchored by emerging technology – possess with regards to securing affordable credit to finance their operations. By transferring or selling credits to existing WI firms, these new start-ups can receive a more affordable and flexible cash injection.

Second, this change recognizes that profitability thresholds and their corresponding state income tax liabilities – particularly for emerging or relocating businesses – requires a time element to build that critical mass. Therefore, a tax credit award that cannot be legitimately used until the company's fifth year of operation and then perhaps exhausted by its eighth year possesses a diminishing net present value.

Third, this type of change acknowledges that there are lost market opportunities by not creating a conduit to facilitate the connection between needs and wants. Specifically, there are healthy portfolios of vacant commercial/industrial real estate that exist throughout Wisconsin's metro areas – particularly those that have been hit the hardest by this country's recent recession. The statistics are staggering and counties such as Rock and Racine, as well as others, are clawing their way back economically each and every day. Therefore, tools that can leverage these assets and create employment opportunities in those communities should be a priority.

Lastly, this proposed change recognizes that for legitimate fiscal considerations, the ability to sell or transfer tax credits must be controlled by appropriate oversight. That's why the Wisconsin Economic Development Corporation (WEDC) award contract will stipulate the terms, conditions and performance standards attributed to each tax credit sale or transfer. Simply stated: if credits are awarded, the original recipient is legally obligated to earn and utilize those credits – regardless if they keep or assign those credits to another eligible WI taxpayer – in accordance with their contract.

While the nuances of SB 291 represent a new approach for Wisconsin, this type of portability already exists at the federal and various individual state levels too. From air credits to low-income housing or from historic rehabilitation to targeted (urban) geographic areas, tax credit sale or transfer mechanism examples exist.

As Wisconsin continues to reposition its economic development efforts through favorable business climate policies and programming, WEDA encourages the Legislature to remain bold. Therefore, WEDA supports the innovative and bold concepts embodied within SB 291.

Your support for this important economic development tool is greatly appreciated. Thank you.