To: Joint Finance Committee

From: Jim Villa, President & CEO, NAIOP-WI; Tom Larson, Senior Vice President of Legal and Public Affairs, WRA; Curt Witynski, Deputy Executive Director, League of Wisconsin Municipalities; Michael Welsh, Director of Legislative Affairs., WEDA

Date: April 4, 2019

Re: 2019-2021 State Budget – Tax Increment Financing

NAIOP-WI, Wisconsin REALTORS® Association, League of Wisconsin Municipalities, and Wisconsin Economic Development Association oppose the proposed 20% cap on developer incentives included in Governor Evers' 2019-2021 state budget. The proposed change would negatively impact economic development opportunities throughout Wisconsin by, among other things, limiting the use of pay-as-you-go tax increment districts (TIDs), discouraging redevelopment projects with below-market returns, and taking away much-needed flexibility from local communities.

Background -- Tax incremental financing (TIF) is the most effective tool Wisconsin municipalities have to spur economic development and job creation. Municipalities have been using TIF successfully since 1975. The TIF process allows a municipality to pay for public improvements and other eligible costs within a designated area, called a TID, using the future taxes collected on the TID's increased property value to repay the cost of the improvements. The rationale behind TIF is that the public investment will promote private development, jobs, and tax base growth that would not otherwise occur absent the TID.

To minimize financial risks to property taxpayers related to TIF, municipalities will often require the developer to be responsible for the debt. To offset this risk, financial incentives are given to the developer in the form of upfront cash grants paid over a set time frame. TIDs that provide developers with such incentives in exchange for assuming the financial risk associating with paying the debt related to the TID are known as "pay-as-you-go" or "PAYGO" TIDs. Hundreds of successful PAYGO TIDs have been created throughout Wisconsin, including the new Oshkosh Corporation global headquarters in Oshkosh and the Leonardo DRS North American headquarters in Menomonee Falls, which will keep hundreds of jobs in Wisconsin and generate over $20 million in property tax base for the communities. According to a leading TIF consultant, at least 56 TIDs they have worked on since October of 2016 would not have occurred had the proposed 20% restriction been in place.

Municipalities also use financial incentives for TIDs involving redevelopment projects. These projects often involve the replacement of older public infrastructure and mitigation of other urban challenges (environmental remediation, contaminated soils, off-street parking, etc.) which, when added to the other project costs, can significantly increase the costs and financial risks associated with the projects. Without incentives to make these projects more financially feasible, the redevelopment of older neighborhoods would likely not occur.

Talking Points

Accordingly, the proposed 20% cap on developer incentives would significantly limit economic development opportunities in Wisconsin by:

- **Prohibiting the use of PAYGO TIDs** – PAYGO TIDs shift the financial risk to developers and away from the property taxpayers in exchange for financial incentives which are paid upon meeting established project goals. The use of such TIDs would be limited under the proposed caps.

- **Making the redevelopment of older neighborhoods more difficult** – Urban redevelopment projects present numerous onsite and offsite challenges (contaminated soils, decaying public infrastructure, obsolete buildings, limited parking, etc.). Without adequate, financial incentives, many of these redevelopment projects will not be economically feasible.

- **Limiting the flexibility of local communities** – Each economic development project is unique with different challenges and opportunities. TIF has been a successful economic development tool because it provides communities with the flexibility necessary to address the needs of each individual project. Placing a cap on the financial incentives available to communities will hurt their ability to be innovative problem solvers when trying to attract economic development opportunities to Wisconsin.