REPORT OF THE COST RECOVERY TEMPORARY TAX POLICY TASK FORCE

TO THE

UNITED STATES SENATE COMMITTEE ON FINANCE

JULY 2019

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Foreword by Co-Leads

In May, Chairman Grassley and Ranking Member Wyden asked us to co-chair a Senate Finance Committee temporary tax policy taskforce focused on cost recovery provisions in the code that have expired. We agreed to lead this effort because temporary tax policy is oftentimes counterproductive and the communities, businesses, and workers that rely on these provisions are left in continued uncertainty about what will come of them. The timing of this taskforce is vital – as since the end of 2017, there are 29 temporary tax policies that have expired, including 7 cost recovery provisions. We viewed this taskforce as an opportunity to hear from stakeholders about the impact, importance, and justification of these provisions, as well as the impact that temporary tax policy has on their operations. And we viewed this taskforce as an opportunity to discuss and deliberate among members of the Finance Committee as to the next step in considering these policies.

This is the basis for the report of the Cost Recovery Temporary Tax Policy Task Force, which follows in this document. This report represents the work of the task force members and staff, since the task forces were created in May. The report includes the views of stakeholders from both written submissions and from in-person meetings. And it includes the view of the task force members in relation to the seven expired cost recovery provisions we were asked to examine.

While we may have ideological difference in approaching tax policy from the perspective of different political parties, there are numerous ways in which we agree. In fact, one of the primary reasons these provisions have been able to continue for so long, even if only on a temporary basis, is because virtually all of the temporary provisions examined by all of the task forces have clear bipartisan support in Congress for their extension. As such, rather than becoming part of an exercise in partisan horse trading, the Senate in particular has consistently recognized that upsetting the strong bipartisan balance that already exists, by opening the door to unrelated or partisan proposals from either side, risks the ability of Congress to keep these important policies in effect. The uncertainty caused by temporary tax policy can be generally inefficient, except in cases of reactionary need. Of the list of 29 expired provisions, many may be economically justified. As the Co-Chairs of this task force, we agree that two in particular have proven on their merits to receive a permanent extension – Section 45G and Section 179D. There are others that should be extended temporarily and then discussed at the Finance Committee. And that's what we urge the committee to conclude from this report; this task force is one of six that was empaneled by Chairman Grassley and Ranking Member Wyden. Each task force has a limited scope, but combined together, this report will prove useful in further debating temporary tax policy specifically and tax policy more generally.

We thank the other members of this task force: Senator Todd Young (R-IN) and Senator Catherine Cortez Masto (D-NV). Their participation contributed greatly in constructing this report. We would also thank their staffs, who spent many hours helping ours in analyzing feedback and generating the views included below. We also want to thank Tom Barthold and the staff of the JCT, who provided the technical expertise we relied on in writing this report. Finally, we thank the stakeholders who shared their views on the impacts of these provisions. We hope this report will prove useful in creating solutions to temporary tax policy.

Sincerely,

Mike Crapo

Mike Crapo (co-lead)

Ben Cardin

Benjamin L. Cardin (co-lead)

Introduction

In recent history, Congress has often taken action on tax provisions that were previously set to be short-term or temporary. For some of these provisions, it was the decided intent of Congress that such a provision was to only be in effect for a limited period, and it was not contemplated or expected to be necessary that a future Congress would allow the provision to continue beyond its originally scheduled expiration. In other cases, the temporary nature of a provision was to serve as a trial period, to allow a future Congress to evaluate the real world effects, rather than just theory and modeling, before deciding whether the provision was justified in being extended for a further temporary or permanent period. In other instances, a provision may have been created on a temporary basis because the political support was not sufficient at the time for the provision to be permanent. Another reason some provisions may have been created on a temporary basis would have been to conform to congressional scoring conventions.

While no provision in the tax code is truly "permanent", since laws are all subject to change by a future Congress, these non-"permanent" provisions do carry a stigma with them in the eyes of some, whether such a stigma is justified on a policy basis or not. There is agreement among the task force members that enacting or extending tax policies on a temporary basis is not generally an ideal or efficient way for the tax code to operate. Tax policies should be enacted on a non-expiring basis, whenever possible, when they have proven justified for such treatment on an economic and policy basis.

Further, there is agreement among the task force members that, upon receiving and reviewing the reports from each task force, the Finance Committee should proceed with a regular order markup to process any further extensions, phaseouts or permanence of any of those provisions. In order to be as productive and constructive as previous committee actions have been, under both Democratic and Republican leadership, such consideration should again be limited in scope to the provisions examined by the various task forces, along with any modifications to such provisions that committee members may propose.

Temporary tax provisions were most recently extended in the Bipartisan Budget Act of 2018. This legislation extended nearly all of the provisions that had expired at the end of 2016, with most provisions extended one year retroactively and through the end of 2017. The 2017 tax law did not address many of the provisions that expired that year, and since the end of 2017, over 30 tax provisions have been expired, with more expiring at the end of this year.

Chairman Grassley and Ranking Member Wyden have taken the leadership in the Senate and should be commended for their work. First, they introduced stand-alone legislation to extend all of the previously-expired extenders for two years. Next, they empaneled these task forces to study, hear from stakeholders about, and report on the provisions in the purview of the task force.

This task force focused on the Cost Recovery provisions that have expired. Cost recovery is the ability to recoup the price of a qualified asset over a defined period of time. Often, these costs reflect the length of time an asset depreciates.

Certain assets are depreciated using the Internal Revenue Service's (IRS) modified accelerated cost recovery system (MACRS), which allows owners of qualified assets to deduct the cost of the asset in greater amounts during the time when the asset is "useful" or income-generating. Under MACRS, assets such as agricultural machinery or land improvements are depreciated over a shorter amount of time than the IRS's default 39 years, due to the more quickly-decaying value of the asset due to use.

The 2017 tax law enhanced an existing ability for asset owners to depreciate the costs of an asset to 100 percent from 50 percent in the first year, until 2023. This treatment applies to assets with a 20-years or less useful life under MACRS.

This task force was created with Senators Mike Crapo (R-Idaho) and Ben Cardin (D-Maryland) serving as co-leads, with Senators Todd Young (R-Indiana) and Catherine Cortez Masto (D-Nevada) also serving as members.

The task force was instructed to review seven expired tax provisions that provide for specific cost recovery treatment, including:

1. Credit for certain expenditures for maintaining railroad tracks (sec. 45G)
2. Three-year depreciation for race horses two years old or younger (sec. 168(e)(3)(A)(i))
3. Seven-year recovery period for motorsports entertainment complexes (sec. 168(e)(3)(C)(ii) and (i)(15))
4. Accelerated depreciation for business property on an Indian reservation (sec. 168(j))
5. Energy efficient commercial buildings deduction (sec. 179D)
6. Election to expense advanced mine safety equipment (sec. 179E)
7. Expensing of certain qualified film and television and live theatrical productions (sec. 181)

The task force solicited feedback from stakeholders in both written and in-person formats. This report reports on the background on each provision, input received from stakeholders, a list of stakeholders for each provision, relevant legislation related to each provision, recommendations provided by the task force, and finally an appendix with all the stakeholder input that was received.

Temporary Tax Policy Provisions Studied by the Task Force

Credit for certain expenditures for maintaining railroad tracks (sec. 45G)

Background on the provision.

The short line railroad rehabilitation business tax credit (Section 45G) is allowed for 50 percent of track maintenance expenditures. The credit is limited to $3,500 per track mile. Originally enacted in the American Jobs Creation Act of 2004, the provision has been extended six times and modified slightly over time to enhance and improve the credit. Section 45G has been expired since the end of 2017.

Unlike the larger Class I railroads, Class II and Class III railroads operate to serve smaller, more regional clients and needs. There are more than 600 short line railroads in the country, operating in 49 states and provide nearly 55,000 miles of track.

The credit helps short line railroads undergo maintenance and upgrades to accommodate a changing railroad industry with heavier rail cars and upgrade the safety of operating on these lines.

In an April 2018 report examining temporary tax provisions in light of the impacts and effects from the 2017 tax reform law, the Tax Foundation noted that, "while railroad tracks will receive full expensing treatment under TCJA, improvements to railroads must still be depreciated over a 50-year schedule. Allowing all railroad investments to be fully expensed would be ideal, but the provision for railroad track maintenance is a small step in that direction." Of all the temporary tax provisions examined in this report, in light of their TCJA effects, 45G was one of only two where the Tax Foundation concluded, "to the extent lawmakers determine that the remaining provisions are congressional priorities, they would be better achieved as permanent provisions rather than temporary features of tax policy."

Stakeholder input.

The request from all stakeholders, including the American Short Line and Regional Railroad Association (ASLRRA), was to make the credit permanent. Data show short line derailments have been cut in half since the credit was first enacted. While a $3,500 credit per track mile doesn't alone keep short line railroads operating, for some rail operators, especially the smallest ones around the country, the cost offset provided by the credit allows more maintenance and upgrades to occur.

Many short lines were spun off from the Class I rail operators because the cost to maintain wasn't worth the investment. Some of these railroads are maintained to serve a single client, generating economic development that could otherwise be at risk. This treatment is an effective way to ensure these rail lines are maintained and continue operating.

According to a PricewaterhouseCoopers analysis, short line railroads and their suppliers support more than 61,000 jobs in the U.S., mainly in rural America, and add $6.5 billion annually to the U.S. economy. Across the country, there are 478,000 jobs at customer locations that require short line services, driving $26.1 billion in labor income and $56.2 billion in economic value-add. Short line freight services saves taxpayers more than $1.5 billion annually in wear and tear on roadways, by keeping 31.8 million heavy truckloads off local roads annually.

Stakeholders.

The task force received written submissions from representatives of the American Short Line & Regional Railroad Association, along with representatives from a number of its member railroads, including WATCO Companies, the American Association of Port Authorities, the American Association of State Highway and Transportation Officials Standing Committee on Rail Transportation, the Railroad-Shipper Transportation Advisory Council, the Transportation Division of the International Association of Sheet Metal Air Rail and Transportation Workers (SMART TD), and the Genesee & Wyoming Railroad Services Inc.

Relevant legislation.

S. 203 (116th): 59 sponsors (28 R, 31 D, including Finance members Crapo, Wyden, Roberts, Stabenow, Cardin, Bennet, Casey, Daines, Hassan, Isakson, Menendez, Thune)

HR 510 (116th): 249 sponsors (124 D, 125 R)

Three-year depreciation for race horses two years old or younger (sec. 168(e)(3)(A)(i))

Background on the provision.

Section 168(e)(3)(A)(i)) provides for a three-year cost recovery period for race horses placed into services at two years old or younger. This is the shortest cost recovery category provided to any capital asset. The three-year cost recovery period has been in place since 2008 and has been extended three times. Section 168(e)(3)(A)(i)) has been expired since the end of 2017.

The schedule applies to any race horse put into service under three years old, but it is not only limited to horses that race through that entire period. Horses that are retired and placed into service for other purposes, such as recreation or rehabilitation, are also covered under the three-year schedule.

The 2017 tax law included 100 percent bonus depreciation for any property subject to a 20 years or less depreciation schedule. Without this standalone schedule, race horses would be subject to a seven-year cost recovery period. Under both scenarios (three- or seven-year cost recovery periods), bonus depreciation would apply, potentially negating the need for a special schedule for race horses.

Stakeholder input.

The request from stakeholders, including the National Thoroughbred Racing Association (NTRA), is to make the provision permanent. Stakeholders argue that even with bonus depreciation in effect, there could be issues with state tax withholding for owners of these assets if the three-year period were left expired.

The 2017 tax bill allowed for taxpayers to choose between the modified accelerated cost recovery system (MACRS) or bonus depreciation. Because this provision has been expired since bonus depreciation was enacted, stakeholders do not believe they've had enough time or information to determine which system would be preferred. As such, they believe permanence or at least a short-term extension is what they need to not disrupt their tax filings.

Stakeholders argue that for race horses, the income generating period for a thoroughbred horse (its "useful life") is only until the horse surpasses the three-year old racing period. So for the purpose of aligning a cost recovery period with the income generating life of the asset, the short three-year period is necessary.

Stakeholders.

The task force received written submissions from representatives of the National Thoroughbred Racing Association (NTRA), which represents horse owners around the country.

Relevant legislation.

HR 1804 (115th): 1 sponsor

Seven-year recovery period for motorsports entertainment complexes (sec. 168(e)(3)(C)(ii) and (i)(15))

Background on the provision.

Sec. 168(e)(3)(C)(ii) and (i)(15)) provides a seven-year recovery period for motorsports racing track facilities that (i) is permanently situated on land, and (ii) during the 36-month period following its placed-in-service date hosts one or more racing events for automobiles, trucks, or motorcycles that are open to the public for the price of admission. The approved complex facilities include categories of assets including, but not limited to, parking lots, fences, concessions stands, race track surfaces, and grandstands. The provision has been in place since 2004 and has been extended six times. The provision has been expired since the end of 2017.

Not only the most well-known tracks qualify for the seven-year treatment – smaller, local tracks also use a seven-year cost recovery schedule for capital improvements, such as for drag racing, dirt track racing, and more. Advocates argue the absence of this provision could cause challenges to local & community tracks that planned on a seven-year cost recovery period. The financing of these projects take this special asset life into consideration and a prolonged lapse could cause financial strain on track owners around the country.

The origin of this seven-year period stems from the 1986 tax reform law. After 1986, the IRS established Asset Class 80.0, which provides a seven-year period for "Theme and Amusement Parks." At the time, motorsports facilities relied on and had access to section 80.0 treatment. However, after a time, the IRS faced questions about the appropriateness of this special asset classification for motorsports facilities. Facing removal from the Asset Class 80.0 treatment, Congress in 2004 established this standalone treatment in law for motorsports facilities and except for brief periods of time when the provision has been expired, motorsports facilities have had access to a seven-year cost recovery period.

While this seven-year period has only included motorsports facilities because of the quicker depreciation of these assets, arguments have been made to consider extending the seven-year treatment to other racing or sporting facilities, such as historic horse racing facilities.

The 2017 tax law provided a 100-percent bonus depreciation for assets with a 20 years or less recovery period, including this seven-year motorsports facility provision. In light of this provision being expired since 2017, motorsports facilities are subject to either a 15- or 39-year recover period. Only the 15-year assets, such as land improvements, qualify for bonus depreciation while the 39-year assets, such as the stadium, don't qualify.

Stakeholder input.

The main advocate for this provision is the International Speedway Corporation (ISC); the request is threefold:

- Provide a permanent extension in line with the Burr-Stabenow bill (S.1141).
- Provide a short-term extension at least through 2019.
- If the taskforce and Congress determine a different cost recovery period is appropriate, in exchange for permanence they are prepared to work with Congress to determine an appropriate cost recovery period longer than seven years.

Stakeholders.

The task force received written submissions from representatives of the National Motorsports Coalition, NASCAR, and the International Speedway Corporation

Relevant legislation.

S. 1141 (116th): 6 sponsors (3 D and 3 R, Finance members Stabenow and Burr)

HR 2137 (116th): 16 sponsors (6 D, 10 R)

Accelerated depreciation for business property on an Indian reservation (sec. 168(j))

Background on the provision.

Section 168(j) provides an accelerated depreciation period for business property located within an Indian reservation. Properties must be located within a reservation, not used outside the reservation regularly, not acquired from a person who is related to the owner, and is not placed in service for gambling activities. Some properties may be eligible for accelerated depreciation *not* located within a reservation only if the purpose is to connect with property within a reservation, such as power lines, roads, etc.

Accelerated periods include:

- 3-year property = 2 years
- 5-year property = 3 years
- 7-year property = 4 years
- 10-year property = 6 years
- 15-year property = 9 years
- 20-year property = 12 years
- Nonresidential real property = 22 years

The provision has been in place since 1993 and has been extended nine times, with some modifications. The provision has been expired since the end of 2017.

The 2017 tax law provides bonus depreciation for assets with a less than 20 years life, including most of the assets with special cost recovery periods under this provision except nonresidential real property.

Stakeholder input.

Stakeholders weighed in uniformly in favor of extension and permanence. Stakeholders argue that without permanence, it is challenging to incentivize businesses to invest permanently on trial lands, most of which are severely distressed communities.

According to the Oklahoma Secretary of Commerce, from 2012-2017 poverty rates in qualifying areas decreased 0.41 percent while poverty rates in non-qualifying areas increased 0.36 percent.

Stakeholders.

The task force received written submissions from representatives of National Congress of American Indians (NCAI), Native American Finance Officers Association (NAFOA), Kickapoo Traditional Tribe of Texas, Oklahoma Department of Commerce, Tulsa Regional Chamber, State Chamber of Oklahoma, Greater Oklahoma City Chamber, Oklahoma-based OGE Energy Corp, Indian Country Law Firm Galanda Broadman, and NAIOP Oklahoma Chapter.

Relevant legislation.

S. 1216 (116th): 1 sponsor

S. 2012 (115th): 3 sponsors (2 R, 1 D)

Energy efficient commercial buildings deduction (sec. 179D)

Background on the provision.

Section 179D provides a deduction of up to $1.80 per square foot of the building for the cost of providing energy efficient commercial building investments that meet specific energy standards relating to the (1) building envelope, (2) lighting, or (3) HVAC systems. A partial deduction of up to $0.60 per square foot is available if the entire building does not meet the energy standard. If the property is installed on government-owned property, such as schools, airports, and military bases, the deduction may be allocated to the primary investor in lieu of the owner. The provision has been in place since 2005 and has been extended five times. It has been expired since the end of 2017.

Section 179D is a dual-purpose tax incentive – not only are the costs of improvements deducted for owners who make energy-efficient improvements on the front end, but consumers and building occupants also realize reductions in energy spending on the back end.

The Section 179D deduction is a proven tool to drive economic development by leveraging billions of dollars in private capital to incentivize energy-efficient building enhancements, helping to offset the cost of these improvements for building owners and to challenge manufacturers of energy efficient equipment to continue to innovate.

Section 179D positively impacts a broad set of industries, including real estate, manufacturing, architecture, contracting, engineering, building services, financing, labor, and government, and has the support of environmental and energy efficiency advocates.

A 2017 economic impact study conducted by Regional Economic Models, Inc. ("REMI") finds that "Section 179D is an engine of economic and employment growth. In particular, an enhanced tax incentive for energy efficient commercial buildings, including reforms along the lines of those envisioned in Senator Cardin's Energy Efficiency Tax Incentives Act (S. 2189 in the 113th Congress), could support up to 76,529 jobs and contribute almost $7.4 billion toward our national GDP each year."

This study confirms 179D works. Not only does the provision provide a generous return on a small investment of taxpayer funds, but further improvements to the credit and/or permanence would further accelerate the positive impacts of this program.

Section 179D incentivizes energy-efficient improvements that are beneficial for the environment. The incentive encourages building owners to install energy-efficient improvements that help their tenants save money on electricity and water, in turn reducing carbon emissions.

Section 179D also has a positive impact on the climate. A long-term extension of Sec. 179D would compound energy savings benefits over time. If Sec. 179D was extended permanently in

2017, according to estimates, the cumulative 10-year impact could have been 40.8 million tons of avoided CO2 emissions, equivalent to planting over 617 million trees or taking nearly 7.9 million cars off the road.

While the 2017 tax law did make changes to accelerate depreciation for certain real estate investments, bonus depreciation alone does not provide enough of an incentive for these costly building improvements for both small and large developers. Therefore, the effects of 179D were not negated due to the tax bill's passage.

Stakeholder input.

The taskforce heard from more than 40 organizations as members of the Coalition for Energy Efficient Jobs & Investment, as well as more than 30 individual businesses from around the country on this provisions. A summary of the recommendations received by the task force:

- Multi-year extension and permanence;
- If permanency is established, there should be a mechanism in place to upgrade the energy efficiency standard at appropriate intervals;
- Advance broad-based reform package, such as Sen. Cardin's *Energy Efficiency Tax Incentives Act* (S. 2189 in the 113th Congress) which addresses a number of above proposals, such as encouraging building retrofits and addressing burdens to allow increased use by private building owners;
- Raise the deduction to $3/sqft from the current $1.80/sqft deduction;
- Expand provision to better incentivize energy efficiency retrofits in older/historic buildings;
- Expansion of government allocation provision to include nonprofits (e.g., private colleges and universities), and tribal governments;
- Direct Treasury to promulgate regulations ensuring that basis rules allow for primary designers organized as S corporations or partnerships to fully benefit from allocation of deduction;
- Ensure that building owners organized as REIT's can claim the deduction;
- Some advocated to allow a deduction based on improvements relative to the building's baseline energy output, in line with Sen. Wyden's "*Clean Energy for America Act*";
- Increase energy efficiency standard to ASHRAE 90.1-2010 from ASHRAE 90.1-2007 at appropriate time; and
- Addressing the "return benefit" issue, through Treasury and/or IRS guidance, to prevent further actions where in a few cases state or local government officials are seeking or requiring a cash payment from the designer to the government entity in return for receiving the allocation letter provided for under 179D.

Stakeholders.

American Institute of Architects (AIA), American Council of Engineering Companies (ACEC), Adrian L. Merton, Inc., Building Owners and Managers Association (BOMA), Comfort Systems USA, Alliance to Save Energy, D&D Plumbing, Seiberlich Trane Energy Services, Dustin Construction, Tecton Construction Mgmt Inc., Grunley Construction Co., Inc., RM Mechanical, Idaho Stage Construction, R.E. Dimond, RATIO Architects, Scholer Corporation, The Hagerman Group, Coalition for Energy Efficient Jobs & Investment, Island Contracting, Kettlehut Construction, Design Mechanical, Inc., Central Consolidated, Inc., Citadel Builders, LLC, Airtrol Mechanical Contractors, Ratcliff Construction Company, Jones Architecture, Inc., A&A Window Products, Inc., WES Construction Corp., D.D.S. Industries, Inc., MEP Holding Companies, Inc., Mueller Associates, National Association of College and University Business Officers (NACUBO), National Multifamily Housing Council, National Apartment Association, Open Control Systems, Pritchett Controls, Edcon, Inc., Don M. Barron Contractor, Inc., and Tidewater, Inc.

Relevant legislation.

Sen. Cardin's *Energy Efficiency Tax Incentives Act* (S. 2189 in the 113th Congress)

Sen. Wyden's "*Clean Energy for America Act*" (S.1288 in the 116th Congress)

H.R. 3051 (116th): 4 sponsors (1 D, 3 R)

Election to expense advanced mine safety equipment (sec. 179E)

Background on the provision.

Section 179E allows taxpayers to elect to treat 50 percent of the cost of qualified advanced mine safety equipment property as an expense in the year it is placed into service in any underground mine in the U.S., such as communications technology, electronic identification devices, oxygen rescue devices, and more. Originally enacted in 2006, the provision has been extended six times and is currently expired.

Bonus depreciation from the 2017 tax law generally covers mine safety equipment as most of it is less than 20 year property.

Stakeholder input.

Staff did not receive input from any stakeholders regarding this specific provision. Our understanding is that advocates support extension.

Stakeholders.

National Mining Association

Relevant legislation.

Staff is not aware of any stand-alone bills to extend this provision.

Expensing of certain qualified film and television and live theatrical productions (sec. 181)

Background on the provision.

Section 181 allows a deduction of up to $15 million of the production costs of any film, television, or live theater production. A $20 million deduction is allowed for productions that occur in low-income or distressed communities. To qualify, the production must occur in the U.S. The provision was originally enacted in 2004 and has been extended six times. Modifications have been made, such as an expansion to include live theatrical productions. The provision has been expired since the end of 2017.

The 2017 tax law included a new section of the code (168(k)) that permits the immediate deduction of 100% of the cost of films and television programs if they would have qualified under Section 181. 168(k) does not include the same $15 million limitation, is only for productions once they are placed in service, and includes the acquisition of already-produced films that were made in the U.S. Generally, this treatment helps larger studios that can control when productions are placed into service.

According to the Independent Film & Television Alliance, over 70 percent of the films produced in the U.S. each year are independent films. This provision incentivizes U.S. investment in film properties while other countries are expanding their incentives to lure filmmakers to work there, such as in Canada.

Stakeholder input.

The independent film industry isn't helped by the new section 168(k) of the 2017 tax law, however. 168(k) only applies when the program is placed in service (i.e. at the time of release), while 181 allows deductions as the costs occur. For independent filmmakers, there can be a substantial time period between production and release, providing real cash flow concerns for independents.

The recommendation from stakeholders were:

- Extending Section 181 permanently as well as retroactively for 2018 and 2019, and
- Adjusting Section 168(k) language regarding the "placed in service" requirement. Doing so would enshrine the ability of producers to pick whether 181 or 168(k) makes more sense for their needs.

Stakeholders.

Task force staff met with and received written submissions from representatives of the Independent Film & Television Alliance, and the Motion Picture Association of America.

Relevant legislation.

S. 1469 (115th): 4 sponsors (2 D, 2 R, including Finance members Cardin and Isakson)

HR 2450 (115th): 18 sponsors (11 R, 7 D)

Task Force Recommendations

While bipartisan consensus can be hard to come by in tax policy, the Cost Recovery Task Force reached consensus on the following recommendations:

- **The need to address extenders in permanent fashion.** The task force believes temporary tax policy is inefficient. In some cases, the short-term nature of these provisions depresses investment over the uncertainty concerns of investors. It can also unnecessarily create low utilization of these provisions. It also hides the true budgetary impact of infinite, short-term extensions of these policies. Each stakeholder the task force heard from made the point that uncertainty caused by temporary policy can be damaging. Therefore, the task force strongly encourages the committee find a permanent solution.

- **The need to revisit provisions post-2017 tax law.** A number of these provisions' usefulness or need to address immediately is reduced or eliminated because of the 2017 tax law. The bonus depreciation provision (100 percent expensing) from the 2017 tax law especially impacts the provisions in the Cost Recovery task force's purview. The task force believes these provisions should be reviewed in light of those other legislative changes.

- **The need for regular order consideration of the provisions.** Senators Grassley and Wyden have taken the lead by proposing a two-year extension of the extenders this year. The House Ways and Means Committee also recently took action on the expired tax provisions. This task force believes it is appropriate to consider these provisions in regular order. Regular order would include a consideration of modifications that stem from the task force's work, including but not limited to:

    - On 179D, that other modifications, such as for retrofits or for nonprofits, should be considered and that, if the provision is going to be expanded for a longer term or made permanent, there may need to be a mechanism to update the energy standards at an appropriate time;

    - On motorsports, possibly expanding the motorsports track recovery period to also include other permanent track facilities like historic horse racing tracks;

    - On motorsports, considering the offer from the stakeholders to accept a recovery period longer than the current 7 years, in exchange for permanence/certainty; and

    - On 181, the change for the independent studios related to placed in service/when expenses occurred.

Appendix

List of stakeholders

Extender	Group	Location (HQ)
179D - energy	American Institute of Architects (AIA)	National
179D - energy	American Council of Engineering Companies (ACEC)	National
179D - energy	Adrian L. Merton, Inc.	Maryland - Capitol Heights
179D - energy	Building Owners and Managers Association (BOMA)	National
179D - energy	Comfort Systems USA	Texas - Houston
179D - energy	Alliance to Save Energy	National
179D - energy	D&D Plumbing	Nevada - Sparks
179D - energy	Seiberlich Trane Energy Services	Delaware - New Castle
179D - energy	Dustin Construction	Maryland - Ijamsville
179D - energy	Tecton Construction Mgmt Inc.	Indiana - Lafayette
179D - energy	Grunley Construction Co., Inc.	Maryland - Rockville
179D - energy	RM Mechanical	Idaho - Boise
179D - energy	Idaho Stage Construction	Idaho - Kamiah
179D - energy	R.E. Dimond	Indiana - Indianapolis
179D - energy	RATIO Architects	Indiana - Indianapolis
179D - energy	Scholer Corporation	Indiana - Lafayette
179D - energy	The Hagerman Group	Indiana - Fishers
179D - energy	Coalition for Energy Efficient Jobs & Investment	National
179D - energy	Island Contracting	Maryland - Beltsville
179D - energy	Kettlehut Construction	Indiana - Lafayette
179D - energy	Design Mechanical, Inc	Kansas - Kansas City
179D - energy	Central Consolidated, Inc	Kansas - Coffeyville
179D - energy	Citadel Builders, LLC	Louisiana - Metairie
179D - energy	Airtrol Mechanical Contractors	Louisiana - Baton Rouge
179D - energy	Ratcliff Construction Company	Louisiana - Alexandria
179D - energy	Jones Architecture, Inc	Massachusetts - Salem
179D - energy	A&A Window Products, Inc	Massachusetts - Malden
179D - energy	WES Construction Corp.	Massachusetts - Halifax

179D - energy	D.D.S. Industries, Inc.	Massachusetts - Fall River
179D - energy	MEP Holding Companies, Inc.	Indiana - Indianapolis
179D - energy	Mueller Associates	Maryland - Linthicum
179D - energy	National Association of College and University Business Officers (NACUBO)	National
179D - energy	National Multifamily Housing Council	National
179D - energy	National Apartment Association	National
179D - energy	Open Control Systems	Indiana - Indianapolis
179D - energy	Pritchett Controls	Maryland - Beltsville
179D - energy	Edcon, Inc.	South Carolina - Peak
179D - energy	Don M. Barron Contractor, Inc.	Louisiana - Farmerville
179D - energy	Tidewater, Inc.	Maryland - Elkridge
168(e) - motorsports	International Speedway Corporation	National
45G - short line	American Farm Bureau	National
45G - short line	American Short Line and Regional Railroad Association (ASLRRA)	National
45G - short line	WATCO Companies	Kansas
45G - short line	Genesee & Wyoming Railroad Services Inc.	Wyoming
45G - short line	American Association of Port Authorities	National
45G - short line	Railroad-Shipper Transportation Advisory Council	National
45G - short line	American Association of State Highway and Transportation Officials Standing Committee on Rail Transportation	National
45G - short line	Transportation Division of the International Association of Sheet Metal Air Rail and Transportation Workers (SMART TD)	National
168(j) - Indian business property	Galanda Broadman Law Firm	Washington - Seattle
168(j) - Indian business property	National Congress of American Indians (NCAI)	National

168(j) - Indian business property	Native American Finance Officers Association (NAFOA)	National
168(j) - Indian business property	NAIOP	Oklahoma
168(j) - Indian business property	OGE Energy Corp	Oklahoma - Oklahoma City
168(j) - Indian business property	Various Oklahoma Chambers of Commerce	Oklahoma
168(j) - Indian business property	Oklahoma Department of Commerce	Oklahoma
168(j) - Indian business property	Kickapoo Traditional Tribe of Texas (KTTT)	Texas - Eagle Pass
181 - film and television	Independent Film & Television Alliance (IFTA)	National
181 - film and television	Motion Picture Association of America (MPAA)	National
179E - mine safety	National Mining Association (NMA)	National
168(e) - race horse	National Thoroughbred Racing Association (NTRA)	National

Good Afternoon Joseph,

I hope this finds you well. I'm with the Building Owners and Managers Association (BOMA) International and we've been working on 179D, the Energy Efficient Commercial Buildings Tax Deduction since its inception. BOMA is a 17,000 member organization that represents people who own and operate commercial and industrial spaces. I wanted to see if you'd have 15 minutes next week to talk about the importance of this issue to our members and the economy writ large?

We look forward to meeting with you.

Sincerely,

Will Rieck
Government Affairs Intern
BOMA International
1101 15th Street NW, Suite 800
Washington, DC 20005
wrieck@boma.org
Direct: (202) 326-6310

I represent the Independent Film and Television Alliance, based in LA, which represents independent film producers who are strong supporters of Sec. 181. I wanted to reach out and find out the deadline for submission of comments by IFTA to the task force. IFTA would also like to meet via conference call with the staff of the task force to explain its views on the importance of Sec. 181 as an incentive. IFTA was a lead supporter of Sec. 181's passage in 2004 and its extension 6 times.
Thanks much.
Sincerely,
Claudia James

C | S

CLAUDIA JAMES, MANAGING DIRECTOR
c 202.270.9310 • cogent-strategies.com
2550 M Street NW, 2nd Floor, Washington, DC 20037

To Cost Recovery taskforce,

I am president of a small commercial construction management company that builds and renovates Schools, Courthouses, Libraries and any number public and governmental buildings. Once I learned of the 179D program it really helped me focus on pushing for a more energy efficient design. I consul my owners (IE mayors, city engineers, commissioners etc.) on payback for funds invested in construction projects. This program is a true Win-Win program for all. Smart money spent on energy efficiencies for tax payers and incentives for Construction/Design vendors.

Please vote to keep the 179D program.

Thanks

Mike

Michael Witteveen
President & LEED AP
Tecton Construction Mgmt Inc.

(Work) 765-429-5232   (Cell) 765-426-5577
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Building Owners and Managers Association International

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June 5, 2019

The Honorable Charles Grassley
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Mike Crapo
Cost Recovery Taskforce
239 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Benjamin Cardin
Cost Recovery Taskforce
509 Hart Senate Office Building
Washington, D.C. 20510

Dear Chairman Grassley, Ranking Member Wyden, Senator Crapo and Senator Cardin:

The Building Owners and Managers Association (BOMA) International appreciates the opportunity to offer its support of 26 § U.S. Code Section 179D, the Energy Efficient Commercial Building Tax Deduction. BOMA International is a federation of 88 BOMA U.S. associations and 18 international affiliates. Founded in 1907, BOMA represents the owners and managers of all commercial property types including nearly 10.5 billion square feet of U.S. office space that supports 1.7 million jobs and contributes $234.9 billion to the U.S. GDP annually. As a twelve-time U.S. EPA ENERGY STAR Partner of the Year for Sustained Excellence, BOMA understands the impact that commercial buildings have on the environment and have been helping push the industry towards greater efficiency for almost twenty years.

BOMA supports any effort to extend or make permanent 179D, as it is the only federal tax incentive that encourages building owners and managers to upgrade to energy efficient building systems. First enacted through the 2005 Energy Bill, 179D offers building owners up to $1.80 per square foot deduction for energy efficient improvements made to heating, ventilation and air conditioning (HVAC) systems, the building envelope such as windows, and lighting upgrades that exceed ASHRAE Standard 90.1 by 50%, making 179D difficult to qualify for but possible. Buildings must be independently certified to receive this deduction. According to the U.S. Energy Information Administration's Commercial Buildings Energy Consumption Survey (CBECS) the commercial building sector accounts for nearly 30 percent of all U.S. energy usage. On average, a U.S. office building spends nearly 29 percent of its operating expenses on energy.

While BOMA prides itself on being stewards of the built environment, the return on investment is not always enough to be make the business case to spend the additional money for next-level energy efficient systems. This misalignment is the perfect intersection where a tax provision could properly incentivize behavior. Although the deduction has been available for more than a decade, it is often on the precipice of expiration and does not provide the certainty that our members need to make a multi-million-dollar energy efficiency investment. On March 14, 2018, BOMA International's President and Chief Operating Officer Henry Chamberlain testified before the House Ways and Means Subcommittee on Tax Policy. He explained that while 179D has the potential to drive efficiency forward, recent short-term or retroactive extensions do not account for real estate's planning horizons, which are generally three to five years for a capital investment. Even when the deduction was extended for five years between 2009 and 2013 by the Emergency Economic Stabilization Act of 2008, the recession made these investments very difficult and by the time the industry found itself on stronger financial footing, the extension was set to expire again. Legislation making 179D permanent would give our members the confidence and stability they need to plan for major efficiency improvements and retrofits.

Beyond extension, also strengthening and modernizing 179D would make it a more viable option to existing buildings as well as new construction. In late 2017, the Coalition to Extend and Improve 179D released a study conducted by Regional Economic Models, Inc. (REMI) that estimates as many as 77,000 jobs will be created and $7.4 billion will be added annually the gross domestic product if Congress passes a long-term extension and modification of 179D by increasing the value of the total deduction to $3.00/sqft and updating the efficiency standard to that of ASHRAE 90.1-2010. Strengthening and modernizing Section 179D would come with huge benefits, according to the study, such as an average annual gain of 39,388 jobs, $3.7 billion in GDP and $3 billion in personal income for the first ten years after enactment. Additionally, it is estimated to add $5.7 billion in personal income over the first ten years.

Throughout our 2018 testimony, BOMA was asked why 179D was still needed in light the of recently passed Tax Cuts and Jobs Act of 2017 (TCJA). Unfortunately, tax reform did not factor energy efficiency into its plans and cost is still a major barrier to make these types of business decisions. If we are to value shifting the paradigm of energy usage in our country, a financial carrot must exist for commercial building owners considering efficiency upgrades. 179D is a model tax provision in that it serves a singular purpose to incentivize investment that is favorable to our economy, our national security, our grid and our environment.

Once again, thank you for the opportunity to submit comments on this essential tax deduction. We encourage you and the Committee to support a permanent extension of 179D, the Energy Efficient Commercial Building Tax Deduction. We look forward to continuing to work with you on this important issue.

Sincerely,

John R. Bryant
Vice President, Advocacy & Codes
BOMA International

Building Owners and Managers Association International

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April 24, 2018

The Honorable Vern Buchanan
Chairman
Subcommittee on Tax Policy
House Committee on Ways & Means

The Honorable Lloyd Doggett
Ranking Member
Subcommittee on Tax Policy
House Committee on Ways & Means

Dear Chairman Buchanan & Ranking Member Doggett,

Thank you for the opportunity to testify on the importance of the Energy Efficient Commercial Building Tax Deduction (179D) at last month's hearing. The panel highlighted the broad industries that 179D impacts, and the Committee offered many great questions that we would like to address in greater detail in this letter.

179D does something no other part of the existing tax code does: It encourages commercial real estate to make improvements to major building-wide systems that exceed an already-stringent ASHRAE energy efficiency standard by an additional 50%. It is not a deduction that simply rewards our members for maintaining our buildings. It is a necessary carrot to push buildings, that could not otherwise financially justify the extended return on investment, to the next level of energy efficiency. That efficiency saves our members' tenants money, saves the strain on the power grid and moves our country towards greater energy independence.

To clarify, 179D is a deduction, not a credit. If reinstated and left unchanged, 179D would continue to be a high bar over which we must make major capital investments and be third-party certified to meet. Currently, systems that have been retrofitted must exceed ASHRAE 90.1 (2007) by 50%. This was increased from the ASHRAE 90.1 Standard (2001) in 2016. To achieve the $1.80/sqft deduction, three major building components must exceed this standard: building envelope (such as windows), HVAC and lighting. Partial deductions of $.60/sqft are available for each system that exceeds the requirements. Looking toward the future, 179D should be tied to a rulemaking process that determines the appropriate standards that an upgrade must achieve.

A study conducted by Regional Economic Models, Inc. (REMI) found that permanently extending 179D would cost $324 million over ten years, would create more than 40,000 jobs and contribute $3.86 billion to GDP in that period. If the 179D deduction were strengthened to $3.00/sqft, incentivizing even more buildings to make the energy efficiency leap, then the numbers grow to more than 76,000 jobs created and $7.4 billion added to the GDP at a cost of $670 million over ten years.

Permanence Is Paramount

179D needs to be extended and made permanent. Commercial real estate's capital investment planning horizon is about three to five years. In order to plan for such an expenditure, our members need long-term certainty; permanence provides that.

BOMA International

One-year retroactive and current-year extensions do nothing for our members in terms of helping them making decisions on energy efficient retrofits.

Extensions are only helpful for companies that have the cash flow to make improvements regardless of the tax deduction; these extensions do not drive the market the way an incentive is designed to work. A permanent 179D tax deduction allows our members to plan and make informed financial and energy efficiency decisions for their buildings.

High Efficiency Upgrades Are Increasingly Expensive

The return on investment for higher levels of energy-efficient upgrades is complicated, but the simple reality is that commercial real estate time horizons do not make them possible. Due to the structure of commercial leases, our members' tenants will see the greatest benefit of reduced energy overhead. Second, the upgrades that qualify for 179D do not have short, simple payback periods. We are long past the low hanging fruit of changing out our light bulbs. 179D is for major building-wide component overhauls.

The economics of retrofits on commercial buildings are not as simple as that of residential real estate. Generally, owners pay the large capital improvement costs to upgrade the energy efficiency of a major building system. That improvement will benefit all tenants and lowers energy bills. However, many commercial leases are triple net, meaning that all utility costs are passed through to the tenant, so the tenant sees the greatest benefit from the owner's investment.

179D and Historic Tax Reform

BOMA and the commercial real estate industry remain supportive of the changes to our antiquated tax code. Specifically, we supported immediate, full expensing, except for structures. Full expensing would have allowed owners and their tenants to make upgrades that are both necessary for their business and beneficial to the environment.

Unfortunately, nothing in the Tax Cuts and Jobs Act of 2017 (TCJA) addresses energy efficiency for commercial real estate. Due to the omission of 15-year depreciation for qualified improvement property, full expensing was not realized — even on a temporary basis — for commercial real estate. As of today, the depreciable life for leasehold improvements has reverted to 39-years, dramatically increased from the 15-year schedule made permanent in the 2015 PATH Act. In the event that the technical correction is made in time to make full expensing a reality, it still will not apply to most of our members. Since commercial real estate is primarily debt financed, many of our members will likely opt-out of the cap on interest deductibility and therefore be tied to the alternative depreciation system, which does not allow for any 100% expensing or bonus depreciation.

For smaller businesses making energy retrofits, the expanded pass-through deductions only apply to HVAC upgrades. Without 179D, many of these buildings which house small- and medium-sized American businesses, would not have the cash flow to invest in energy-efficient improvements despite the changes to the tax code.

Finally, the first panel of the hearing was asked what we would be willing to give up in exchange for making 179D permanent. 179D gives our members incremental assistance when they make the choice to spend millions of dollars on energy efficiency improvements. These energy savings are almost universally realized by our members' tenants, not building owners. When tenants save money, they can grow their business. They can hire more workers, invest in more equipment and continue to thrive. Saving energy benefits us all by putting less stress on our power grid and giving us all increased national energy security. It is a targeted public good that goes beyond building owners and their tenants. 179D is a nudge in the right direction for our members to invest in energy efficiency when the payback far exceeds what our members can financially tolerate without it.

Once again, thank you for the opportunity to testify on this essential tax deduction. We encourage you and the Committee to support a permanent extension of 179D, the Energy Efficient Commercial Building Tax Deduction. We look forward to continuing to work with you on this important issue.

Sincerely,

Henry H. Chamberlain, APR, FASAE, CAE
President and Chief Operating Officer
Building Owners and Managers Association (BOMA) International

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Short Line Railroad Presence in the United States

New Report Assesses Economic Impact of Short Line Railroads and Effectiveness of the Short Line Tax Credit

Introduction

The American Short Line and Regional Railroad Association (ASLRRA) retained PricewaterhouseCoopers LLP (PwC) to undertake an independent analysis of (1) the economic importance of the short line and regional freight railroads (short line railroads) in the U.S., (2) the historical effectiveness of the Short Line Tax Credit (45G), and (3) the investment incentives provided by the Credit if extended after enactment of the 2017 Tax Cuts and Jobs Act.

The Importance of Short Line and Regional Railroads

PwC analysis found that more than 61,000 jobs were supported by short line railroads in 2016, based on the direct, indirect, and induced employment of railroad workers, suppliers, and contractors. Direct, indirect, and induced labor income was estimated to be $3.8 billion annually, and total value added to the economy was $6.5 billion annually.

Also, over 478,000 jobs throughout the economy based at short lines customer facilities were found to be dependent on short line services in 2016. Customer labor income was $26 billion and total value added to the economy was $56 billion annually. PwC found the manufacturing, agriculture, and mining industries to be particularly reliant on short line services.

Effectiveness and Importance of the Short Line Tax Credit

The report includes findings related to the effectiveness of the Short Line Tax Credit:

1) According to the Railway Tie Association, the Credit is responsible for the purchase of approximately 1 million more wooden crossties each year; and data show a significant increase in the rate of crosstie installation since the first year of the Credit as compared to the larger Class 1 railroads, and
2) Federal Railway Administration data show a 50 percent reduction in train derailments on short line railroads since the Credit first went into effect, with short line railroad safety performance now approaching that of the larger railroads.

The Need to Continue the Short Line Tax Credit

Using a cost of capital analysis, the report demonstrates that the Short Line Tax Credit is significantly more effective at driving increased short line infrastructure investment than the Tax Cuts and Jobs Act alone. For a marginal investment under the $7,000 in spending per track mile taxable benefit cap, the tax credit drives a 63 percent reduction in the cost of capital. Economics researchers have estimated that a decline of this magnitude is associated with a 47.3 percent increase in investment. By comparison, the impact of the Act through its reduction in the corporate tax rate and expensing for equipment on a short line railroad company is a reduction in the cost of capital of 1.2 percent, which is associated with only a 0.9 percent increase in investment.

The Credit lapsed on December 31, 2017. A diverse assortment of groups has called for making it permanent, including the AASHTO Rail Committee, the STB Rail-Shipper Transportation Advisory Council, and Saving Our Service – a group of over 600 rail customers. In addition, stand-alone bills in Congress to make this Credit permanent have the formal co-sponsorship support of over half of the members of both the House and Senate.

Now is the time for Congress to act to make the Short Line Tax Credit permanent.

July 26, 2018

www.pwc.com/us/nes

The Section 45G Tax Credit and the Economic Contribution of the Short Line Railroad Industry

July 2018

Prepared for:

American Short Line and Regional Railroad Association

The Section 45G Tax Credit and the Economic Contribution of the Short Line Railroad Industry

Table of Contents

The Section 45G Tax Credit and the Economic Contribution of the Short Line Railroad Industry

Executive Summary

Industry Overview

The US short line and regional railroad industry ("short line industry") consists of the nation's smallest freight railroads by revenue, defined according to the US Surface Transportation Board as Class II or III railroads with freight revenue of less than $475.75 million in 2016. There are an estimated 603 short line railroads as of 2016. The average short line railroad employs fewer than 30 people and operates less than 79 route miles. Combined, short lines operate 47,500 route miles, or 29 percent of the nation's rail network, extending the reach of the rail network to rural communities, farmers, manufacturers, and other industries.[1] Short lines together with the seven Class I railroads (those with freight revenue of at least $475.75 million) constitute the US freight railroad industry.

Economic Contribution of the Industry

PwC estimates the short line industry directly provided 17,100 jobs in the United States in 2016, paying labor income of $1.1 billion, and adding $2.2 billion to the nation's GDP (see **Table E-1**). The short line industry's economic impact goes beyond its own employees and direct payroll and value added. Including the indirect effects resulting from suppliers to the industry and induced effects resulting from expenditures of labor income, the industry supported 61,070 jobs in 2016. Operational spending by the industry supported 33,730 indirect and induced jobs in 2016, while capital spending by the industry of $755 million supported 10,240 jobs. This indicates that each job in the short line industry supports an average of 2.6 additional indirect and induced jobs across the rest of the US economy (combined jobs to direct jobs multiplier of 3.6). Combined labor income amounted to $3.8 billion (labor income multiplier of 3.3) and value added amounted to $6.5 billion (value added multiplier of 2.9).

Table E-1. Direct, Indirect, and Induced Economic Impacts of the US Short Line Industry, 2016

Item	Direct Impacts	Indirect and Induced Impacts		Combined Impacts
		Operational Impacts	Capital Investment Impacts	
Employment*	17,100	33,730	10,240	61,070
Labor Income ($ millions)**	$1,129	$2,035	$616	$3,780
Value Added ($ millions)	$2,228	$3,373	$948	$6,549

Source: PwC calculations using the IMPLAN modeling system (2016 database).

Note: Details may not add to totals due to rounding.

* Employment is defined as the number of payroll and self-employed jobs, including part-time jobs.

** Labor income is defined as wages and salaries and benefits as well as proprietors' income.

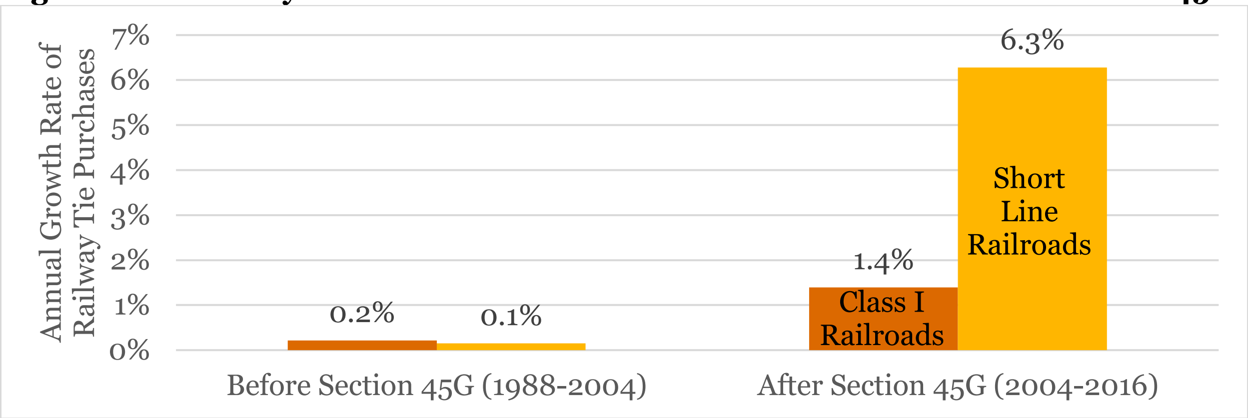
[1] American Short Line and Regional Railroad Association (ASLRRA), "Short Line and Regional Railroad Facts and Figures," 2017; Association of American Railroads (AAR) to ASLRRA, February 17, 2017, 2015 Short Line Railroad Industry Estimates.

In addition to the direct, indirect, and induced economic impacts, the short line industry impacts the US economy to the degree that other industries rely on the short line industry for transportation services. The three customer sectors most reliant on the short line industry are (1) mining, (2) manufacturing, and (3) agriculture. In total across the US economy, 0.51 percent of business inputs rely on transportation services provided by the short line industry, amounting to 478,820 jobs, $26.1 billion in labor income, and $56.2 billion in value added.

The Section 45G Tax Credit

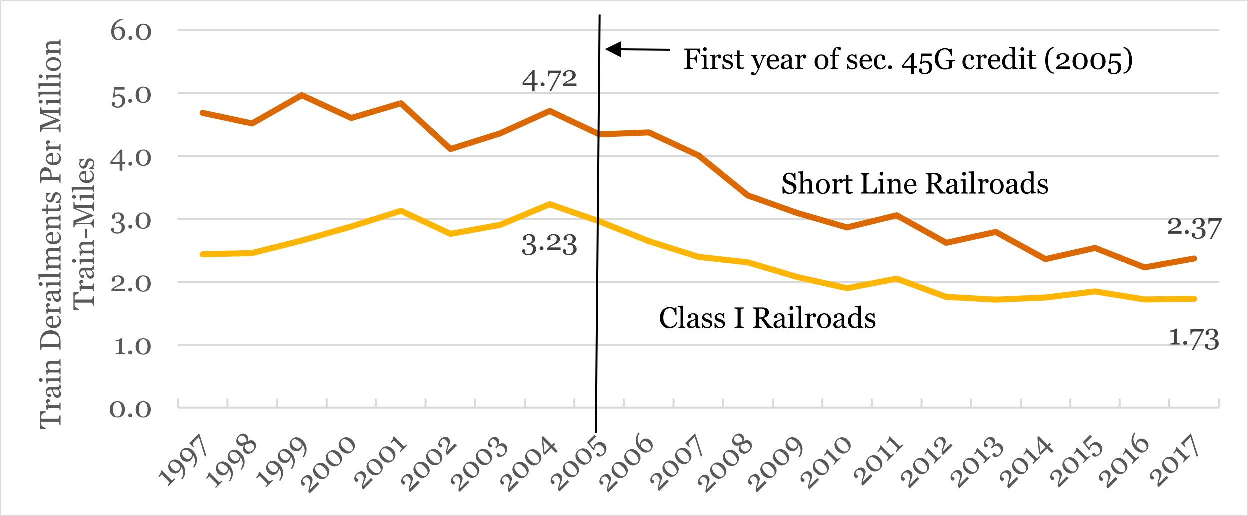
Since its enactment in 2004, the railroad track maintenance tax credit (Internal Revenue Code section 45G) has provided an important financial incentive to maintain and improve short line infrastructure. The result has been a marked increase in industry investment, as evidenced, for example, by industry purchases of railway ties, which have grown at an annual rate of 6.3 percent since enactment of the credit, compared to 0.1 percent before the credit (see **Figure E-1**). In addition, safety on short line railroads has improved since enactment of the credit. For example, train derailments on short line railroads have declined by 50 percent, from a rate of 4.72 per million train miles in 2004 to 2.37 in 2017 (see **Figure E-2**).

Figure E-1. Railway Tie Purchases have Increased since Enactment of Section 45G



Source: Railway Tie Association.

Figure E-2. Safety on Short Lines has Improved since Enactment of Section 45G



Source: Federal Railroad Administration.
Note: Class I data exclude Amtrak.

Standard cost of capital analysis indicates the section 45G credit provides strong incentives to invest in short line infrastructure.[2] For instance, for a corporate taxpayer making a break-even, or marginal, investment in short line track maintenance that is below the section 45G per mile cap, relative to current law in which the section 45G credit is expired, extending the section 45G credit reduces the user cost of capital by 63 percent. Empirical estimates of the responsiveness of investment to changes in the user cost of capital indicate that such a reduction in the user cost of capital is associated with a 47.3 percent increase in investment (see **Table E-2**).[3]

The same type of analysis indicates that for short line infrastructure investors the section 45G credit is a much more powerful incentive at the margin than the two main investment incentives provided in the Tax Cuts and Jobs Act (TCJA), i.e., the lower corporate tax rate and full expensing for equipment. Relative to 2017 law, the combination of the TCJA's two main incentives reduces the user cost of capital by 1.2 percent, which is associated with a 0.9 percent increase in investment.[4]

Table E-2. Impact of Section 45G Tax Credit and the Tax Cuts and Jobs Act (TCJA) on Cost of Capital and Investment for a Short Line Infrastructure Project

Tax Change	Change in Cost of Capital	Change in Investment
Section 45G Tax Credit	-63.0%	47.3%
TCJA (reduced corporate tax rate and expensing)	-1.2%	0.9%

[2] The user cost of capital is the real before-tax rate of return that a marginal (i.e., break-even) investment must earn to recover the cost of investment, pay taxes on business income, and pay an expected after-tax rate of return to investors that covers their opportunity cost.
[3] Kevin A. Hassett and R. Glenn Hubbard, "Tax Policy and Business Investment," in Handbook of Public Economics, Vol. 3, edited by Alan J. Auerbach and Martin Feldstein, pp. 1293–1343, 2002.
[4] Expensing under TCJA has relatively little effect on short line investment incentives because short line investors previously were permitted to expense 75 percent of track maintenance expenditures under a safe harbor provided by IRS Revenue Procedure 2002-65.

The Section 45G Tax Credit and the Economic Contribution of the Short Line Railroad Industry

I. Overview of the Industry

Number of Railroads, Revenue, and Employment

The US short line and regional railroad industry ("short line industry") consists of the nation's smallest freight railroads by revenue, defined according to the US Surface Transportation Board as Class II or III railroads with freight revenue of less than $475.75 million in 2016. There are an estimated 603 short line railroads as of 2016. The average short line railroad employs fewer than 30 people and operates less than 79 route miles.[5]

Short lines together with the seven Class I railroads (those with freight revenue of at least $475.75 million) constitute the US freight railroad industry. While short line railroads far outnumber Class I railroads, the vast majority of total railroad industry revenue is earned by Class 1 railroads (see **Figure 1**). Based on annual surveys by the Association of American Railroads (AAR), we estimate that total revenue earned by the short line industry was $3.76 billion in 2016 – an average of $6.24 million per railroad.[6] We estimate that total employment in the short line industry was 17,100 in 2016 – an average of 28 employees per railroad.[7]

[5] American Short Line and Regional Railroad Association (ASLRRA), "Short Line and Regional Railroad Facts and Figures," 2017; Association of American Railroads (AAR) to ASLRRA, February 17, 2017, 2015 Short Line Railroad Industry Estimates.

[6] Association of American Railroads, "Railroad Facts 2017 Edition," 2017. We used the AAR's last published estimate of revenue earned by the short line industry in 2012 and projected it forward using the AAR's estimated percent change in revenue for the Class I railroad industry. The revenues of Class I and short line railroads are highly correlated since they carry similar types of commodities. Short line industry revenues dropped approximately 8 percent in both 2015 and 2016, based on the revenue declines reported by Class I railroads, which are primarily attributable to declines in coal shipments. To the extent coal shipments on short line railroads have rebounded since 2016, short line industry revenue may have rebounded as well.

[7] Association of American Railroads, "Railroad Facts 2017 Edition," 2017. We used the AAR's last published estimate of employment in the short line industry in 2012 and projected it forward using the AAR's estimated percent change in employment for the overall railroad industry. This reflects an estimated drop in short line employment of approximately 9 percent in 2016, based on estimated employment declines for the entire railroad industry, which are primarily attributable to declines in coal shipments. Industry employment may have rebounded since 2016 to the extent coal shipments have rebounded.

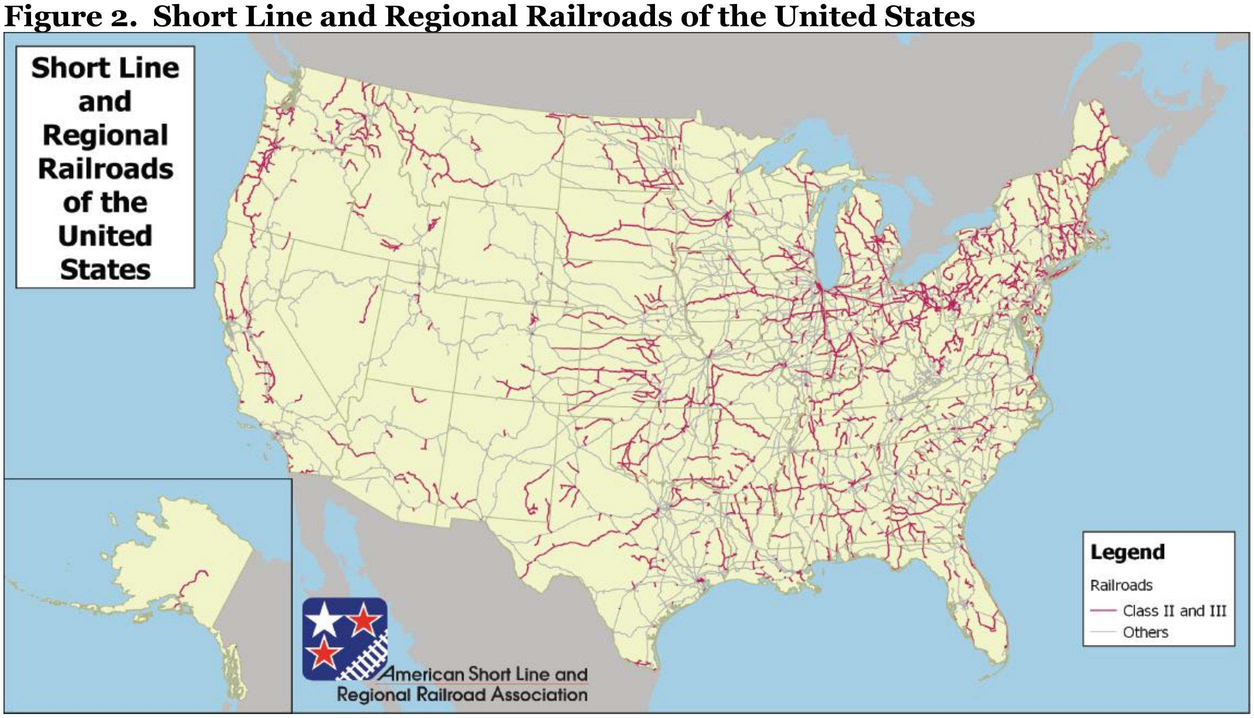
Figure 1. Comparison of Short Line and Class I Railroads

Source: ASLRRA, AAR, and PwC calculations using the IMPLAN modeling system (2016 database).

Rail Network and Relationship to Class I's

Short lines operate a total of 47,500 route miles, or 29 percent of the nation's rail network, extending the reach of the rail network to rural communities, farmers, manufacturers, and other industries (see **Figure 2**). In five states (Alaska, Maine, New Hampshire, Rhode Island, and Vermont), short lines provide the only freight rail service.[8]

Figure 2. Short Line and Regional Railroads of the United States

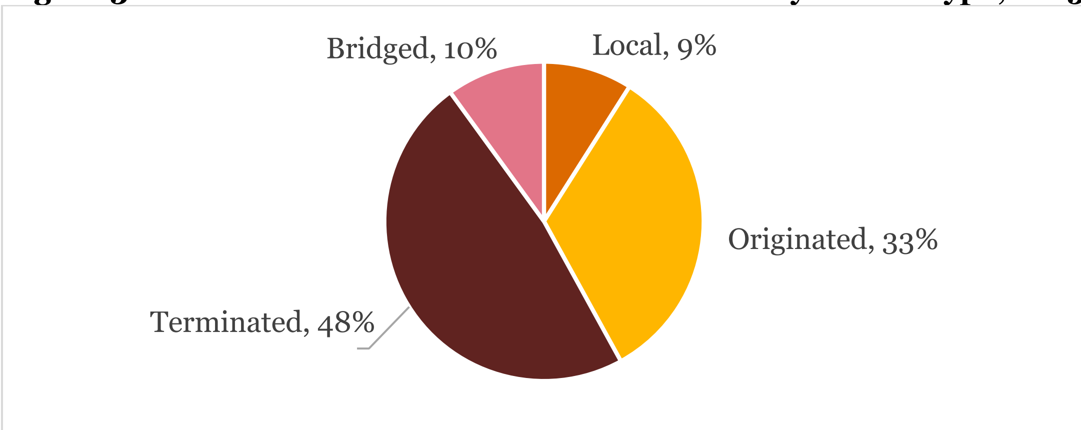


The vast majority of traffic on short lines (81 percent) either originates or terminates on short lines as part of a longer journey on Class I railroads or other modes of traffic (see **Figure 3**). A smaller share of traffic (10 percent) is transferred (bridged) from one Class I railroad to another

[8] Ibid. AAR estimates that total miles of track owned by short line railroads exceeds 47,500, including multiple main tracks, passing tracks, sidings, crossovers, turn-outs and switching tracks.

via short line, and the remainder (9 percent) is local traffic that is moved entirely by short line railroads. The average length of haul for short line railroads is 37.5 miles.[9]

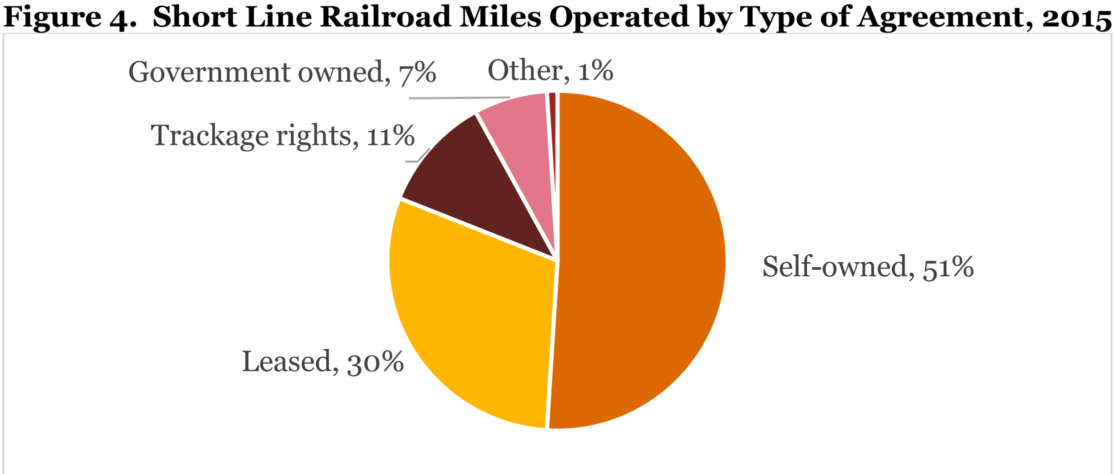
Figure 3. Carloads Moved on Short Line Railroads by Traffic Type, 2015



Source: 2016 ASLRRA Data Survey.

Short line railroads provide service under many types of agreements (see **Figure 4**). The majority (51 percent) of short line track miles are wholly-owned by short line railroads, while the remainder are either leased from Class I railroads and other entities (31 percent), owned by the government (7 percent), or made available via trackage rights or other interchange agreements (12 percent).

Figure 4. Short Line Railroad Miles Operated by Type of Agreement, 2015



Source: 2016 ASLRRA Data Survey.

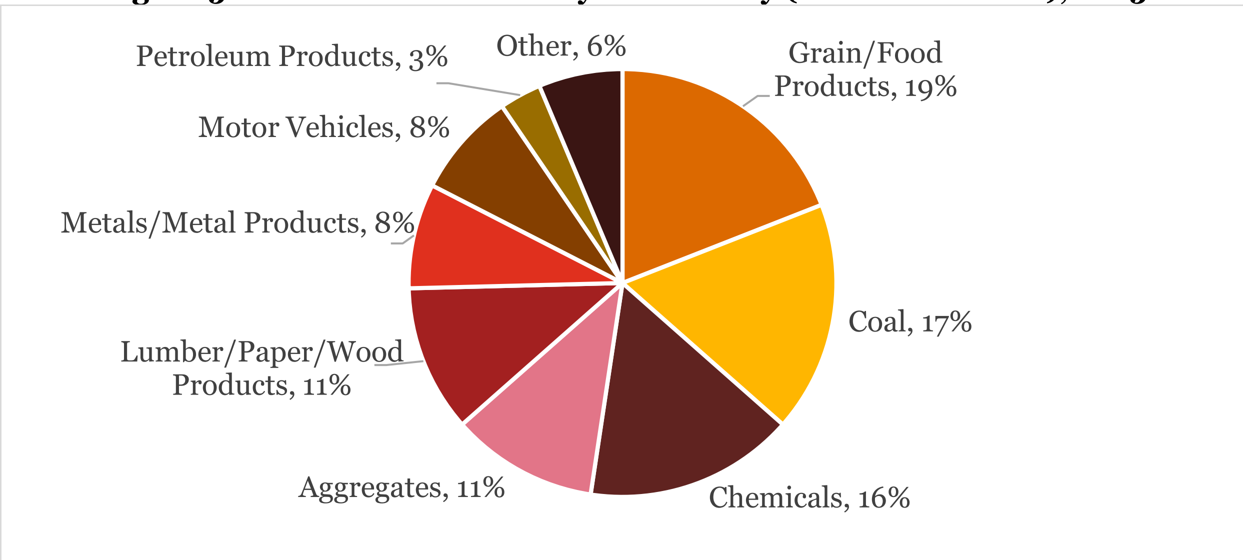
Commodities

Short line railroads move many types of commodities, and are typically more efficient than trucks for moving extremely heavy or bulky goods. Coal has historically been a major commodity shipped by rail, but as US coal production has declined precipitously in recent years so have shipments by rail, forcing short line railroads to diversify more into other

[9] ASLRRA, "Short Line and Regional Railroad Facts and Figures," 2017.

commodities.[10] As of 2015, grain and food products comprise the largest share of identified carloads moved by short lines (19 percent), followed by coal (17 percent), chemicals (16 percent), aggregates (11 percent), and lumber, paper and wood products (11 percent).[11] Class I railroads have a broadly similar distribution of carloads by commodity as compared to short line railroads, but with a heavier concentration in coal.[12]

Figure 5. Short Line Carloads by Commodity (where identified), 2015



Source: 2016 ASLRRA Data Survey.
Note: The unidentified category (not shown) consists of trailers/containers with miscellaneous goods.

[10] US coal production dropped 38 percent from 2008 to 2016, but is estimated to have increased 6 percent in 2017, according to the U.S. Energy Information Administration, available at https://www.eia.gov/todayinenergy/detail.php?id=34992#; ASLRRA, "Short Line and Regional Railroad Facts and Figures," 2017.
[11] Unidentified commodities consist of trailers/containers with miscellaneous goods.
[12] AAR, "Railroad Ten-Year Trends, 2006-2015," 2017.

II. Economic Contributions

Direct, Indirect, and Induced Impacts

The economic activity of the short line industry can be measured using three separate metrics: employment, labor income, and value added, as defined below.

- **Employment**: The number of payroll and self-employed jobs (including part-time jobs), averaged over the year.
- **Labor income**: The wages, salaries and benefits paid to employees and proprietors' income for the self-employed.
- **Value added**: The total output of each sector less the associated value of intermediate inputs. The sum of the value added across all sectors in the economy is GDP.[13] An industry's value added represents its contribution to GDP.

The short line industry's economic impact goes beyond its own employees and direct payroll and value added. The industry uses goods and services supplied by other industries to produce its own services, generating upstream employment, payroll, and value added. The employees of the short line industry and its supply chain spend their wages and salaries on goods and services generating additional (induced) economic activity. The combined economic impact of the short line industry includes direct, supply chain (indirect), and induced impacts:

- ***Direct effects*** include activities directly attributable to short line companies, such as the employees and value added of short line companies.
- ***Indirect effects*** include activities of the upstream supply chain to short line companies, including contractors and other companies providing inputs to short line companies and their immediate suppliers.
- ***Induced effects*** reflect spending by employees of short line companies and their suppliers. Employees throughout the short line industry's supply chain receive incomes associated with the direct and indirect activities, a portion of which will be consumed. This consumption causes additional economic activity attributable to the short line industry.

To quantify these linkages, we rely on the IMPLAN model, an input-output (I-O) model based on federal government data (see Appendix). The indirect and induced effects are determined separately for purchases of operating inputs (operational impact) and plant and equipment (investment impact).

As presented in **Table 1**, below, we estimate the short line industry directly provided 17,100 jobs in the United States in 2016, paying labor income of $1.1 billion, and adding $2.2 billion to the nation's GDP.

Combined, including the indirect and induced effects, the industry supported 61,070 jobs in 2016. Operational spending by the industry supported 33,730 indirect and induced jobs in 2016, while capital spending by the industry of $755 million supported 10,240 jobs. This indicates that each job in the short line industry supports an average of 2.6 additional indirect

[13] Value added differs from gross output (or sales) because it excludes the value of intermediate goods that are embedded in the final sales of each industry. The value of intermediate inputs could be counted multiple times if output of one segment of the short line industry serves as an input for another segment.

and induced jobs across the rest of the US economy (combined jobs to direct jobs multiplier of 3.6).

Combined labor income amounted to $3.8 billion and value added to $6.5 billion. Labor income and value added multipliers for the industry are 3.3 and 2.9, respectively.

Table 1. Direct, Indirect, and Induced Economic Impacts of the US Short Line Industry, 2016

Item	Direct Impacts	Indirect and Induced Impacts		Combined Impacts
		Operational Impacts	Capital Investment Impacts	
Employment*	17,100	33,730	10,240	61,070
Labor Income ($ millions)**	$1,129	$2,035	$616	$3,780
Value Added ($ millions)	$2,228	$3,373	$948	$6,549

Source: PwC calculations using the IMPLAN modeling system (2016 database).
Note: Details may not add to totals due to rounding.
* Employment is defined as the number of payroll and self-employed jobs, including part-time jobs.
** Labor income is defined as wages and salaries and benefits as well as proprietors' income.

Customer Impacts

In addition to the direct, indirect, and induced economic impacts, the short line industry impacts the US economy to the degree that other industries rely on the short line industry for transportation services. To quantify the degree of customer reliance on the short line industry, we estimate two alternative measures – inbound reliance and outbound reliance – representing two perspectives on the goods that are transported by short line railroads. Inbound reliance refers to the degree to which sectors rely on the short line industry for transportation of business inputs. Outbound reliance refers to the degree to which certain commodities are transported by short line railroads. More specifically:

- ***Inbound reliance*** includes the portion of a sector's economic activity reliant on the short line industry as measured by the sector's expenditures on short line rail transportation as a share of the sector's expenditures on all transportation.
- ***Outbound reliance*** includes the portion of US-produced commodities transported by short line railroads (measured by a combination of volume and value) as a share of all modes of transportation.

We use the IMPLAN model to estimate inbound customer reliance for all sectors (see Appendix). As shown in **Table 2**, the three sectors with the greatest inbound reliance on the short line industry are (1) mining, (2) manufacturing (including iron and steel manufacturing), and (3) agriculture.

In the mining sector, 1.63 percent of business inputs rely on transportation services provided by the short industry, amounting to 9,500 jobs, $895 million in labor income, and $2.2 billion in value added. In manufacturing, 1.11 percent of business inputs rely on transportation services provided by the short line industry, amounting to 106,650 jobs, $8.2 billion in labor income, and $16.9 billion in value added. In agriculture, 0.85 percent of business inputs rely on transportation services provided by the short line industry, amounting to 26,760 jobs, $1.2 billion in labor income, and $1.6 billion in value added. In total across the US economy, 0.51 percent of business inputs rely on transportation services provided by the short line industry, amounting to 478,820 jobs, $26.1 billion in labor income, and $56.2 billion in value added.

Table 2. Inbound Customer Reliance on the US Short Line Industry, 2016

Sector	Short Line Share of Trans-portation Cost	Reliant Employ-ment*	Reliant Labor Income ($millions)**	Reliant Value Added ($millions)
Agriculture	0.85%	26,760	$1,192	$1,638
Mining	1.63%	9,500	$895	$2,249
Utilities	0.60%	3,400	$479	$1,581
Construction	0.40%	41,890	$2,330	$3,179
Manufacturing	1.11%	106,650	$8,238	$16,874
Wholesale and retail trade	0.02%	5,710	$270	$466
Transportation and warehousing	0.20%	11,950	$768	$1,050
Information	0.09%	5,410	$529	$1,607
Finance, insurance, real estate, rental and leasing	0.20%	64,980	$2,276	$16,866
Services	0.17%	195,090	$8,403	$9,932
Other	0.07%	7,470	$682	$736
Total	**0.51%**	**478,820**	**$26,062**	**$56,177**

Source: PwC calculations using the IMPLAN modeling system (2016 database).
Note: Details may not add to totals due to rounding.
* Employment is defined as the number of payroll and self-employed jobs, including part time jobs.
** Labor income is defined as wages and salaries and benefits as well as proprietors' income.

To estimate the outbound customer reliance on the short line industry, we use data published by the US Bureau of Transportation Statistics and US Census Bureau for 2012 and the AAR for 2016 indicating the share (by volume and value) of US-produced commodities that are shipped by rail. To determine the short line industry share, we then allocate the rail industry share between the short line industry and Class I railroads by revenue.[14]

Table 3 and **Table 4** show the results of this analysis for select commodities. As shown in **Table 3**, products reliant on rail transportation include: (1) coal, with 67.5 percent of the volume of all US-produced coal shipped by rail in 2016; (2) chemicals, with 26.2 percent of the volume of all US-produced chemicals shipped by rail in 2012; and (3) grain, with 22.9 percent of the volume of all US-produced grain shipped by rail in 2016. Across all US-produced commodities, in 2012, 5.1 percent of the value and 16.8 percent of the volume was shipped by rail.[15]

[14] While the revenue (and train miles) associated with rail transportation of many commodities may be largely attributable to Class I railroads, short line railroads often provide the first or last mile of service, or a bridge between Class I railroads (see Figure 3). In this sense, commodities shipped by rail are more dependent on short lines than indicated by the short line revenue share.
[15] The most recent Economic Census data published by the US Census Bureau is for 2012.

Table 3. <u>Outbound</u> Customer Reliance on the US Railroad Industry

Commodity Shipped by Rail	Year	Value of Shipments by Rail ($ millions)	Share of US production by value	Volume of Shipments (thousands of tons, unless otherwise noted)	Share of US production by volume
All commodities	2012	705,879	5.1%	1,897,921	16.8%
Coal	2012	29,028	63.2%	748,788	71.5%
Coal	2016	N/A	N/A	492,000	67.5%
Chemicals	2012	60,758	19.2%	90,087	26.2%
Grain	2016	N/A	N/A	5,300	22.9%

Source for 2012: US Bureau of Transportation Statistics and US Census Bureau, 2012 Economic Census, "Transportation - Commodity Flow Survey".
Source for 2016: AAR, "Railroad 10-Year Trends 2006-2015," June 2017.
Note: 2012 data includes a small portion that is transported by a combination of rail and other modes. Grain volume is in millions of bushels.

Based on the short line industry's share of freight rail revenue, 4.9 percent of all freight rail transportation costs were incurred on short-line rail transportation. Multiplying rail volume of each commodity by the short line industry's share of rail transportation costs provides an indication of the degree to which the short line industry is relied upon for transportation of these commodities: 3.3 percent of the volume of all US-produced coal in 2016, 1.3 percent of the volume of all US-produced chemicals in 2012, and 1.1 percent of the volume of all US-produced grain in 2016 (see **Table 4**).

Table 4. <u>Outbound</u> Customer Reliance on the US Short Line Industry

Commodity Shipped by Short Line Rail	Year	Value of Shipments by Short Line Rail ($ millions)	Share of US production by value	Volume of Shipments (thousands of tons, unless otherwise noted)	Share of US production by volume
All commodities	2012	34,306	0.2%	92,239	0.8%
Coal	2012	1,411	3.1%	36,391	3.5%
Coal	2016	N/A	N/A	23,911	3.3%
Chemicals	2012	2,953	0.9%	4,378	1.3%
Grain	2016	N/A	N/A	258	1.1%

Source for 2012: US Bureau of Transportation Statistics and US Census Bureau, 2012 Economic Census, "Transportation - Commodity Flow Survey"; PwC calculations.
Source for 2016: AAR, "Railroad 10-Year Trends 2006-2015," June 2017; PwC calculations.
Note: 2012 data includes a small portion that is transported by a combination of rail and other modes. Grain volume is in millions of bushels.

III. Section 45G Tax Credit

Since its enactment in 2004, the railroad track maintenance tax credit (IRC section 45G) has been an important factor for the industry, providing incentives to taxpayers to maintain and improve short line infrastructure.

Legislative History and Policy Rationale

The section 45G credit was initially introduced in October 2003 as a permanent tax credit by Sen. Gordon Smith (R-OR) in the Local Railroad Rehabilitation and Investment Act of 2003 (S. 1703). The bill was co-sponsored by Sen. Ron Wyden (D-OR) and 17 other Senators,[16] before being incorporated in a modified form in the Jumpstart Our Business Strength (JOBS) Act (S. 1637), passed by the Senate on May, 11, 2004. Following a House/Senate Conference, the legislation was included in the American Jobs Creation Act of 2004 (Public Law 108–357, enacted October 22, 2004), and effective for three years – taxable years beginning after December 31, 2004 and before January 1, 2008.

The provision has been extended six times, most recently by the Bipartisan Budget Act of 2018, which extended it retroactively through 2017. As indicated in **Table 5**, after the section 45G credit's initial enactment period of three years, the credit has been extended 10 additional years. Of those 10 years of extensions, approximately 5-1/2 years have represented periods the credit was extended retroactively; only 4-1/2 years represent periods the credit was extended prospectively. As a result, taxpayers have not always been able to count on the availability of the section 45G credit when making investment plans.

The original rationale for the provision upon introduction of S. 1703 by Sen. Smith and co-sponsors was threefold.[17] First, the bill's sponsors noted the critical role played by short lines in the nation's infrastructure, particularly in connecting farmers and small businesses in rural America to the larger rail network and providing an alternative to increasing truck traffic on local roads. Second, the bill's sponsors believed there was a need to create incentives for taxpayers to maintain short lines, many of which had been abandoned or poorly maintained as branch lines of Class I's before being spun-off to short line companies. Third, the bill's sponsors recognized the need for short lines to upgrade to accommodate the new Class I industry standard maximum car weight of 286,000 lbs. (up from 263,000 lbs.), which was estimated to require $7 billion in new investment. A number of studies at the time documented the large infrastructure needs of small railroads.[18]

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[16] Co-sponsors of S. 1703 were Sen. Ron Wyden (D-OR), Sen. Sam Brownback (R-KS), Sen. Arlen Specter (R-PA), Sen. Conrad Burns (R-MT), Sen. Pat Roberts (R-KS), Sen. Richard Lugar (R-IN), Sen. Larry Craig (R-ID), Sen. Olympia Snowe (R-ME), Sen. Mark Pryor (D-AR), Sen. Thad Cochran (R-MS), Sen. Blanche Lincoln (D-AR), Sen. Evan Bayh (D-IN), Sen. Thomas Daschle (D-SD), Sen. Bill Nelson (D-FL), Sen. Charles Schumer (D-NY), Sen. Susan Collins (R-ME), Sen. Tim Johnson (D-SD), and Sen. Jim Talent (R-MO).

[17] Congressional Record, available at https://www.congress.gov/congressional-record/2003/10/02/senate-section/article/S12377-1.

[18] American Association of State Highway and Transportation Officials, "Freight-Rail Bottom Line Report," 2002; Upper Great Plains Transportation Institute, North Dakota State University, "Small Railroads – Investment Needs, Financial Options, and Public Benefits," 2002; ZETA-TECH Associates, Inc., "An Estimation of the Investment in Track and Structures Needed to Handle 286,000 lb. Rail Cars," 2000.

Table 5. Legislative History of the Railroad Track Maintenance Credit

Legislation	Effective Dates: Taxable Years beginning after and before	Total Years Covered	Retroactive Period	Prospective Period
Bipartisan Budget Act of 2018 (Public Law 115-123, enacted February 9, 2018)	12/31/2016-1/1/2018	1 year	12 months	None
Protecting Americans from Tax Hikes Act of 2015 (Public Law 114-113, enacted December 18, 2015)	12/31/2014-1/1/2017	2 years	11.5 months	12.5 months
Tax Increase Prevention Act of 2014 (Public Law 113-295, enacted December 19, 2014)	12/31/2013-1/1/2015	1 year	11.5 months	0.5 months
American Taxpayer Relief Act of 2012 (Public Law 112–240, enacted January 2, 2013)	12/31/2011-1/1/2014	2 years	12 months	12 months
Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111–312, enacted December 17, 2010)	12/31/2009-1/1/2012	2 years	11.5 months	12.5 months
Emergency Economic Stabilization Act of 2008 (Public Law 110-343, enacted October 3, 2008)	12/31/2007-1/1/2010	2 years	9 months	15 months
American Jobs Creation Act of 2004 (Public Law 108–357, enacted October 22, 2004)	12/31/04-1/1/2008	3 years	None	36 months

Capital Needs of the Industry

A more recent capital needs assessment by the Federal Railroad Administration (FRA) in 2014 finds that while short lines have made substantial progress in upgrading track (e.g., 57 percent of route-miles could handle the heavier cars as of 2010, up from 39 percent in 2002) substantial capital needs remain.[19] Based on industry surveys and interviews with bankers and other experts, the FRA estimated that as of 2013 the short line industry required $5.3 billion in investment to meet capital needs over the next 5 years, mainly due to infrastructure needs of $4.2 billion. The FRA estimated that only 69 percent of these needs would be met with available funding, primarily cash flow (73 percent of funding), as it is difficult for short line companies to access private market financing, particularly infrastructure loans.

How the Credit Works

The section 45G credit is a business tax credit allowed for 50 percent of qualified railroad track maintenance expenditures paid or incurred in a taxable year by an eligible taxpayer. Qualified railroad track maintenance expenditures are gross expenditures for maintaining railroad track

[19] Federal Railroad Administration, "Summary of Class II and Class III Railroad Capital Needs and Funding Sources," October 2014.

(including rail, ties, bridges, signals, crossings, tunnels, roadbed, etc.) owned or leased as of January 1, 2015 by a Class II or Class III railroad.

The credit is limited to the product of $3,500 times the number of miles of railroad track owned, leased, or assigned to the eligible taxpayer as of the close of its taxable year. The credit is assignable to any eligible taxpayer who makes qualified expenditures. An eligible taxpayer is (1) any Class II or Class III railroad and (2) any person that transports property using the rail facilities of a Class II or Class III railroad or that furnishes railroad-related property or services to such person.

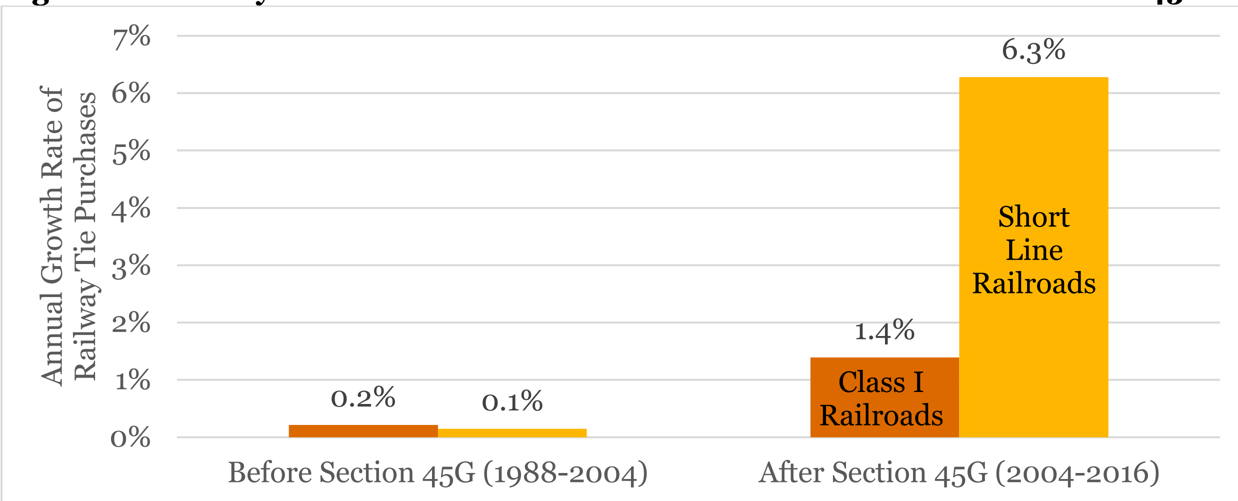
Effectiveness

The most recent IRS Statistics of Income (SOI) data indicate that $241 million in section 45G tax credits were tentatively claimed in 2013, $171 million of which was by C corporations and the remainder by individuals.[20] This indicates that the section 45G tax credit supported approximately $482 million of short line infrastructure investment in 2013, or roughly half the industry's estimated $1 billion of expenditures for capital and track maintenance in that year.[21]

A major portion of short line infrastructure expense is the purchase and installation of railway ties.[22] According to data provided by the Railway Tie Association (RTA), since enactment of the section 45G credit in 2004, railway tie purchases by the short line industry have grown at an annual rate of 6.3 percent over the period 2004-2016, compared to an annual rate of growth of 0.1 percent over the period 1988-2004 (see **Figure 6**). Purchases of ties by Class I railroads also increased, but by a much smaller amount, from an annual rate of 0.2 percent before the credit to 1.4 percent after the credit. After controlling through statistical analysis for various factors that normally predict railway tie purchases, RTA finds that approximately 1 million railway tie purchases annually by the short line industry are attributable to the section 45G tax credit – a 23 percent increase over the average of annual purchases for the period 1988-2016.[23] Given the $50 average cost of treated ties, this amounts to an annual increase in purchases of $50 million.[24]

[20] Due to limitations on general business tax credits, which include the section 45G credit, approximately one-third of tentative credits are claimed in a typical tax year.
[21] Surveys by the ASLRRA and AAR indicate that the short line industry's revenue in 2013 was approximately $4.2 billion, and expenditures for capital and maintenance of way are approximately 24 percent of revenue. See, ASLRRA, "Short Line and Regional Railroad Facts and Figures," 2017.
[22] Based on data provided by the Railway Tie Association on the number of ties purchased by the short line industry and the average cost of treated ties (approximately $50), the short line industry spent approximately $366 million on treated ties in 2013, and $404 million in 2016. Installation costs incurred by the industry are in addition to these expenditures.
[23] Fred Norrell, "An Inquiry into the Effect of Tax Credits on Crosstie Purchases," Railway Tie Association, March 28, 2018.
[24] Data provided by the Railway Tie Association. Excludes the cost of installation.

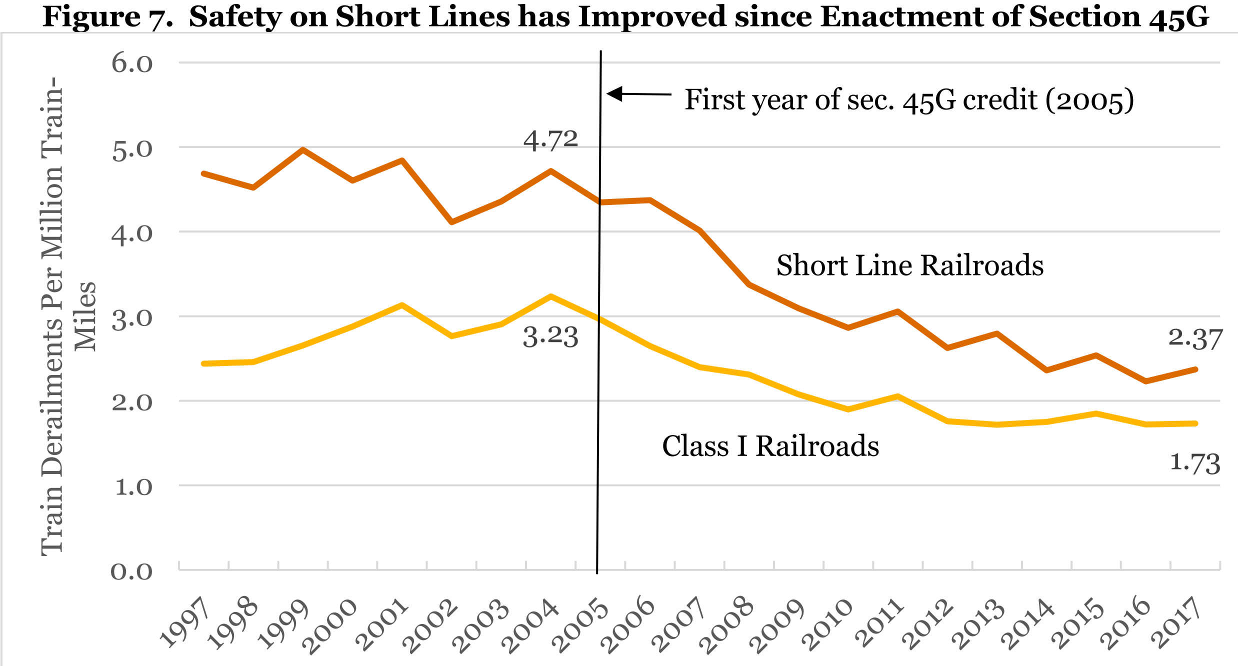
Figure 6. Railway Tie Purchases have Increased since Enactment of Section 45G



Source: Railway Tie Association.

One indicator of the quality of short line infrastructure investment is the industry's improved safety record. Since enactment of the 45G credit in 2004, train derailments on short line rails have declined by 50 percent, from a rate of 4.72 per million train miles in 2004 to 2.37 in 2017 (see **Figure 7**). Short line railroad safety performance is now approaching that of the longer haul Class I railroads and has improved at a faster rate than Class I railroads over the period the 45G credit has been in existence.

Figure 7. Safety on Short Lines has Improved since Enactment of Section 45G



Source: Federal Railroad Administration.
Note: Class I data exclude Amtrak.

Investment Incentives

Standard cost of capital analysis also indicates the section 45G credit provides strong incentives to invest in short line infrastructure.[25] For instance, consider the case of a break-even, or marginal, investment in short line track maintenance that is below the section 45G per mile cap (i.e., an investment of less than $7,000 per track mile), such that the credit has maximum effect on investment incentives (i.e., the credit is fully utilized, either directly or through assignment to another taxpayer).[26] In this case, the section 45G credit reduces the user cost of capital by 63 percent.[27] Empirical estimates of the responsiveness of investment to changes in the user cost of capital indicate that such a reduction in the user cost of capital is associated with a 47.3 percent increase in investment (see **Table 6**).[28]

The same type of analysis indicates that for short line infrastructure investors the section 45G credit is a much more powerful incentive at the margin than the two major incentives contained in the Tax Cuts and Jobs Act (TCJA), namely:

1. The lower federal corporate income tax rate (21 percent in 2018, down from 35 percent in 2017).
2. 100-percent expensing for equipment in 2018 (up from 50-percent expensing, a.k.a. bonus depreciation, in 2017).

For instance, for a corporate taxpayer making a marginal investment in short line track maintenance, relative to 2017 law, the combination of the TCJA's lower corporate tax rate and expensing for equipment reduces the user cost of capital by 1.2 percent, which is associated with a 0.9 percent increase in investment. Expensing has relatively little effect on short line investment incentives because short line investors previously were permitted to expense 75 percent of track maintenance expenditures under a safe harbor provided by IRS Revenue Procedure 2002-65.

Table 6. Impact of Section 45G Tax Credit and the Tax Cuts and Jobs Act (TCJA) on Cost of Capital and Investment for a Short Line Infrastructure Project

Tax Change	Change in Cost of Capital	Change in Investment
Section 45G Tax Credit	-63.0%	47.3%
TCJA (reduced corporate tax rate and expensing)	-1.2%	0.9%

[25] The user cost of capital is the real before-tax rate of return that a marginal (i.e., break-even) investment must earn to recover the cost of investment, pay taxes on business income, and pay an expected after-tax rate of return to investors that covers their opportunity cost. Further details on the calculations are provided in the appendix.
[26] There is zero effect on marginal incentives for taxpayers above the section 45G cap. It is not known what percentage of taxpayers have expenditures in excess of the cap.
[27] The section 45G credit may reduce the user cost of capital at the time an investment is made by a lesser amount under certain circumstances, including (1) for investments of more than $7,000 per track mile, (2) investments made in periods in which the credit was not yet extended (even if extended retroactively), and (3) investments by taxpayers who have difficulties in utilizing or assigning the credit.
[28] We used a consensus of empirical estimates of the elasticity of investment with respect to the cost of capital (-0.75), which is for all business investment, not just railroad infrastructure investment. See, Kevin A. Hassett and R. Glenn Hubbard, "Tax Policy and Business Investment," in Handbook of Public Economics, Vol. 3, edited by Alan J. Auerbach and Martin Feldstein, pp. 1293–1343, 2002.

Current Legislation

The section 45G credit expired on December 31, 2017. Bills have been introduced in both the House and Senate to extend the credit on a permanent basis. The House bill (H.R. 721 - Building Rail Access for Customers and the Economy Act) was introduced on January 30, 2017 by Rep. Lynn Jenkins (R-KS) and originally co-sponsored by Rep. Earl Blumenauer (D-OR), Rep. Rodney Davis (R-IL), and Rep. Daniel Lipinski (D-IL). As of June 29, 2018, the House bill had 261 co-sponsors. The Senate bill (S. 407) was introduced on February 16, 2017 by Sen. Mike Crapo (R-ID) and originally co-sponsored by Sen. Debbie Stabenow (D-MI), Sen. James Inhofe (R-OK), Sen. Ron Wyden (D-OR), Sen. Jerry Moran (R-KS), Sen. Charles Schumer (D-NY), Sen. Roger Wicker (R-MS), Sen. Robert Casey (D-PA), Sen. Pat Roberts (R-KS), Sen. Richard Blumenthal (D-CT), Sen. Johnny Isakson (R-GA), Sen. Dean Heller (R-NV), and Sen. John Thune (R-SD). As of June 29, 2018, the Senate bill had 56 co-sponsors.

Appendix: Methodology

Economic Impact Modeling

We used estimated short line industry revenues and the IMPLAN model to calculate the economic impacts of the US short line industry.[29] IMPLAN is a modeling system developed for estimating economic impacts and is similar to the Regional Input-Output Modeling System developed by the US Department of Commerce. The model is primarily based on government data sources.

IMPLAN is built around an "input-output" table that relates the purchases that each industry has made from other industries to the value of the output of each industry. To meet the demand for goods and services from an industry, purchases are made in other industries according to the patterns recorded in the input-output table. These purchases in turn spark still more purchases by the industry's suppliers, and so on. Additionally, employees and business owners make personal purchases out of the additional income that is generated by this process, further increasing demand that ripples through the economy. Multipliers describe these iterations.

Economic multipliers are often used to measure the overall change in production that would result from a marginal increase in a particular industry. For example, a value added multiplier converts a $1 million increase in output of the short line industry into the total change in value added throughout the supply chain. Because some suppliers of US short line companies might use short line rail service, a marginal change in the short line industry could lead to an additional change in short line activity attributable to the services it provides its suppliers throughout the economy.

While this impact is appropriate to include when modeling a marginal change, when evaluating the overall impact of the industry these indirect, own-industry impacts should be excluded to prevent double-counting. Therefore, we have adjusted the IMPLAN model results to exclude any indirect or induced effects taking place within the short line industry.

Economic impacts are reported at 2016 levels.

Inbound Customer Reliance

To illustrate our methodology for estimating inbound customer reliance, **Table A-1** provides a detailed calculation for the iron and steel manufacturing industry (a subset of the manufacturing industry shown in **Table 2**). The iron and steel manufacturing industry had 90,940 employees in 2016. Each job in this sector can be viewed as reliant on transportation services of coal and other inputs purchased by iron and steel manufacturers. These manufacturers spent $8.4 billion on transportation services of inputs (shipments in the final stage of transport), of which $5.0 billion was for rail transportation. Based on the short line industry's share of the entire rail industry's revenue (4.9 percent), we estimate that iron and steel manufacturers spent $241 million on short line transportation in 2016, or 2.9 percent of the transportation costs of iron and steel manufacturers. As such, we estimate that 2.9 percent of iron and steel manufacturing employment relies on transportation services provided by the short line industry, amounting to 2,620 jobs.

[29] IMPLAN is a product of IMPLAN Group, Inc.

Table A-1. Methodology for Estimating Inbound Customer Reliance on the US Short Line Industry, Iron and Steel Manufacturing Industry as Customer, 2016

Employment*	Total Transportation Cost ($millions)	Railroad Cost ($millions)	Short Line Cost ($millions)	Short Line Share of Transportation Cost	Jobs Reliant on the Short Line Industry
90,940	$8,371	$4,963	$241	2.9%	2,620

Source: PwC calculations using the IMPLAN modeling system (2016 database).
Note: Details may not add to totals due to rounding.
* Employment is defined as the number of payroll and self-employed jobs, including part time jobs.

Cost of Capital Analysis

The user cost of capital is the real before-tax rate of return that a marginal investment must earn to recover the cost of investment, pay taxes on business income, and pay an expected after-tax rate of return to investors that covers their opportunity cost. We calculated the user cost of capital for a marginal, equity-financed investment in short line infrastructure by a corporate investor, following the standard methodology used, for example, by the US Treasury Department and the European Commission.[30] We accounted for the US corporate tax rate (inclusive of the average state corporate income tax), bonus depreciation for equipment, and the section 45G tax credit, assuming that the taxpayer is not subject to the section 45G per mile cap.[31] We excluded all other taxes, such as shareholder taxes and property taxes.

Data for US corporate income tax rates come from the OECD database.[32] The US combined statutory tax rate for 2017, assuming an average state corporate income tax rate of 6.01 percent, is calculated to be 37.58 percent. Under 2018 law, we held the average state corporate income tax rate constant at its 2017 value, and compute the US combined statutory tax rate to be 25.75 percent.

Following IRS Revenue Procedure 2002-65, we assumed that 75 percent of the infrastructure investment is expensed (under both 2017 and 2018 law). The remaining 25 percent we assumed is railroad track with a 7-year MACRS recovery period (double declining balance with a switch to straight line); we account for the half-year convention for the year placed in service as well as 50 percent bonus depreciation in 2017 and expensing in 2018.

We assumed a real interest rate of 5 percent and inflation of 2 percent.

[30] See, for example, US Treasury Department, "Effective Tax Rate Model," July 2014, available at https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/New-Investment-Rates-Methodology.pdf; James B. Mackie III, "Unfinished Business of the 1986 Tax Reform," *National Tax Journal*, June 2002; Christoph Spengel, Frank Schmidt, Jost Heckemeyer, and Katharina Nicolay, "Effective Tax Levels using the Devereux/Griffith Methodology: Final Report 2016," Project for the EU Commission TAXUD/2013/CC/120, Centre for Economic Research (ZEW), October 2016, available at http://www.zew.de/en/publikationen/effective-tax-levels-using-the-devereuxgriffith-methodology-final-report-2016/?cHash=cd1beff16840b2d302fd63720247e358.
[31] Because a majority of the section 45G credits are claimed by C corporations, we modeled the corporate income tax rather than the individual income tax that applies to pass-through business entity income.
[32] The OECD database is available at http://www.oecd.org/tax/tax-policy/tax-database.htm.

Based on these parameters we computed the percentage change in the cost of capital under the assumed change in tax law.[33] Lastly, we translated the estimated change in the user cost of capital into an estimated change in investment using a consensus of empirical estimates of the elasticity of investment with respect to the cost of capital (-0.75).[34] This elasticity implies that a 10 percent reduction in the cost of capital will increase investment by 7.5 percent.

[33] The percentage change in the cost of capital reported in Section III is independent of the asset's economic depreciation rate.

[34] Kevin A. Hassett and R. Glenn Hubbard, "Tax Policy and Business Investment," in Handbook of Public Economics, Vol. 3, edited by Alan J. Auerbach and Martin Feldstein, pp. 1293–1343, 2002.

Rail investments can boost local economies

BY GOV. DENNIS DAUGAARD, OPINION CONTRIBUTOR — 03/07/18 09:30 AM EST
THE VIEWS EXPRESSED BY CONTRIBUTORS ARE THEIR OWN AND NOT THE VIEW OF THE HILL

Infrastructure is at the forefront of policy discussions these days. The White House recently released its plan for a massive infrastructure program. Governors and state legislatures across the country are having their annual debates over how to stretch limited dollars and how to pay for much-needed infrastructure programs. As we start to see the signs of warmer weather, we also start to see more road signs and barrels as we approach peak construction season.

Today, highlighting Railroad Day on Capitol Hill, representatives from railroads of all sizes will be joined in Washington, D.C. by the companies that supply railroads and other stakeholders. This includes those providing parts and technology for trains, those that help maintain railroad rights-of-way, rail labor unions and public officials who understand the importance of the freight rail network to companies and communities nationwide.

This is important because it is the backbone of the economy, the workhorse of global trade and the connector between companies and communities large and small across the country.

In South Dakota, for example, we consume only a modest amount of the grain produced here so the majority must be sold to out-of-state buyers. And we depend almost entirely on railroads to move those agricultural products to outside markets. We are fortunate to have Sen. John Thune, a former state railroad commissioner who understands the critical role railroads play in South Dakota and in the economy, chairing the Senate Commerce Committee. He and I have worked together on rail issues in our state and he knows railroading as well as any public official.

Here in South Dakota, we work with our railroad partners to encourage the economic development opportunities that stem from the interconnected, 140,000-plus-mile freight rail network. Recently, we worked with BNSF Railway to have Foundation Park in Sioux Falls certified as a rail-served industrial park as part of BNSF Railway's Site Certification program. This helps developers increase their speed to market and reduce upfront risk by ensuring the site is ready for rapid acquisition and development. Each of the nation's largest freight railroads have such programs.
We have seen the results of participating in public-private partnerships to upgrade tracks for smaller railroads. These upgrades prompted two new grain facilities to be constructed along the upgraded tracks.

Rail investments bring big results and often lead to additional projects that directly reduce shipping costs and improve the bottom line for the men and women who drive the economy. They connect farmers, miners, manufacturers and companies of all stripes to markets across the nation and the globe via the interconnected intermodal network of trains, planes, trucks and barges.

The nation's largest railroads are privately funded, putting 40 percent of every revenue dollar back into their network, nearly $660 billion since 1980. Every ton of freight moving by rail reduces the burden on other modes, eases the dependence on taxpayer dollars, conserves fuel by moving more goods with less fuel burned and, consequently, emits fewer greenhouse gases than moving freight by other modes.
In short, leaders of all political stripes and at all levels of government should appreciate the role that freight railroads play in our country and I urge members of Congress to give the Railroad Day delegation a favorable reception.

Dennis Daugaard is the governor of South Dakota.

Original Article on The Hill website is located at: http://thehill.com/opinion/finance/377056-rail-investments-can-boost-local-economies

SAVING OUR SERVICE

THE WAY SHIPPERS KEEP IT MOVING...

599 companies, serving **1657** locations in **49** states and the District of Columbia, agree that the **BRACE Act** (H.R. 721 and S. 407) is good for railroad shippers. Congress must take action to preserve rail service for short line customers.

Alabama: 84 Lumber Company, Agri-Afc, American Alloy Steel, Ampro Products Inc, Baldwin Transfer, Bentonite Performance Minerals, Berg Steel Pipe Corp, Cox Industries, Inc, Heritage Freight Warehousing & Logistics. LLC, Heritage Plastics, Inc, Imerys, Independence Tube, Inc, International Paper, Junction City Reload, Mineral Manufacturing Corporation, Omya Inc., Pacific Woodtech Corporation, Rail Solutions of Florida LLC, Schnitzer Southeast LLC., Sherwood Lumber, SSA Gulf, Tank Lining of Paris, Inc., Tarkett Alabama, Inc, The Mallory Group, Top Rail Solutions, Inc., Tyson Foods, Inc., WestRock, Weyerhaeuser, **Alaska:** Bentonite Performance Minerals, **Arizona:** 84 Lumber Company, Freeport McMoRan, Junction City Reload, Potters Industries LLC, Rose Acre Farms, **Arkansas:** Anthony Timberlands, Inc., Ash Grove Cement, Batesville Cold Storage, Clearwater Paper Corp, Cottonseed Co-Op Corporation, Domtar, Entergy Services, Inc., FSTI Chemical and Logistics, General Cable, GlobeSource Consumer Products, Green Bay Packaging, Griffin River Terminal, Hexion, J. Bury Services, Livestock Nutrition Center, Omya Inc., Poinsett Rice and Grain Inc., Producers Rice MIll, Inc., Tank Lining of Paris, Inc., Top Rail Solutions, Inc., United Initiators, We Pack Logistics, We Stow, Inc., Weyerhaeuser, **California:** 84 Lumber Company, Advanced Logistics, AgroLiquid, Arizona Chemical, F. Korbel & Bros., Inc,, Fleenor Company, Hydrite Chemical Co, Millennium Packaging Service Inc., Mizkan America, Inc., Northstar Chemical Inc., Norton Packaging, Inc., Olam, Omya Inc., Pacific Abrasives, Pacific Northwest Oil, Patrick Enterprises dba Superior Soil Supplements, Plains Midstream Canada, Planters Rice Mill, Reagent Chemical & Research, Richard Best Transfer, Inc., Ringling Bros. and Barnum & Bailey, Sierra Pacific Refrigerated Services, SOS Crane & Trucking, South Dakota Soybean Processors, LLC, Stockton Coil Center, Inc., Stockton Railcar Repair, Wardley Ind., Inc., Watco Terminal and Port Services, WW Feed LLC, **Colorado:** Allweather Wood LLC, Atlas Oil, Certified DEF, CHS Grainland, Flagler Cooperative, Halliburton, Imerys, Junction City Reload, Pacific Woodtech Corporation, Renewable Fiber, Inc., RMT, Stratton Equity Coop, The Scoular Company, The Western Sugar Cooperative, Vestas-American Wind Technology, Inc, West Plains LLC, **Connecticut:** Allnex, Can-Am Trading & Logistics, LLC, CWPM, LLC, Freeport McMoRan, Logistec USA, Millennium Roads, LLC., Plains Midstream Canada, Rawson Materials, Red Technologies, LLC, Reynolds Consumer Products, Ringling Bros. and Barnum & Bailey, Russo Brothers Inc., Saltine Warrior, Inc, Shelburne Limestone Corporation, SSA Gulf, Superior Plastics Extrusion Company Inc, The Anastasio Group, Town of Windham, **Delaware:** 84 Lumber Company, **District of Columbia:** The Anastasio Group, **Florida:** 84 Lumber Company, Allied Universal Corp., Alpinos Logistics and Distribution, American Alloy Steel, American Motive Power, Inc., Arizona Chemical, Cemex USA, Clay Ingels Co. LLC, Cobalt Transport Services, Empire Transload LLC, Florida Public Utilities, Gilman Building Products, LLC, GlobeSource Consumer Products, Hambug Sud, Hawkins Inc., IMEX Converting, LLC, Interdom LLC, J.B. Hunt Transport, Inc., Jones Logistics, Junction City Reload, Matco Industries, Inc., McLeod Law Firm, MOL (America) Inc, Momentum Transportation USA, Inc., Omya Inc., Pacific Woodtech Corporation, Parsec, Inc., Plains Midstream Canada, Rail Solutions of Florida LLC, Ringling Bros. and Barnum & Bailey, Seaboard Marine, Shelburne Limestone Corporation, Sherwood Lumber, Silver-Line Plastics, Synergy Recycling LLC, The Andersons Inc., Titan Florida, Toys R Us, TTS, LLC, US Foundry & MFh, USAT Logistics - division of USA Truck, Inc., Werner Logistics, WestRock, Yang Ming (America) Corp., **Georgia:** 84 Lumber Company, AgroLiquid, American Protiens, Inc, Ampro Products Inc, Arizona Chemical, Birdsong Peanuts, Constellation Brands-Beer Division, Cox Industries, Inc, Darling Ingredients Inc., East Coast Terminal Company, Gilman Building Products, LLC, Imerys, IMEX Converting, LLC, International Auto Processing, INC, International Feed, Jones Logistics, Lineage Logistics dba Flint River Services, LLC, Logistec USA, MillerCoors, Norton Packaging, Inc., Oil-Dri Corporation of America, Omya Inc., Owens Corning Sales, LLC., Oxford Construction Company, PCA, R. W. Griffin Industries, LLC, Roche Farm And Garden, Rose Acre Farms, Savannah Marine Terminal, Schnitzer Southeast LLC., SeaGate Handling, Inc., South Dakota Soybean Processors, LLC, Standlee Premium Western Forage, Stella-Jones Corporation, Synergy Recycling LLC, The Anastasio Group, The Mallory Group, Toys R Us, USAT Logistics - division of USA Truck, Inc., Venture Commodities, Inc., Yang Ming (America) Corp., **Idaho:** Columbia River Carbonates, Planters Rice Mill, Standlee Premium Western Forage, Stimson Lumber Company, Watco Terminal and Port Services, Wm. B. Morse Lumber Co., **Illinois:** 84 Lumber Company, American Motive Power, Inc., Behr Iron & Steel Inc., ECN Capital Corp, Exelon-ComEd, Great Northern Lumber, Heritage Environmental Services, LLC, IMEX Converting, LLC, Independence Tube, Inc, Ingredion Inc., Lincolnland Agri-Energy LLC, Michels Materials, Mont Eagle Mills, Inc., Nidera, Omya Inc., Owens Corning Sales, LLC., Pacific Woodtech Corporation, Paragon Mfg Inc, Parkside Warehouse, Regal Petroleum, Reynolds Consumer Products, Roquette America Inc, Skyway Cement, Tank Lining of Paris, Inc., Total Grain Marketing, Unilever, **Indiana:** 84 Lumber Company, Bentonite Performance Minerals, Carmeuse Lime and Stone, Certified DEF, CGB Enterprises, Darling Ingredients Inc., Domtar, Duke Energy, Graber Post Buildings, Inc., Heritage Environmental Services, LLC, Hoosier Energy REC Inc., Indianapolis Power & Light Co., Jadcore, LLC, K & K industries, Inc, Kent Grain, Malarkey Roofing, Manley Bros, Merchandise Warehouse, Metal Traders d/b/a Triad Metals International, Norton Packaging, Inc., Omnisphere Corporation, Omya Inc., Reynolds Consumer Products, Safety-Kleen, Superior Ag Resources, Superior Oil Company, The Anastasio Group, **Iowa:** AgroLiquid, Archer Daniels Midland Company, Behr Iron & Steel Inc., Bentonite Performance Minerals, Gralnek-Dunitz Co., Inc, Growmark , Hansen Mueller Co, Key Cooperative, MaxYield Cooperative, Merchants Distribution Service, Omya Inc., Reagent Chemical & Research, Rock Falls Grain Co, Roquette America Inc, Schmadeke Feed Mill Inc., Tanner Industries, Wheeler Lumber, **Kansas:** AgMark, AgroLiquid, Archer Daniels Midland Company, Ardent Mills, LLC, Ash Grove Cement, Central Plains Co-op, Coffeyville Resources Terminal,LLC, Columbian Chemicals, Darling Ingredients Inc., Frontier Ag, Inc, Midway Coop, Rangeland Cooperatives, Inc., The Great Bend Cooperative Association, The Scoular Company, Top Rail Solutions, Inc., **Kentucky:** 84 Lumber Company, American Motive Power, Inc., American Refining Group, Inc., Baker Iron & Metal Company, Beam Suntory, Bentonite Performance Minerals, Clay Ingels Co. LLC, Darling Ingredients Inc., Derby City Rail Services, Gerdau, Jiff Peanut Butter, Novelis Inc., Nugent Sand Company, Omya Inc., Owl's Head Alloys, Pacific Woodtech Corporation, Reagent Chemical & Research, Reynolds Consumer Products, Ringling Bros. and Barnum & Bailey, Seaboard International Forest Products, LLC, Standlee Premium Western Forage, Triple M Metal, W. T. Young Storage Company, **Louisiana:** 84 Lumber Company, AEROPRES Corporation, Bentonite Performance Minerals, Columbian Chemicals, M A Patout & Son Limited, LLC, Material Translogistics Inc, M-I SWACO, A Schlumberger Company, Mizkan America, Inc., Ringling Bros. and Barnum & Bailey, Tank Lining of Paris, Inc., Top Rail Solutions, Inc., Weyerhaeuser, **Maine:** Cox Industries, Inc, Dead River Company, GAC Chemical Corporation, Gillies & Prittie, Inc., Imerys, J.B. Hunt Transport, Inc., NEPW Logistics, Omya Inc., Plains Midstream Canada, Savage Safe Handling, Sazerac CO - Mr Boston Brands DBA Boston Brands of Maine, Schnitzer Steel, Shelburne Limestone Corporation, The Maine Wood Treaters, Inc, Verso Paper, **Maryland:** 84 Lumber Company, Lehigh Cement Company, Omya Inc., Pacific Woodtech Corporation, Redland Brick, Standlee Premium Western Forage, **Massachusetts:** American Dry Ice Corporation, American Steel and Aluminum LLC, Ardent Mills, LLC, Bentonite Performance Minerals, Delaware Express, Dennison Lubricants Inc, Eagle Logistics Group LLC, Essroc Cement Corp, FLW Wood Products, Inc. and FLW International, Inc., J.B. Hunt Transport, Inc., Langevin Forest Products, Inc., Lehigh Cement Company, Mapleleaf Distribution Services, Inc., Millennium Roads, LLC., Northeast Treaters, Inc., Plains Midstream Canada, Railroad Distribution Services, Ringling Bros. and Barnum & Bailey, RVJ INC, Saltine Warrior, Inc, Schnitzer Steel, Sherwood Lumber, South Dakota Soybean Processors, LLC, Southern States Cooperative Inc., T-Branch, LLC, Tunnel Hill Partners, **Michigan:** AgroLiquid, American Refining Group, Inc., Bayside Best Beans, Bentonite Performance Minerals, Burroughs Materials-Wallace Quarry, Cooperative Elevator Co., Darling Ingredients Inc., GlobeSource Consumer Products, Helena Chemical Company, Ittner Bean & Grain, Michigan Agricultural Commodities, Michigan Potash Company, Michigan Sugar Company, Omya Inc., Oxbow Fertilizer LLC, Pacific Woodtech Corporation, PCA, POET biorefining, Reagent Chemical & Research, Ringling Bros. and Barnum & Bailey, Vestas-American Wind Technology, Inc, **Minnesota:** Ardent Mills, LLC, Bentonite Performance Minerals, Choice Grain, LLC, Coop Country Farmers Elevator, Farmers Co-operative Elevator Co., GCC, Glacial Plains Cooperative, Harvestland Cooperative, Heartland Corn Products, Intermodal Services Inc, International Feed, Junction City Reload, Lehigh Cement Company, Malarkey Roofing, Meadowland Farmers Coop, Minn-Kota Ag Products, Omya Inc., Pacific Woodtech Corporation, Red River Grain Co., Rothsay Farmers Coop, South Central Grain and Energy, Southern Minnesota Beet Sugar Cooperative, Western Consolidated Cooperative, Wheeler Lumber, **Mississippi:** 84 Lumber Company, Akzo Nobel, Inc., American Alloy Steel, Bentonite Performance Minerals, Cottonseed Co-Op Corporation, Express Grain Terminals, LLC, Fishbelt Feeds, Inc., Heritage Plastics, Inc, Jones Logistics, Oil-Dri Corporation of America, Omya Inc., Parman Energy Corporation, Producers Rice MIll, Inc., Steel Dust Recycling, USG Interiors Inc., Weyerhaeuser, **Missouri:** 84 Lumber Company, Branson Scenic Railway, Certified DEF, Champion Brands, LLC, Cox Industries, Inc, Emerson Tool Co., MFA, Inc, Omya Inc., PSC Metals, Inc, Tank Lining of Paris, Inc., **Montana:** AgroLiquid, Certified DEF, Plains Midstream Canada, Rockpile Energy Services, The Western Sugar Cooperative, US Minerals Inc, Watco Terminal and Port Services, **Nebraska:** Coffeyville Resources Terminal,LLC, GCC, Junction City Reload, Lozier Corporation, Manning Rail, Inc., The Anastasio Group, The Scoular Company, The Western Sugar Cooperative, West Plains LLC, Wheeler Lumber, **Nevada:** Certified DEF, **New Hampshire:** Country Home Products Inc, Dead River Company, Pacific Woodtech Corporation, Plains Midstream Canada, Schnitzer Steel, **New Jersey:** 84 Lumber Company, Certified DEF, Constellation Brands-Beer Division, Durand Glass Mfg Co., FLW Wood Products, Inc. and FLW International, Inc., Heritage Environmental Services, LLC, Inerstate Commodities, Inc., Owens Corning Sales, LLC., Sherwood Lumber, Texon LP, Tunnel Hill Partners, **New Mexico:** Atlas Oil, Certified DEF, Ferza Truck and Rail, Freeport McMoRan, Junction City Reload, Keane Frac, LP, Mount Franklin Foods, Santa Teresa Ag Transload, Southwest Steel Coil, Inc, W. Silver Recycling, Inc., **New York:** 84 Lumber Company, Allied Frozen Storage Inc, American Alloy Steel, Ardent Mills, LLC, Aries Chemical Inc., Bailes Mill inc., Bentonite Performance Minerals, Bestway Enterprises, Inc., Can-Am Trading & Logistics, LLC, Cargill Feed and Nutrition, Chapin, Cox Industries, Inc, DIamond Hurwitz Scrap LLC, Edward Arnold Scrap Processor/Easco Brokerage, Genessee Reserve Supply, Inc., Gernatt Asphalt Products, Inc., Global Partners, LP, Gold Star Feed and Grain, LLC, Growmark FS LLC, Harbor Point Mineral Products, Inc., Heritage Environmental Services, LLC, Hi Crush Proppants, LLC, Hoosier Magnetics, Inc, Inerstate Commodities, Inc., James E. Strates Shows, Junction City Reload, Keane Frac, LP, Matthews and Fields Lumber Co., Maxam US LLC, Metalico Buffalo Shredding and Recovery, Metalico Rochester Inc., Millennium Roads, LLC., New York Bean LLC, Pacific Woodtech Corporation, Potters Industries LLC, Rawson Materials, Regional Logistics Group, Ringling Bros. and Barnum & Bailey, Sargent Transportation Lines Inc, Seaboard International Forest Products, LLC, Shelburne Limestone Corporation, Sherwood Lumber, Shuman Plastics, Slack Chemical Co., Inc., Sonoco Products Company, Sovena USA, The Anastasio Group, Tunnel Hill Partners, W.H. Rhinehart Inc., Worthington Industries, **North Carolina:** 84 Lumber Company, Berry Plastic, Inc., Bestway Enterprises, Inc., Builders Firstsource, Cox Industries, Inc, Domtar, Hexion, Jadcore, LLC, Lee Iron & Metal Co., Inc., Lehigh Cement Company, Locust Lumber Co Inc, Noble Oil Services, Inc., Oakboro Oil Co., Inc., Omya Inc., Owens Corning Sales, LLC., Pacific Woodtech Corporation, Planters Rice Mill, Shelburne Limestone Corporation, Silver-Line Plastics, Tyson Foods, Inc., Underwood & Weld Company Inc., Weyerhaeuser, Yadkin Valley Railroad, **North Dakota:** AgroLiquid, Allied Energy and Allied Agronomy, Ardent Mills, LLC, Braaten Farms, Direct Grain, Edgeley Bean Receiving, LLC, GCC, James Valley Grain, Junction City Reload, Larson Grain Company, Maple River Grain and Agronomy, LLC, Minn-Kota Ag Products, Pacific Abrasives, Plains Midstream Canada, Rockpile Energy Services, South Dakota Wheat Growers, Tharaldson Ethanol Co., Wagner Farms, Watco Terminal and Port Services, Wheeler Lumber, **Ohio:** 84 Lumber Company, American Alloy Steel, American Refining Group, Inc., Anchorglass Container, Ardent Mills, LLC, Bentonite Performance Minerals, Carmeuse Lime and Stone, CGB Enterprises, Cincinnati Bulk Terminals LLC, Cox Industries, Inc, D&D Ingredient Distributors, Inc., Darling Ingredients Inc., Deflecto, First Flare and Repair, LLC, Global Partners, LP, Heritage Cooperative, Hi Crush Proppants, LLC, Huhtamaki Inc. New Vienna, Junction City Reload, Keane Frac, LP, Keynes Bros.,Inc., Manley Bros, Marlite, Mercer Landmark, Inc., National Lime and Stone, Oleet Processing Ltd., Omya Inc., Owens Corning Sales, LLC., Pacific Woodtech Corporation, Plains Midstream Canada, Polyflex, PolyOne Corp., PSC Metals, Inc, Ringling Bros. and Barnum & Bailey, RMT, Texon LP, The Anastasio Group, The Olen Corporation, Tunnel Hill Partners, Van Wert Terminal LLC, Westmoreland Coal, Wheeler Lumber, **Oklahoma:** American Alloy Steel, Anchor Drilling Fluids, Ash Grove Cement, Bentonite Performance Minerals, Bohan Express LLC, Bri-Chem Supply Corporation, Custer City Farmers Coop Exchange, Darling Ingredients Inc., Dolese Bros. Co., Frontier Forest Products, Inc., FSTI Chemical and Logistics, Hampel Oil-Sayre OK, Huber Engineered Woods, LLC, Hughes Lumber, JKM Ventures inc, Malarkey Roofing, Manley Bros, M-I SWACO, A Schlumberger Company, Pattison Sand Company, LLC, Reagent Chemical & Research, Royal Manufacturing Co. LP, Silver-Line Plastics, SSA Gulf, Stockman's Milling, Inc., T & J Marketing, Inc., Texon LP, The Scoular Company, Top Rail Solutions, Inc., Trinity Industries, TrinityRail Maintenance Services, Inc., United States Gypsum, Western Producers Cooperative, Weyerhaeuser, **Oregon:** Batesville Cold Storage, BP, Cascade Warehouse Company, Columbia River Carbonates, Grange Co-op, Hampton Lumber Sales, Independent Dispatch, Knife River - Northwest, Marion Ag Service, Inc., Northstar Chemical Inc., Owens Corning Sales, LLC., Pacific Abrasives, Pacific Terminal Services, Inc., Potters Industries LLC, Protein Products Inc, Seneca Sawmill, SSA Gulf, Stimson Lumber Company, Swanson Group Mfg, Teevin Bros Land & Timber Co, LLC, Valley Fresh Foods Inc., White's Hauling & Farm LLC, Wilco-Winfield LLC, Wm. B. Morse Lumber Co., WW Feed LLC, **Pennsylvania:** 4N Corporation, 7 D Wholesale, 84 Lumber Company, Advanced Waste Services, Inc, Ainsworth Pet Nutrition, American Alloy Steel, American Dry Ice Corporation, American Motive Power, Inc., American Refining Group, Inc., Ardent Mills, LLC, Bentonite Performance Minerals, Bestway Enterprises, Inc., Brojack Lumber, Cargill Feed and Nutrition, Certified DEF, Domtar, DuBrook, Inc., G.R.Mitchell,inc, Gernatt Asphalt Products, Inc., Gordon Recycling Services, Hi Crush Proppants, LLC, Inerstate Commodities, Inc., James Austin Company, Junction City Reload, Keane Frac, LP, Keystone Propane, Keystone Rail Recovery, LLC, Lehigh Cement Company, Linde Corporation, Manley Bros, Metal Traders d/b/a Triad Metals International, M-I SWACO, A Schlumberger Company, Millennium Packaging Service Inc., Monadnock Non Wovens LLC, National Lime and Stone, Nicholas Enterprises Inc., North Pier Energy, Oleet Processing Ltd., Omya Inc., Pacific Woodtech Corporation, Pattison Sand Company, LLC, Quality Warehouse, Inc., Reagent Chemical & Research, Recon Construction Services Inc., Ringling Bros. and Barnum & Bailey, RMT, Sasol Chemicals (USA) LLC, Schoenberg Salt Company, Shelburne Limestone Corporation, Simona America, SSA Gulf, Stella-Jones Corporation, Tanner Industries, Texon LP, The Ransom Quarry Co., Inc, Trevdan Building Supply, Tunnel Hill Partners, Valier Coal Yard, **Rhode Island:** BB&S Treated Lumber of New England, Lehigh Cement Company, Ringling Bros. and Barnum & Bailey, Schnitzer Steel, **South Carolina:** 84 Lumber Company, Bentonite Performance Minerals, Cox Industries, Inc, Domtar, International Feed, James E. Strates Shows, Nucor Steel South Carolina, Omya Inc., Plains Midstream Canada, Ringling Bros. and Barnum & Bailey, Sonoco Products Company, The Anastasio Group, The C. F. Sauer Company, The Mallory Group, Triple M Metal, Vulcraft South Carolina, Yadkin Valley Railroad, Yang Ming (America) Corp., **South Dakota:** CHS Border States, Cone Ag, Dakota Mill & Grain, Dakota Warehouse, GCC, Harrold Terminal, Junction City Reload, Nestle Purina PetCare Company, Novita Nutrition, LLC, Oahe Grain Corp, Red River Grain Co., Ringneck Energy, South Dakota Pulse Processors LLC, South Dakota Soybean Processors, LLC, South Dakota Wheat Growers, Wheeler Lumber, **Tennessee:** 84 Lumber Company, Bentonite Performance Minerals, Certified DEF, CFC Recycling Inc., Chism Hardy Investments, LLC, Coffee Farmers Coop, Cornerstone Systems, Jostens, Kentucky-Tennessee Clay Co., Nyrstar Trade & Marketing AG, Omya Inc., Pacific Woodtech Corporation, PSC Metals, Inc, Queen City Railroad Construction, Regal Petroleum, Republic Plastics, Tank Lining of Paris, Inc., The Knoxville Locomotive Works, Inc., The Mallory Group, Tri-County Railroad Authority, Underwood & Weld Company Inc., White Co Farmers Co-op, Yadkin Valley Railroad, **Texas:** 84 Lumber Company, Abilene Ag Service & Supply Inc, AgroLiquid, American Alloy Steel, American Plant Food Corporation, Archer Daniels Midland Company, Ardent Mills, LLC, Arizona Chemical, Atlas Oil, Bentonite Performance Minerals, Brick Selections, Builders Firstsource, C&C Transload, LLC, Calumet Penreco, Certified DEF, Chapa Quiroga LLC, Ci Logistics LLC, cru trading co, Dallas Transfer and Terminal Warehouse Company, Daniel B. Hastings Inc., Darling Ingredients Inc., Dix Shipping Co., Inc., DMG Equipment Company, LTD., Emerson Tool Co., FairmountSantrol, Ferza Truck and Rail, FSTI Chemical and Logistics, Garcia Grain Trading Co., Georgetown Rail Equipment Co., Hafco Services Inc, Headwaters Resources, Hi Crush Proppants, LLC, Hollon Oil Company, Junction City Reload, Kapstone, Kasberg Grain Company, Keane Frac, LP, Livestock Nutrition Center, Logistica Integral en Transportacion, Lone Star Railcar Storage Company, Manley Bros, McAllen Foreign Trade Zone Inc., Millennium Packaging Service Inc., Mission EDC, Novolex, Omya Inc., Owens Corning Sales, LLC., Pacific Woodtech Corporation, Pattison Sand Company, LLC, Pinnacle Sands LLC, Potters Industries LLC, Premier Silica/Pioneer Natural Resources, Quick Build Homes & Lumber, Inc., Reagent Chemical & Research, Ringling Bros. and Barnum & Bailey, Rose Acre Farms, Royal Manufacturing Co. LP, Sherwood Lumber, Southwest Steel Coil, Inc, SPR Packaging LLC, Stockman's Milling, Inc., Tank Lining of Paris, Inc., Texas Pacifico Transportation, LTD, The Mallory Group, Top Rail Solutions, Inc., UFP Schertz LLC, Valley Coop oil mill, Vestas-American Wind Technology, Inc, W. Silver Recycling, Inc., We Pack Logistics, We Stow, Inc., West Plains LLC, Wilkinson Ray Iron & Metal, Inc, Zarsky Lumber Co., **Utah:** Ardent Mills, LLC, BHS Marketing LLC, Omya Inc., Reagent Chemical & Research, SSA Gulf, Wheelwright Lumber Company, **Vermont:** Cargill Feed and Nutrition, Carris Reels Inc., Cersosimo Industries, Inc., Country Home Products Inc, Couture Trucking Inc., Dead River Company, Gillies & Prittie, Inc., Global Partners, LP, Gold Star Feed and Grain, LLC, James E. Strates Shows, Langevin Forest Products, Inc., Plains Midstream Canada, Seaboard International Forest Products, LLC, Troy Minerals, White River Traffic Group, Inc., **Virginia:** 84 Lumber Company, Ampro Products Inc, Bentonite Performance Minerals, Cox Industries, Inc, Lehigh Cement Company, Omya Inc., Stella-Jones Corporation, The Anastasio Group, **Washington:** AgVentures NW, Akzo Nobel, Inc., Almira Farmers Warehouse Comany, Bentonite Performance Minerals, Calumet Penreco, Central Washington Grain Growers, Inc, Certified DEF, Columbia River Carbonates, Darling Ingredients Inc., HIghLine Grain, LLC, MacMillan-Piper, Northstar Chemical Inc., Oroville Reman and Reload, Pacific Abrasives, Sawyer & Sawyer Inc, South Dakota Soybean Processors, LLC, Valley Fresh Foods Inc., Watco Terminal and Port Services, Wilco-Winfield LLC, Wm. B. Morse Lumber Co., WW Feed LLC, **West Virginia:** 84 Lumber Company, FSTI Chemical and Logistics, Reagent Chemical & Research, Reynolds Consumer Products, **Wisconsin:** 84 Lumber Company, Advanced Waste Services, Inc, Cedar Creek LLC, Charter NEX Films, Inc., Cox Industries, Inc, Darling Ingredients Inc., Green Bay Packaging, Janesville Sand & Gravel Co., Michels Materials, Omya Inc., Pattison Sand Company, LLC, PCA, Pinnacle Foods Group, LLC, Top Rail Solutions, Inc., Wheeler Lumber, **Wyoming:** C&C Transload, LLC, First Flare and Repair, LLC, Imerys, Intermodal Services Inc, Maxam US LLC, Nestle Purina PetCare Company, Pacific Woodtech Corporation, Reagent Chemical & Research, TAG Environmental Inc., Tank Lining of Paris, Inc., The Western Sugar Cooperative, Vestas-American Wind Technology, Inc, ,

Please visit **www.savingourservice.org** for more information, and a complete list of our member companies.

RESOLUTION IN SUPPORT OF S. 407 and H.R. 721
BUILDING RAIL ACCESS FOR CUSTOMERS AND THE ECONOMY

BY THE RAILROAD-SHIPPER TRANSPORTATON ADVISORY COUNCIL

WHEREAS, under the Interstate Commerce Commission Termination Act of 1995, Congress created the Railroad-Shipper Transportation Advisory Council ("RSTAC") for the purpose of advising Congress, the U.S. Department of Transportation and the Surface Transportation Board (STB) on rail issues; and

WHEREAS, RSTAC is a 15-member council made up of small shippers and small railroads, large shippers and large railroads and representing a balanced cross section of industries that use rail services; and

WHEREAS, Short line and regional railroads are small, local job creators building for growth that invest in and connect communities to the American economy, are privately and locally owned, and are the first and last miles of a rail network that provides safe and affordable freight service for manufacturers and farmers in 49 of 50 states; and

WHEREAS, Short lines keep American businesses competitive in global markets by moving grain from the Great Plains to the Gulf Coast ports, sand from Wisconsin to Pennsylvania gas fields, ore to steel mills, coal to power plants, and finished Michigan-made cars for export abroad; and

WHEREAS, Upgrades to short line railroads have been made possible by the Section 45G short line tax credit as it leverages private investments to promote even further track and bridge investments, amounting to $4 billion dollars over 12 years; and

WHEREAS, 45G is a private solution to a public problem spurring on local economies across the country that suffer from inadequate infrastructure investments; and

WHEREAS, The Building Rail Access for Customers and the Economy (BRACE) Act (H.R. 721 and S. 407) will make Section 45G permanent and allow small, local freight railroads to increase their reinvestments to upgrade and expand the "first and last mile" of transportation infrastructure that will continue low-cost, environmentally-sound transportation to thousands of railroad customers across virtually every sector of the economy; and

WHEREAS, The BRACE Act will promote safe, efficient, and cost-effective transportation for thousands of short line railroad customers short lines bind the nation's industrial and agricultural heartland to urban consumers and export opportunities. Section 45G keeps the trains rolling for 10,000 rail customers that employ over one million Americans. The credit is a lifeline to these communities and local businesses that keep America strong; and

WHEREAS, The BRACE Act is a private solution to a public problem and assists short lines prioritize infrastructure investments based on market demand and community needs without being subject to the inconsistencies of bureaucratic and political will; and

WHEREAS, Currently, 165 members of the House of Representatives are co-sponsoring H.R.721 and 39 Senators are co-sponsoring S. 407;

NOW THEREFORE, RSTAC by unanimous consent of its 15 members adopts the following resolutions:

RESOLVED: RSTAC thanks the co-sponsors of The Brace Act for their leadership address this important infrastructure act that will promote safe, efficient, and cost-effective transportation for short line railroads and thousands of railroad customers; and

RESOLVED: RSTAC fully supports the adoption of The Brace Act and urges Congress to adopt it to make Section 45G to ensure the long-term benefits of this the tax credit for short line and regional railroads are made permanent.

Adopted this __ day of May, 2017

AAPA American Association of Port Authorities
Alliance of the Ports of Canada, the Caribbean, Latin America and the United States

Seaports Deliver Prosperity

September 21, 2018

The Honorable Paul Ryan
Speaker of the House
U.S. House of Representatives
H-232 Capitol Building
Washington, DC 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
H-204 Capitol Building
Washington, DC 20515

The Honorable Kevin Brady
Chairman
House Ways and Means Committee
1011 Longworth House Office Building
Washington, DC 20515

The Honorable Richard E. Neal
Ranking Member
House Ways and Means Committee
341 Cannon House Office Building
Washington, DC 20515

Dear Speaker Ryan, Minority Leader Pelosi, Chairman Brady and Ranking Member Neal:

The American Association of Port Authorities (AAPA) strongly supports making Short Line Tax Credit (45G) permanent as soon as possible, to help the U.S. economy better compete in the world marketplace. AAPA is the unified voice of the seaport industry in the Americas, representing more than 130 public port authorities in the U.S., Canada, the Caribbean and Latin America. This letter is on behalf of our U.S. members. Seaports deliver vital goods and services to consumers, ship U.S. exports, create jobs and support local and national economic growth. Seaports are vital economic engines whose cargo activity supports over 23 million American jobs and accounts for over a quarter of the U.S. economy. In 2014, U.S. seaports generated nearly $4.6 trillion in total economic activity.

Seaports and short line railroads share a strong partnership within the supply chain. Port rail access is vital infrastructure that connects American farmers, manufacturers and consumers with international markets. American ports rely on safe, efficient surface transportation that connects U.S. seaports with all the communities located away from the Atlantic, Pacific, or Gulf coasts and the Great Lakes. Short line freight railroads provide the critical “first mile and last mile” for these interior surface moves.

Improving rail access and providing tools to build multimodal rail infrastructure is a top AAPA priority. AAPA’s recently released The State of Freight III report which identified that in the coming decade one-third of ports have pressing rail project needs that cost more than $50 million, 43 percent said better rail access would add more than 25 percent throughput capacity through their ports and 90 percent said better rail access would help meet these growing demands and secure new cargo. In fact, rail access is so important to the port industry and supply chain that within the next ten years, 77 percent of ports are planning on-dock, near-dock or rail access projects

There are over 600 smaller U.S. short line and regional freight railroads in every state except Hawaii. Ports on all three coasts and the Great Lakes rely on these railroads for on-dock or near-dock support of AAPA-member facilities. These smaller railroads also play a critical role in supporting the inland origins and destinations for international port traffic, ranging from originating American grain and U.S.-manufactured goods shipments to export markets, to servicing inland ports for international shipments. Short line railroads often make the vital

1010 Duke Street, Alexandria, VA 22314-3589 p 703.684.5700 f 703.684.6321 www.aapa-ports.org

supply connections that Class 1 railroads cannot or will not do. All these services are critical for the growth and long-term health of U.S. seaport facilities.

The Short Line Tax Credit is a very important part of the U.S. tax code that assists smaller freight railroads to reinvest more back into their track and bridge infrastructure to handle freight more efficiently and safely. These improvements typically target ways to allow short lines to handle modern, heavier freight cars that are the standard on the large, Class I national rail network. Helping smaller railroads increase their ability to handle these modern cars creates public benefits for the thousands of communities and customers that depend on their freight services across the entire U.S.

AAPA supports making the Short Line Tax Credit permanent, to bring private sector investment into building out our national multimodal freight network, so our U.S. economy will continue to prosper, and U.S. goods and agriculture will better compete in the world marketplace.

We look forward to working with you on improving our national multimodal freight network.

Sincerely,

Kurt J. Nagle
President and CEO

cc: All Members of Congress

Statement of the American Farm Bureau Federation

Statement for the Record Submitted
for the Hearing on

Post Tax Reform Evaluation of Recently Expired Tax Provisions
held March 14, 2018 by the
Ways and Means Committee, Subcommittee on Tax Policy

Submitted by:

The American Farm Bureau Federation

[Includes only portions of the statement related to short line railroad 45G tax credit]

600 Maryland Ave. SW | Suite 1000W | Washington, DC 20024 | p. 202.406.3600 | f. 202.406.3606 | www.fb.org

Farm Bureau promotes policies that support the infrastructure necessary to meet the logistical needs of farm and ranch businesses and the rural communities where they live. Tax incentives that assist short line railroads maintain and improve service to rural communities should be continued.

Farm Bureau calls on Congress to formulate predictable, stable, long-term tax policy that provides businesses and investors with the certainty they need for sound business planning. The uncertainty surrounding the expired tax credits undermines the purpose of these credits, which is to provide incentives for investment and to promote economic growth. In the short-term it is critical that Congress extend these important tax credits for one year, through 2018, on the first appropriate legislative vehicle.

Short Line Railroad Rehabilitation Tax Credit (Sect. 45G)

An effective transportation system supports farms and ranches by raising the value of their crops, increasing their access to domestic and international markets and reducing the prices farmers pay for inputs like seed and fertilizer. Unlike most other industries, farms and ranches are unable to move their operations because they are tied to the land and often to a particular climate. Because of this immobility, agricultural producers must transport their products long distances to market and they need a reliable and affordable way to get supplies to operate their businesses. Rail is the only reliable and cost-effective transportation mode broadly available for many agricultural producers. And for large areas of rural America, short line rail service is the only connection to national railroad network.

Providing effective transportation for rural regions not only helps farm and ranch businesses, it improves the standard of living for the communities where they live. As agriculture thrives, so do the service sectors, governments, manufacturing facilities and retail and wholesale establishments that comprise the bulk of rural employment. For these reasons, Farm Bureau supports continuation of tax credits that help Class II and III railroads maintain and improve rail service to rural America.

SHEET METAL | AIR | RAIL | TRANSPORTATION

SMART

TRANSPORTATION DIVISION

Please see below a letter from SMART TD supporting the short line railroad "45G" tax credit (S. 407). We know that Senator Isakson *has been a strong supporter of this credit already, and wanted to let you know that this credit is important not only to the short line railroads and their thousands of customers throughout the country, but also to the largest freight railroad labor union in the country.*

On behalf of the 125,000 members of the Transportation Division of the International Association of Sheet Metal Air Rail and Transportation Workers (SMART TD), we strongly support legislation to extend or make permanent the short line railroad tax credit (H.R. 721 & S. 407) and urge Congress to include this provision in upcoming tax reform or infrastructure legislation. While the "45G" short line tax credit was originally enacted in 2004 and has since been extended multiple times on a strongly bipartisan basis, it expired at the end of 2016.

Short line railroads are preserving jobs and rail service in large areas of the country that are no longer served by the Class I railroads. Because these smaller railroads operate over track that received little investment by their previous Class I owners, they have substantial rehabilitation needs. The short line tax credit is a valuable tool in maximizing the investment that will preserve and enhance this vulnerable transportation infrastructure.

Railroad workers have a big stake in these critical investments because it provides short line railroads an opportunity to save existing freight traffic and attract new customers. These investments make existing jobs more secure and creates numerous opportunities to add new jobs in the railroad industry. Most importantly, every dollar invested in track rehabilitation is also a dollar invested in safety. Improving railroad safety is one of the primary goals of our organization and we believe the short line tax credit contributes toward achieving that goal.

If you have any questions or concerns, please do not hestiate to contact me at jrisch@smart-union.org or at (202) 543-7714.

Sincerely,

John Risch
National Legislative Director
SMART Transportation Division

Standing Committee on Rail Transportation
Policy Resolution
Title: Continuation of the Short Line Tax Credit

WHEREAS, According to the American Short Line and Regional Railroad Association 2014 edition of the "Short Line and Regional Railroad Facts and Figures" there are 560 Class III "short line" and Class II "regional" freight railroads cross the United States, collective herein referred to as "Short Lines"; and

WHEREAS, These Short Lines railroads are located across America, in every state except Hawaii; and

WHEREAS, These Short Lines provide critical freight services to thousands of communities and companies that otherwise would not have access to the national rail network; and

WHEREAS, The American Short Line and Regional Railroad Association reports that short line and regional railroads currently move approximately 8 million carloads of freight a year, which helps keep approximately 28 million truckloads of freight off American highways annually and for shippers can be anywhere between 20% to 50% less expensive than comparable truck transportation; and

WHEREAS, Most of these Short Lines were created after being disposed of by the larger freight railroads; and

WHEREAS, Due to deferred maintenance associated with these lines from their prior ownership, many of these Short Lines are not able to handle the rail freight industry standard 286,000 pound loaded rail freight car; and

WHEREAS, As a result of this inability to utilize these modern rail cars, affected Short Line customers are placed at a disadvantage, negatively impacting the competitiveness in regional and world markets; and

WHEREAS, The Federal Railroad Administration in an October, 2014 report entitled "Summary of Class II and Class III Railroad Capital Needs and Funding Sources" noted that short line and regional railroads in this country on average will only be able to meet 83% (regional/Class II railroads) and 69% (short line/Class III railroads) of their infrastructure needs respectively; and

WHEREAS, Additionally, utilization of Short Lines to transport freight improves the environment, increases overall freight transportation efficiency, reduces highway congestion, help avoid roadway deterioration, and

WHEREAS, In recognition of this serious public transportation policy issue in 2004 Congress enacted the a credit (Short Line Tax Credit) to allow Short Lines to reinvest more of their cash flows back into their physical plants; and

WHEREAS, Since 2005 the Short Line Tax Credit had been in effect, although typically only for a year or two at a time; and

WHEREAS, The last extension of the Short Line Tax Credit expired on December 31, 2016; and

WHEREAS, To address this lapse, members of Congress have introduced two bills, S.407 and HR.721, to remove the expiration date associated with the Short Line Tax Credit and allow it to be in place if and when Congress decides to either revoke it or undertake comprehensive tax reform; and now, therefore be it

RESOLVED, that the AASHTO Standing Committee on Rail Transportation calls on Congress and the President to enact the modification of the Short Line Tax Credit, to allow it to continue uninterrupted into the future until Congress determines a more comprehensive way to help the U.S. economy and the national transportation infrastructure needs involving Short Lines.

Approved by the Standing Committee on Rail Transportation
June 5, 2017

THE SHORT LINE TAX CREDIT: PERMANENCY NEEDED NOW

THE SHORT LINE CONNECTION: A CRITICAL PIECE OF THE U.S. FREIGHT RAIL SYSTEM

Comprised of 603 small business railroads, the short line rail industry was created by entrepreneurs who took large financial risks to save marginal or money-losing Class I railroad branch lines from abandonment.

First & Last mile of service
for 1 in 5 cars moving throughout the system each year.

47,500
route miles are operated by short lines

29%
of the freight rail network in the U.S.

10,000+
customers are served by short lines

100% 25% Short lines provide 100% of rail service in five states, and more than 25% in 36 states.

For large areas of rural and small-town America, the short line rail industry provides the only way shippers can be directly connected to the national economy, while ensuring business and employment stay local.

CONGRESS MUST EXTEND OR MAKE PERMANENT THE EXPIRED SHORT LINE TAX CREDIT TO ENSURE THAT THE PUBLIC SAFETY AND ECONOMIC BENEFITS OF THIS SUCCESSFUL POLICY CONTINUES INTO 2019 AND BEYOND.

THE SHORT LINE NEED

Short line railroads face massive demands for infrastructure investment due to decades of deferred maintenance by prior owners. Short lines annually invest 25-33% of their revenues in maintenance, track and bridge improvements.

THE SOLUTION: THE SHORT LINE TAX CREDIT

Expired since December 2017, the Short Line Tax Credit allows a credit of 50 cents for each dollar railroads invest in track and bridge improvements, capped at $3,500 per mile. The Credit has spurred $4B in infrastructure investment since 2005 – investment that would not have been possible without the Credit.

The Credit creates the financial ability to invest more revenues into short line infrastructure. Studies have shown that the Credit's incentive could drive an infrastructure investment increase of 47%.*

PROVEN SAFETY BENEFIT

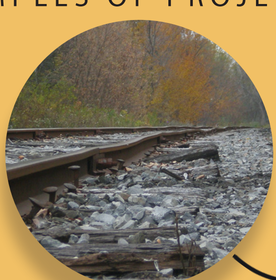
- Short line infrastructure investment, upgrading rails and bridges to the modern requirements of 286,000-lb. capacity rail, has ensured that railroads continue to be the safest form of transportation.
- Federal Railway Administration data show a 50% reduction in train derailments on short line railroads since the Credit first went into effect.
- Short line rail infrastucture improvements ensure better service to agricultural, energy and industrial customers AND keep 31.8 million heavy truckloads off local roads annually.

PROVEN ECONOMIC BENEFIT

- Short line railroads and their suppliers support more than 61,000 jobs in the U.S. - many in rural America - and add $6.5 billion annually to the U.S. economy.*
- Across the country, there are 478,000 jobs at customer locations that require short line services, driving $26.1 billion in labor income and $56.2 billion in economic value-add.*
- Short line freight service saves taxpayers more than $1.5 billion annually in wear and tear on roadways.
- Since 2005 the Credit has enabled thousands of projects annually, upgrading short line routes to handle modern freight cars for more efficient shipper service.

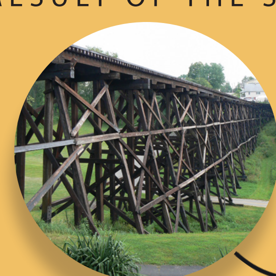
* *The Section 45G Tax Credit and the Economic Contribution of the Short Line Railroad Industry*, PricewaterhouseCoopers LLP (PwC) , July 2018. See http://files.aslrra.org/images/news_file/PwC_ASLRRA_final_report.pdf

EXAMPLES OF PROJECTS COMPLETED AS A RESULT OF THE SHORT LINE TAX CREDIT



Before

After



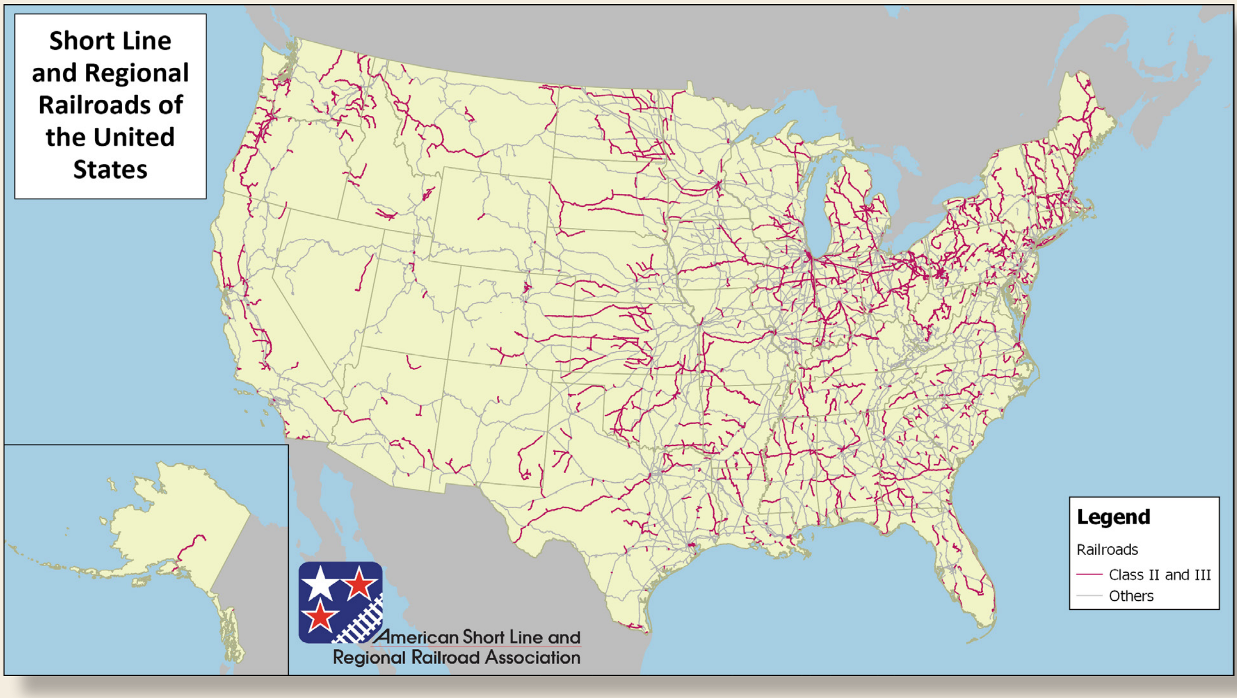
Before

After

THE SHORT LINE TAX CREDIT: PERMANENCY NEEDED NOW

THE SHORT LINE TAX CREDIT IS GOOD PUBLIC POLICY WITH WIDESPREAD SUPPORT

- Selected as the ONLY tax credit to be recommended for permanency by House Ways & Means Committee in 2018
- Supported by bipartisan majorities in the 115th Congress - both House (262 co-sponsors) and Senate (56 co-sponsors)
- Supported by AASHTO, UTU SMART, AAPA, Farm Bureau and STB Railroad-Shipper Transportation Advisory Council
- Supported by 600 customers representing nearly 1,700 locations – visit www.savingourservice.org



ADD YOUR NAME IN SUPPORT OF COMPETITIVE SERVICE TO 10,000 SHIPPERS ACROSS THE COUNTRY!

To co-sponsor the 2019 Short Line Tax Credit bills, making the Credit permanent, contact:

HR. 510:
Jon Bosworth – Rep. Earl Blumenauer (D-OR)
Jon.Bosworth@mail.house.gov, 225-4811
Lori Prater – Rep. Mike Kelly (R-PA)
Lori.Prater@mail.house.gov, 225-5406

S. 203:
Andrew Earl – Senator Mike Crapo (R-ID)
Andrew_Earl@crapo.senate.gov, 224-6142
Christopher Arneson – Senator Ron Wyden (D-OR)
Christopher_Arneson@finance.senate.gov, 224-0535

"The railroad provides access to additional markets, reduces cost, reduces highway investment and repair and improves prices farmers receive. Access to efficient and responsive rail service is essential for the economic well-being of agricultural and rural areas."
Jim Magnusen, General Manager, Key Cooperative

"Wheeler Lumber supplies bridge timbers to the short line railroads. It takes many years of planning to rehab or construct a bridge. Without the permanency of the short line credit, railroads cannot invest in projects with the uncertainty of available funding."
David Koch II, Sales Manager, Wheeler Lumber

"We work in economic development and short lines are vital to the success of our manufacturing sector's future."
Mark Nolte, President, Iowa City Area Development (ICAD)

"Shipping by rail is more economical for us, and for our customer."
Roger Zaabel, Vice President, Gralnek-Dunitz Co., Inc.

Statement of

Ms. Judy A. Petry
Chair of the American Short Line and Regional Railroad Association

United States House Ways and Means Committee
Subcommittee on Tax Policy

Hearing on "Post Tax Reform Evaluation of Recently Expired Tax Provisions"
March 14, 2017

I am Judy Petry, President and General Manager of Farmrail, a 349-mile short line railroad in western Oklahoma. I currently serve as Chairwoman of the Board of the American Short Line and Regional Railroad Association (ASLRRA), the trade association representing the nation's **600** Class II and III railroads. These railroads operate in **49 states** over nearly **50,000 miles of track**, or about one third of the nation's railroad network. For large areas of the country, and particularly for small town and rural America, short line service is the only connection to the national railroad network.

A national short line railroad network map is attached.

I am testifying in support of the Short Line Railroad Rehabilitation 45G Tax Credit, first enacted in 2004 and extended six times through 2017. Each time, stand-alone legislation to extend the credit has been one of the most heavily co-sponsored and bipartisan pieces of tax legislation introduced in that Session of Congress. The current legislation, H.R. 721, introduced by Reps Lynn Jenkins and Earl Blumenauer, which would make the credit permanent, has **256** House co-sponsors, including 9 of the 15 members of the Tax Policy Subcommittee convening this hearing. A list of each of those co-sponsors is attached.

Thousands of customers that rely on our service have signed letters or travelled to Washington in testament to the broad benefits of our track infrastructure for the many communities and regions we serve. A collection of quotes from these customers is attached. We have selected a wide variety from across the country to give you a sense of the important relationship between shippers and their short lines. In general, they sound like this: *"Our serving short line railroad is truly a partner for our paper mill. The services provided, including freight haul in and out, daily switches, and rail car maintenance help us keep our mill running successfully day in and day out. It is critical to the 400 plus people employed here that our short line railroad be able to continue to operate successfully."*

A statement from a group they have formed, known as Saving Our Service, is also attached.

The following comments are in reference to the information requested by the Committee in the hearing announcement and by Chairman Brady in a series of public statements:

Is the credit having its intended effect?

The credit was intended to allow short lines to spend more of what they earn rehabilitating track and bridges. Because our task was to bring back to life what were previously under-maintained Class I branch lines that were headed for abandonment, we invest on average from 25 to 33 percent of our annual revenues back into our railroads, making us one of the most capital intensive industries in the country. At the same time, due to the relatively short distances involved in most short line routes, revenues on short lines are limited. This is why the short line 45G tax credit is so important. Since enactment, the credit has allowed us to spend an additional $2.1 billion of our earned revenues towards the goal of our getting our network into a state of good repair. It is a critical part of how we can reinvest so much back into our small businesses and still have enough to keep the lights on and meet payrolls.

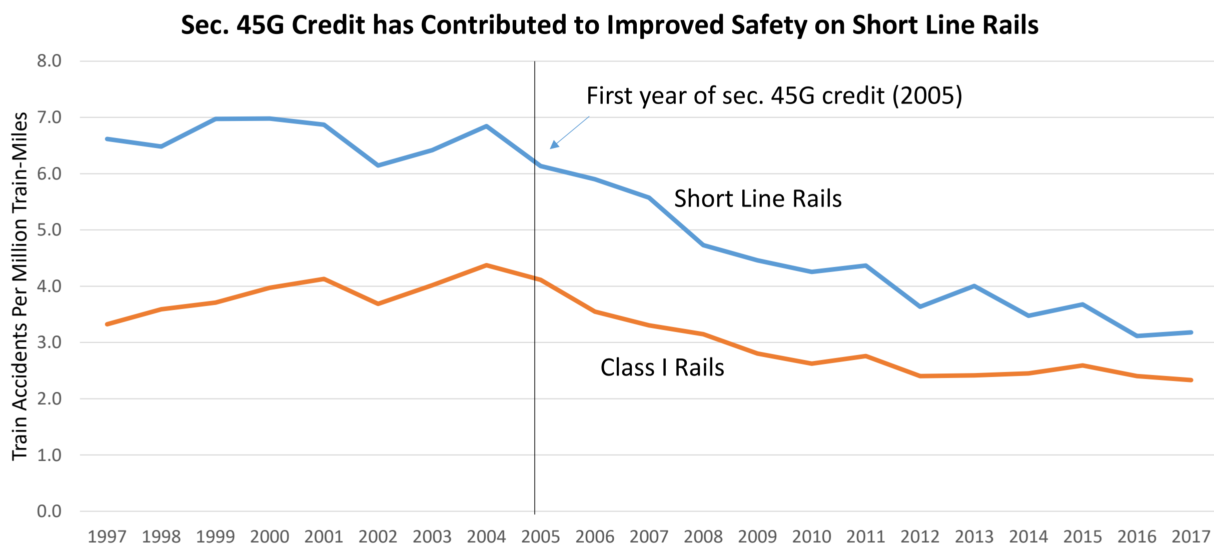
The credit's unique structure maximizes capital investment in two ways:

1) 45G requires the railroad to spend two dollars for every dollar in credit, up to the credit cap equivalent of $3,500 per track mile. We have to invest significant amounts into our infrastructure to earn the credit.

2) The ability to assign eligible tax credit miles to a shipper that can use the resulting tax credit allows smaller railroads with insufficient cash flow to fund expensive rehabilitation that would otherwise be out of reach.

Here is one compelling data point that shows that the credit is meeting expectations:
For decades the Railway Tie Association has kept comprehensive statistics on railroad tie purchases. Using econometric modeling and regression analysis that controls for other factors, RTA estimates that the 45G credit results in an average increase of 800,000 short line tie purchases beyond their normalized annual purchases.

And here is another:
One measure of the improved short line railroad infrastructure supported by the 45G credit is improved safety performance. Since enactment of the 45G credit in 2004, train accidents on short line railroads have declined by more than 50 percent, from a rate of 6.84 per million train miles in 2004 to 3.18 in 2017. Short line safety performance is now approaching that of the larger Class I railroads and has improved at a faster rate than Class I railroads over the period the 45G credit has been in existence.



Notes: Train accidents not at grade crossings; Class I data exclude Amtrak.
Source: Federal Railroad Administration.

What is the overall economic impact of the provision? Is it incentivizing capital investment? How will it amplify the growth and competitiveness delivered by our new tax code?

The credit's overall economic impact and value to the economy is fourfold:

1) Keeping shippers connected to the national freight rail network gives them access to national and global markets which would otherwise be out of reach. It is true that Midwestern grain shippers cannot complete the journey to poultry farm markets in the southeastern United States without Class I railroad service, but it is also true for many that they can't start the journey without short line service.

   America's agricultural, timber, mining, manufacturing (and many more) sectors depend on short line service to get their product on the first mile of its long journey towards its ultimate destination. Without short line service, these job creating sectors would face higher transportation costs and in some cases would no longer be able to stay in business in their current locations, depriving small town and rural America of the jobs they currently provide.

2) Shippers receive substantial competitive benefits by using rail. On my own railroad for instance, the cost of moving the 95 miles from Clinton to Enid, Oklahoma is $2.24 per mile versus $3.75 per mile for comparable truck service. You multiply that by the over 10,000 short line shippers traveling over 50,000 miles of short line track and you are starting to talk about real money.

3) Virtually all the materials we buy to improve our rail lines – wood ties, steel rail, and stone ballast—are made in America.

4) Fifty percent of the cost of a rehabilitated mile of track goes to labor and, as small businesses, we contract out almost all that work to outside companies creating American infrastructure jobs in the process.

As noted, the purpose of the tax credit was to increase capital investment and that has occurred. I will use my own railroad as an example, but these facts can be repeated by virtually every short line in the country. In the last five years Farmrail's annual revenue totaled $84 million and we spent $34 million of that, or just over 40 percent of our revenue, on track improvements. By any measure that is a very high expenditure and $7.7 million of that was made available by the tax credit.

45G incentivizes shippers to invest and they have. In South Dakota, for example, the improvements made by the 670-mile Rapid City, Pierre & Eastern Railroad (RCP&E) since it began operations in 2014 have already attracted over $311 million in new facility investments by six South Dakota companies, creating over 270 new industrial and agricultural sector jobs. For years, shippers would not invest in facilities along the RCP&E's line because of unreliable service and an uncertain future. Then, the track investment and service improvements that were made in part as a result of the 45G credit resulted in increased train speeds, accommodation of industry-standard heavier rail cars, and improved reliability, which changed this reality, restored shipper confidence, and became a catalyst for new industrial development.

This result has been replicated on nearly every short line railroad across the country.

I commend to your attention a recent article by South Dakota Governor Dennis Daugaard on the importance of this investment, a copy of which I have attached to my testimony.

Is the provision still necessary after tax reform? What is the value of keeping the credit in the new tax code?

We believe the recent tax reform legislation benefits American families and businesses and will increase overall economic growth. However, even with the reformed tax code there is still a strong need for the support provided by the 45G credit. While 100-percent expensing will help support capital investment in other industries, it does not serve as a substitute for the 45G credit in the short line railroad industry. Under long-standing IRS rules, 75 percent of most railroad capital track investment could already be immediately expensed. Additionally, much of what we invest in track rehabilitation is considered maintenance expense and could already be immediately deducted. For these two reasons the immediate 100 percent expensing rule does not move the dial much for short lines.

Also, most short lines operate light density lines in rural America that were inherited from their Class I owners with significant deferred maintenance, so the short line owners must now re-invest huge sums, which severely limits pre-tax earnings. Make no mistake: these are viable businesses with significant benefit to the communities and regions they serve. However, the nature of the industry – serving customers who ship in small volumes combined with heavy railroad capital investment requirements, leaves much of the industry with low or no taxable income and hence little benefit from the new lower corporate tax rate.

Since 45G was first enacted in 2004, short lines have used much of the tax credit installing tens of millions of ties to stabilize our most vulnerable track. Going forward, we need to invest approximately $10.8 billion in heavier rail and upgraded bridges to complement that tie replacement and finish the job of upgrading our network to be capable of handling the now industry-standard 286,000 pound rail car.

Finally, as noted above, the ability to assign eligible track miles to a shipper that uses the short line allows smaller railroads with insufficient cash flow to fund expensive rehabilitation that would otherwise be out of reach. This is a unique and very important aspect of the 45G credit that allows short lines with limited income to continue to utilize the credit for its intended purpose.

Although not a question originally posed by the hearing announcement we would be pleased to work with the Ways & Means Committee and the Joint Committee on Taxation to provide industry data on credit usage and assist in projections of the costs and benefits of the credit under possible modifications if the credit were to be made a permanent part of the updated tax code.

I appreciate the opportunity to testify to the benefits of this tax credit and the importance of it being made permanent. On behalf of the entire short line industry let me express our strong desire to work with Congress to ensure that the short line industry remains a vital component of the American transportation network.

Statement of

Mr. Chuck Baker

President of the American Short Line and Regional Railroad Association

United States House of Representatives | Ways and Means Committee
Subcommittee on Select Revenue Measures

Hearing on "Temporary Policy in the Internal Revenue Code"
March 12, 2010

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Ways & Means Testimony March 12, 2019

This written testimony is being submitted to the Select Revenue Measures Subcommittee in connection with its March 12, 2019 hearing on "Temporary Policy in the Internal Revenue Code." My name is Chuck Baker and I am President of the American Short Line and Regional Railroad Association (ASLRRA), the national trade association representing the nation's 603 Class II and Class III railroads (referred to here collectively as "short lines"). I appreciate the opportunity to discuss the economic and service inefficiencies resulting from temporary and short-term extensions of this credit and why making the credit permanent will make an important and lasting contribution to the national freight rail network and the shippers it serves.

The Short Line Tax Credit, known by its code section 45G, was first enacted in 2004 and has been extended six times through 2017. Each time, stand-alone legislation to extend the credit has been one of the most heavily co-sponsored and bipartisan pieces of legislation introduced in that Session of Congress. In the last Session of Congress 23 Members of the Ways & Means Committee co-sponsored the bill almost evenly split between Democrats and Republicans. This year Congressman Blumenauer and Congressman Kelly have introduced H.R. 510, that like H.R. 721 from the 115th Congress, makes the credit permanent. The new legislation has already attracted 137 co-sponsors including 15 Members of the Ways & Means Committee.

The credit was intended to allow short lines to spend more of what they earn rehabilitating track and bridges, to make safer, more efficient and seamless rail freight connections between communities and customers on the national rail freight network. Most of today's short line railroads were created to bring back to life what were previously under-maintained Class I branch lines headed for abandonment. Particularly for rural and small-town America these lines are the only connection to the national railroad network. To succeed they invest on average from 25 to 33 percent of their annual revenues back into their properties, making them one of the most capital-intensive industries in the country. At the same time, the combination of relatively short route distances and the lighter volumes shipped by the small businesses they serve results in limited revenues available for additional investment. The 45G tax credit is an efficient and effective way to maximize those investment dollars. Since enactment, the credit has allowed short lines to spend an <u>additional</u> $2.1 billion of their hard-earned revenues toward the goal of ensuring that the first and last mile of rail service in large areas of the country is as efficient, competitive and safe as the rest of the national railroad network.

The credit's unique structure maximizes capital investment in two ways:

1. 45G requires the railroad to spend two dollars for every dollar in credit, up to a credit cap equivalent to $3,500 per track mile. Short lines must invest significant amounts of their revenue for the right to spend even more of their own revenue on rehabilitation.

2. The ability to assign eligible tax credit miles to a shipper that can use the resulting tax credit allows smaller railroads with insufficient cash flow to fund expensive rehabilitation that would otherwise be out of reach.

The right tax policy can be enormously beneficial to the American economy by incentivizing the capital investment businesses need to grow, innovate and create jobs. Those benefits are significantly reduced when tax policy starts and stops in a temporary short-term fashion. Forward planning is impossible and expensive multi-year projects are difficult to undertake. Particularly in the railroad industry the most meaningful benefits with regard to service and safety come when we can rehabilitate an entire corridor not just a mile here and a mile there. For us, piecemeal investment is only as good as the size of the pieces and one year and sometimes even retroactive extensions are small pieces indeed.

The Blumenauer/Kelly legislation makes the short line tax credit permanent. There are seven good reasons why this approach is far better than temporary extensions. Some of these are true for all industries and some are unique to short line railroading.

1. The purpose of the credit is to maximize capital investment in the private sector which is what helps companies grow and create jobs. It is difficult to make investment decisions when there is uncertainty regarding the availability of funds. We have a reliable data point that demonstrates that fact. For decades the Railway Tie Association (RTA) has kept comprehensive statistics on railroad tie purchases. RTA has determined that the short line tax credit results in between 500,000 and 1.2 million short line tie purchases beyond their normalized annual purchases. The data shows that tie purchases are at the low end in those years when the credit was only extended for one year or retroactively at the end of a year and at the high end when the credit was extended for a longer period.

2. American shippers and by extension American consumers are the ultimate beneficiaries of railroad rehabilitation through the creation of more reliable, more competitive and safer transportation. But the maximum benefit is only realized when an entire rail corridor is rehabilitated and that takes many years. Five miles of rehabilitated track yields limited benefit when it is bookended by miles of unrehabilitated track or bridges in need of repair. Companies cannot effectively plan for an expensive multi-year project based on a one-year commitment by the federal government.

3. The promise of faster more competitive service gives shippers an incentive to invest in new on-line facilities. In South Dakota, for example, the improvements made by the 670-mile Rapid City, Pierre & Eastern (RCP&E) since it began operations in 2014 has attracted over $311 million in new facility investments by six South Dakota companies, creating over 270 new industrial and agricultural sector jobs. For years, shippers would not invest in facilities along the RCP&E's line because of unreliable service and an uncertain future. The 45G credit helped fund the improvements that changed that reality, restored shipper confidence and became a catalyst for new industrial development.

4. The additional infrastructure investment made possible by the 45G credit has improved safety performance. Since enactment of the credit in 2004, train accidents on short line railroads have declined by more than 50 percent, from a rate of 6.84 per million train miles in 2004 to 3.18 in 2017. Short line safety performance is now approaching that of the larger Class I railroads and has improved at a faster rate than Class I railroads over the period of the 45G credit has been in existence.

5. Today's short line railroads were created as a response to the loss of rail service, particularly in rural and small-town America. The Class I cost structure could not support the light density branch lines operating in those areas and were forced to abandon them. With the economic freedoms and flexibility provided by the Staggers Act of 1980, entrepreneurs were able to purchase these lines and run them profitably as local small businesses. In 1980 short lines operated 8,000 miles of track. Today they operate nearly 50,000 miles and the need to create

additional short line service continues as the Class I's make decisions about their own allocation of capital between heavy and light density lines. To continue to save light density lines and preserve service short lines must borrow large sums of money to purchase the franchise and rehabilitate the track. Making 45G permanent will make the difference between saving a line and losing a line for many years to come.

6. Railroad service is the most environmentally friendly form of transportation. Railroads can move one ton of freight 479 miles on a single gallon of fuel, making trains four times more fuel efficient than trucks. A single railcar can take 3 to 4 trucks off the highway. It is estimated that taking just 5 percent of freight from truck to rail would result in nine million fewer tons of greenhouse gas emissions. Helping short lines continue to grow freight traffic through infrastructure improvements will deliver long term benefits to the environment.

7. Finally, there is a very practical reason for making the credit permanent. Congressional business and private business operate in two different worlds. Congress is a deliberative body requiring lengthy negotiations to secure agreement by a majority of Members. By necessity decisions are often made at the eleventh hour, are short term in nature, and in the case of many tax provisions, including 45G, are retroactive rather than forward looking. Short lines cannot make capital allocation decisions in that fashion. To take on expensive, long-term projects they need certainty. In a democracy it is understandably difficult for the government's decision-making process to accommodate that certainty. The best way to reconcile these two worlds is to make the credit permanent so it can fully achieve the results for which it was intended.

For 12 years the short line tax credit has proven its worth. It has maximized capital investment by both railroads and customers, it has significantly improved competitive rail service for shippers, it has helped improve railroad safety and it has been the difference between piecemeal and corridor improvements. It has worked as intended and when you find something that works, the best thing to do is let it work. I very respectively encourage the 116th Congress Ways & Means Committee to fix the unintended but real suboptimal policy consequences of sporadic attention to the Short Line Tax Credit and make this credit permanent.






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June 5, 2019

Honorable Mike Crapo
Honorable Ben Cardin
Co- Leads
Senate Finance Committee
Cost Recovery Task Force
Washington D.C.

Re: Independent Film and Television Alliance Submission to the Senate Finance Committee Cost Recovery Task Force on domestic film and television production incentives

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The Independent Film & Television Alliance (IFTA) represents **more than 145 companies**, the majority of which are **small to medium-sized U.S.-based businesses**[1] that have financed, produced and distributed many of the world's most prominent films, including over 60% of the Academy Award® winners for "Best Picture" since the Association was formed in 1980, including this year's Best Picture, *Green Book.*

Independents are companies that organize the financing, production, and exploitation of films and television programming relying primarily on outside sources and on third party distributors in each territory and for each medium in which the project is distributed. This is in sharp contrast to many of the major players in the industry, who are able to self-finance and who own or control their own distribution outlets worldwide. Since independents bankroll the projects and engage in the lengthy process of production and securing distribution to reach the worldwide audience, cash flow is always an issue. IFTA has supported **IRC Section 181** since its inception and continues to advocate for its permanent extension because Section 181 addresses this need and serves a fundamental purpose in encouraging the U.S. independent production industry to remain in the U.S. Section 181 has resulted in enhanced U.S. economic activity, jobs and exports to worldwide marketplaces.

Last year's amendment of **IRC Section 168(k)** to provide bonus depreciation to film and television investment was a significant event for our industry – but as more fully explained below, it did not achieve Congress' purpose of consolidating Section 181's benefits into the more extensive bonus depreciation provisions.

As the Task Force on Cost Recovery considers the extension of Certain Temporary and Disaster Relief Tax Provisions[2], IFTA asks the Task Force to keep in mind that Section 181 was not made redundant by new Section 168(k) because of the difference in the type of depreciation treatment (accelerated versus bonus) and when the depreciation can begin.

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[1] A complete list of IFTA Members is available online at: http://www.ifta-online.org.
[2] https://www.jct.gov/publications.html?func=startdown&id=5188 at Page 33.

IFTA urges the Task Force to recommend the following regarding the two incentives for U.S. domestic production:

(1) The extension of **IRC Section 181** *retroactively* for 2018 and *prospectively* for 2019 (and to make this tax incentive permanent) to provide much needed stability and certainty for the film and television industry. Section 181 was the clearest and most effective tax incentive offered to independent producers and should be made a permanent part of the tax code.

(2) A clarification to be made to **IRC Section 168(k)** as amended last year regarding the "placed in service" language[3] since independent producers do not control their own distribution.

We thank the Committee Members and Task Forces for their thoughtful approach in gathering information on these tax incentives and how each has and will impact U.S. independent production activities, contribute to the U.S. domestic economy and grow the independent sector's already sizable contribution to net exports of intellectual property. IFTA provides more information below regarding the success of Section 181 and the need to extend it permanently based on the economic and creative output that has occurred since its enactment in 2004. The submission also provides information on a necessary clarification needed to Section 168(k) so that independents can meaningfully use that incentive. Of course, Section 181 provides that it is an election of tax treatment, so there is no double dipping as between the two incentives.

The Success of IRC Section 181 and its Positive Impact on the Independent Film and Television Industry and the U.S. Economy

Congress enacted **Section 181** of the Internal Revenue Code in 2004 as part of the *Jobs Act* with a singular focus to provide a federal tax incentive designed to encourage independent film and television production to remain in the United States. Congress has approved the extension of the provision six times, most recently by the Bipartisan Budget Act recognizing that the independent sector is responsible for over 70% of all films produced in the U.S. each year and the jobs generated by that economic activity, but is often hindered by a lack of up-front cash and reliance on third-party investment and distribution. **Section 181** allowed production entities in the U.S. to immediately expense qualifying production costs up to $15 million (up to $20 million in certain circumstances) in the year incurred. ***It worked!***

Since its enactment and continued extensions, Section 181 has proved to be of real value in keeping independent production and jobs here in the U.S. For calendar year 2018, U.S. independent production companies shot 507 feature films. This resulted in 35,967 full time jobs directly related to this production activity and another 108,455 full time jobs for the various venders that service the film industry. Combined, both classes of employees earned over $15.14 billion. Total business revenue that resulted from this production activity totaled nearly $23.12 billion in economic output. Independent production generated over $3.15 billion in income and sales tax for both the federal government and individual state governments. Federal government share of income tax received was nearly $1.99 billion. Just as importantly, U.S. independent producers were responsible for $2.3 billion in exports to the worldwide marketplace.

[3] As defined in Section 168(k) and comparable to a provision in the Treasury Regulations (26 CFR §1-181.1)

Section 181's costs were modest since it merely accelerated those deductions (otherwise subject to depreciation over the film or television program's income generating life), but offered a significant stimulus for independents to keep production in the U.S. and to give small businesses the cash flow to keep producers investing in new production and keep production crews working.

IRC Section 181 is the Preferable Incentive for Independents Because Independent Producers Do Not Control Their Own Distribution, and 'Accelerated Depreciation' is More Desirable than 168(k)'s 'Bonus Depreciation'

Our industry welcomes Congress' inclusion of film and television programming in amended Section 168(k) of the Tax Cuts and Jobs Act, acknowledging that investment in these productions generates long-term economic value and thus should qualify for 'bonus depreciation.' However, as currently drafted, amended Section 168(k) does not succeed in continuing the unique benefits of Section 181 for independent film and television producers because it ties the availability of depreciation deductions to the date when the qualifying film or television program is placed in service, *i.e.*, "at the time of initial release or broadcast" – which legislative history notes to be "first commercial release" – a test borrowed from a provision in the Treasury Regulations (26 CFR §1-181.1) relating to other issues (not limiting the date on which deductions are taken). This is in sharp contrast to the provisions of Section 181 which allowed the producer to elect to accelerate depreciation to the year of production expenditure.[4]

For independents, there is often a substantial period of time between when production funds are spent and when the film or television program is eventually released. From production to release may be a year or more apart while the producer is accumulating more costs and debt and for which the **cash flow benefit of Section 181 provided necessary relief**.

Additionally, in contrast to the large, integrated major studios, independent producers in general do not own exhibition or distribution outlets and cannot control when the "initial release or broadcast" will occur. As a result, for example, a producer of six television episodes may find that only a few are scheduled by the broadcast network in year one while others are deferred until a different season. Similarly, a film producer may find that his movie's release is delayed for many months (and another tax year) in consequence of the booking schedule established by third party distributors[5].

IFTA does not anticipate that these fundamental characteristics of the independent sector will change in the future so **securing IRC Section 181 on a permanent basis and advocating for an adjustment in Section 168(k) are the top priorities for IFTA Members and the independent production community at large**.

[4] It is also inconsistent with the treatment of other assets subject to Section 168, which are deemed placed in service when first acquired (irrespective of when revenue is generated) or when first in a condition to be used or sold such as manufacturing equipment.

[5] Moreover, for independents, pinning depreciation deductions on the date of "initial release" is not an "acceleration". In contrast to the major studios, independents earn the majority of their revenue very quickly after they complete and deliver their films and programs to their distributors (buyers). This reflects the use of third-party licensing in which distributors make upfront payments on the date of delivery against the estimated total royalties for the life- time of their exploitation period. Thus, using the income forecast method under Section 167, independents typically generate most depreciation at or near the date of "initial release" in any event.

A Possible Fix for IRC Section 168(k)

As noted, independent producers were intended beneficiaries of Section 181 at its inception and there is ample reason to believe that the Senate proposal (and final language in TCJA Public Law No: 115-97) to integrate Section 181 into 168(k) was expected to extend those same benefits to independents as to major studios equally going forward. But that can only be accomplished by **amending the relevant provisions to achieve that purpose and by doing so in a manner that meets the needs of both large and small producers**.

These objectives can be achieved in either of two alternate ways:

> <u>First,</u> **by extending Section 181 permanently (by deleting Section 181(g))**. Pursuant to Section 181(b)-(c), a taxpayer that elects treatment of production costs under Section 181 also foregoes other depreciation and amortization of those costs, so this "fix" obviates the necessity for further amendments of the Code. **This result can also be achieved by amending Section 168(k) to also incorporate the provisions of Section 181 as an alternative to bonus depreciation, by election of the taxpayer.** This mirrors the treatment of certain other sectors.
>
> OR
>
> <u>Second</u>, **by amending Section 168(k)(2)(H) as follows**:
>
> (H) Production placed in service
>
> For purpose of subparagraph (A) **(i) a qualified film or television production shall be considered to be placed in service at the time <u>costs of the production are first incurred</u> [delete: of initial release or broadcast];**

Conclusion

IRC Section 181 must be extended and made permanent to preserve the critical benefits of 'accelerated depreciation' of qualifying production costs as they are incurred, paving the way for independents to continue to fuel U.S. film and television production and protect the tens of thousands of employees in our sector, along with the economic contribution of independent production in communities throughout the country.[6] While the intent of the TCJA drafters to re-write Section 168(k) to meet the needs of investors in productive assets, including film and television, was clear, unfortunately the "placed in service" language erects a barrier for independent producers to access that benefit. IRC 168(k) would need to be fixed in order to meaningfully include the independent sector. Both incentives should be available to independent producers so that they may elect what's best for each qualifying production.

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[6] Independent films are shot all over the country and in many instances have fueled the rise of new industry hubs. Currently, the top 10 states for independent film production are: 1. California, 2. New York, 3. Georgia, 4. Texas, 5/6. Illinois & Louisiana (tie), 7. Ohio, 8/9. Alabama & Massachusetts (tie), and 10/11. Florida & New Mexico (tie)

COALITION FOR ENERGY EFFICIENT JOBS & INVESTMENT

June 5, 2019

The Honorable Mike Crapo
Co-Lead
Senate Finance Committee
Taskforce on Cost Recovery
239 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Benjamin Cardin
Co-Lead
Senate Finance Committee
Taskforce on Cost Recovery
509 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Crapo and Senator Cardin,

The members of the Coalition for Energy Efficient Jobs & Investment ("Coalition") commend your efforts to bring certainty to the temporary provisions of the tax code. We strongly agree with the sentiment expressed by Chairman Grassley and Ranking Member Wyden upon launching the taskforces, namely that long-term certainty is critical for these provisions to achieve their intended goal of promoting growth and investment. This is especially true of the Section 179D deduction for energy efficient commercial buildings, which has a proven track record of driving economic and employment growth in communities nationwide. **We strongly urge you to preserve and amplify these benefits by making permanent Section 179D and strengthening the incentive to further broaden its positive impact.**

Section 179D's Broad Support and Impact

Our organizations and companies represent a broad spectrum of the U.S. economy. As set forth on Exhibit A, they include real estate, manufacturing, architecture, contracting, engineering, building services, financing, labor, education, environmental and energy efficiency advocates with a presence in communities large and small across all 50 states. We represent many small businesses that drive and sustain American job growth in urban and rural areas alike.

The breadth and diversity of our coalition underscores the broadly distributed impact of Section 179D. In fact, the provision's title belies its true breadth because Section 179D applies to both commercial buildings as well as properties owned by federal, state, and local governments. These kinds of buildings can be found in every community, making Section 179D one of the most broadly-applicable temporary provisions in the tax code. As an illustration, the maps included as Exhibit B to this statement highlight the Section 179D projects that have been undertaken in the home states of Taskforce members by just one of our coalition members. Across our coalition's full membership and the country as a whole, the number and diversity of Section 179D projects is many times greater.

The sweep of Section 179D's support and impact – bridging industries and advocacy groups, businesses small and large, and organizations from coast-to-coast – is a testament to the tremendous success that Section 179D has already achieved, as well as its potential for the future.

A Proven Engine of Economic and Employment Growth

Section 179D has leveraged billions of dollars in private capital, resulted in energy efficient enhancements to thousands of buildings, and created and preserved hundreds of thousands of jobs. This track record is why Section 179D has been extended on multiple occasions in the past. The certainty of permanence or a long-term extension of Section 179D, together with targeted reforms to the provision, can boost its contributions to our economy even more.

The benefits of Section 179D are confirmed by a recent economic impact study conducted by Regional Economic Models, Inc. ("REMI"), which is attached to this statement as Exhibit C. The study in its entirety can be found here. REMI's conclusion is unequivocal, finding that "Section 179D is an engine of economic and employment growth." In particular, an enhanced tax incentive for energy efficient commercial buildings, including reforms along the lines of those envisioned in Senator Cardin's *Energy Efficiency Tax Incentives Act* (S. 2189 in the 113th Congress), could support up to 76,529 jobs and contribute almost $7.4 billion toward our national GDP each year.

These results represent a significant return on the taxpayer investment in Section 179D, well in excess of the provision's revenue cost. The study also confirms that long-term extension/permanence of the current version of Section 179D or making more modest changes to the incentive would have a substantial positive impact on economic and employment growth. Such approaches, which would strengthen the application of Section 179D in the context of non-profits, tribal governments, and pass-through entities such as partnerships and S-corporations, have been adopted by the Senate Finance Committee in the past on a bipartisan basis, as well as reflected in H.R. 3507, bipartisan legislation introduced in the House by Reps. Dave Reichert (R-WA), Earl Blumenauer (D-OR) and Tom Reed (R-NY), all members of the House Ways and Means Committee, in the 115th Congress.

The Continuing Need for Energy Efficiency Incentives

The targeted incentive provided by Section 179D is essential to promote the proper allocation of incentives in the real estate development process. Commercial buildings are responsible for more than a third of U.S. electricity consumption, and the Department of Energy has set ambitious energy reduction goals to enhance the environment, bolster energy security, and prioritize economic resources. However, neither the owners nor tenants of commercial buildings have an adequate incentive to make the upfront investment associated with energy efficient improvements, because their higher cost is recouped by reduced energy consumption over time. In the case of building owners, this is because energy costs are generally borne by tenants. However, in multitenant structures a single tenant is unlikely to invest in improvements on their own.

Section 179D solves this incentive problem by encouraging building owners to install energy-efficient improvements that help their tenants save money on electricity, water, and climate control costs. It does so by accelerating the cost recovery of these improvements, which in turn stimulates additional investment and growth. While the Tax Cuts and Jobs Act ("TCJA") modified and expanded certain cost recovery rules, these changes do not deliver the same impact as Section 179D. In particular, while Section 179D provides a form of 100% expensing for certain real estate investments, the 100% expensing provision of TCJA (Section 168(k)) has limited applicability in the real estate context. Furthermore, the cost of the investments undertaken under Section 179D often exceed the limitation under the small business expensing provision (Section 179). Thus, while many of the reforms enacted in the TCJA are tremendously beneficial, they are not a substitute for the targeted incentive provided by Section 179D.

Beyond cost recovery, Section 179D's unique impact is amplified by the provision's high energy efficiency criteria, which stimulate innovation, entrepreneurship, and environmental enhancement in a way that the more generalized provisions of tax reform do not. In addition, Section 179D includes a unique allocation feature that provides an incentive for state and local governments to undertake energy efficiency projects – creating additional jobs and economic growth – notwithstanding the fact that they cannot take the tax deduction into account on their own. This feature provides cost-effective support for the development of energy-efficient buildings by school districts, state governments, and other public sector entities and ultimately saves taxpayer dollars through lower energy costs for public buildings. All of these reasons attest to the continued importance of retaining Section 179D in the tax code, along with enhancements to ensure that it continues to drive economic and employment growth, as well as enhance the environment and energy security.

The Importance of Long-Term Certainty

The Joint Committee on Taxation's recent analysis of temporary tax provisions cites the negative consequences of uncertain tax policy, including "inefficiently reducing economic activity, depressing profits for businesses, and reducing individual well-being." These consequences are amplified in the context of Section 179D because the incentive is tied to construction projects that require considerable lead-time for planning and development. The uncertain availability of the Section 179D deduction from year-to-year substantially diminishes the incentive to incorporate energy efficient features into new and existing buildings, because the deduction can only be claimed in the year construction is completed. Even if Section 179D is extended through the end of this year as some have proposed, a developer planning a building that will be completed several years in the future would have no certainty about the availability of Section 179D going forward, and thus no tax incentive to include energy efficient upgrades. The end result is that the U.S. economy could lose out on billions of dollars of economic activity that would otherwise be driven by Section 179D. This underscores the urgency for Congress to move away from the practice of providing stopgap year-to-year extensions, and toward permanence to provide long-term certainty.

Given its role in supporting jobs and economic growth in communities across the country and its strong contribution to U.S. energy policy priorities, we strongly urge you to include the extension and enhancement of Section 179D among your priorities for this Congress. We look forward to working with you to ensure that tax incentives for energy efficient investment continue to be an engine of growth for our economy. Thank you for your consideration.

Sincerely,
Coalition for Energy Efficient Jobs & Investment

Exhibit A: Coalition for Energy Efficient Jobs & Investment Members

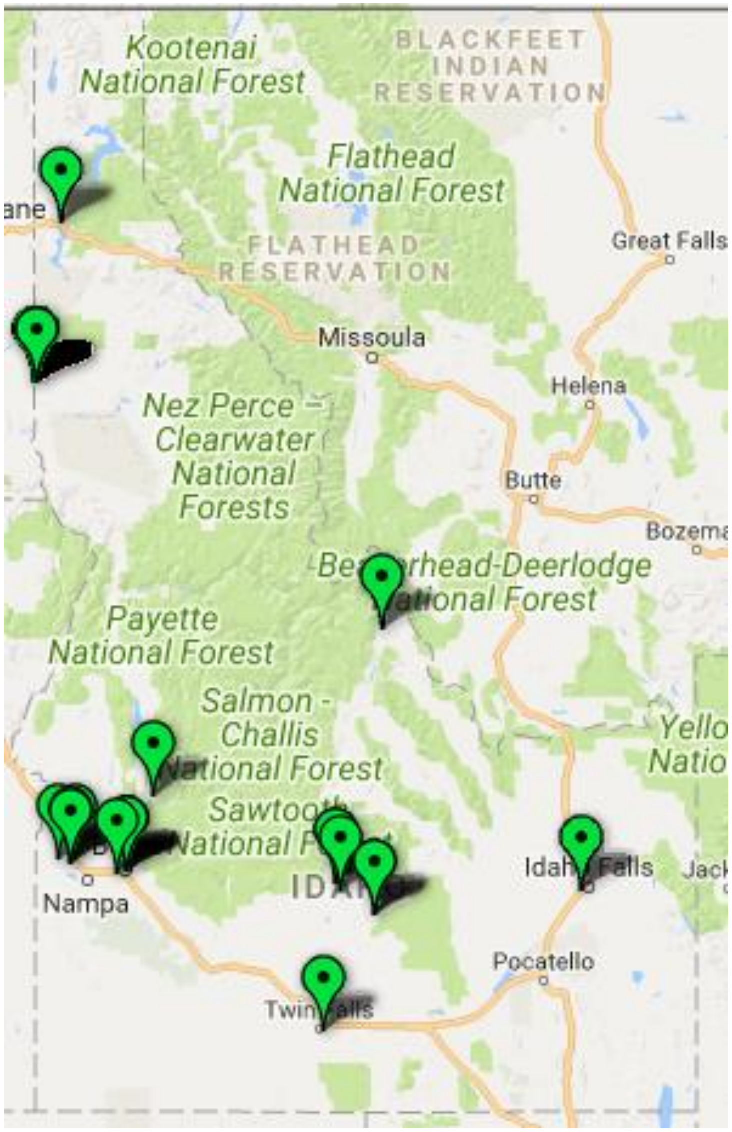
Air Conditioning Contractors of America
Alliance to Save Energy
Alliantgroup, LLC
Ameresco
American Council of Engineering Companies
American Institute of Architects
Associated General Contractors of America
BLUE Energy Group
Building Owners and Managers Association (BOMA) International
Business Council for Sustainable Energy
CCIM Institute
Citizens for Responsible Energy Solutions
Concord Energy Strategies
Consolidated Edison Solutions
Daikin US Corporation
E2 (Environmental Entrepreneurs)
Energy Systems Group
Energy Tax Savers, Inc.
ENGIE Services U.S.
Entegrity
Independent Electrical Contractors
Institute of Real Estate Management
Insulation Contractors Association of America
Johnson Controls, Inc.
Lexicon Lighting Technologies
LightPro Software, LLC
LuNex Lighting
Micromega Systems, Inc.
National Apartment Association
National Association of College and University Business Officers (NACUBO)
National Association of Electrical Distributors
National Association of Energy Service Companies (NAESCO)
National Association of REALTORS®
National Electrical Manufacturers Association (NEMA)
National Leased Housing Association
National Multifamily Housing Council
Rampart Partners LLC
Sheet Metal and Air Conditioning Contractors' National Association (SMACNA)
Silicon Valley Leadership Group
Smardt Chillers, Inc.
Sustainable Performance Solutions LLC
U.S. Green Building Council

Exhibit B: Example Project Maps

Energy Tax Savers, Inc.

The EPAct 179D Experts

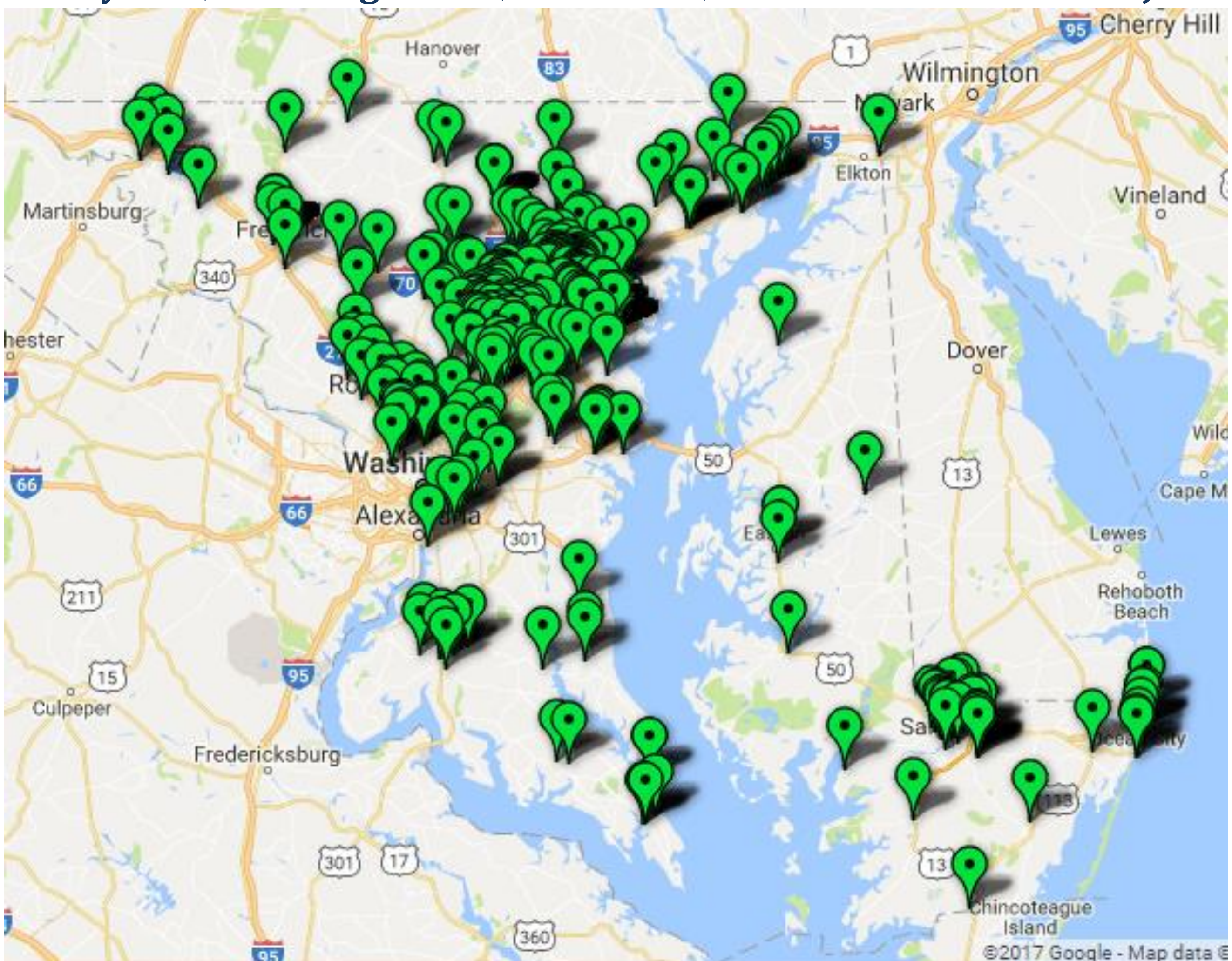
Idaho EPAct Project Map



Idaho Area Projects

Maryland, Washington DC, Baltimore, & Delaware EPAct Project Map

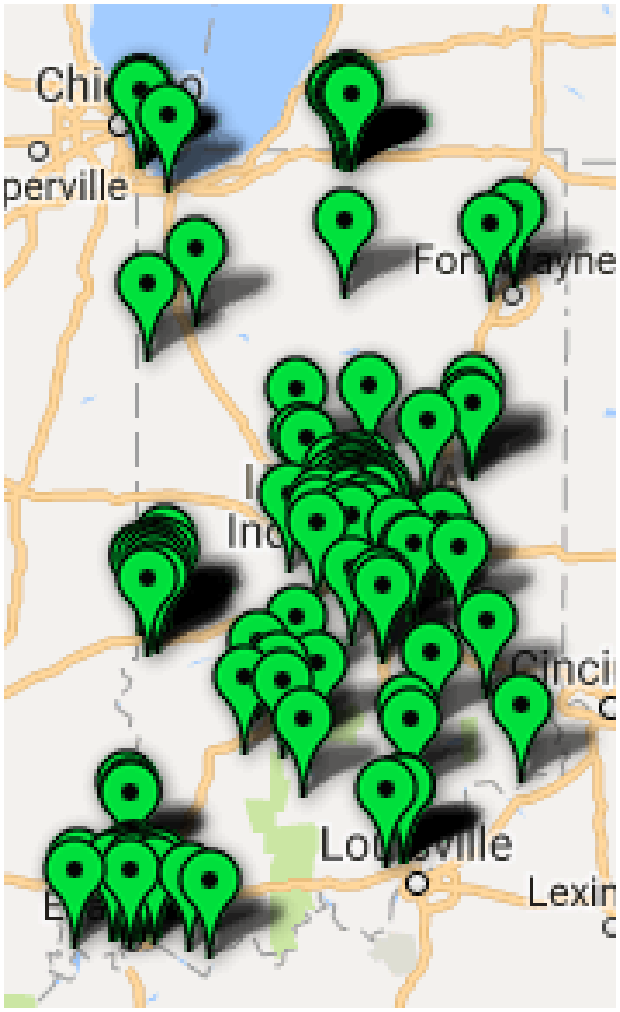
Maryland, Washington DC, Baltimore, and Delaware Area Projects



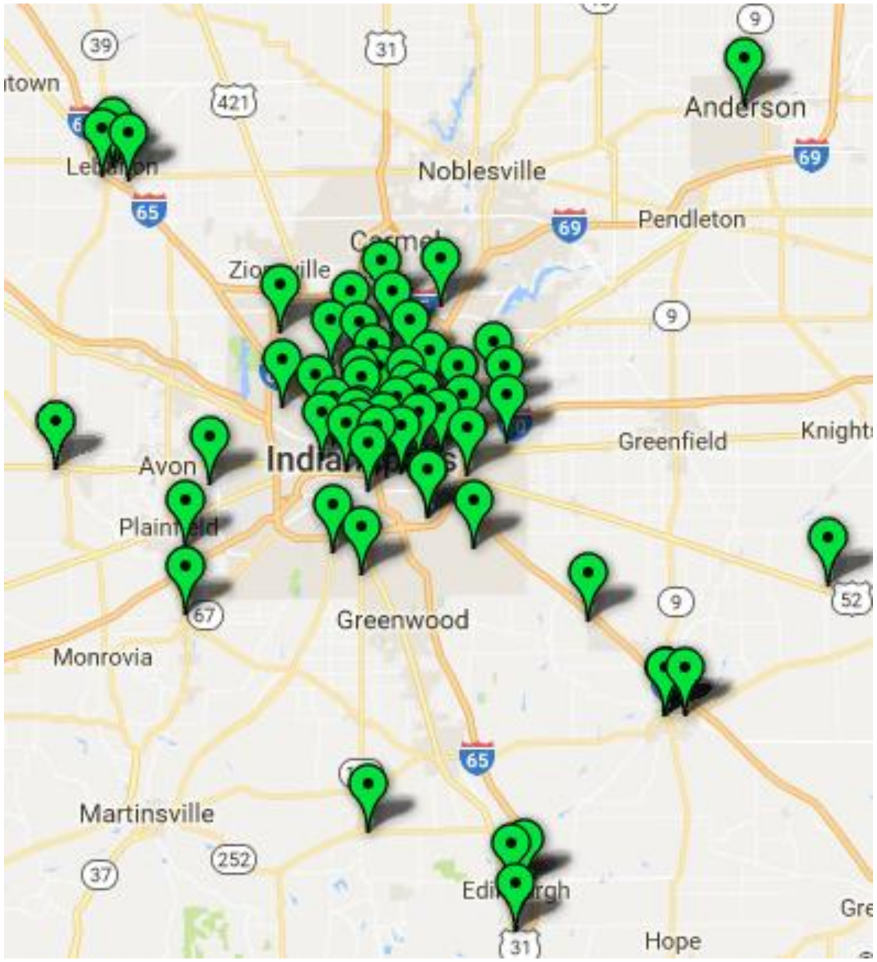
Energy Tax Savers, Inc.
The EPAct 179D Experts

Indiana EPAct Project Map

Indiana Area Projects



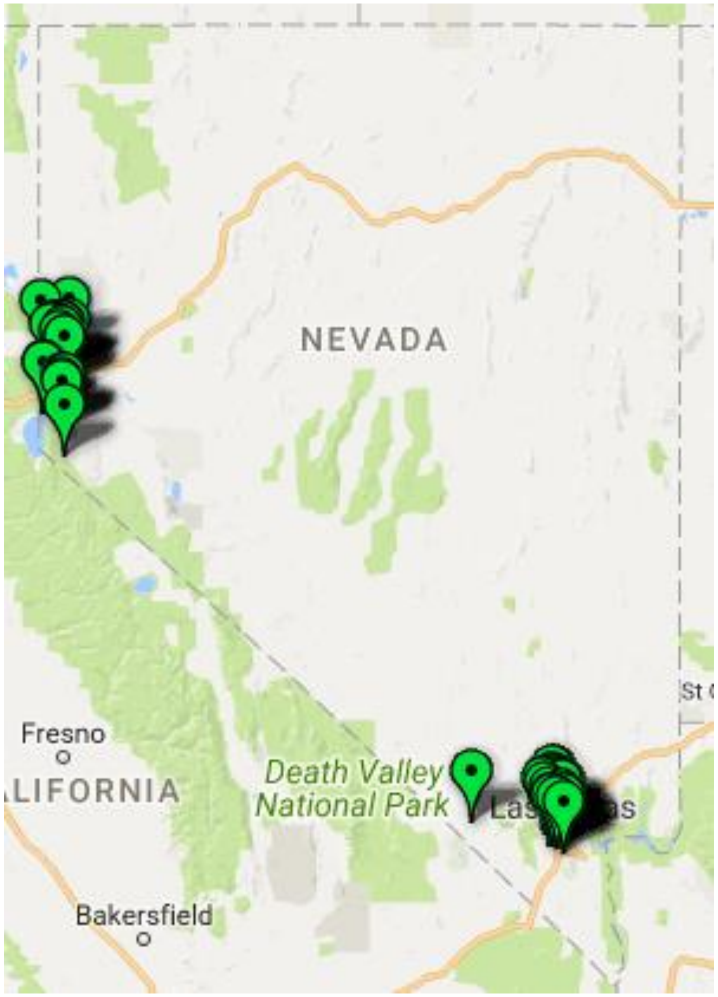
Indianapolis Area Projects



Energy Tax Savers, Inc.
The EPAct 179D Experts

Nevada EPAct Project Map

Nevada Area Projects (Las Vegas & Reno)



Las Vegas Area Projects

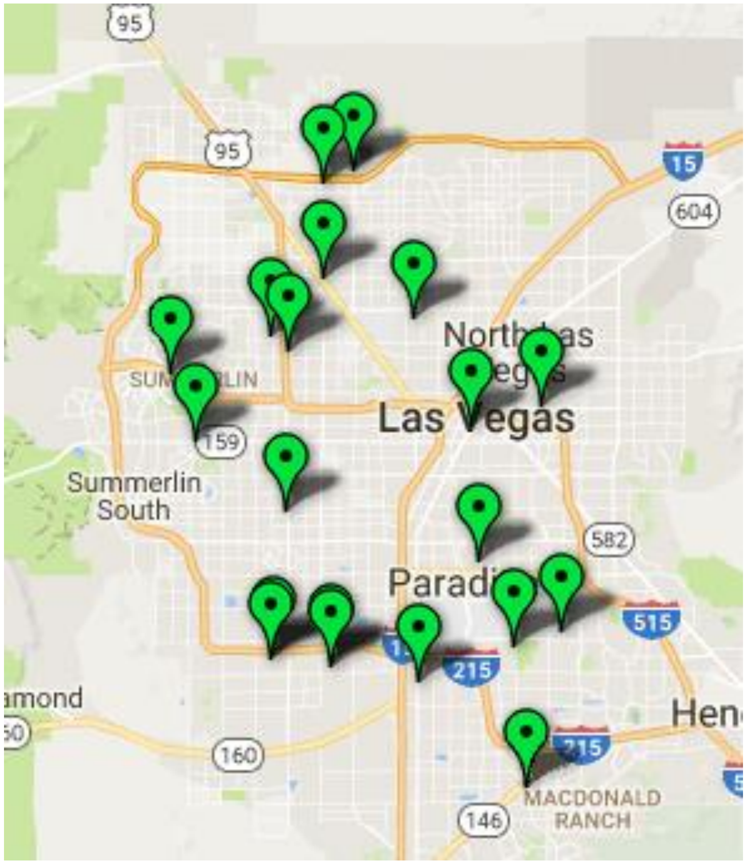


Exhibit C: REMI Study

Analysis of Proposals to Enhance and Extend the Section 179D Energy Efficient Commercial Buildings Tax Deduction

Prepared by Regional Economic Models, Inc. (REMI) May 2017

REMI (Regional Economic Models, Inc.) is the nation's leading regional economic modeling and policy analysis firm. REMI provides PI+, TranSight, and Tax-PI modeling software, and technical analysis to federal, state, and regional government agencies, leading non-profit and trade organizations, universities, and consulting firms. We serve as economists, policy experts, and economic policy analysis modelers.

Contents

Executive Summary

Section 179D of the Internal Revenue Code, the Energy Efficient Commercial Buildings Deduction, was originally enacted by Congress as part of the Energy Policy Act of 2005 to promote energy independence. Section 179D promotes the proper allocation of incentives in the real estate development process. A key challenge to realizing the benefits of energy-efficient improvements is that the associated cost savings flow to building occupants, not developers. By helping offset the cost of energy efficient investments, Section 179D allows building owners to share in the incentive to install energy-efficient improvements that help their occupants save money on electricity, water, and climate control costs. In so doing, Section 179D promotes private-sector solutions to improve conservation practices and modernize national infrastructure.

In this analysis, REMI evaluates the economic impact of three potential approaches to the Section 179D deduction, which most recently expired at the end of 2016:

1. **Strengthening and Modernizing Section 179D**,[1] which would increase the value of the deduction to $3.00 per square foot from $1.80, increase the applicable energy efficiency standards, make it available to support improvements to existing as well as new buildings, and extend the deduction.
2. **Extension of Current Law Section 179D plus Expansion to Non-Profits and Tribal Governments**,[2] modeled on 2015 legislation developed by the Senate Finance Committee under Chairman Orrin Hatch (R-UT), which would extend the deduction, expand availability of the deduction to nonprofit organizations and tribal governments and increase the applicable energy efficiency standards.
3. **Extension of Current Law Section 179D**,[3] modeled on the two-year extension of current law enacted as part of the Protecting Americans from Tax Hikes ("PATH") Act of 2015.

The results of this analysis show that in addition to advancing the goal of energy independence, **Section 179D is an engine of economic and employment growth**. As captured in the table below, this study quantifies these impacts, finding that:

- Strengthening and extending the Section 179D Energy-Efficiency Commercial Buildings Deduction will create jobs and expand the nation's economy. These benefits would be compounded by increasing the dollar value of the deduction in accordance with several Congressional and administration proposals.

- These enhancements to Section 179D would support up to 76,529 jobs annually and contribute annually almost $7.4 billion to national gross domestic product ("GDP"), as well as over $5.7 billion towards national personal income.

[1] Proposals along these lines include Title I of S. 2189, sponsored by Senator Cardin (D-MD) in the 113th Congress and the President's FY 2017 Budget Proposal. *See* Description of Certain Revenue Provisions Contained in the President's Fiscal Year 2017 Budget Proposal, Joint Committee on Taxation, July 2016, JCS-2-16.
[2] *See* Description of the Chairman's Mark of a Bill to Extend Certain Expired Tax Provisions, July 17, 2015, JCX-101-15, and Description of the Chairman's Modification to the Chairman's Mark of a Bill to Extend Certain Expired Tax Provisions, July 21, 2015, JCX-103-15. In addition to the Senate Finance Committee extenders bill, other proposals along these lines include H.R. 6376, sponsored by Congressman Reichert (R-WA) in the 114th Congress.
[3] General Explanation of Tax Legislation Enacted in 2015, Joint Committee on Taxation, March 2016, JCS-1-16.

- Expanding the availability of the deduction to nonprofit organizations and tribal governments, while increasing the applicable energy efficiency standards, also provide clear positive impacts to the economy.

Table 1. Average Annual Economic Impacts for First Ten Years

	Strengthen and Modernize	Extension plus Expansion	Extension of Current Law
Jobs	76,529	39,388	40,749
GDP (millions of dollars)	7,398	3,730	3,860
Personal Income (millions of dollars)	5,729	3,017	3,128

Introduction

Section 179D offers an enhanced tax deduction to offset the cost of investments in certain energy efficient commercial building property. A deduction of up to $1.80 per square foot is available to owners of new or existing buildings who install (1) interior lighting, (2) building envelope, or (3) heating, cooling, ventilation, or hot water system improvements that reduce the building's total energy and power cost by 50% or more in comparison to a building meeting minimum requirements set by ASHRAE Standard 90.1-2001 (for buildings and systems placed in service before January 1, 2016) or 90.1-2007 (for buildings and systems placed in service before January 1, 2017).

A deduction of up to $0.60 per square foot is available to owners of buildings in which individual lighting, building envelope, or heating and cooling systems partially qualify to meet the applicable target levels, or through an interim rule for lighting fixtures promulgated by the IRS.

Table 2. Summary of 179D Tax Deductions[4]

	Fully Qualifying Property	**Partially Qualifying Property**				**Interim Lighting Rule**
		IRS Notice (Effective Dates)	**Envelope**	**HVAC and HW**	**Lighting**	
Savings Requirements*	50%	2006-52 (1/1/06 - 12/31/08)	16 2/3%	16 2/3%	16 2/3%	25%-40% lower lighting power density (50% for warehouses)
		2008-40 (1/1/06 - 12/31/13)	10%	20%	20%	
		2012-26 (3/12/12 - 12/31/16)	10%	15%	25%	
Tax Deduction (not to exceed cost of qualifying property)	\$1.80/ft^2		\$0.60/ft^2	\$0.60/ft^2	\$0.60/ft^2	\$0.60/ft^2 times applicable percentage**

* Savings refer to the reduction in the energy and power costs of the combined energy for the interior lighting, HVAC, and HW systems as compared to a reference building that meets the minimum requirements of ASHRAE Standard 90.1-2001 for buildings placed in service prior to 1/1/2016 and ASHRAE Standard 90.1-2007 for buildings placed in service on or after 1/1/2016.
** The tax deduction is prorated depending on the reduction in LPD. See IRS Notice 2006-52 for the definition of "applicable percentage."

[4] ENERGY.GOV, Office of Energy Efficiency & Renewable Energy. https://energy.gov/eere/buildings/179d-commercial-buildings-energy-efficiency-tax-deduction

Energy savings must be calculated using qualified computer software, and certified by an independent third party in accordance with procedures established by the IRS.

Section 179D also includes an allocation provision that allows tax-exempt public entities to allocate the deduction to the designer of a building or efficiency project (such as an architect or engineer). This provision allows tax-exempt entities to transfer the value of the deduction to taxpayers that are able to realize its value, providing cost-effective support for the development of energy-efficient buildings by school districts, state governments, and other public sector entities. Ultimately, it helps save taxpayer money through lower energy costs.

As noted above, Section 179D was originally passed by Congress as part of the Energy Policy Act of 2005 in order to enhance the participation of the commercial building sector in the national effort to achieve energy independence through increased energy efficiency. According to the U.S. Department of Energy's Buildings Energy Data Book (March 2012)[5], commercial buildings accounted for 18.6% of all primary energy consumption in the U.S. in 2010. Of this, electricity accounted for 77%, the majority of which (62.9%) went for lighting, heating, cooling, and ventilation.

Due to budget constraints, the deduction was initially enacted on a temporary, albeit multi-year, basis. Section 179D has since been included among a package of temporary tax provisions that have expired and been reinstated many times over the years. The provision was most recently extended through December 31, 2016 by the PATH Act of 2015 (Division Q of H.R. 2029).

The proposals considered in this analysis represent three potential approaches to continuing to provide tax incentives for energy efficient commercial buildings. These potential approaches are not exhaustive, but instead are intended to be illustrative in terms of the magnitude of economic and jobs impact that may be garnered from various ways to use the tax code to overcome barriers to investment in energy efficiency technologies. The proposal to strengthen and modernize Section 179D is a reform proposal, aimed at incentivizing the next generation of energy efficiency enhancements to new and existing commercial building stock. The model is based on previous proposals to reform Section 179D and, although it cannot be directly extrapolated, provides a proxy baseline for a proposal along the lines of a technology-neutral energy efficiency incentive in the context of tax reform. The remaining two proposals considered in the analysis demonstrate the significant economic and jobs impact of extending current law with modest expansions to the allocation provision to include nonprofit organizations and tribal governments while increasing the applicable energy efficiency standards, as well as merely extending current law.

[5] The Buildings Energy Data Book, developed by the Building Technologies Program within the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy, includes statistics on residential and commercial building energy consumption. http://buildingsdatabook.eren.doe.gov/

Figure 1. Buildings Share of U.S. Primary Energy Consumption, 1980-2010

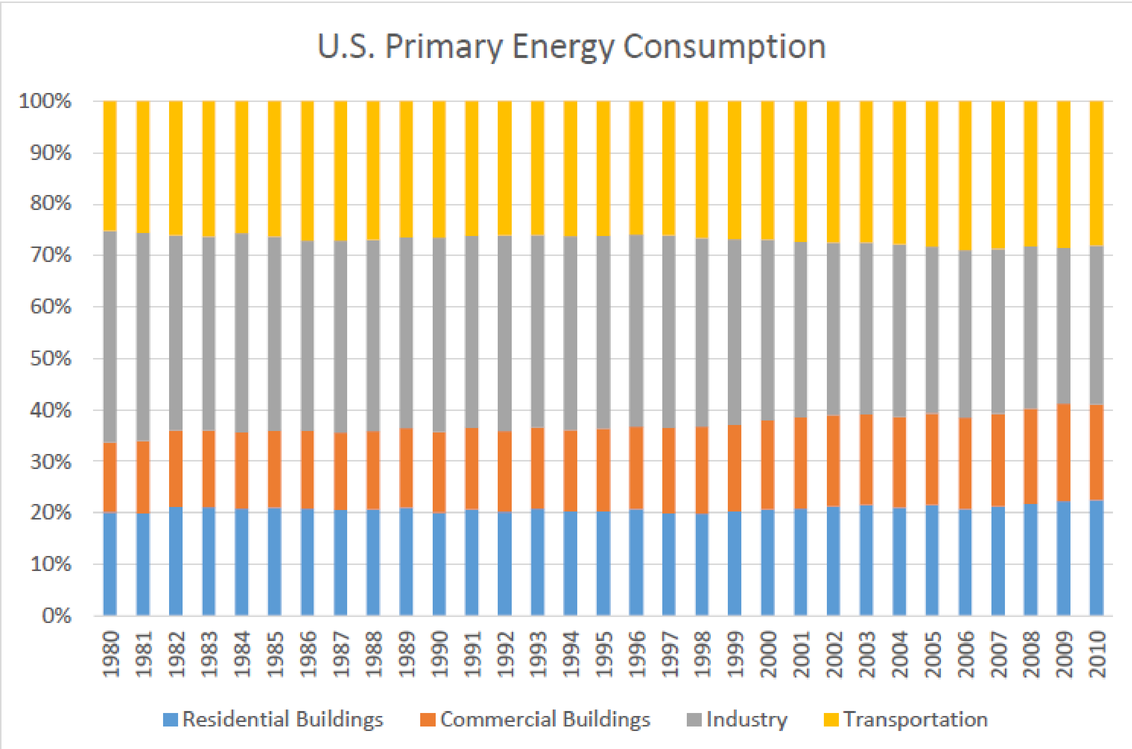


Figure 2. Commercial Sector Energy Consumption, 1980-2010

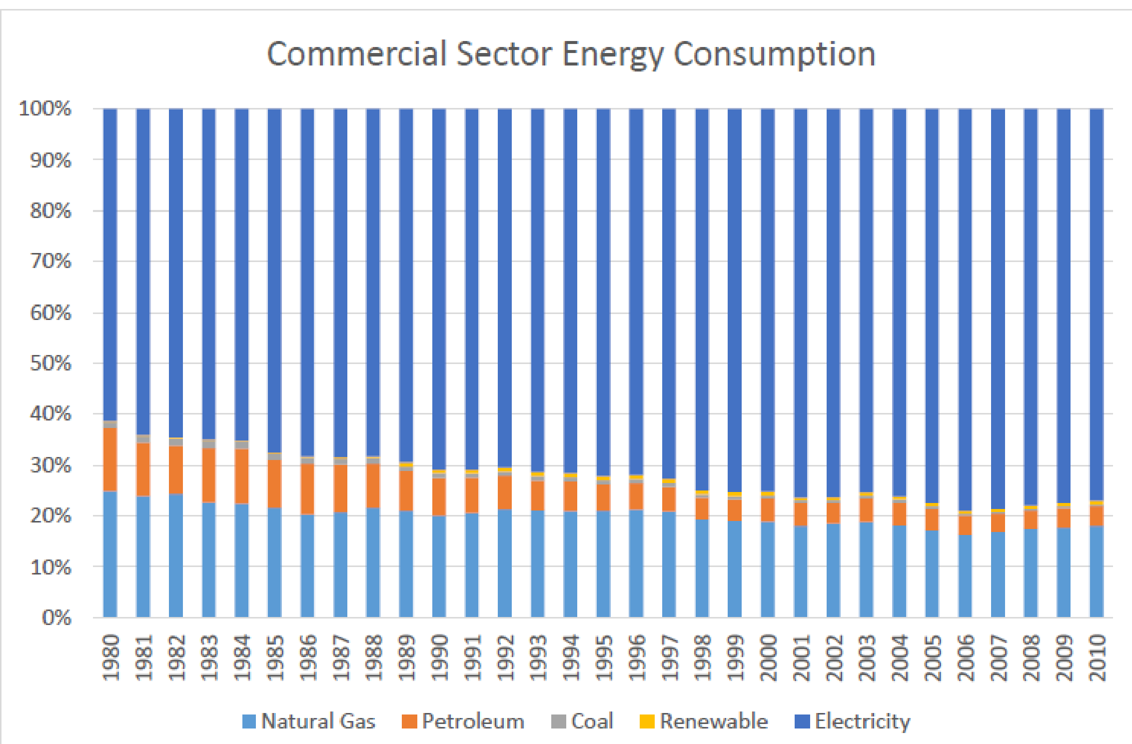
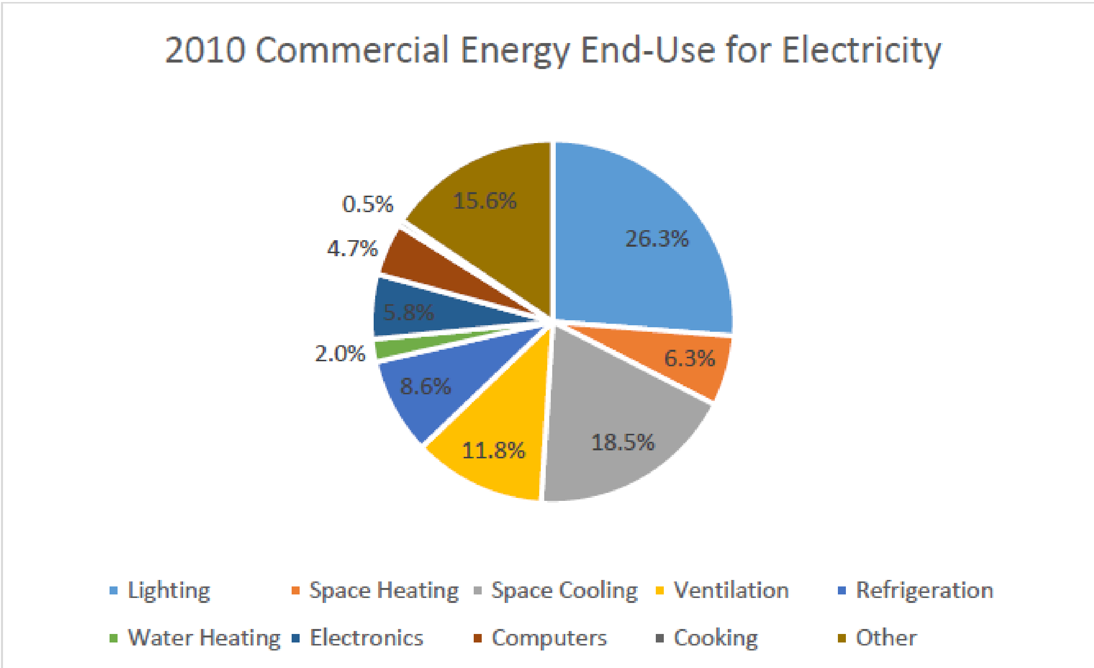


Figure 3. 2010 Commercial Energy End-Use for Electricity



Policy Context and Modeling Approach

Energy efficiency policies, from regulations to tax incentives, result in significant implications for industries that design, construct, and maintain commercial buildings, as well as those that innovate, develop, and manufacture energy efficient enhancements. These industries play an important role in state and local economies, creating jobs and revenue. Public policies that support these businesses can have both direct and indirect effects on a region's employment, economic output, and personal income.

Expanding, modifying, and extending Section 179D would reduce utility bills, lower energy costs, cut pollution, and increase jobs and economic growth. Commercial buildings have high energy needs. In addition to large energy bills for building owners and tenants (an estimated $38 billion a year goes towards lighting alone, according to the U.S. Department of Energy), commercial buildings can also put great strain on the nation's power grids during peak periods. Developing more efficient buildings helps ensure a steady supply of affordable power and significantly lowers operating costs for businesses and taxpayers alike.

Section 179D promotes the proper allocation of incentives in the real estate development process. As noted above, a key challenge to realizing the benefits of energy efficient improvements is that the associated cost savings flow to building occupants, not developers. In the short-term, Section 179D enables building owners to offset the often costly investments associated with energy efficiency enhancements. In the longer term, occupants of buildings that take advantage of the deduction realize significantly lower energy costs, the benefits of leading-edge design and construction that enhances the building's long-term market value, and the benefits of a reduced environmental footprint.

Section 179D has been an extremely effective tool in both respects. Since its enactment in 2005, the deduction has leveraged billions of dollars in private capital, resulting in the energy efficient construction and renovation of thousands of buildings, while creating and preserving hundreds of thousands of jobs. It has also encouraged the research and development of new energy efficient innovations, enhancing its contributions to economic and employment growth. As such, it stands as of the best examples of the tremendous impact that tax incentives can have on financing energy efficient property[6].

While different tax structures are likely to result in different economic outcomes, one can only estimate the likely effect of tax proposals with integrated fiscal and economic analysis. To conduct this analysis, we first estimate the direct tax implications of the proposed changes. Next, we translate these direct tax changes into "policy variables" which are input into the REMI PI+ 70-sector model of the United States. We then run the model, which calculates the macroeconomic effect of the policy change, including detailed employment, output, income and other macroeconomic changes.

The REMI model is an integrated econometric/input-output/general equilibrium model of the US economy. It incorporates income and product accounts, demographics, price and production costs changes, and the labor market. Changes in taxes result in economic changes throughout the economy. While tax policy proposals should be carefully considered, we can best evaluate the economic implications of these policies using fiscal and economic analysis. This includes not only the direct tax changes to firms and individuals, but also how these changes affect the dynamic responses of firms and individuals in the overall economy.

A more detailed overview of the REMI model and its structure is available in Appendix 1.

[6] Statement for the Record of The American Institute of Architects for the Hearing on "Benefits of Permanent Tax Policy for America's Job Creators", before the U.S. House of Representatives Committee on Ways & Means, April 8, 2014.
http://waysandmeans.house.gov/wp-content/uploads/2015/10/The-American-Institute-of-Architects-040814SFR.pdf

Economic Impact Analysis: Strengthening and Modernizing Section 179D

Overview

Strengthening and modernizing Section 179D is a reform proposal, aimed at incentivizing the next generation of energy efficiency enhancements to new and existing commercial building stock. The economic model presented below is based on the President's FY 2017 Budget Proposal, which would have increased the value of the deduction to $3.00 per square foot from $1.80, made it available to support improvements to existing as well as new buildings, and extended the availability of the provision. In addition, it would have updated the applicable energy efficiency standard of a reference building to the minimum requirement of ASHRAE Standard 90.1-2010. Many of these modifications and enhancements are also reflected in Title I of the Energy Efficiency Tax Incentives Act (S. 2189 in the 113th Congress).

As noted above, although this model is based on previous Section 179D proposals and it cannot be directly extrapolated, it provides a proxy baseline for a proposal along the lines of a technology neutral energy efficiency incentive in the context of tax reform.

Methodology and Model Inputs

In order to analyze the potential economic impact of modifying and extending the deduction for energy efficient commercial building property, REMI evaluated both the costs and benefits of the program in terms of the value of the tax deduction, the additional leveraged investment spending it directly generates, and the future energy savings that results from it. These factors were estimated for both the private and government sectors.

<u>Value of Tax Deduction</u>

The cost of the President's FY 2017 Budget Proposal was estimated by the Joint Committee on Taxation to be $6.7 billion over 10 years[7]. This analysis projects the economic impact of the first ten years of this policy.

Since the JCT reports in fiscal years, and the REMI model is based on calendar years, the revenue costs were converted to represent calendar years. The value of the tax deduction represented by the JCT's estimate of the budget effect was estimated based on the assumption of an effective corporate tax rate of 18.6%[8] (the budget estimate was divided by the tax rate to yield an estimate of the tax deduction). Since the tax deduction is available for both private and government-owned buildings, also taking into account the modifications intended to strengthen and modernize the law, it was split between the two sectors based on Bureau of Economic Analysis nonresidential structures investment data for 2015[9],

[7] Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2017 Budget Proposal, Joint Committee on Taxation, March 24, 2016, JCX-15-16.

[8] International Comparisons of Corporate Income Tax Rates, CBO, March 2017. https://www.cbo.gov/publication/52419

[9] BEA Table 4.7. Investment in Private Nonresidential Fixed Assets by Industry Group and Legal Form of Organization, and Table 7.5B. Investment in Government Fixed Assets. http://www.bea.gov

resulting in a breakdown of 81% private and 19% government. This contrasts with the assumptions used to evaluate the other two proposals.

Table 3. Estimated Budget Effect of Section 179D Tax Deduction: Strengthen and Modernize

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
JCT Budget Estimates (Fiscal Year, millions of 2016 dollars)	($363)	($714)	($727)	($743)	($734)	($706)	($708)	($695)	($672)	($670)
JCT Budget Estimates (Calendar Year, millions of 2016 dollars)	($542)	($717)	($731)	($741)	($727)	($707)	($705)	($689)	($672)	($670)

Table 4. Total Value of Section 179D Tax Deductions: Strengthen and Modernize

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total Value of Tax Deductions (millions of 2016 dollars)	$2,911	$3,856	$3,930	$3,983	$3,909	$3,798	$3,789	$3,706	$3,610	$3,602
Private Sector (81%)	$2,362	$3,129	$3,189	$3,231	$3,171	$3,082	$3,074	$3,006	$2,929	$2,922
Government Sector (19%)	$549	$728	$742	$751	$737	$717	$715	$699	$681	$680

The value of these tax deductions is used to estimate associated investment and energy cost savings to private businesses and governments. Since Section 179D accelerates to the year placed in service the depreciation deduction for the cost of the energy efficient asset (up to the allowed amount), therefore just changing the timing of when the deduction may be taken, the impact on the federal budget (deficit) is not accounted for.

The full amount of the tax deduction earned by private commercial businesses each year is entered as a reduction in their cost of doing business.

Although governments do not file federal tax returns, and therefore cannot receive the tax deduction directly, they are allowed to pass the tax deduction on to the contractor responsible for designing their energy efficiency project. This amount is entered as a reduction in the cost of doing business for the professional, scientific, and technical services industry.

Table 5. Recipients of Benefit of Section 179D Tax Deduction: Strengthen and Modernize

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Recipient of Tax Deduction (millions of 2016 dollars)	$2,911	$3,856	$3,930	$3,983	$3,909	$3,798	$3,789	$3,706	$3,610	$3,602
Private Commercial Businesses	$2,362	$3,129	$3,189	$3,231	$3,171	$3,082	$3,074	$3,006	$2,929	$2,922
Professional Services	$549	$728	$742	$751	$737	$717	$715	$699	$681	$680

Leveraged Investment

Since the tax deduction is based on only a portion of the investment spending, it is assumed that each dollar of tax deduction is leveraged by a certain amount of investment spending. The tax incentive is calculated on a per square foot basis, and varies depending on the measured (and certified) improvement in energy efficiency. This leverage value was calculated from industry data provided to REMI by a third-party certifier[10], which showed an average of $3.12 of private investment for each $1 of federal tax deduction. This translates into an almost 17 to 1 ratio of investment to tax reduction. The incentive is meant to produce a rising share of energy efficient investment activity over a 5-10 year period, at which point the standard for receiving the incentive could be adjusted to account for the development of new technologies. For this reason, the amount of the leveraged investment is phased in over the ten year period of analysis, beginning at 50% in 2017, then incrementing 5% each year, reaching 95% in 2026.

The leveraged investment spending is split between labor (30%) and materials (70%) based on Garrett-Peltier[11], and the materials distributed to equipment type (75% HVAC, 25% Lighting) based on industry data provided to REMI by a third-party certifier.

Table 6. Leveraged Investment of Section 179D Tax Deduction: Strengthen and Modernize

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Leveraged Investment (millions of 2016 dollars)	$4,545	$6,622	$7,363	$8,083	$8,543	$8,895	$9,465	$9,835	$10,146	$10,685
Private Sector	$3,688	$5,373	$5,974	$6,558	$6,931	$7,217	$7,679	$7,979	$8,231	$8,669
A/C and Boiler equipment (53%)	$1,947	$2,836	$3,153	$3,462	$3,659	$3,809	$4,053	$4,212	$4,345	$4,576
Light fixtures, etc. (17%)	$635	$925	$1,028	$1,129	$1,193	$1,242	$1,322	$1,374	$1,417	$1,492
Labor (30%)	$1,106	$1,612	$1,792	$1,967	$2,079	$2,165	$2,304	$2,394	$2,469	$2,601
Government Sector	$858	$1,250	$1,389	$1,525	$1,612	$1,678	$1,786	$1,856	$1,914	$2,016
A/C and Boiler equipment (53%)	$453	$660	$733	$805	$851	$886	$943	$980	$1,010	$1,064
Light fixtures, etc. (17%)	$148	$215	$239	$263	$277	$289	$307	$319	$330	$347
Labor (30%)	$257	$375	$417	$458	$484	$504	$536	$557	$574	$605

Energy Savings

Industry data provided to REMI by a third-party certifier was used to calculate the average annual energy savings per dollar of tax deduction. This value was determined to be 8% (8 cents of future energy savings for every dollar of tax deduction). The total value of energy savings to the private sector was entered as a reduction in the cost of production, spread across all commercial industries in the model. A corresponding decrease in demand for electricity was also entered[12]. For energy savings to government,

[10] Energy Tax Savers, Inc.
[11] Employment Estimates for Energy Efficiency Retrofits of Commercial Buildings, Dr. Heidi Garrett-Peltier, Political Economy Research Institute, University of Massachusetts, Amherst, June 2011.
[12] Given the availability of capacity in electric power generation, it is assumed that reduced utility demand will not have a significant impact on investment in power plants. Rate adjustments and potential environmental and health effects of reduced demand for electricity were also not taken into account.

an increase in government spending was entered due to the availability of more resources for other areas of the budget as a result of the lower energy costs. As with the private sector, a corresponding decrease in demand for electricity was entered.

Table 7. Energy Savings of Section 179D Tax Deduction: Strengthen and Modernize

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Energy Savings (millions of 2016 dollars)	$236	$548	$866	$1,188	$1,504	$1,811	$2,118	$2,418	$2,710	$3,001
Private Sector	$191	$444	$702	$964	$1,220	$1,470	$1,718	$1,962	$2,199	$2,435
Government Sector	$44	$103	$163	$224	$284	$342	$400	$456	$511	$566

Table 8. Reduced Demand for Utilities of Section 179D Tax Deduction: Strengthen and Modernize

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Utility Demand (millions of 2016 dollars)	($236)	($548)	($866)	($1,188)	($1,504)	($1,811)	($2,118)	($2,418)	($2,710)	($3,001)
Private Sector	($191)	($444)	($702)	($964)	($1,220)	($1,470)	($1,718)	($1,962)	($2,199)	($2,435)
Government Sector	($44)	($103)	($163)	($224)	($284)	($342)	($400)	($456)	($511)	($566)

Investment Offset

For this analysis, we assume that for each dollar spent in a given year on investment in order to achieve the energy efficiency requirements, an equal dollar of investment is removed from spending spread over the next ten years. Therefore it is assumed that the tax deduction incentivizes the timing of the investment, leading to more immediate investment instead of longer term investment that is spread over many years.

Table 9. Investment Offset of Section 179D Tax Deduction: Strengthen and Modernize

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Investment Offset (millions of 2016 dollars)	($455)	($1,117)	($1,853)	($2,661)	($3,516)	($4,405)	($5,352)	($6,335)	($7,350)	($8,418)
Private Sector	($369)	($906)	($1,503)	($2,159)	($2,852)	($3,574)	($4,342)	($5,140)	($5,963)	($6,830)
Government Sector	($86)	($211)	($350)	($502)	($663)	($831)	($1,010)	($1,195)	($1,387)	($1,588)

Economic Impact Results

REMI modeled the scenario related to the President's FY 2017 Budget Proposal to modify and extend the deduction for energy efficient building property over the ten-year time period 2017-2026 based on the revenue score provided by the Joint Committee on Taxation. Over the first ten years of the extension, the net leveraged investment, energy savings, and accelerated tax deduction combined yield a net average gain of 76,529 jobs per year nationwide (see Figure 4). The construction industry gains the majority of these jobs (over 17,000), while Manufacturing, Trade, and Professional Services combined account for over 23,000 jobs. This is a result of the direct investment in energy efficiency technology and associated building construction and/or retrofitting. The Utilities industry loses some jobs (-1,750) due to reduced demand for electricity as a result of the increased energy efficiency.

Figure 4. Strengthen and Modernize: Total and Average Jobs

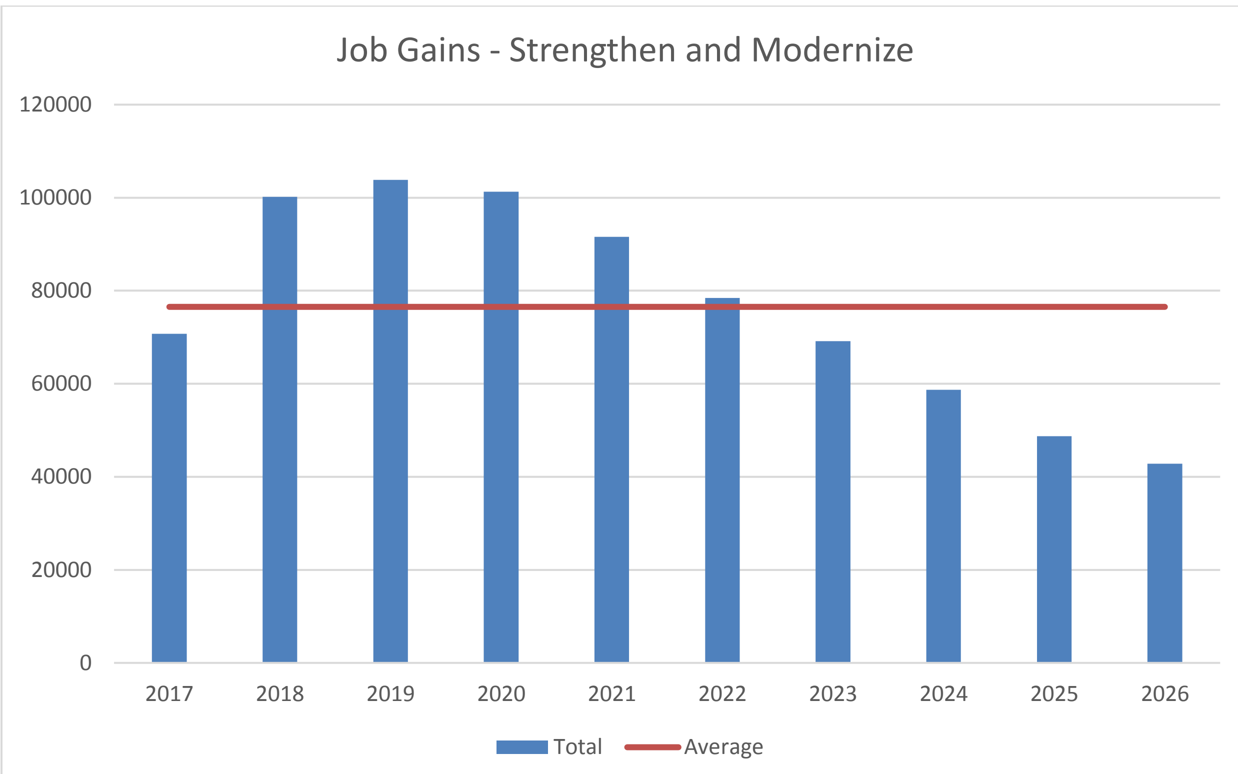
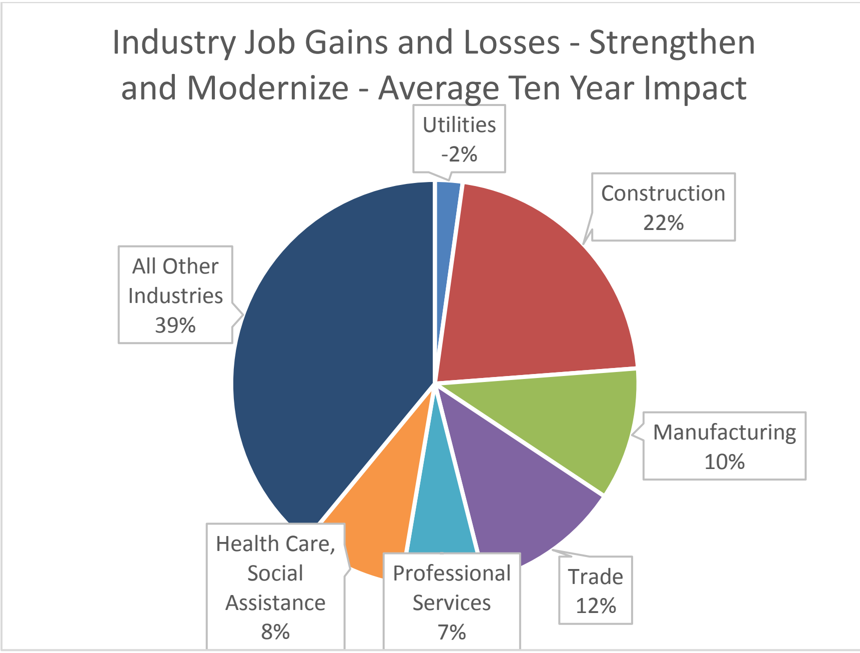
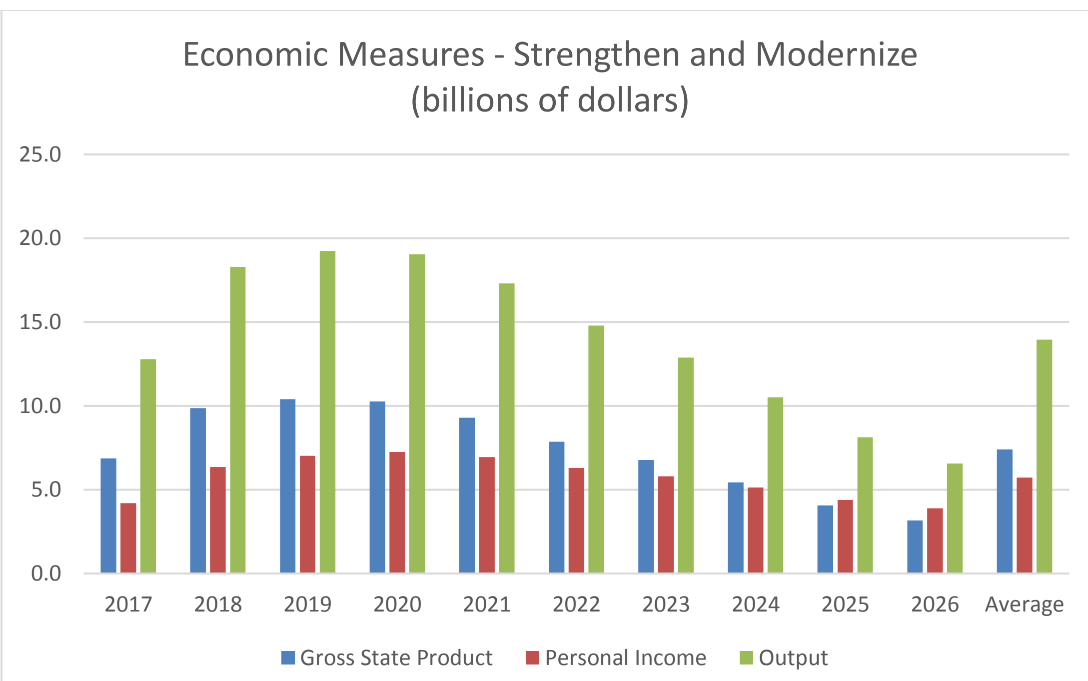


Figure 5. Strengthen and Modernize: Industry Jobs



In addition to the employment impact, Gross Domestic Product increased by an average of $7.4 billion nationwide. Similarly, personal income increased an average of $5.7 billion, while increased output averaged $14 billion.

Figure 6. Strengthen and Modernize: Economic Measures



Economic Impact Analysis: Extension and Expansion of Section 179D

Overview

As noted above, the 2015 legislative proposal developed by the Senate Finance Committee under Chairman Hatch would permit non-profit organizations (as defined in Section 501(c)(3) of the tax code) and tribal governments to allocate the deduction to the person primarily responsible for designing the property in the same manner as is allowed for public property. This change would create new opportunities for tax-exempt entities to enjoy the benefits of energy efficient improvements. Additionally, the modification would increase the applicable energy efficiency standards to ASHRAE 90.1-2007, and extend the deduction.

Methodology and Model Inputs

In order to analyze the potential economic impact of expanding and extending the deduction for energy efficient commercial building property, REMI evaluated both the costs and benefits of the program in terms of the value of the tax deduction, the additional leveraged investment spending it directly generates, and the future energy savings that results from it. These factors were estimated for both the private and government sectors.

<u>Value of Tax Deduction</u>

The cost of the Senate Finance Committee proposal for one year was estimated by the Joint Committee on Taxation to be $315 million over 10 years[13]. This analysis projects the economic impact of the first ten years of an extension based upon JCT's evaluation of this one-year extension.

Since the JCT reports in fiscal years, and the REMI model is based on calendar years, the revenue costs were converted to represent calendar years. The value of the tax deduction represented by the JCT's estimate of the budget effect was estimated based on the assumption of an effective corporate tax rate of 18.6% (the budget estimate was divided by the tax rate to yield an estimate of the tax deduction).

Since the tax deduction is available for both private and government-owned buildings, but the participants of the current program are primarily government entities, it was split between the two sectors based on a breakdown of 20% private and 80% government (this assumption differs from that used in the Extension of Current Law scenario based on Bureau of Economic Analysis nonresidential structures investment data for 2015[14] along with Bureau of Labor Statistics employment data for 2015[15] that reports nonresidential fixed assets of non-profits to be 9% of the private sector, and tribal governments to be 2% of the government sector, shifting the weight more towards the private sector).

[13] Estimated Revenue Effects of the Chairman's Modification to the Chairman's Mark of a Bill to Extend Certain Expired Provisions Scheduled for Markup by the Committee on Finance on July 21, 2015, Joint Committee on Taxation, July 21, 2015, JCX-104-15.

[14] BEA Table 4.7. Investment in Private Nonresidential Fixed Assets by Industry Group and Legal Form of Organization, and Table 7.5B. Investment in Government Fixed Assets. http://www.bea.gov

[15] BLS Quarterly Census of Employment and Wages data was used to determine the tribal government proportion of state and local government. http://ww.bls.gov

Table 10. Estimated Budget Effect of Section 179D Tax Deduction: Extension and Expansion

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Based on JCT Revenue Estimates (Fiscal Year, millions of 2016 dollars)	($295)	($353)	($346)	($339)	($333)	($328)	($324)	($321)	($318)	($315)
Based on JCT Revenue Estimates (Calendar Year, millions of 2016 dollars)	($383)	($351)	($344)	($338)	($332)	($327)	($323)	($320)	($317)	($315)

Table 11. Total Value of Section 179D Tax Deductions: Extension and Expansion

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total Value of Tax Deductions (millions of 2016 dollars)	$2,060	$1,888	$1,851	$1,815	$1,784	$1,758	$1,737	$1,719	$1,704	$1,694
Private Sector (20%)	$412	$378	$370	$363	$357	$352	$347	$344	$341	$339
Government Sector (80%)	$1,648	$1,511	$1,481	$1,452	$1,427	$1,406	$1,390	$1,375	$1,363	$1,355

The value of these tax deductions are used to estimate associated investment and energy cost savings to private commercial businesses, including non-profits, and government entities, including tribal governments. Since Section 179D accelerates to the year placed in service the depreciation deduction for the cost of the energy efficient asset (up to the allowed amount), therefore just changing the timing of when the deduction may be taken, the impact on the federal budget (deficit) is not accounted for.

The full amount of the tax deduction earned by private for-profit commercial businesses each year is entered as a reduction in their cost of doing business.

Although non-profits and governments do not file federal tax returns, and therefore cannot receive the tax deduction directly, they are allowed to pass the tax deduction on to the contractor responsible for designing their energy efficiency project. This amount is entered as a reduction in the cost of doing business for the professional, scientific, and technical services industry.

Table 12. Recipients of Benefit of Section 179D Tax Deduction: Extension and Expansion

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Recipient of Tax Deduction (millions of 2016 dollars)	$2,060	$1,888	$1,851	$1,815	$1,784	$1,758	$1,737	$1,719	$1,704	$1,694
Private Commercial Businesses	$412	$378	$370	$363	$357	$352	$347	$344	$341	$339
Professional Services	$1,648	$1,511	$1,481	$1,452	$1,427	$1,406	$1,390	$1,375	$1,363	$1,355

Leveraged Investment

Since the tax deduction is based on only a portion of the investment spending, it is assumed that each dollar of tax deduction is leveraged by a certain amount of investment spending. The tax incentive is calculated on a per square foot basis, and varies depending on the measured (and certified) improvement in energy efficiency. This leverage value was calculated from industry data provided to REMI by a third-party certifier, which showed an average of $3.12 of private investment for each $1 of federal tax deduction. This translates into an almost 17 to 1 ratio of investment to tax reduction. The incentive is meant to produce a rising share of energy efficient investment activity over a 5-10 year period, at which point the standard for receiving the incentive could be adjusted to account for the development of new technologies. For this reason, the amount of the leveraged investment is phased in over the ten year period of analysis, beginning at 50% in 2017, then incrementing 5% each year, reaching 95% in 2026.

The leveraged investment spending is split between labor (30%) and materials (70%) based on Garrett-Peltier, and the materials distributed to equipment type (75% HVAC, 25% Lighting) based on industry data provided to REMI by a third-party certifier.

Table 13. Leveraged Investment of Section 179D Tax Deduction: Extension and Expansion

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Leveraged Investment (millions of 2016 dollars)	$3,217	$3,243	$3,467	$3,683	$3,898	$4,117	$4,340	$4,563	$4,788	$5,024
Private Sector	$643	$649	$693	$737	$780	$823	$868	$913	$958	$1,005
A/C and Boiler equipment (53%)	$340	$342	$366	$389	$412	$435	$458	$482	$505	$530
Light fixtures, etc. (17%)	$111	$112	$119	$127	$134	$142	$149	$157	$165	$173
Labor (30%)	$193	$195	$208	$221	$234	$247	$260	$274	$287	$301
Government Sector	$2,574	$2,595	$2,774	$2,946	$3,119	$3,294	$3,472	$3,650	$3,830	$4,019
A/C and Boiler equipment (53%)	$1,358	$1,370	$1,464	$1,555	$1,646	$1,739	$1,833	$1,927	$2,022	$2,121
Light fixtures, etc. (17%)	$443	$447	$478	$507	$537	$567	$598	$628	$659	$692
Labor (30%)	$772	$778	$832	$884	$936	$988	$1,041	$1,095	$1,149	$1,206

Energy Savings

Industry data provided to REMI by a third-party certifier was used to calculate the average annual energy savings per dollar of tax deduction. This value was determined to be 8% (8 cents of future energy savings for every dollar of tax deduction). The total value of energy savings to the private sector was entered as a reduction in the cost of production, spread across all commercial industries in the model. A corresponding decrease in demand for electricity was also entered. For energy savings to government, an increase in government spending was entered due to the availability of more resources for other areas of the budget as a result of the lower energy costs. As with the private sector, a corresponding decrease in demand for electricity was entered.

Table 14. Energy Savings of Section 179D Tax Deduction: Extension and Expansion

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Energy Savings (millions of 2016 dollars)	$167	$320	$469	$616	$760	$903	$1,043	$1,182	$1,320	$1,457
Private Sector	$33	$64	$94	$123	$152	$181	$209	$236	$264	$291
Government Sector	$133	$256	$375	$493	$608	$722	$835	$946	$1,056	$1,166

Table 15. Reduced Demand for Utilities of Section 179D Tax Deduction: Extension and Expansion

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Utility Demand (millions of 2016 dollars)	($167)	($320)	($469)	($616)	($760)	($903)	($1,043)	($1,182)	($1,320)	($1,457)
Private Sector	($33)	($64)	($94)	($123)	($152)	($181)	($209)	($236)	($264)	($291)
Government Sector	($133)	($256)	($375)	($493)	($608)	($722)	($835)	($946)	($1,056)	($1,166)

Investment Offset

For this analysis, we assume that for each dollar spent in a given year on investment in order to achieve the energy efficiency requirements, an equal dollar of investment is removed from spending spread over the next ten years. Therefore it is assumed that the tax deduction incentivizes the timing of the investment, leading to more immediate investment instead of longer term investment that is spread over many years.

Table 16. Investment Offset of Section 179D Tax Deduction: Extension and Expansion

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Investment Offset (millions of 2016 dollars)	($322)	($646)	($993)	($1,361)	($1,751)	($2,163)	($2,597)	($3,053)	($3,532)	($4,034)
Private Sector	($64)	($129)	($199)	($272)	($350)	($433)	($519)	($611)	($706)	($807)
Government Sector	($257)	($517)	($794)	($1,089)	($1,401)	($1,730)	($2,077)	($2,442)	($2,825)	($3,227)

Economic Impact Results

REMI modeled the scenario related to the proposal to extend and expand the deduction for energy efficient building property over the ten-year time period 2017-2026 based on the revenue score provided by the Joint Committee on Taxation. Over the first ten years of the extension, the net leveraged investment, energy savings, and accelerated tax deduction combined yield a net average gain of 39,388 jobs per year nationwide (see Figure 7). The construction industry gains the majority of these jobs (just under 8,200), while Manufacturing, Trade, and Professional Services combined account for almost 11,000 jobs. This is a result of the direct investment in energy efficiency technology and associated building construction and/or retrofitting. The Utilities industry loses some jobs (-880) due to reduced demand for electricity as a result of the increased energy efficiency.

Figure 7. Extension and Expansion: Total and Average Jobs

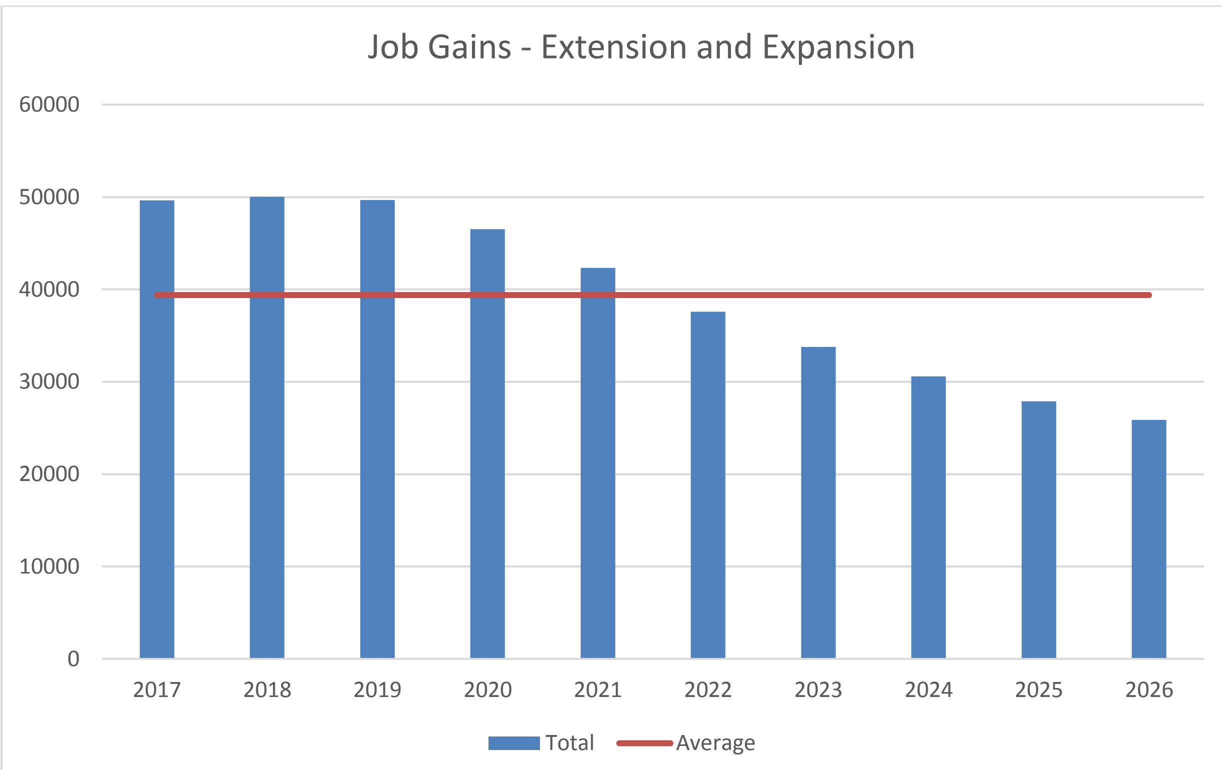
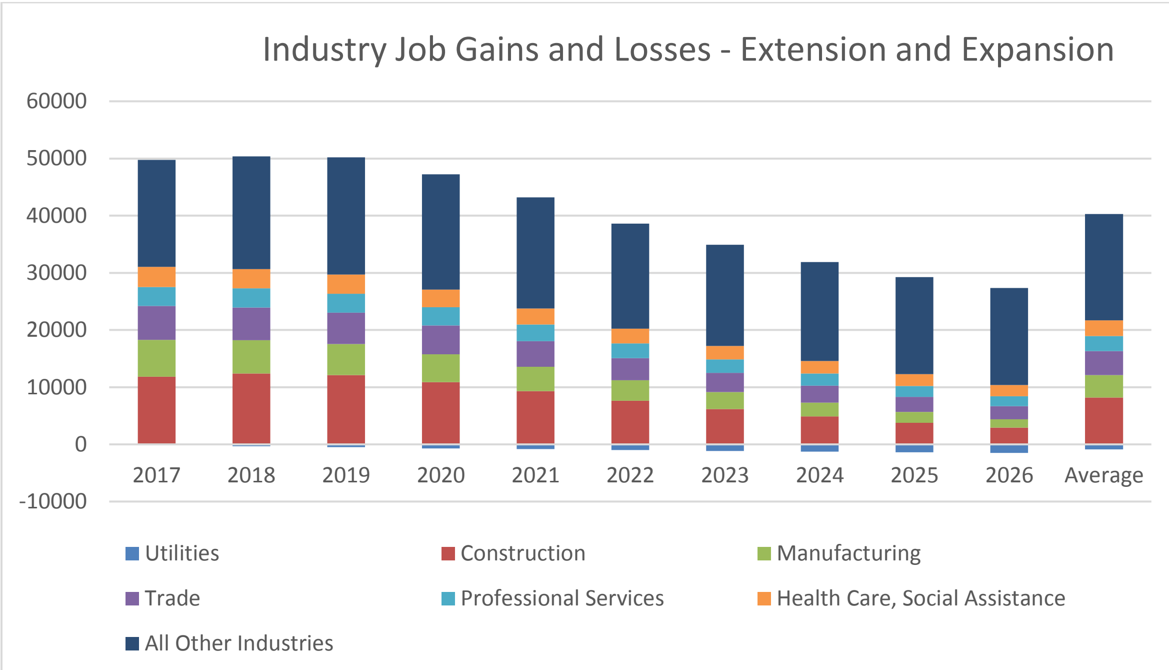
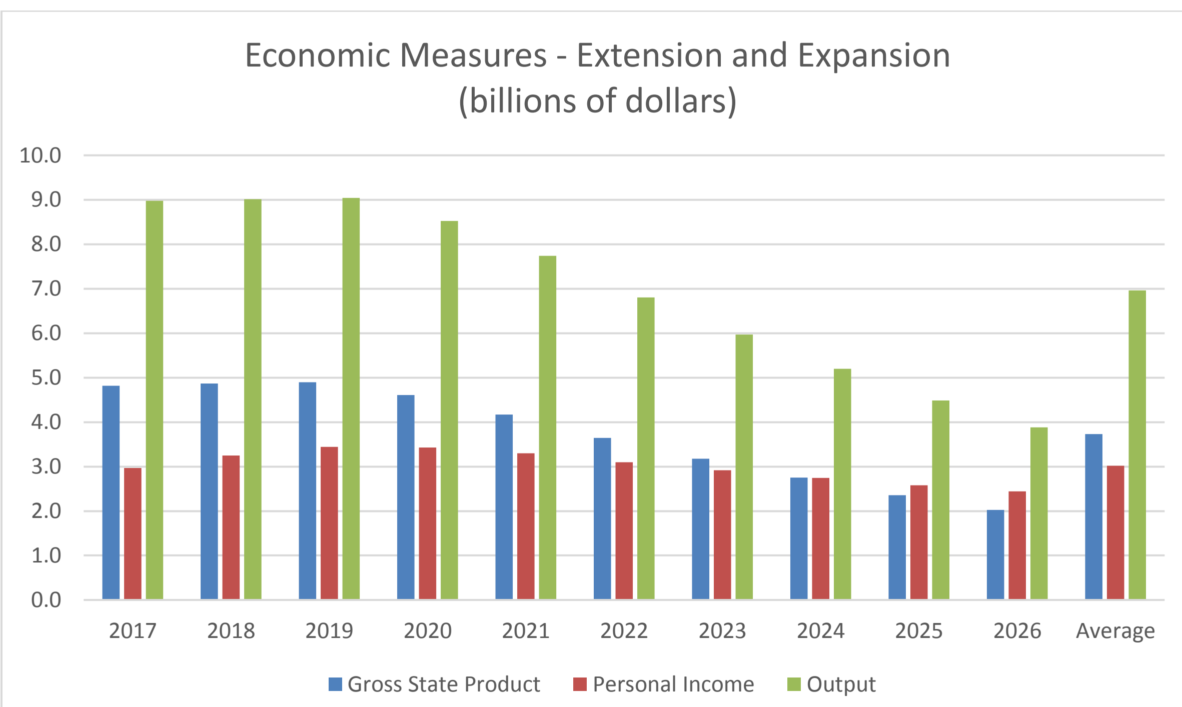


Figure 8. Extension and Expansion: Industry Jobs



In addition to the employment impact, Gross Domestic Product increased by an average of $3.7 billion nationwide. Similarly, personal income increased an average of $3 billion, while increased output averaged $7 billion.

Figure 9. Extension and Expansion: Economic Measures



Economic Impact Analysis: Extension of Current Law Section 179D

Overview

As a temporary tax provision, Section 179D has experienced numerous expirations and extensions since its enactment. This cycle frustrates the achievement of the policy goals for the incentive, since energy efficiency projects, like other construction projects, require considerable lead-time for planning and development. A long-term extension of Section 179D would provide certainty about the availability of the tax incentives, to support future hiring, manufacturing, and development decisions.

Methodology and Model Inputs

In order to analyze the potential economic impact of extending Section 179D as it exists under current law, REMI evaluated both the costs and benefits of the program in terms of the value of the tax deduction, the additional leveraged investment spending it directly generates, and the future energy savings that results from it. These factors were estimated for both the private and government sectors.

Value of Tax Deduction

The cost of the proposal to extend Section 179D for one year was estimated by the Joint Committee on Taxation to be $324 million over 10 years[16]. This analysis projects the economic impact of the first ten years of an extension based upon JCT's evaluation of this one-year extension.

Since the JCT reports in fiscal years, and the REMI model is based on calendar years, the revenue costs were converted to represent calendar years. The value of the tax deduction represented by the JCT's estimate of the budget effect was estimated based on the assumption of an effective corporate tax rate of 18.6% (the budget estimate was divided by the tax rate to yield an estimate of the tax deduction). Since the tax deduction is available for both private and government-owned buildings, but the participants of the current program are primarily government entities, it was split between the two sectors based on a breakdown of 15% private and 85% government.

Table 17. Estimated Budget Effect of Section 179D Tax Deduction: Extension of Current Law

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Based on JCT Revenue Estimates (Fiscal Year, millions of 2016 dollars)	($302)	($363)	($355)	($348)	($342)	($337)	($333)	($329)	($326)	($324)
Based on JCT Revenue Estimates (Calendar Year, millions of 2016 dollars)	($392)	($361)	($353)	($347)	($341)	($336)	($332)	($328)	($326)	($324)

[16] Estimated Budget Effects of Division Q of Amendment #2 to the Senate Amendment to H.R. 2029 (Rules Committee Print 114-40), The "Protecting Americans from Tax Hikes Act of 2015", Joint Committee on Taxation, December 16, 2015, JCX-143-15.

Table 18. Total Value of Section 179D Tax Deductions: Extension of Current Law

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total Value of Tax Deductions (millions of 2016 dollars)	$2,109	$1,941	$1,899	$1,863	$1,832	$1,806	$1,785	$1,765	$1,750	$1,742
Private Sector (15%)	$316	$291	$285	$279	$275	$271	$268	$265	$263	$261
Government Sector (85%)	$1,793	$1,650	$1,614	$1,583	$1,557	$1,535	$1,517	$1,500	$1,488	$1,481

The value of these tax deductions is used to estimate associated investment and energy cost savings to private businesses and governments. Since Section 179D accelerates to the year placed in service the depreciation deduction for the cost of the energy efficient asset (up to the allowed amount), therefore just changing the timing of when the deduction may be taken, the impact on the federal budget (deficit) is not accounted for.

The full amount of the tax deduction earned by private commercial businesses each year is entered as a reduction in their cost of doing business.

Although governments do not file federal tax returns, and therefore cannot receive the tax deduction directly, they are allowed to pass the tax deduction on to the contractor responsible for designing their energy efficiency project. This amount is entered as a reduction in the cost of doing business for the professional, scientific, and technical services industry.

Table 19. Recipients of Benefit of Section 179D Tax Deduction: Extension of Current Law

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Recipient of Tax Deduction (millions of 2016 dollars)	$2,109	$1,941	$1,899	$1,863	$1,832	$1,806	$1,785	$1,765	$1,750	$1,742
Private Commercial Businesses	$316	$291	$285	$279	$275	$271	$268	$265	$263	$261
Professional Services	$1,793	$1,650	$1,614	$1,583	$1,557	$1,535	$1,517	$1,500	$1,488	$1,481

Leveraged Investment

Since the tax deduction is based on only a portion of the investment spending, it is assumed that each dollar of tax deduction is leveraged by a certain amount of investment spending. The tax incentive is calculated on a per square foot basis, and varies depending on the measured (and certified) improvement in energy efficiency. This leverage value was calculated from industry data provided to REMI by a third-party certifier, which showed an average of $3.12 of private investment for each $1 of federal tax deduction. This translates into an almost 17 to 1 ratio of investment to tax reduction. The incentive is meant to produce a rising share of energy efficient investment activity over a 5-10 year period, at which point the standard for receiving the incentive could be adjusted to account for the development of new technologies. For this reason, the amount of the leveraged investment is phased in over the ten year period of analysis, beginning at 50% in 2017, then incrementing 5% each year, reaching 95% in 2026.

The leveraged investment spending is split between labor (30%) and materials (70%) based on Garrett-Peltier, and the materials distributed to equipment type (75% HVAC, 25% Lighting) based on industry data provided to REMI by a third-party certifier.

Table 20. Leveraged Investment of Section 179D Tax Deduction: Extension of Current Law

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Leveraged Investment (millions of 2016 dollars)	$3,292	$3,333	$3,558	$3,781	$4,004	$4,230	$4,459	$4,684	$4,918	$5,167
Private Sector	$494	$500	$534	$567	$601	$635	$669	$703	$738	$775
A/C and Boiler equipment (53%)	$261	$264	$282	$299	$317	$335	$353	$371	$389	$409
Light fixtures, etc. (17%)	$85	$86	$92	$98	$103	$109	$115	$121	$127	$133
Labor (30%)	$148	$150	$160	$170	$180	$190	$201	$211	$221	$233
Government Sector	$2,799	$2,833	$3,024	$3,214	$3,404	$3,596	$3,790	$3,981	$4,180	$4,392
A/C and Boiler equipment (53%)	$1,477	$1,496	$1,596	$1,696	$1,797	$1,898	$2,001	$2,102	$2,207	$2,318
Light fixtures, etc. (17%)	$482	$488	$521	$553	$586	$619	$652	$685	$720	$756
Labor (30%)	$840	$850	$907	$964	$1,021	$1,079	$1,137	$1,194	$1,254	$1,318

Energy Savings

Industry data provided to REMI by a third-party certifier was used to calculate the average annual energy savings per dollar of tax deduction. This value was determined to be 8% (8 cents of future energy savings for every dollar of tax deduction). The total value of energy savings to the private sector was entered as a reduction in the cost of production, spread across all commercial industries in the model. A corresponding decrease in demand for electricity was also entered. For energy savings to government, an increase in government spending was entered due to the availability of more resources for other areas of the budget as a result of the lower energy costs. As with the private sector, a corresponding decrease in demand for electricity was entered.

Table 21. Energy Savings of Section 179D Tax Deduction: Extension of Current Law

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Energy Savings (millions of 2016 dollars)	$171	$328	$481	$632	$780	$926	$1,071	$1,214	$1,355	$1,496
Private Sector	$26	$49	$72	$95	$117	$139	$161	$182	$203	$224
Government Sector	$145	$279	$409	$537	$663	$787	$910	$1,032	$1,152	$1,272

Table 22. Reduced Demand for Utilities of Section 179D Tax Deduction: Extension of Current Law

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Utility Demand (millions of 2016 dollars)	($171)	($328)	($481)	($632)	($780)	($926)	($1,071)	($1,214)	($1,355)	($1,496)
Private Sector	($26)	($49)	($72)	($95)	($117)	($139)	($161)	($182)	($203)	($224)
Government Sector	($145)	($279)	($409)	($537)	($663)	($787)	($910)	($1,032)	($1,152)	($1,272)

Investment Offset

For this analysis, we assume that for each dollar spent in a given year on investment in order to achieve the energy efficiency requirements, an equal dollar of investment is removed from spending spread over the next ten years. Therefore it is assumed that the tax deduction incentivizes the timing of the investment, leading to more immediate investment instead of longer term investment that is spread over many years.

Table 23. Investment Offset of Section 179D Tax Deduction: Extension of Current Law

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Investment Offset (millions of 2016 dollars)	($329)	($663)	($1,018)	($1,396)	($1,797)	($2,220)	($2,666)	($3,134)	($3,626)	($4,143)
Private Sector	($49)	($99)	($153)	($209)	($270)	($333)	($400)	($470)	($544)	($621)
Government Sector	($280)	($563)	($866)	($1,187)	($1,527)	($1,887)	($2,266)	($2,664)	($3,082)	($3,521)

Economic Impact Results

REMI modeled the scenario related to a long-term extension of the temporary PATH Act extension of the deduction for energy efficient building property over the ten-year time period 2017-2026 based on the revenue score provided by the Joint Committee on Taxation. Over the first ten years of the extension, the net leveraged investment, energy savings, and accelerated tax deduction combined yield a net average gain of 40,749 jobs per year nationwide (see Figure 10). The construction industry gains the majority of these jobs (over 8,400), while Manufacturing, Trade, and Professional Services combined account for over 11,000 jobs. This is a result of the direct investment in energy efficiency technology and associated building construction and/or retrofitting. The Utilities industry loses some jobs (-900) due to reduced demand for electricity as a result of the increased energy efficiency.

Figure 10. Extension of Current Law: Total and Average Jobs

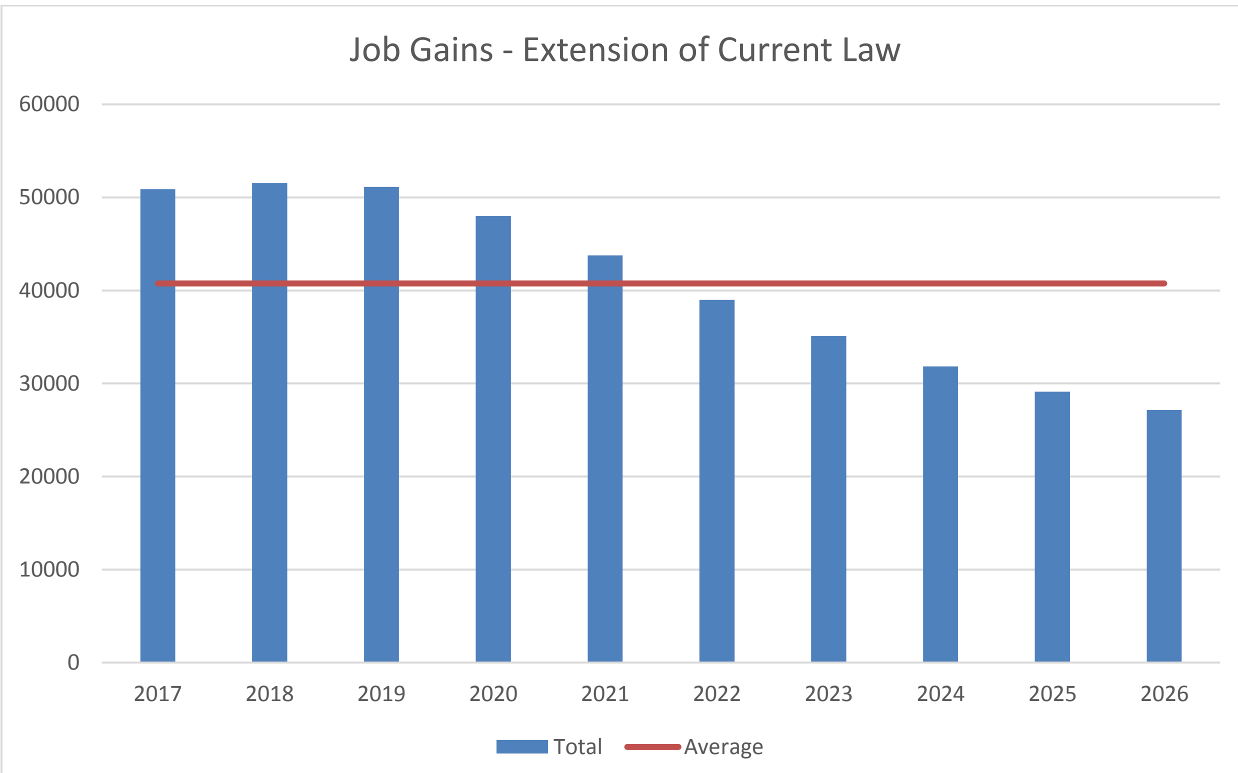
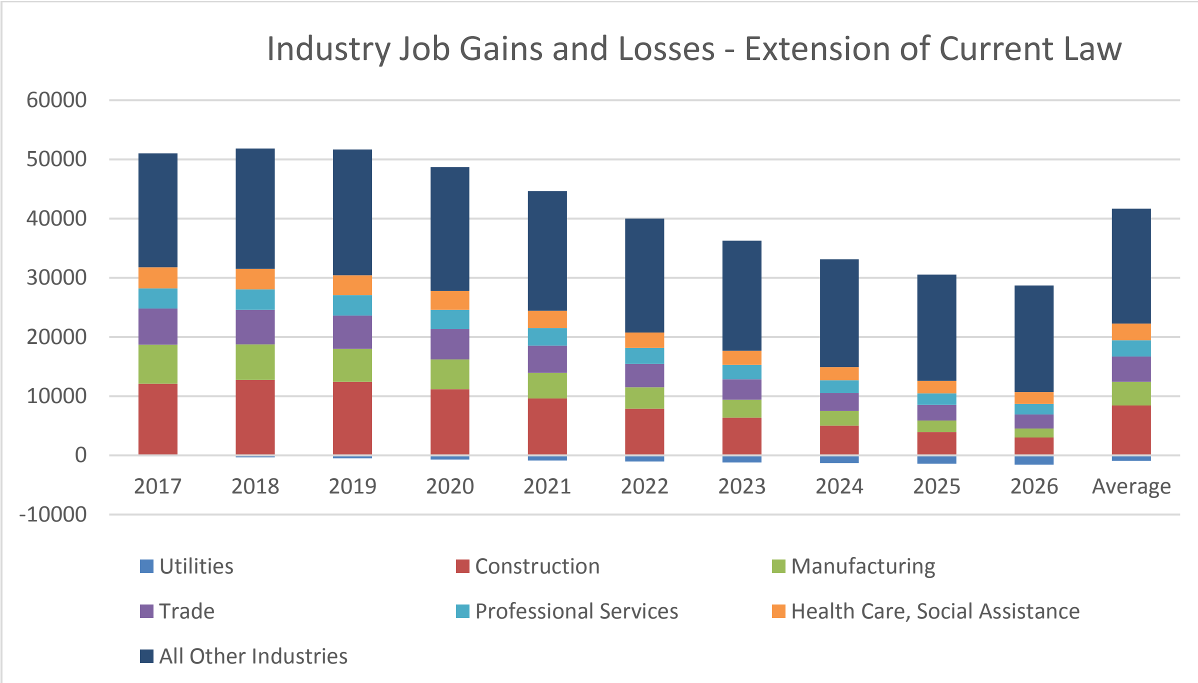
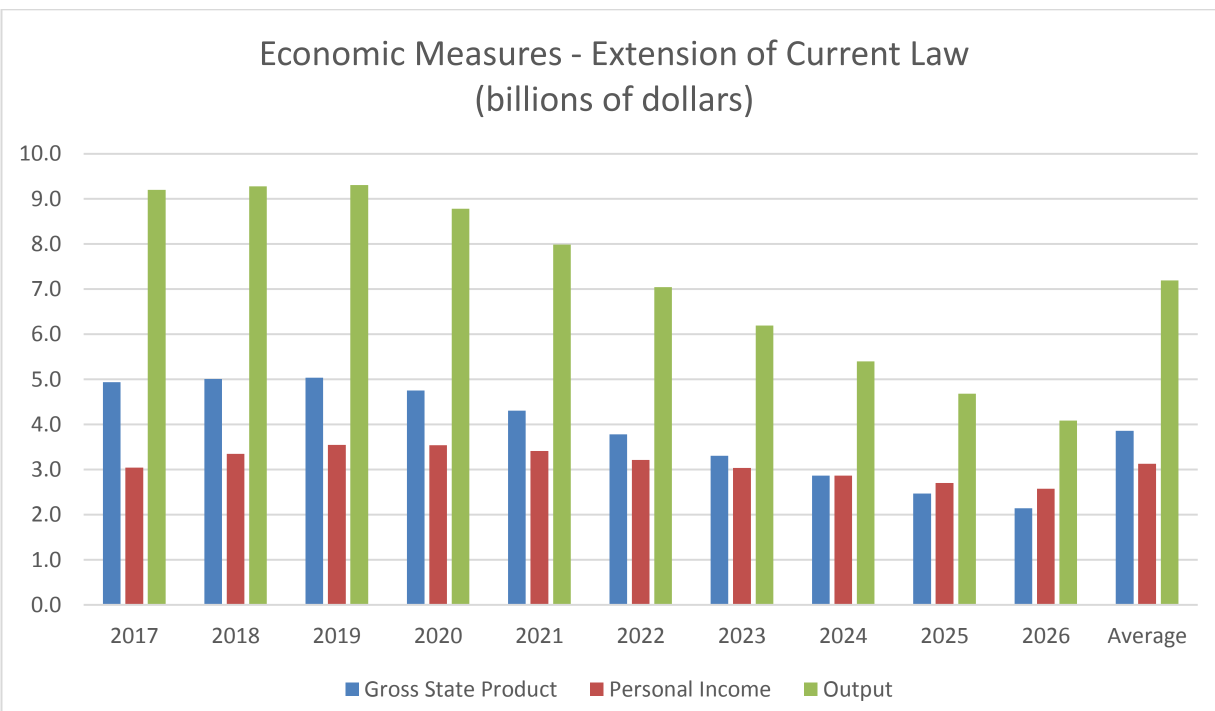


Figure 11. Extension of Current Law: Industry Jobs



In addition to the employment impact, Gross Domestic Product increased by an average of $3.9 billion nationwide. Similarly, personal income increased an average of $3.1 billion, while increased output averaged $7.2 billion.

Figure 12. Extension of Current Law: Economic Measures



Conclusion

Strengthening the Section 179D Energy Efficient Commercial Buildings Tax Deduction will create jobs and expand the nation's economy. Enhancing this incentive will not only help industries involved in designing, building, and operating commercial buildings, it will also benefit the broader economy.

Strengthening and modernizing Section 179D to optimize the opportunities it presents to commercial developers is estimated to lead to an average annual gain of 76,529 jobs, $7.4 billion in gross domestic product, and $5.7 billion in personal income for the first ten years after enactment.

An extension of current law plus expansion to include non-profits and tribal governments, while increasing the applicable energy efficiency standards, is estimated to lead to an average annual gain of 39,388 jobs, $3.7 billion in gross domestic product, and $3 billion in personal income for the first ten years after enactment.

An extension of current law is estimated to lead to an average annual gain of 40,749 jobs, $3.9 billion in gross domestic product, and $3.1 billion in personal income for the first ten years after enactment.

The Section 179D Energy Efficient Commercial Buildings Tax Deduction strengthens our nation's energy independence, reduces emissions, encourages innovation, and creates jobs. These benefits would be compounded by increasing the dollar value of the deduction in accordance with several Congressional and administration proposals.

Appendix 1: Overview of the REMI Model

PI+ is a structural economic forecasting and policy analysis model. It integrates input-output, computable general equilibrium, econometric, and economic geography methodologies. The model is dynamic, with forecasts and simulations generated on an annual basis and behavioral responses to compensation, price, and other economic factors.

The model consists of thousands of simultaneous equations with a structure that is relatively straightforward. The exact number of equations used varies depending on the extent of industry, demographic, demand, and other detail in the specific model being used. The overall structure of the model can be summarized in five major blocks: (1) Output and Demand, (2) Labor and Capital Demand, (3) Population and Labor Supply, (4) Compensation, Prices, and Costs, and (5) Market Shares. The blocks and their key interactions are shown in Figures 1 and 2.

Figure 1: REMI Model Linkages

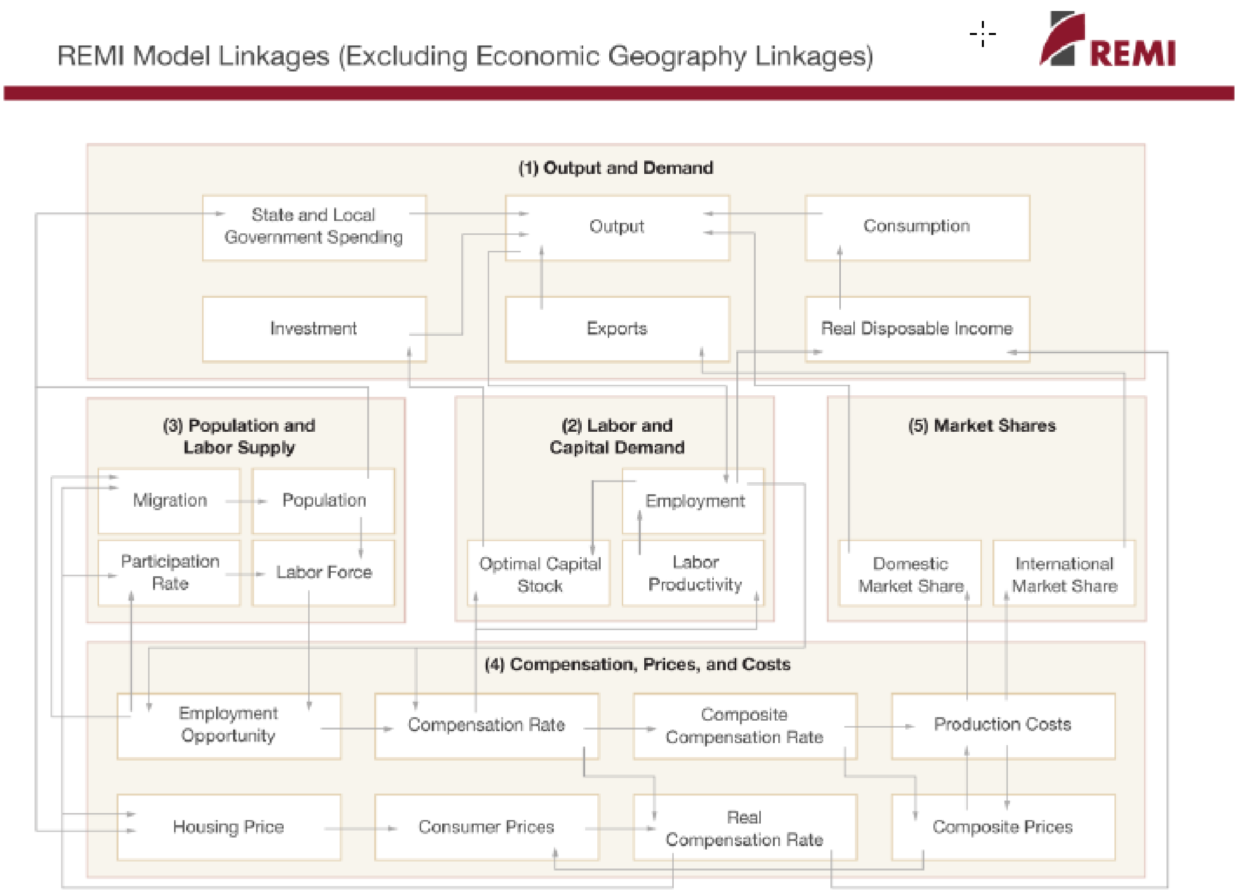
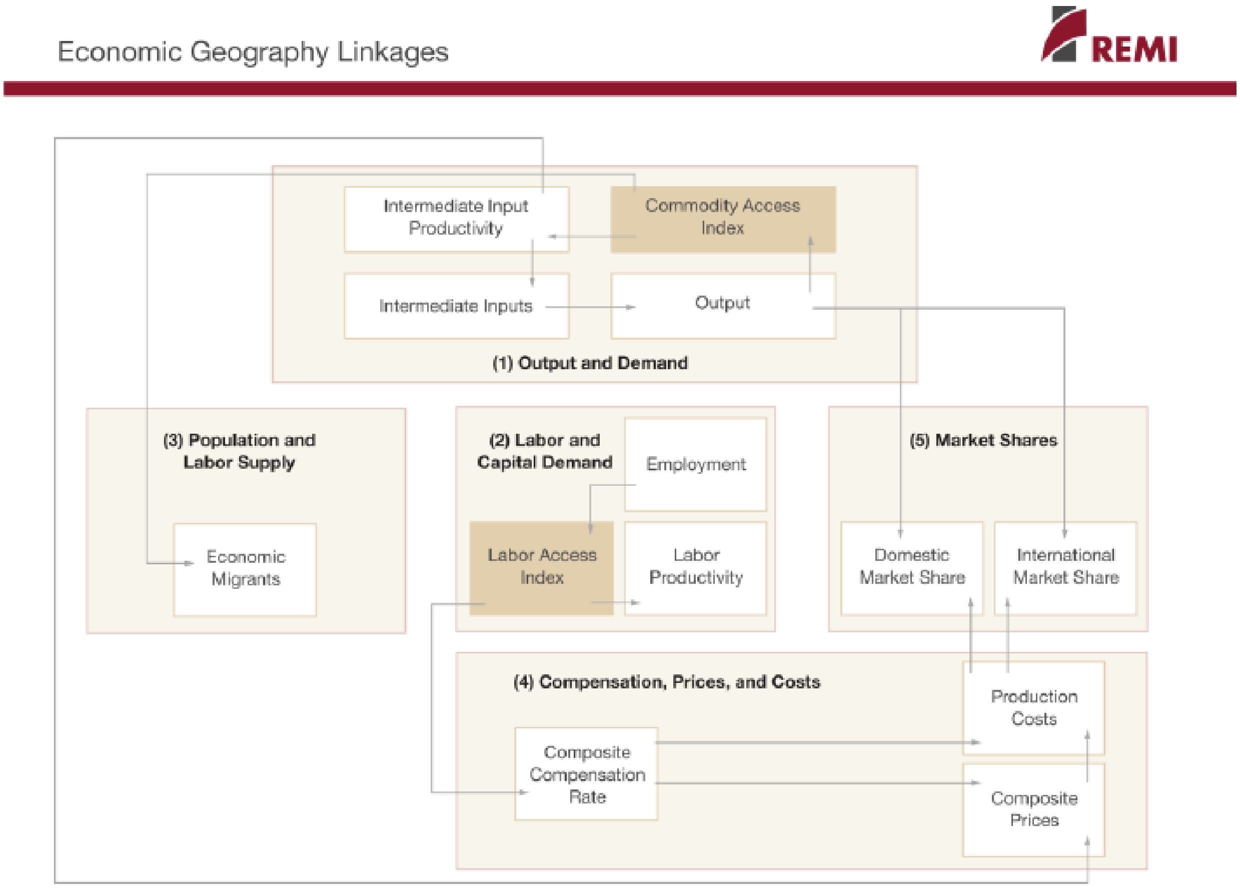


Figure 2: Economic Geography Linkages



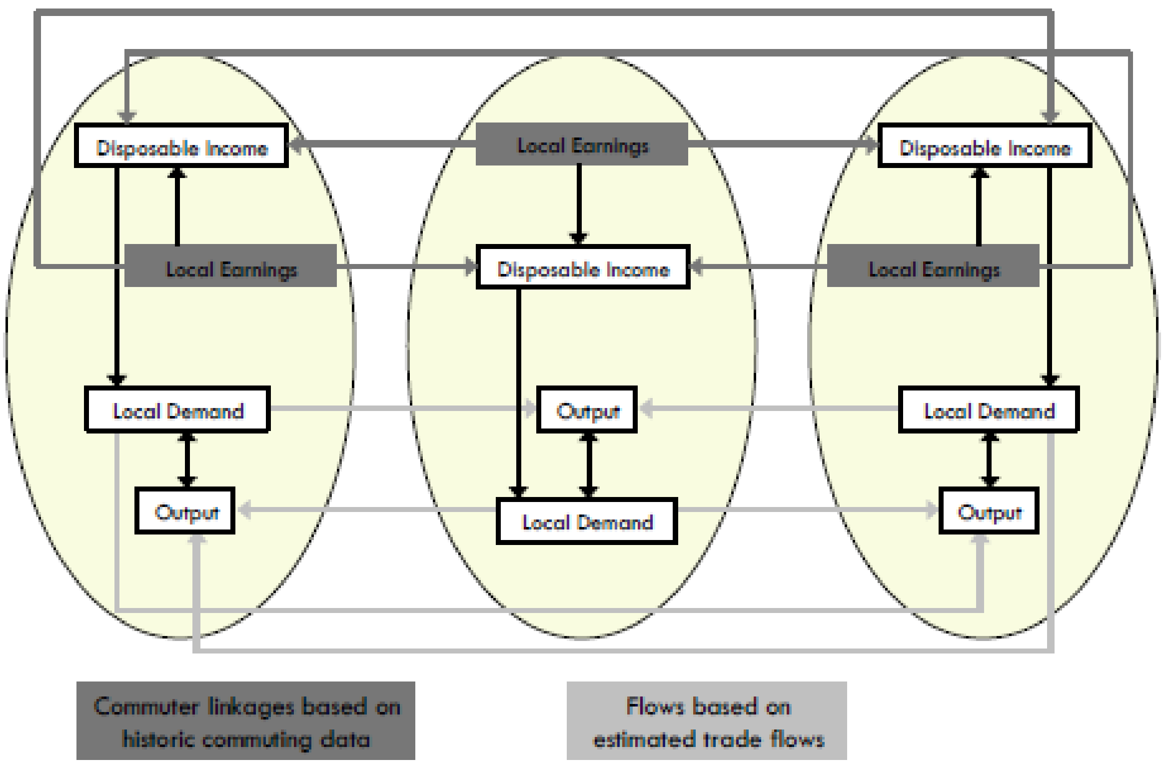
The Output and Demand block consists of output, demand, consumption, investment, government spending, exports, and imports, as well as feedback from output change due to the change in the productivity of intermediate inputs. The Labor and Capital Demand block includes labor intensity and productivity as well as demand for labor and capital. Labor force participation rate and migration equations are in the Population and Labor Supply block. The Compensation, Prices, and Costs block includes composite prices, determinants of production costs, the consumption price deflator, housing prices, and the compensation equations. The proportion of local, inter-regional, and export markets captured by each region is included in the Market Shares block.

Models can be built as single region, multi-region, or multi-region national models. A region is defined broadly as a sub-national area, and could consist of a state, province, county, or city, or any combination of sub-national areas.

Single-region models consist of an individual region, called the home region. The rest of the nation is also represented in the model. However, since the home region is only a small part of the total nation, the changes in the region do not have an endogenous effect on the variables in the rest of the nation.

Multi-regional models have interactions among regions, such as trade and commuting flows. These interactions include trade flows from each region to each of the other regions. These flows are illustrated for a three-region model in Figure 3.

Figure 3: Trade and Commuter Flow Linkages



Multiregional national models also include a central bank monetary response that constrains labor markets. Models that only encompass a relatively small portion of a nation are not endogenously constrained by changes in exchange rates or monetary responses.

Block 1. Output and Demand

This block includes output, demand, consumption, investment, government spending, import, commodity access, and export concepts. Output for each industry in the home region is determined by industry demand in all regions in the nation, the home region's share of each market, and international exports from the region.

For each industry, demand is determined by the amount of output, consumption, investment, and capital demand on that industry. Consumption depends on real disposable income per capita, relative prices, differential income elasticities, and population. Input productivity depends on access to inputs because a larger choice set of inputs means it is more likely that the input with the specific characteristics required for the job will be found. In the capital stock adjustment process, investment occurs to fill the difference between optimal and actual capital stock for residential, non-residential, and equipment investment. Government spending changes are determined by changes in the population.

Block 2. Labor and Capital Demand

The Labor and Capital Demand block includes the determination of labor productivity, labor intensity, and the optimal capital stocks. Industry-specific labor productivity depends on the availability of workers with differentiated skills for the occupations used in each industry. The occupational labor supply and commuting costs determine firms' access to a specialized labor force.

Labor intensity is determined by the cost of labor relative to the other factor inputs, capital and fuel. Demand for capital is driven by the optimal capital stock equation for both non-residential capital and equipment. Optimal capital stock for each industry depends on the relative cost of labor and capital, and the employment weighted by capital use for each industry. Employment in private industries is determined by the value added and employment per unit of value added in each industry.

Block 3. Population and Labor Supply

The Population and Labor Supply block includes detailed demographic information about the region. Population data is given for age, gender, and ethnic category, with birth and survival rates for each group. The size and labor force participation rate of each group determines the labor supply. These participation rates respond to changes in employment relative to the potential labor force and to changes in the real after- tax compensation rate. Migration includes retirement, military, international, and economic migration. Economic migration is determined by the relative real after-tax compensation rate, relative employment opportunity, and consumer access to variety.

Block 4. Compensation, Prices and Costs

This block includes delivered prices, production costs, equipment cost, the consumption deflator, consumer prices, the price of housing, and the compensation equation. Economic geography concepts account for the productivity and price effects of access to specialized labor, goods, and services.

These prices measure the price of the industry output, taking into account the access to production locations. This access is important due to the specialization of production that takes place within each industry, and because transportation and transaction costs of distance are significant. Composite prices for each industry are then calculated based on the production costs of supplying regions, the effective distance to these regions, and the index of access to the variety of outputs in the industry relative to the access by other uses of the product.

The cost of production for each industry is determined by the cost of labor, capital, fuel, and intermediate inputs. Labor costs reflect a productivity adjustment to account for access to specialized labor, as well as underlying compensation rates. Capital costs include costs of non-residential structures and equipment, while fuel costs incorporate electricity, natural gas, and residual fuels.

The consumption deflator converts industry prices to prices for consumption commodities. For potential migrants, the consumer price is additionally calculated to include housing prices. Housing prices change from their initial level depending on changes in income and population density.

Compensation changes are due to changes in labor demand and supply conditions and changes in the national compensation rate. Changes in employment opportunities relative to the labor force and occupational demand change determine compensation rates by industry.

Block 5. Market Shares

The market shares equations measure the proportion of local and export markets that are captured by each industry. These depend on relative production costs, the estimated price elasticity of demand, and the effective distance between the home region and each of the other regions. The change in share of a specific area in any region depends on changes in its delivered price and the quantity it produces compared with the same factors for competitors in that market. The share of local and external markets then drives the exports from and imports to the home economy.

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OG+E

June 5, 2019

Honorable Mike Crapo
Co-Lead, Tax Extenders Task Force on Cost Recovery
Senate Finance Committee
239 Dirksen Senate Office Building
Washington DC 20510

Honorable Ben Cardin
Co-Lead, Tax Extenders Task Force on Cost Recovery
Senate Finance Committee
509 Hart Senate Office Building
Washington DC 20510

Re: Support for Extension of IRC Section 168(j), Accelerated Depreciation on Indian Lands

Dear Senators Crapo and Cardin:

On behalf of OGE Energy Corp. headquartered in Oklahoma City, Oklahoma, I write to you in your capacity as Co-Leads of the Senate Finance Committee Task Force on Cost Recovery to urge extension of the currently expired provisions of IRC Section 168(j) pertaining to accelerated depreciation for investments on Indian Lands. OGE Energy Corp. owns and operates Oklahoma Gas & Electric (OG&E), which is the largest electric utility in Oklahoma. OG&E owns and operates generation and transmission facilities which participate in the 14-state integrated wholesale regional market conducted by the Southwest Power Pool that serves 17.5 million people. In our retail service area, OG&E serves more than 850,000 retail customers across 30,000 square miles in Oklahoma and western Arkansas. In addition to our residential and commercial customers, OG&E serves some of the largest industrial customers in the region and two military bases.

IRC Section 168(j) provides accelerated depreciation lives for certain assets placed in service on qualified Indian reservation property. Section 168(j) provides a depreciation incentive in the form of a shorter recovery period of approximately 40% for nonresidential property. Because of the significant presence of Indian tribes and lands in Oklahoma, a significant percentage of land in Oklahoma meets the Internal Revenue Service-qualifying definition of Indian lands and qualifies for this accelerated depreciation. Use of these accelerated depreciation provisions have generally been in place for depreciable property placed in service during years 1994 through 2017.

Much of the area in Oklahoma meeting the definition of Indian lands under Section 168(j) lies in rural parts of the state which can experience significant economic challenges. The Section 168(j) incentive has been valuable in attracting investments to those parts of the state over the more than two decades of its inclusion in the Internal Revenue Code. Indeed, OG&E has located its generation, transmission and other operating facilities on such Indian lands in Oklahoma. Based on 2015 census data, the Oklahoma Indian reservations and tribal statistical areas (defined by the census in consultation with tribes) continue to face economic conditions that suggest the federal tax policy to encourage investment remains a sound one—on these lands in Oklahoma the median age of individuals was higher than that of the state and country; the median income was lower than that of the state and country; the poverty rates remained higher than that of the state and country; and the percentage of college graduates continued to be lower in 2015 than that of the state and country. That set of demographic/economic conditions is undoubtedly true on other eligible Indian lands in other states.

As with any accelerated depreciation system, the main advantage is the tax savings generated from the ability to claim a higher tax deduction more immediately. Receiving a higher depreciation deduction today allows businesses to reduce their current tax bill, encouraging investment that expands local economic opportunity and employment. Tax savings generated can be reinvested to continue the growth of the business. In the case of OG&E, since federal taxes are recoverable costs in the electric rates charged to our customers, the reduction in tax liability made possible by IRC Section 168(j) equates to lower electricity rates for our customers, empowering them to be more competitive and profitable, expand their businesses, employ more people and generally enhance their economic well-being.

While the Tax Cuts and Job Act of 2017 (TCJA) modified IRC Section 168(k) to grant full expensing of capital additions to most taxpayers, some taxpayers, including electric utilities such as OG&E, were excluded from those full expensing provisions. However, in enacting the TCJA, Congress had no intention to penalize excluded taxpayers, such as OG&E and its customers, by disqualifying them from accessing the benefits of Section 168(j). In the aftermath of the enactment of TCJA, these excluded taxpayers still had the opportunity to benefit from the Section 168(j) acceleration provisions given the laudable congressional intent underlying Section 168(j), specifically to enhance economic opportunity and development on Indian Lands. Failure to extend the Section 168(j) incentives would put those excluded taxpayers in a worse position than was the case prior to TCJA. Regardless of their status vis a vis Section 168(k), entities such as OG&E remain vibrant vehicles for accomplishing the public policy objectives Congress established in enacting Section 168(j). It is with that belief in mind that an extension of Section 168(j) would appear to continue to be both equitable and very sound public policy.

We are pleased to see that Chairman Grassley and Ranking Member Wyden included a two year extension of Section 168(j) in their bi-partisan extenders package, S. 617. Ideally, the Section 168(j) extension should be made permanent so as to provide certainty to potential capital project investors who would be basing decisions on the availability of the Section 168(j) incentives. Given that the incentive had been in place for twenty-four years until the end of 2017, permanency seems reasonable and would encourage more consistent and predictable investment in these Indian lands areas.

Respectfully,

Steve Crall
Director – Corporate Tax
OGE Energy Corp.

Cc: Honorable Charles E. Grassley, Chairman, Senate Finance Committee
Honorable Ron L. Wyden, Ranking Minority Member, Senate Finance Committee
Honorable James Lankford, Member, Senate Finance Committee

June 5, 2019

The United States Senate Committee on Finance
Taskforce on Cost Recovery
219 Dirksen Senate Office Building
Washington, DC 20510
Re: AIA Comment on Continuation of 179D Tax Deduction

Dear Taskforce Members:

The American Institute of Architects (AIA) represents over 94,000 architects in the United States and internationally. As it has for over 160 years, the AIA works to advance the nation's quality of life and safeguard the health, safety, and welfare of the public. The AIA is headquartered in Washington, DC, with nearly 300 state and local chapters across all 50 states, along with multiple international chapters.

The AIA strongly supports the continuation of the Energy Efficient Commercial Buildings Deduction, often referred to as 179D. We urge Congress to retroactively extend the credit through 2018 and make the credit permanent starting in 2019. The AIA also supports the modernization of the credit to increase the deduction to $3 per square foot.

Buildings account for roughly 44 percent of carbon emissions in the United States, slightly above the global average, and consume almost 40 percent of U.S. energy. According to the U.S. Department of Energy, commercial buildings accounted for 18.6 percent of all primary energy consumption in the U.S. in 2010. Extending and strengthening the 179D deduction is a critical step to curbing the trendline in both emissions and energy use, and will only become more important as demand for building space continues to rise.

According to a 2017 study by Regional Economic Models Inc (REMI), a long-term extension of 179D maintained at the current deduction of $1.80 per square foot would generate roughly 41,000 new design and construction jobs annually over 10 years. The same study found that if the deduction was extended and increased to $3 per square foot, as many as 76,500 jobs would be created, along with almost $7.4 billion more in annual GDP. The economic growth and job creation generated by a modernized Section 179D would therefore generate a GDP return on investment of 10:1.

Since 179D takes effect after the building is placed into use, making the credit permanent would provide much needed certainty to architects, who are often at the very beginning of the project, that the credit will be in effect when the building becomes eligible for the deduction. It also makes clear business sense, as studies have shown that sustainable and energy efficient buildings command rent premiums of 2-8 percent, occupancy increases of 3-10 percent, and sales premiums of 3-12 percent. The indication from clients is clear that these are the types of buildings they want. Updating and extending 179D would encourage this trend and spur even greater investment in making commercial buildings energy efficient.

The AIA thanks you for your attention to this important deduction. We look forward to continuing to work with you on strengthening and extending 179D.

June 5, 2019

The United States Senate Committee on Finance
Taskforce on Cost Recovery
219 Dirksen Senate Office Building
Washington, DC 20510
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The AIA thanks you for your attention to this important deduction. We look forward to continuing to work with you on strengthening and extending 179D.

Sincerely,

[Sarah?]

Alliance to Save Energy
U.S. Senate Committee on Finance
Cost Recovery Task Force

Re: Section 179D, Commercial Buildings Energy Efficiency Tax Deduction

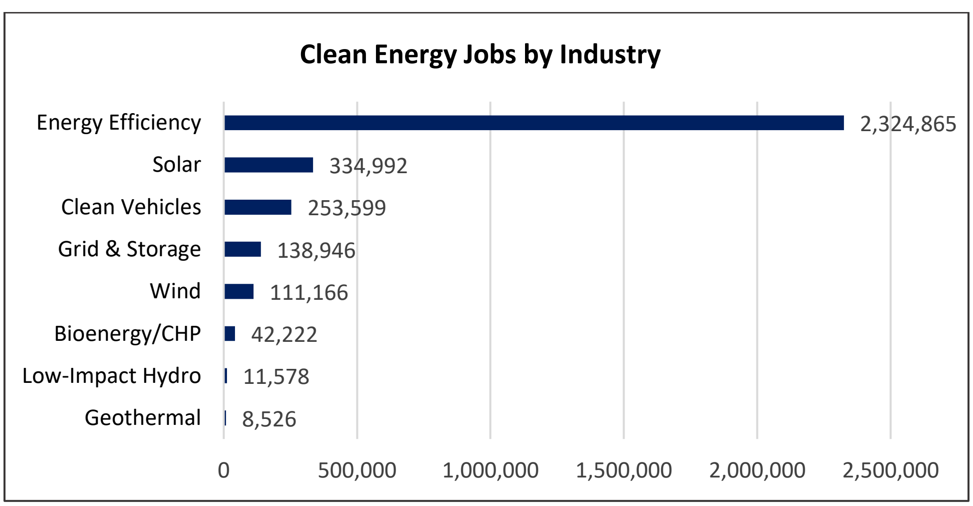
June 6, 2019

The Alliance to Save Energy is a non-profit, bipartisan coalition of business, government, environmental, and consumer-interest leaders that advocates for enhanced U.S. energy productivity to achieve economic growth; a cleaner environment; and greater energy security, affordability, and reliability. The Alliance is a coalition of nearly 130 businesses and organizations that collectively represent at least $615 billion in market capital. The Alliance was founded in 1977 by Sens. Charles Percy (R-Ill.) and Hubert Humphrey (D-Minn.), and today has 14 members of Congress serving on an Honorary Board of Advisers.

Energy efficiency represents an extraordinary opportunity to simultaneously boost economic growth and competitiveness while significantly reducing carbon emissions. Without the gains in energy efficiency made since 1973, the U.S economy today would require about 60 percent more energy than we currently use, and consumers and businesses would be spending $800 billion more per year on energy, stifling investment and economic growth.

Despite these gains, the opportunities ahead are even greater as technology advancements in areas such as artificial intelligence, materials science and advanced building systems create vast new potential for improving efficiency across the economy.

Energy efficiency is one of the largest employers in the energy sector and by far the largest in the clean energy field. According to the U.S. Energy Employment Report, energy efficiency supports more than 2.3 million U.S. jobs. Roughly 70 percent of those jobs are in construction and manufacturing – retrofitting homes and buildings and manufacturing high-efficiency building components and equipment. Tax incentives for efficiency improvements will directly stimulate economic activity and job growth in these fields.



Efficiency also is the single most impactful solution we have for addressing climate change. According to the International Energy Agency (IEA), energy efficiency can account for more than 40 percent of the emissions reductions needed to meet the goals of the Paris climate accord – more than any other mitigation strategy. Put another way, it is virtually impossible to achieve even modest carbon reduction goals without robust gains in energy efficiency.

Recent reports on rising energy consumption and carbon emissions underscore the imperative of acting quickly. Increased global demand drove a 2.3 percent increase in energy consumption last year, according to IEA, resulting in a 3.4 percent increase in carbon emissions in the United States. The demand for all sources of generation increased, yet energy efficiency gains saw only modest improvement. The Business Council on Sustainable Energy's 2019 Sustainable Energy in American Factbook also showed that U.S. energy productivity – a measure of economic output per unit of energy consumed – ticked down by 0.4 percent as energy consumption outpaced GDP growth.

Well-designed tax incentives for efficiency improvements are among the best policy options we have for tackling carbon emissions while at the same time delivering economic growth and a more productive and competitive U.S. economy.

Energy Efficiency Tax Incentives

The Dec. 31, 2017, expiration of three efficiency incentives – 25C for existing home improvements, 45L for new home construction, and 179D for commercial buildings – left the U.S. tax code without any direct incentives for energy efficiency. The three expired incentives are particularly important because homes and buildings account for almost 40 percent of our energy use and are likely to be in use for 50 to 100 years. By failing to incentivize energy efficiency improvements, we are locking in decades of energy waste, productivity losses and unnecessary emissions.

To make meaningful progress in managing energy consumption and reducing carbon emissions, we must have meaningful tax incentives – in the same way that we have incentives for numerous forms of energy generation. Of particular relevance to the Cost Recovery Task Force is Section 179D, the Energy Efficient Commercial Buildings Deduction. First enacted under the Energy Policy Act of 2005, Section 179D plays an important role in reducing the energy consumption of an energy-hungry sector – commercial buildings – while stimulating economic growth and job creation. We support permanent or long-term extension of Section 179D that includes appropriate requirements for periodically updating the efficiency performance in out years. We also support updates to strengthen and modernize the incentive, including by updating the ASHRAE code reference to a more recent version of the code – it currently requires efficiency of 50 percent better than the 2007 code – to ensure more meaningful efficiency gains. There is precedent for such updates. For example, Congress in 2015 updated the ASHRAE code reference from the 2001 code to the 2007 code to ensure that the policy was keeping pace with efficiency improvements since the incentive was originally created in 2005. Other proposals, such as the "Commercial Building Modernization Act" led by Sen. Cardin sought to expand the impact of 179D by better encouraging building retrofits and increasing its use beyond public-sector buildings.

Commercial Buildings and Energy Efficiency

Commercial buildings account for a significant share of total energy consumption in the U.S. According to the Department of Energy's Energy Information Administration (EIA), the residential and commercial building sectors combine to represent almost 40 percent of the total energy consumed in the U.S., with energy consumption split nearly evenly between the two sectors. Because of this footprint, commercial buildings present an extraordinary opportunity to advance energy efficiency. For example, since 2003, the number of commercial buildings has increased by 14 percent and total floorspace has increased by 22 percent, yet energy consumption grew only by 7 percent – a small increase compared to building growth, attributable to improved technology and higher efficiency standards. Additionally, the EIA's Commercial Buildings Energy Consumption Survey (CBECS) found that energy used for lighting has decreased 46 percent from 2003 to 2012. Even with these gains, the U.S. Department of Energy (DOE) has found that building owners and tenants still spend an estimated $38 billion per year on lighting alone.

With approximately half of the residential and commercial buildings in the U.S. built before 1980, thereby predating higher efficiency standards, tax incentives encouraging energy efficiency improvements represent a targeted, high-impact policy solution that would deliver long term savings for commercial building owners and tenants.

Economy-wide Benefits of Energy Efficiency

The energy efficiency sector presents an enormous opportunity to grow our workforce and create good-paying American jobs that cannot be outsourced. According to the 2019 U.S. Energy and Employment Report (USEER), energy efficiency jobs showed the highest rate of growth across the entire energy sector, adding 76,000 new positions in 2018 alone. The energy efficiency sector, including those who design, install, and manufacture energy efficiency products and services, accounts for one-third of all energy sector jobs and over two-thirds of all clean energy jobs, employing over 2.3 million people in 2018. In fact, energy efficiency jobs outnumber electric power generation jobs in 48 states, and in 15 states, efficiency jobs exceed fuel, energy power generation, transmission, distribution, and storage jobs combined. Many of these jobs, almost 1.3 million, are in construction, which is also projected to experience a significant 8.8 percent growth rate.

To further illustrate the impact of energy efficiency on U.S. employment, members of the Cost Recovery Task Force represent over 208,000 Americans employed in whole or in part in the energy efficiency sector (see Table 1)[1]:

Table 1. Energy Efficiency Sector Jobs in States Represented by Cost Recovery Task Force Members

Member	Jobs	Member	Jobs
Sen. Mike Crapo (R-Idaho) *Co-Lead*	8,747	Sen. Benjamin Cardin (D-Md.) *Co-Lead*	70,530
Sen. Chuck Grassley (R-Iowa) *ex officio*	20,587	Sen. Ron Wyden (D-Ore.) *ex officio*	42,547
Sen. Todd Young (R-Ind.)	55,090	Sen. Catherine Cortez Masto (D-Nev.)	11,155
Total Energy Efficiency Sector Jobs: 208,656			

Strengthening and modernizing Section 179D would promote significant additional job growth in the energy efficiency sector, creating opportunities in design, engineering, and construction, to name a few. A Regional Economic Models, Inc. (REMI) study done in May 2017 found that strengthening and modernizing Section 179D would support almost 77,000 jobs annually. Even a straight extension of current law, while less preferable, would support almost 41,000 jobs. The REMI report also found that modernizing and strengthening 179D would contribute almost $7.4 billion annually to the GDP and over $5.7 billion toward national personal income, while a straight extension of current law would contribute about half as much to the GDP, at just over $3.8 billion and increase national personal income by $3.1 billion.

[1] National Association of State Energy Officials (NASEO) and Energy Futures Initiative (EFI), "The 2019 U.S. Energy & Employment Report." April 2019. https://www.usenergyjobs.org/. Last accessed June 4, 2019.

Related Expired Energy Efficiency Measures

The 179D incentive is part of a suite of three incentives aimed at improving the efficiency of the built environment. The related energy efficiency tax incentives – also in need of modernization and extension – are as follows:

Section 25C Homeowner Efficiency Credit – This provision provides a 10 percent tax credit for homeowner energy efficiency improvements, including envelope improvements, such as insulation or windows, and heating and cooling upgrades. The incentive has a lifetime cap of $500, with additional caps for individual product categories, such as $300 for air conditioning equipment.

Section 45L Energy Efficient New Home Credit – The 45L incentive provides a credit of $2,000 for builders of homes that use 50 percent less energy for space heating and cooling and a $1,000 tax credit to the builder of a new manufactured home achieving 30 percent energy savings for heating and cooling or a manufactured home meeting the ENERGY STAR requirements.

Conclusion

Energy efficiency is our greatest energy resource, and the absence of meaningful energy efficiency incentives is a glaring omission in the tax code and a lost opportunity to strengthen U.S. economic growth, sustainability and competitiveness. There is strong evidence that longer-term, higher-value incentives are effective in pushing markets toward efficiency. Strengthening and extending these incentives presents a bipartisan, forward-thinking opportunity, providing stability and certainty for the future while creating jobs, promoting economic growth, and mitigating the effects of climate change. We look forward to continuing to work with the task force to advance bipartisan efficiency policy in the tax code.

June 7, 2019

The Honorable Mike Crapo
Co-Lead Cost Recovery Task Force
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Benjamin Cardin
Co-Lead Cost Recovery Task Force
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Crapo and Cardin:

The National Multifamily Housing Council and the National Apartment Association are writing to request that the Senate Finance Committee's cost recovery tax extender task force support both a long-term extension of and modifications to the Energy Efficient Commercial Buildings Deduction (IRC Section 179D). We believe the incentive should be modified to: (1) incentivize retrofits of existing multifamily buildings and (2) enable Real Estate Investment Trusts (REITs) to take advantage of the provision.

By way of background, for more than 20 years, NMHC and NAA have partnered to provide a single voice for America's apartment industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. As a federation of 160 state and local affiliates, NAA encompasses over 75,000 members representing 9.25 million rental housing units globally.

Prior to its expiration at the end of 2017, the Energy Efficient Commercial Buildings Deduction enabled owners of buildings with four or more stories to deduct between $0.60 and $1.80 per square foot when they installed certain energy efficient systems, including HVAC, lighting, or building envelope. To receive the full tax deduction, property owners had to reduce a building's total annual power and energy usage by at least 50 percent beyond the baseline requirements established by the ASHRAE standard 90.1-2007 building energy code.

This stringent ASHRAE standard has made it difficult for owners of older apartment communities to retrofit properties and claim the deduction. Nearly 80 percent of the current apartment stock was constructed before 2000. Investment in modern high-performing building systems would markedly increase the energy performance of these older properties; however, due to the age of the specific property, it may still be unable to meet the performance metric specified by the ASHRAE reference. This is why considering significant improvement of building performance over the building's own baseline performance (as opposed to rating against the exogenous ASHRAE standard) is more effective and will meaningfully spur investment in upgraded systems.

To spur the retrofitting of existing buildings, NMHC and NAA strongly support modifying the Energy Efficient Commercial Buildings Deduction (and extending the deduction over a significant period to provide taxpayer's certainty) to incentivize reduced energy consumption by establishing a sliding scale relative to a building's own energy usage. A tax deduction should be provided based on the amount of energy efficiency achieved relative to the building's baseline. We appreciate Section 305 (Energy Efficiency Deduction for Existing Commercial Buildings) of the *Clean Energy for America Act* (S. 1288) introduced by Senate Finance Committee Ranking Member Ron Wyden that adopts this approach.

Additionally, we encourage the Finance Committee to modify the Energy Efficient Commercial Buildings Deduction to enable REITs to utilize the incentive. This could be accomplished by conforming a REIT's tax deduction under IRC Section 179D for earnings and profits to its corollary deduction for taxable income.

Under current law, a REIT's shareholders may be unable to benefit from the IRC Section 179D deduction. REIT distributions are today treated as dividends to the degree of a REIT's earnings and profits. However, the IRC Section 179D deduction does not include a mechanism to reduce earnings and profits, and as a result, shareholders cannot access the IRC Section 179D tax benefit.

NMHC and NAA thank you for considering our views. Please feel free to contact Cindy Chetti, NMHC's Senior Vice President of Government Affairs, at 202-974-2300 or Greg Brown, NAA's Senior Vice President of Government Affairs, at 703-518-6141, should you have any questions.

Sincerely,

Cindy V. Chetti

Cindy V. Chetti
Senior Vice President of Government Affairs
National Multifamily Housing Council

Gregory S. Brown
Senior Vice President of Government Affairs
National Apartment Association

CC:
Senate Finance Committee Chairman Charles Grassley
Senate Finance Committee Ranking Member Ron Wyden
Senator Todd Young
Senator Catherine Cortez Masto

INTERNATIONAL SPEEDWAY CORPORATION

The Honorable Charles E. Grassley
United States Senate Committee on Finance
135 Hart Senate Office Building
Washington DC 20510

The Honorable Ron Wyden
United States Senate Committee on Finance
221 Dirksen Senate Office Building
Washington DC 20510

The Honorable Michael D. Crapo
239 Dirksen Senate Office Building
Washington DC 20510

The Honorable Benjamin L. Cardin
509 Hart Senate Office Building
Washington DC 20510

The Honorable Todd Young
185 Dirksen Senate Office Building
Washington DC 20510

The Honorable Catherine Cortez Masto
516 Hart Senate Office Building
Washington DC 20510

June 13, 2019

Dear Chairman Grassley and Ranking Member Wyden, and members of the Cost Recovery Task Force,

Thank you for the opportunity to meet today on potential long-term solutions for expiring tax provisions. We appreciate the opportunity to share with you information about the seven-year motorsports depreciation treatment. Per your request, we are submitting a letter which provides background on our industry, the provision, and the merits of making this longstanding industry treatment permanent.

About ISC

International Speedway Corporation (ISC) is the leading promoter of motorsports entertainment. We own and/or operate thirteen motorsports facilities nationwide, (a full listing of our locations and facilities has been provided as Exhibit A). Our guests travel from all 50 states and internationally from over 48 countries. The operation of our events and construction of our facilities generate a large number of jobs and positively impact the local and state economies where we operate. Our operations and capital investments are privately financed through the debt and equity secured by the Company's balance sheet.

INTERNATIONAL MOTORSPORTS CENTER
ONE DAYTONA BOULEVARD • DAYTONA BEACH, FL 32114-1243

Overview

"Motorsports" includes stock car, sports car, open wheel, drag, truck, and many other forms of racing. In addition to the teams and sponsors of the sanctioning leagues, there are various motorsports associations and permanent racing facilities operating in 49 states. Together, our motorsports facilities work with motorsports associations and sanctioning bodies on common industry-related issues.

As related to capital investments, the motorsports industry has used the same tax treatment as theme and amusement parks for over thirty years. Motorsports facilities are privately funded, as opposed to the construction and renovation of most sports stadiums and ballparks, which are typically funded in part by taxpayer dollars or some other form of fiscal relief from government. For over thirty years, motorsports facility owners and operators use the seven-year cost recovery period to reinvest in their properties that introduce new technology, implement new safety measures and improve the fan experience, all of which create jobs and further stimulate the local economies. Like theme and amusement parks, motorsports facilities require significant capital investment to support special purpose assets and structures specifically designed for the promotion and competition of motorsports activities. Continued capital reinvestment is required in order to maintain relevance and provide guests and competitors with a safe and comfortable experience at motorsports events.

Background of seven-year asset class ("Class 80.0")

Section 168 of the Internal Revenue Code prescribes depreciation methods and recovery periods for business assets in recognition that aging property loses value and must ultimately be replaced. The Secretary of Treasury is authorized to monitor and analyze actual experience with depreciable lives and to assign depreciation periods to asset classes. In 1986, the IRS established Asset Class 80.0, "Theme and Amusement Parks," which includes "assets used in the provision of rides, attractions, and amusements in activities defined as theme and amusement parks . . . [which are] combinations of amusements, rides, and attractions which are permanently situated on park land and open to the public for the price of admission" (IRS Rev. Proc. 87-56, 1987-2 C.B. 674). Asset Class 80.0 currently provides for a seven-year depreciation period or "class life" for assets. Motorsports entertainment facilities relied on Class 80.0 classification for its capital investments for many years following 1986 Tax Reform.

Origin of Section 168(i)(15) "Motorsports Entertainment Complexes"

In 2004, after questions were raised by the IRS over this asset classification used by motorsports facilities, Congress acted to clarify that a seven-year depreciation period was indeed appropriate. As part of the American Jobs Creation Act of 2004, Congress enacted a new definition in section 168(i)(15) for Motorsports Entertainment Complexes, which clarified that motorsports entertainment facilities' assets placed in service after October 22, 2004, were eligible for the seven-year depreciation period. Motorsports entertainment facilities have been defined in Section 168(i)(15) as permanent, fixed, racetrack facilities that host automobile, truck or motorcycle race events during the 36-month period following the date the assets are first placed in service and that are open to the public for the price of admission. The seven-year depreciation applies to capital investments for appurtenances including, but not limited to, ticket booths, race track surfaces, suites and hospitality facilities and grandstands, ancillary facilities for parking and sidewalks, and support facilities providing food and beverage retailing and souvenir vending. Since enactment in 2004, Congress has extended Section 168(i)(15) several times; however, as of December 31, 2017, the provision has expired. Each Congress since 2004 has introduced bipartisan support in both the House of Representatives and Senate to make permanent Section 168(i)(15). The most recent bills were re-introduced in the current Congress in April 2019 as H.R. 2137 and S. 1141.

Economic benefits of our investments

In the case of International Speedway Corporation, our investments contribute entirely to the growth of the US economy. We deploy up-front private capital that leads to the creation of many jobs. ISC is currently in the midst of a 10-year, $1.0 billion capital reinvestment plan for our motorsports facilities. By example, in 2013 while the United States was recovering from the Great Recession, ISC embarked on the largest project in Company history, the 33-month, $400 million renovation of the iconic Daytona International Speedway. During construction, this project created over 6,300 jobs and utilized approximately one percent of the US annual steel production, among other things. Recently, in 2018, we have placed into service two major improvement projects in Phoenix, AZ and Richmond, VA, and commenced construction on a third project at Talladega Superspeedway in Alabama, which will be completed later this year. These three projects total more than $250 million in capital investments.

Planning for these investments occur months and years before commencement of construction, with the expectation that facilities will continue to utilize the same tax treatment they have for decades. In making capital investment decisions, ISC and all motorsports facility owners and operators rely on guidance provided by Congress concerning how capital investments will be classified. Since 2004, Congress has demonstrated a precedent in approving and extending the aforementioned classification for investments in motorsports entertainment complexes found in Section 168(i)(15).

In addition to the capital projects themselves, events at the track generate significant revenue for local markets; we provide jobs, an influx of new customers, and view relationships with area vendors and communities as a central aspect of our business. Many of these areas are rural locations, and events at the track are a significant boon to these area economies.

Request for permanent extension, or a temporary extension in the absence of a permanent solution

As a result of the expiring tax legislation, our industry is in a position for the first time in over thirty years, with no clarity for the treatment of capital investments in these specialized assets. There is no other tax rule that clearly states the class life or aligns to the assets described in Section 168(i)(15).

Consequently, taxpayers who invested in capital improvements during tax years 2018 and 2019 that would qualify under this legislation, will be forced to speculate in categorizing investments into various other asset classifications. Some assets may be forced into a general 39-year class life, decelerating the annual expensing of capital investment by over 82 percent. Further, any assets ultimately classified with a cost recovery period of more than 20 years will no longer be considered qualified property under Section 168(k)(2) for the immediate expensing provisions included in the bonus depreciation expansion of the *Tax Cuts and Jobs Act of 2017*.

Accordingly, we respectfully request that the Cost Recovery Task Force and the Senate Finance Committee consider permanently extending the temporary definition of motorsports entertainment complexes in Section 168(i)(15), following the policy of S. 1141 as introduced by Senators Stabenow and Burr. In the absence of a permanent solution, we respectfully request the Committee to extend Section 168(i)(15) through December 31, 2019, or any date thereafter.

If the Task Force and the Committee believe that a different period of asset classification would be more appropriate in the context of a permanent codification of the definition of motorsports entertainment complexes, the industry is prepared to work constructively with the Committee to find a suitable compromise. The focus of our industry is permanent clarity in tax treatment that motorsports facility owners and operators can reliably depend on for future investment decisions.

Allowing this longstanding classification to remain expired will significantly impact capital investments currently in process and limit resources available for future capital investments. A reduction of capital investment will not only negatively impact this proven economic benefit, but will also place motorsports facility owners and operators at a competitive disadvantage with our competitors in the entertainment sector who continue to utilize the Class 80.0 seven-year recovery period or taxpayer funded incentives.

Once again, our sincerest thanks for the opportunity to continue these discussions that are so critical to our industry, our fans, and our local economies.

Sincerely,

Greg Motto
EVP & Chief Financial Officer
International Speedway Corporation

Exhibit A – Listing of ISC owned and/or operated motorsports facilities

Auto Club Speedway of Southern California (sm) near Los Angeles;
Chicagoland Speedway® and Route 66 Raceway (sm) near Chicago, Illinois;
Darlington Raceway® in South Carolina; and
Daytona International Speedway® in Florida (home of the DAYTONA 500®);
Homestead-Miami Speedway (sm) in Florida;
ISM Raceway near Phoenix, Arizona;
Kansas Speedway® in Kansas City, Kansas;
Martinsville Speedway® in Virginia;
Michigan International Speedway® located outside Detroit;
Richmond Raceway® in Virginia;
Talladega Superspeedway® in Alabama; and
Watkins Glen International® in New York.

Alexander M. Waldrop
President & CEO

June 17, 2019

The Honorable Mike Crapo, Co-Lead
The Honorable Ben Cardin, Co-Lead
Cost Recovery Task Force
Senate Committee on Finance
Room 219
Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Crapo and Cardin:

On behalf of the National Thoroughbred Racing Association (NTRA) I thank you and the members of the Cost Recovery Task Force for considering several temporary tax provisions, including one that has an impact on horse owners and breeders. It has become an unfortunate practice to routinely allow some rules to expire only to resurrect them retroactively. This creates confusion for affected taxpayers but also fosters a general impression that these provisions are without underlying merit when, in fact, they were enacted with a clear policy intent. We are grateful the Members of the Senate Finance Committee are taking the time to focus on the important policy goals of these provisions.

The horse industry often is not well understood by the public at large but it makes a broad and significant contribution to the American economy. According to the American Horse Council Foundation's 2017 National Economic Impact Study, the horse industry contributes approximately $50 billion in direct economic impact to the U.S. economy, and has a direct employment impact of 988,394 jobs.

In Maryland, home of Preakness Stakes, the second jewel in the Triple Crown, Marylanders have been breeding and racing thoroughbred horses for more than 250 years. The horse industry in that state supports more than 15,700 direct jobs, and contributes more thn $740 million to the state economy.

The tax provision that is especially important to the horse industry was first enacted in the Food, Conservation, and Energy Act of 2008, and routinely extended since. It allowed all racehorses to be depreciated over a 3-year life, without regard to the age of the horse when it is purchased and placed into race training. This ensured that the deductions allowed under the law were better aligned with the income produced by the business activity.

NATIONAL THOROUGHBRED RACING ASSOCIATION
401 West Main Street, Suite #222 Lexington, KY 40507
Phone: (859) 245-NTRA (6872) **Fax:** (859) 422-1230 **E-mail:** ntra@ntra.com **Internet:** www.ntra.com

Not many horses race for more than three-and-a-half years, which is the shortest cost recovery category available for capital assets. In fact, many horses now race for less than that period after which they either are retired to the breeding shed or sold to embark on a second career in the show ring, on the polo field, or as a recreational riding horse.

The 2017 tax law, the Tax Cuts and Jobs Act, allows taxpayers to claim full expensing on the purchase of a capital asset in year one. This is arguably more generous than depreciation, but the new law also allows taxpayers to elect depreciation under the existing modified accelerated cost recovery system (''MACRS'') if that better aligns their deductions against their income.

Without an extension of the 3-year depreciation schedule for all racehorses, however, those who do elect depreciation are forced to apply pre-2008 rules whereby horses 24-months old or younger have a much longer, 7-year, depreciation schedule. This would exacerbate the mismatch between deductions and income that Congress sought to eliminate in 2008.

By establishing permanently that all race horses will be treated as three-year property for those taxpayers who elect MACRS rather than full expensing, the tax code will continue to allow businesses in the horse racing industry the flexibility to make decisions about their capital assets in a manner that is consistent with the true economics of their business. This is precisely what the tax code strives for with respect to assets used in other types of businesses.

I hope our comments help remind the committee of the policy rationale for this provision that affects our unique industry and we respectfully urge that Congress provide us with permanent certainty.

Sincerely,

Alexander M. Waldrop

Cc: Senator Charles Grassley, Chairman
Senator Ron Wyden, Ranking Democrat
Senator Todd Young
Senator Catherine Cortez Masto

Independent Film & Television Alliance®

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Los Angeles, CA 90024-4321
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www.ifta-online.org / info@ifta-online.org

June 24, 2019

Honorable Mike Crapo
Honorable Ben Cardin
Co-Leads
Senate Finance Committee
Cost Recovery Task Force
Washington D.C.

Electronically submitted to Cost_Recovery_Taskforce@finance.senate.gov

Re: Meeting with Independent Film & Television Alliance

On behalf of our Members, I am writing to thank the entire Task Force on Cost Recovery for meeting with the Independent Film & Television Alliance® (IFTA®) on June 6th to discuss support for extending Internal Revenue Code Section 181 through 2019 and beyond with the adoption of a permanent fix that would ensure the benefits of 'accelerated depreciation' are fully available for independents in the long-term.

As we discussed, the targeted provisions of Section 181 have proved to be of real assistance in keeping independent production and jobs here in the United States. Recognizing that independents generate the majority of all film production in the U.S. each year, Section 181 allows producers to elect to begin depreciation of qualified production expenses (up to $15 million and in certain circumstances up to $20 million) in the tax year they're incurred, providing critical cash flow to independents who rely on third-party investment to fund each production. Congress has approved the extension of this important federal tax incentive six times, which has been successfully combined with state incentive programs to make filming in the U.S. a good economic investment for everyone.

In 2018 alone, U.S. independent production companies shot 507 feature films all over the country including California, New York, Georgia, Texas, Illinois, Louisiana, Ohio, Alabama, Massachusetts, Florida, New Mexico and more, providing many thousands of jobs and employee earnings of over $15 billion.

During our meeting, there were some inquiries as to the structure of the various international incentive programs designed to attract U.S. productions. In that regard, we have included the attached "Rules of Attraction" brochure that IFTA co-produced in 2006, after Section 181 was initially adopted and before the early land rush in the U.S. to adopt state incentives. This brochure covers the many factors at play in attracting film production, from both the locality's perspective and the producer's needs. While its discussion of specific programs is clearly out dated, the underlying messaging remains relevant, perhaps even more so today.

International production incentives generally include one or more of the following: tax credits, tax shelters/waivers/offsets, rebates, grants, film fund subsidies, or various non-monetary support such as location scouting and other local assistance related to the production. These programs operate under various requirements to determine eligibility and amount of funding available to a specific production.

A key component of incentive programs that attract U.S. productions, that is not often found in the U.S., is the ability to transfer the underlying tax credit in order to monetize the benefit for purposes of financing the production. This is particularly appealing for the independent sector, that often struggles with upfront cash, and especially useful in instances where the credit may only apply against local tax liabilities, which may not be applicable to the production.

In many cases, countries also combine their production resources/incentives based on government to government "co-production" treaties to enhance their effectiveness for all stakeholders.[1] These arrangements can be attractive for producers as the underlying co-production may qualify for additional benefits such as government subsidy funding or used to satisfy quotas reserved for local content, such as those in the European Union.[2] The U.S. stands out as one of the few countries that does not maintain any international co-production treaties.

Keeping in mind that production incentives are one of many factors that producers consider when selecting a venue for their project, other practical considerations include: geographic location, currency exchange rates, availability of qualified local crew, facilities/soundstages, and local vendors to support the production.

Countries which offer strong incentives to entice U.S. production include Canada (both economic-based and content-based)[3], Croatia[4], and the United Kingdom[5]. Other regions are also aggressive in seeking U.S. productions, most recently emerging from India and Japan.[6] Online resources such as those maintained by Entertainment Partners[7] and Cast & Crew[8] provide comprehensive databases of both domestic and international production incentives, which are easily searchable and comparable.

A common operational concern among all production incentive programs is the crucial issue of certainty that the benefits will be available as promised and can be relied upon by producers. Securing Section 181 on a permanent basis would accomplish that for the U.S. independent sector.

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[1] List of UK treaties, including the European Convention is available at https://www.bfi.org.uk/film-industry/british-certification-tax-relief/co-production; Canada Co-Production Treaties: https://telefilm.ca/en/coproduction/international-treaties; China Co-Production Treaties: https://www.olffi.com/coproduction-treaty/list-85.html

[2] https://ec.europa.eu/digital-single-market/en/revision-audiovisual-media-services-directive-avmsd

[3] https://www.ep.com/home/managing-production/canada-incentives-tax-credit-overview-learn-tax-incentives/

[4] https://www.productionincentives.com/home/production-incentives/jurisdiction-details/?jurisdictions=HRV

[5] https://www.productionincentives.com/home/production-incentives/jurisdiction-details/?jurisdictions=GBR

[6] https://variety.com/2019/film/asia/india-to-create-film-production-incentives-1203215580/ ; https://www.screendaily.com/news/japan-opens-doors-to-international-shoots-with-pilot-production-incentive-scheme-exclusive/5139606.article

[7] https://www.productionincentives.com/

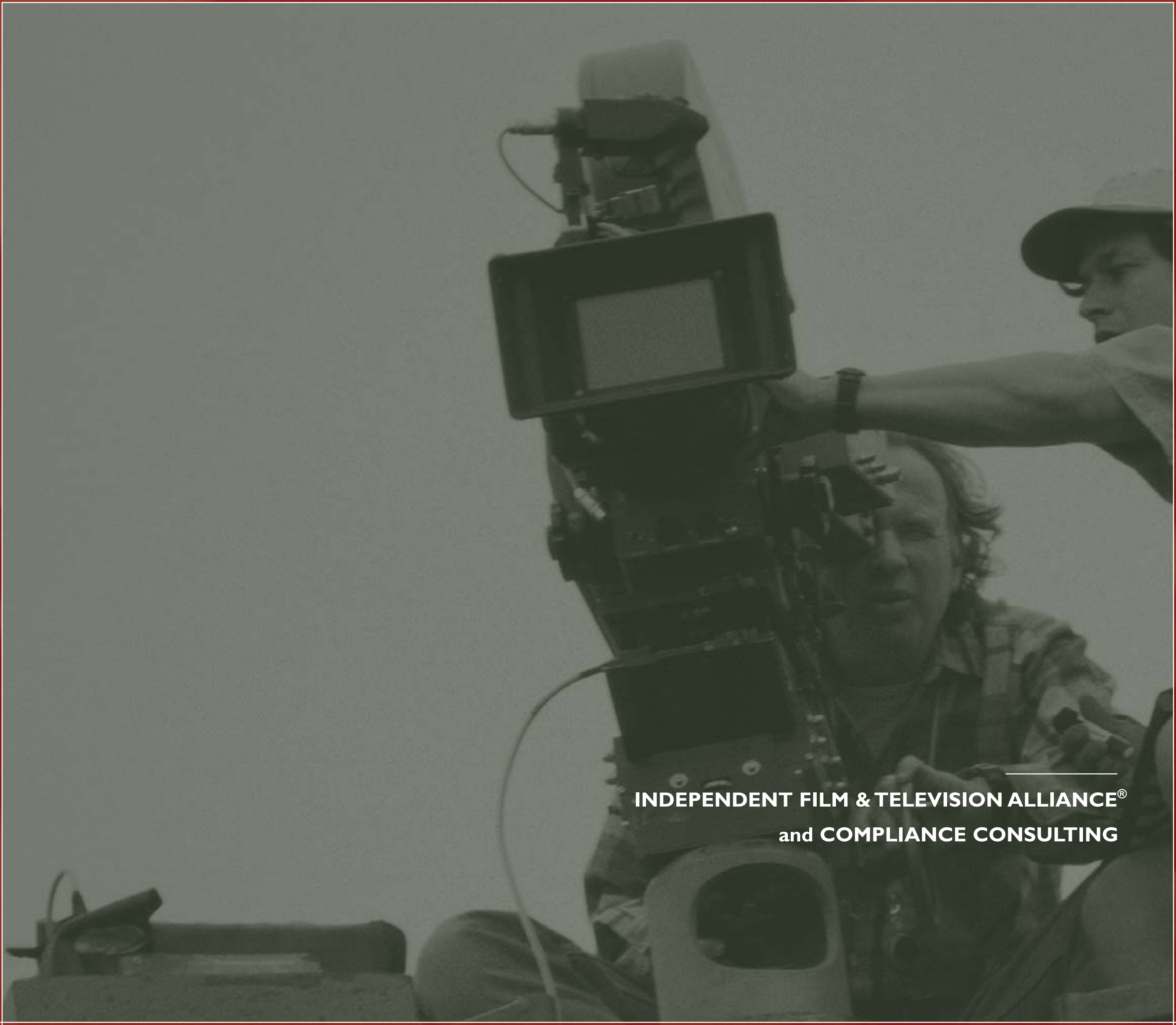
[8] https://www.castandcrew.com/solutions/accounting-financial/incentives-map/

We look forward to continuing our participation with the Task Force and the entire Senate Finance Committee on these important issues, to preserve the critical benefits of 'accelerated depreciation' of qualifying production costs as they are incurred and clarifying that bonus deprecation can be meaningfully accessed by independents. Please feel free to contact me with any questions or follow-up. Again, thank you very much for your time and support of the independent film and television industry.

Sincerely,

Eric Cady
Senior Counsel

cc: Randall Gerard, Cogent Strategies
Claudia James, Cogent Strategies



INDEPENDENT FILM & TELEVISION ALLIANCE®
and COMPLIANCE CONSULTING

The Rules of Attraction

Creating a Production-Friendly Community



Independent Film & Television Alliance®

Producers are always seeking better locations for filming. In some cases, "better" means "visually more suitable for the story line", in others, it means "easier", and in still others, it just means "cheaper". But the variables don't end there, and knowing what producers want is a crucial factor in promoting production in your community.

The Guide is designed for decision-makers in any community interested in building, attracting or simply accommodating local production activity. While explaining the factors that are important to producers and what will influence their choices, this Guide also identifies the community impact and policy concerns that should be weighed against the potential benefits of production.

The Guide is prepared from the perspective of the Production Company or Financier, both of whom must approve the decision where to shoot. The Independent Film & Television Alliance (IFTA®) is the trade association that represents the world's independent producers and distributors and film financing institutions. Compliance Consulting's Rob Aft has more than twenty years of experience in film finance and distribution. We have consulted extensively with IFTA members from around the world, as well as with local officials and industry advocates to learn what motivates these production decisions.

"Rules of Attraction" is our effort to share that knowledge with public officials and private citizens who want to build a "production friendly" environment. We look forward to your feedback and to updating this report in the future.

Sincerely,

Jean M. Prewitt
President & Chief Executive Officer
Independent Film & Television Alliance

Rob H. Aft
President
Compliance Consulting

CREATING A PRODUCTION-FRIENDLY COMMUNITY

INTRODUCTION

In the past ten years, the number of cities, states and countries reaching out to encourage producers to spend production dollars within their borders has exploded. Local employment, finances, culture and tourism all benefit from local production. There is a strong sense of community excitement when a major production moves in.

But how many communities are really ready to host a steady stream of film or television production to the satisfaction of both the producers and local residents? Are you ready? This Guide is designed to help community decision-makers, in any size community anywhere in the world, to understand and meet those challenges.

This Guide is first of all a message from producers. We have consulted with producers who routinely choose between a wide variety of production venues based on various factors including shooting locations, production subsidies, co-production/co-finance arrangements, infrastructure or climate. This guide indicates what attracts them to shoot in one place rather than another. While individual producers may be influenced by specific local factors, attracting a steady stream of production requires predictability about conditions. The Guide identifies a number of variables that matter – some of which a community can control effectively, if it so chooses.

At the same time, the Guide reflects the significant questions that should be raised within each community prior to making a substantial economic commitment to attract or to build production capacity. Local filming may inconvenience residents and businesses, and the dedication of resources to attract production may alter the ability to support other meaningful programs. Establishing sensible systems for producers must go hand-in-hand with responding to the ongoing concerns of each community. If that balance is not struck effectively, local concerns may undermine any investment in the production industry. Attracting production has become a highly competitive and often costly venture for communities, and we hope that these suggestions can help your community to compete intelligently and effectively.

ONCE IN A WHILE OR A FULL TIME COMMITMENT?

> "These are really complex decisions, and financial aspects are only one consideration. It's a balance of three main parameters: hard cost, what the talent wants and the co-production possibilities." (Francois Invernel, Managing Director of Pathe Pictures in the UK, *The Hollywood Reporter*, November 1, 2005)

Producers select locations for a variety of reasons, including the most simple – because they are telling a story that occurs in that place. By the same token, communities may seek to accommodate periodic production without making a decision to reach out to other projects. Other communities may wish to attract production in order to support local tourism or culture but without interest in building a full-scale production infrastructure. Still others wish to attract production in order to support an economic development plan that encompasses job training, creation of pre- and post-production resources and an ongoing stream of production. These are all legitimate policy decisions but the producer's threshold expectations of each type of community (and his willingness to return) will be different in each case. The Guide addresses this through a tiered approach, reflecting differences as Type I, II and III. The characteristics of each are discussed at pages 4-7.

But when and how does a community decide what "type" it is? The Guide encourages an active dialogue between public and private decision-makers to identify a community's potential and the resources that will be made available to realize that potential.

The first question every community needs to ask itself is 'why do you want people to produce in your backyard?' There are many answers, but the primary ones are:

Direct Economic Benefit to the Community – Productions can pump millions of dollars into a community. They occupy hotel rooms, eat, and hire transportation, sometimes even local crews, actors, directors and producers. They pay taxes and in some cases construct studios or other infrastructure. The direct spending is subject to a multiplier or ripple effect: a recent study by the Los Angeles Economic Development Corporation shows that every dollar spent on a production in California generates on average a total economic impact of nearly triple in addition to amounts realized by the state itself in taxes.[1]

Encourage Tourism – From baseball fields in Iowa to beaches in Thailand to casinos in Las Vegas, a production can showcase the natural beauty or the excitement of a community, and attract untold millions in tourism dollars. *Brokeback Mountain* has brought a steady stream of visitors to Montana, where the story takes place, despite the fact that filming actually occurred in Calgary, Canada.

Create Jobs – Some communities look to the visiting productions to provide training for technical workers, thus encouraging additional indigenous and visiting production work as crews become more skilled and available. Of course, many productions will bring most of the skilled workers they need from outside the community. If job creation is an important factor, the community needs to provide for significant training and incentives for producers to train and hire locally.

Promote Local Culture – A primary reason to encourage local production is to create the artistic and narrative talent to promote a local culture, to tell the community's stories, and to introduce the culture to the world. Of course, if this is a primary factor, policies must be constructed to benefit productions that reflect, examine or promote indigenous cultures and that are based on the creative work of that culture.

The answer to the above question should shape any program that encourages producers to shoot their film or television program in your community.

> "The idea that we (the UK government) have basically been financing these French films doing a bit of post-production work in London is a good thing to knock on the head," says Barnaby Thompson, head of UK's Ealing Studio who recently shot "Fade to Black" in Serbia because nothing in the UK could double as Rome in 1948. "It makes sense as an Anglo-Italian-Serbian co-production and it probably wouldn't have happened otherwise."

At the same time, communities should be aware that production can affect the day-to-day life of its residents and make provision for the costs that may be entailed in overseeing the actual production activities that will take place.

If you were offering incentives to attract a manufacturing plant to your community, you would conduct environmental impact studies, research the background and history of the company and establish a regulatory process to ensure that there is full compliance with local laws and that any promises the company makes in exchange for the incentives are kept.

The same can be true for a production taking place in your community. Make sure that what they want to do will not have a negative impact. Many productions will want to shut down critical bridges during rush hour, and one recent production required large explosions in the center of a major US city. Will the producers understand when you inform them that not all of their needs can be met and that they will have to modify their schedules to accommodate the community around them? Will local politicians, community activists, labor leaders, etc. complain about the disturbance to the community, its landmarks, its reputation, etc.? What local agency or official will monitor the production, ensure compliance with any restrictions imposed and resolve conflicts that arise? What assurances exist that bills will be paid and damage or inconvenience compensated?

Finally, is the benefit to the community equal to or greater than the financial and social costs? How much are the producers actually spending in the community? Are they concerned about providing jobs or training to residents? Do they respect local cultures? Are they presenting your community in a light that will attract or repel potential visitors? Is the production a one-off that will never be repeated or is there a need to plan for ongoing activity that may require expansion of existing infrastructure or permanent regulation? What if a production company finds you independently? Are you ready for producers to descend? Should you welcome them with open arms or try to discourage them? We hope you will encourage them and that this document will lead to a good experience for both the producers and the community as a whole.

[1] "What is the Cost of Run-away Production? Jobs, Wages, Economic Output and State Tax Revenue at Risk When Motion Picture Productions Leave California," Gregory Freeman, Jack Keyser, et al., Los Angeles Economic Development Corporation (May 2005). See www.film.ca.gov (study located under "Tax Benefits/Revenues Study" tab).

THE DOOR IS OPEN – NEXT STEPS

So, you have decided to promote production in your community. What are the best ways to meet the production industry and to market the community? What do producers need? What do they want to know? The Guide that follows focuses on these questions.

Assuming that a location provides (or can be made to provide) the cinematographic possibilities that are needed for a production, the threshold question for a producer will still be "can I make the costs work?" Production budgets are stretched very thin and competition among locations has resulted in some significant financial incentives being offered. Producers use "comparative budgeting" in almost every case to determine where they can afford to shoot.

> When Joss Whedon was prepping FIREFLY, he insisted on shooting the film in the Los Angeles area to be close to his family and in order to work with his preferred crews. He demonstrated to studio executives through comparative budgeting that he could keep the film in LA and, through various efficiencies, spend the same as if he had taken the film to Canada and he got his way. ("Down Home Directing," *Los Angeles Times*, October 9, 2005)

The competition for production spending is global. Producers will consider going anywhere for the best deal, but they expect world-class operations, security and communication.

> "In one recent week, 20th Century Fox films were in various stages of production in the Czech Republic, Canada, Hungary, Morocco, and Dominican Republic, France, and Britain." (*Los Angeles Times*, October 2, 2005)

Lack of top-class facilities or services may create cost overages in other budget categories or increase exposure to risk of loss, either of which will offset benefits from incentives or other cost-savings.

THE GUIDE

We have provided a set of suggestions for beginning or improving a community's efforts to attract producers. These are contained in the enclosed chart. We have chosen to divide the chart into sections based on the type of Community and then for each type, the characteristics of the local Infrastructure and Marketing/Logistics that will influence producers' response to the community's efforts.

TYPE OF COMMUNITY:

"Community" for purposes of this Guide refers to any type of political jurisdiction – town or city, county, state, region or nation – with the capacity to commit resources to supporting production. The "Community Type" reflects both 1) Size and resources of the Community; and 2) Scope of the commitment to or development of the Community's system for attracting producers.

<u>Type 1 communities</u> may be attractive to producers for one or more reasons. However, they have made only a limited public commitment to attracting production or they have other impediments to meeting producers' needs (poor infrastructure, restriction on finance or activities, etc.). <u>Type II</u> and <u>Type III</u> are those communities that have made explicit decisions to attract production or develop indigenous production and to commit some economic and political resources to do so. The Guide suggests what a producer might anticipate and plan for in each type of community. It also suggests what steps might be appropriate for those communities to improve production-attractiveness in order to compete for production dollars within the policy parameters already adopted by decision-makers.

These are not strict categories and do not represent a value judgment that Type III communities are "the best". Different

INFRASTRUCTURE — SETTING THE STAGE

Regulatory/Financial | Facilities/Risk

COMMUNITY TYPE I

The community is interested in facilitating production in the local economy. One or more productions have located in the community for either creative or economic reasons and/or the community has decided to dedicate certain resources to encourage local production.

Regulatory/Financial

- Economically attractive packages for on-site crews (e.g., discount hotel rooms, waivers of local fees and tariffs, favorable equipment rentals, etc.) may be available and government offers some other limited incentives to attract producers
- Government is aware of the benefits of production or the development of indigenous production
- Local laws and regulations regarding labor, taxation, transportation, finance, etc. may limit producer's flexibility but local authorities provide clear guidance on these issues
- Local financial institutions are able to meet producer needs on location (e.g., payroll, immediate cash needs and transfers)
- Bond and insurance companies have limited or no experience with production in the area and may need additional information and assurances regarding location-specific risks (including political or weather risk)
- Affirmative financial benefits to stimulate growth of ancillary services and related industries are in their infancy
- Government has established a simple, clear and cost-efficient process for obtaining permits

Facilities/Risk

- There are unique locations or other factors that will attract producers
- These attributes may be limited or access to locations may be difficult
- There are potential weather, political, currency, crime, labor or other risk factors that cannot be fully controlled, but attempts are being made to address them
- Restrictions on the use of public lands or issues regarding endangered species, habitats, etc., may pose issues to producers seeking the best location option.
- Efforts to develop crews, production infrastructure and creative talent are in their preliminary stages

The community has an interest in and a history of attracting productions and has committed significant resources to this effort. Local infrastructure, production facilities and/or benefits are attractions for producers.

Regulatory/Financial

- Government provides meaningful financial incentives that make it attractive to shoot in the area and understands the importance of attracting production
- Some government regulations regarding labor, taxation, transportation, etc. have been specifically designed to encourage production
- A government entity with production expertise exists and can provide liaison services with the local production industry and outside providers including the government itself
- Bond companies have some positive experience working in the community
- The global entertainment banking community has some experience working within the legislative/tax structures established by the local government
- Government entities can provide proactive help with the permitting process to smooth location shoots

Facilities/Risk

- There are experienced production facilities and crews available
- Prime locations are accessible and provide adequate power, lodging, and dining opportunities
- Local crews have gained some experience working with producers from outside the area, and there are programs in place to develop indigenous crews and creatives
- There is access to equipment and materials either within the area or reliably and quickly available near the area
- There are manageable weather, political, currency, crime, labor or other risk factors
- Public land managers understand production needs and offer reasonable access to those lands

The community has an established history of providing top quality resources for indigenous and out-of-area productions including solid infrastructure, unique/desirable locations, financial incentives or other cost benefits, and ongoing dialogue with the production industry. The community markets itself to the production industry and seeks a steady flow of production into the area.

Regulatory/Financial

- Government entities at all levels actively encourage production through clear and reliable incentives, co-production or co-finance treaties or other arrangements, and tax breaks and provide substantial material support to those trying to attract production and to visiting producers
- Community recognizes the economic importance of production for the local economy and actively works to make the production process attractive
- There is significant production finance infrastructure (including banks with specialized lending divisions), local bond companies or representatives of bond companies who can provide on-site support
- The global entertainment community knows how to use finance infrastructure to support production
- The global banking/finance community has extensive experience working within the legislative/tax or other incentive programs available and actively participates in the development of such programs and works closely with producers to assure that they take full advantage of all finance opportunities
- Regulations regarding all aspects of production are very clear and reliably enforced
- Permitting process is simple, clear, cost effective and the government assists producers with a centralized permitting system across multiple jurisdictions

Facilities/Risk

- Prime, diverse locations are easily accessible and provide world-class services and tourism facilities
- There are many first-class production facilities (including production and post-production) and crews available
- There is significant community support for all types of production and the government actively encourages this support
- There is a reliable, local supply of equipment, talent and materials
- There are limited and easily manageable weather, political, currency, crime, labor, or other risk factors
- Use of public land is encouraged and incentives for the use of the land may be available and easily accessed

MARKETING AND LOGISTICS—MAKING IT HAPPEN

Organization/Marketing	Resources/Community
■ There are designated community employees who are charged with attracting producers to shoot in the area ■ Community has provided some level of funding to support services to/for producers ■ Community's mission in this area may be limited and focused on public safety, tourism, and convenience requirements ■ The community may not yet engage in active marketing or outreach to attract production or to develop indigenous producers ■ A community office, however, maintains relationships with other regional or national commissions to facilitate or attract production	■ Reflecting its narrow mission, the community has only limited resources or knowledge to provide any assistance when productions encounter problems ■ Officials have some relations with local unions, crews, and regional representatives but cannot be relied upon to provide extensive information to producers ■ Cross-border or inter-regional issues are not customarily addressed, however, there is an effort to make permitting and other required paperwork easy and efficient ■ Community is willing to assist with compliance with local regulations, access to locations, transport needs, customs, etc.
■ Community entity that encourages production is organized as a stand-alone department or entity with separate offices and designated staff ■ There is an awareness of this entity within the production community inside and outside the region ■ Community is actively marketing the region to producers around the world ■ Staff is knowledgeable and familiar with the local production community and international producers ■ Community recognizes benefit of developing indigenous production and attracting outside producers, and is willing to commit resources to the effort ■ Community generally has a presence at industry events such as Locations Trade Show and major film or television markets	■ Community has the resources and relationships to provide support to producers who encounter problems ■ Officials have ongoing dialogue with local unions and authorities to aid producers and to smooth future productions ■ Community has funded a dedicated staff that is knowledgeable regarding locations, incentives, local facilities and crews ■ Community staff is aware of the impact of production on specific neighborhoods and works actively with producers to find alternatives to over-filmed locations ■ Community staff has ongoing and good relationship with other production entities in the area ■ Staff has significant influence or experience outside of their immediate jurisdiction if regional, or over all jurisdictions if national ■ Community staff offers permits or is able to facilitate permitting and works actively to secure community cooperation with permit terms ■ Staff is available to help during the production process ■ Staff is available in various locations/cities in the area and can coordinate with other regional or national entities to provide services to producers
■ Community has provided a substantial budget to fund attendance at major trade events as well as significant world travel to promote the area to producers ■ There is significant direction, enthusiasm and support for the community's efforts within the local production community ■ There is active outreach to producers through publications and the Internet to provide significant information and support ■ Community publicity makes it clear that attracting production is a significant goal and that they are willing not only to provide resources, but will seek active input from the production community regarding incentives	■ A community agency is fully integrated into the production industry of the region and is regarded as a good-faith advocate by both the industry and the community ■ Agency staff works aggressively to promote indigenous production and encourage local producers and develop local creative and technical communities ■ Staff is on very good terms with government, union and production representatives and can issue permits and provide effective support when dealing with government or union issues and actively participates to secure community support ■ All staff is significantly knowledgeable regarding locations, crews, and all infrastructure, subsidy and financial considerations that would interest producers ■ A dedicated staff person can provide round-the-clock assistance as well as help coordinating activities with other jurisdictions ■ Agency works actively to improve production facilities and government and union involvement in production process ■ Agency is the dominant force in policy-making regarding production, and has a jurisdiction-wide authority to enforce or enact policy

Communities have different intentions, resources and responsibilities. A small town is unlikely to have the resources by itself to be a Type II or Type III Community for these purposes, but an entire nation might responsibly aspire to be a Type III Community and to support its own sub-regions, cities and towns at that level. In all cases, the Chart describes Communities that seek to provide the best services possible within the policy framework that has been adopted locally.

STEP-BY-STEP:

At a very minimum, a Community seeking to increase production will want to show an interest in working with film and television producers. That usually starts with designating an individual or creating a film office or commission charged with "selling" the community to producers and to helping them with whatever needs they have. These needs can include location scouting, dealing with local unions, obtaining permits for filming, filing paperwork for subsidy or tax rebate programs, etc.

The mission of a film commissioner or officer should be clear to the community and should reflect the community's distinct policy aims, whether they are employment growth, cultural, attracting tourism or something else. The commission can be attached to the tourism authority or the cultural authority, but there should be dedicated personnel familiar specifically with the demands of production and knowledgeable about the advantages of shooting in the community.

> "AFCI's Locations Trade Show brings the global competition for Hollywood dollars together in one place. It gives film commissions from around the world a chance to tout their attractions to a stream of commercial and feature film producer and directors, film and TV execs, location managers and scouts." (*Variety*, April 12, 2004)

> "Even though there is no central film commission in India, the government is confidently marketing India as a cost-efficient location destination for international film and TV productions." (*Screen International*, October 28, 2005)

Irrespective of the nature of the Community, every production has specific requirements that must be met to ensure that principal photography can be done effectively and the production itself brought in on time and on budget. Walking through the chart from the top left all the way to the bottom right should illuminate the ways in which local characteristics and decisions affect concerns about timetable, costs, and ability to complete a production. The information in each column is a progression from the most basic issues for a producer to more complex aspects of increasing production activities in a community.

> "Hungary has long offered filmmakers a rich source of locations but the film industry's post-Communism collapse also exposed the deficiencies of local production services. That reality is changing of late, though, because of the tax-rebate scheme and a $50 million state loan fund designed to help develop infrastructure and studio space." (*The Hollywood Reporter*, November 1, 2005)

We will occasionally deal with the issue of the diversity of communities that may study this document – local, state, national and even international – but generally it will be up to the reader to apply the various suggestions to their community. It should also be noted that it is often a goal of communities not to just attract outside producers, but to nurture indigenous production, and all of these suggestions are meant to be valid for both goals.

> "The best bet for major productions hoping to maximize France's funding sources is to find a French co-producer who can access the full range of financing from the federal agency, CNC, regions and other national and European sources." (*The Hollywood Reporter*, November 1, 2005)

INFRASTRUCTURE – SETTING THE STAGE

Of course, some productions call for a specific location whether it is the Eiffel Tower or the lights of Las Vegas. Improvements in special effects have not yet made location shooting obsolete, and producers will still choose a location based on the needs of a script. Most scripts, though, allow for significant flexibility in where a film or TV program can be shot, and often a decision is made based on facilities, personnel, and ease of shooting. We have outlined many of these factors in the "Infrastructure – Setting the Stage" section and make suggestions for what communities can do to improve infrastructure.

Infrastructure encompasses the production facilities and trained crews that might be available, but also the entire range of services and personnel that are required for a successful production. This is not meant to be an exhaustive listing of the requirements for production, but it should be noted that professionals in the areas of banking, insurance, catering, and law enforcement are every bit as important to the physical production as directors, actors and writers (though we are certain this latter group would disagree).

It is also important that transportation to and from the location, local lodging, laboratory and payment services are provided and can meet the timetables dictated by production budgets. Whereas it is not always necessary to provide every aspect of infrastructure, it is important to be able to inform would-be producers regarding what is available and what they will need to supply from outside the community.

REGULATORY/FINANCIAL

Producers have come to expect that local, state and national governments will encourage their efforts and not hinder them. This can mean as little as offering simple procedures for procuring shooting permits and access to local officials to resolve questions, all the way up to providing significant financial incentives to shoot in a community.

PERMITTING AND REGULATION

Most communities require permits to shoot, and these can be very easy or very difficult (or expensive) to obtain. Ease of permitting is important, but community considerations also must be taken into account and local officials must be able to act as community liaisons to assure that the production will proceed smoothly. Blocking traffic, diverting flight paths, blocking driveways and shutting local buildings can interfere with local employment and business needs, create bad feelings in a community and cause endless headaches for producers and politicians. One bad production experience can ruin years of careful work. Local officials who are aware of alternate locations and can assist producers to avoid over-filmed areas or can negotiate appropriate conditions to meet residents' concerns are invaluable in retaining production opportunities.

> "A single, one-time permit give carte blanche to work anywhere in the Kingdom [of Morocco]." (*Los Angeles Times*, October 16, 2005)

Similarly, local officials should be able to coordinate with representatives of other regulatory agencies or groups including health and safety, animal regulation, sanitation and labor. It would be unfortunate if a production were shut down because the food service technicians violated minor health codes or a crew member failed to obtain a needed local work permit. Officials should be aware of potential problems and work with producers to avoid those whenever possible.

FINANCIAL INCENTIVES

Direct Subsidies: Some communities will actually pay producers to locate their productions there. This can come in the form of government grants or free use of government facilities or personnel. It is important that these subsidies programs are clear and well administered and that anticipated benefits do not disappear before applications are satisfied. Governments should assure that the rules and regulations are understood by local officials and that the information is effectively communicated to producers in a way that will allow them to access the subsidies without abuse or waste.

> "New Zealand's Large Budget Screen Production Grant, a 12.5% rebate scheme that targets international productions is very highly regarded due to the efficiency of its administration and its ability to pay out approved grants within about three months," says Judith McCann, CEO of locations office Film New Zealand. (*The Hollywood Reporter*, February 28, 2006)

Co-Production Treaties and Co-Finance Arrangements: At a national level, some countries have chosen to establish arrangements with other countries that will encourage production by offering incentives for producers from more than one country to work together. These arrangements can take the form of treaties or regulatory frameworks that usually offer tax incentives to parties in both countries. Sometimes these tax benefits are transferable to producers in third-party countries. The UK, Germany, Canada, Ireland and other countries have seen production spending within their borders grow based on such treaties. These arrangements can offer direct economic benefits such as the non-refundable 10-15% of budget benefit offered by the now-defunct UK-Sale/Leaseback program (which required a minimum 40% UK spend and the participation of a UK producing partner) or the 20% refundable benefit offered by some of the German tax funds. They can also result in a film being considered a "local content" production for purposes of quotas or distribution incentives – providing a significant boost to potential revenues or reduction in distribution costs. We recommend studying various Co-Production and Co-Finance arrangements carefully before attempting to enact legislation as the potential for outright abuse or of benefits being given without the intended goal being attained is quite high.

The constant adjustment of existing benefits in these areas can be detrimental to a community's effort to attract production, as demonstrated by the recent changes in the UK and German legislation. Producers need to have confidence that the benefits offered will continue to be available.

> "Most recently, the German government introduced a three-year, $110 million revolving fund, paid out in the form of repayable loans of as much as 20% of a film's budget." (*The Hollywood Reporter*, November 1, 2005)

Tax Breaks: Tax incentives have become a major factor in producers' choice of location. Many communities provide rebates of sales tax, or waivers of local occupancy taxes, while others provide significant income tax benefits to taxpayers to invest in production in that area. Some of these incentives have been extremely successful not only to attract economic activity from outside the community, but also to develop local production for cultural and economic reasons. It is important to design these incentives to effectively produce the intended results. Again, for producers and investors, the crucial issue will be certainty that the benefits will be available as promised.

> Regarding recent changes in German film incentives: "Anything that smells of a tax shelter – be it sale-and-leaseback or some fund structure or whatever – would be a big mistake," said Marco Mehlitz, a former production executive at film fund Cinerenta. "With those, the only people who win are the middlemen. The government would be better off just increasing film subsidies." (*The Hollywood Reporter*, November 1, 2005)

BANKABILITY

Much has been written about film finance, and the resources at the back of this Guide can provide additional detail, so without launching into a broad discussion of the topic, it should be noted here that one of the main advantages of the above incentives is their "bankability." In short, that means that the financial benefits of promised incentives can be used as collateral for a production loan through a bank or transferred to an investor in exchange for equity investment. Producers we consulted stressed the importance of this factor and the importance of working with banks to assure the collateral value of the incentive.

> "In most states the (tax) credit is for whoever funds production costs and the person or entity cannot sell the tax benefit to somebody else. That approach makes it much

more difficult to find capital. But in Louisiana, where the credits are transferable, it becomes much more manageable, because you can use brokers, who'll buy the credits and then sell them to someone else." (Entertainment attorney Schuyler Moore in *Variety*, September 7, 2005)

FINANCIAL INSTITUTIONS

There are two principal types of financial institutions involved in productions – insurance companies and finance companies. Insurance companies include completion bond companies, production insurance companies, risk insurers and providers of other types of production insurance. Finance companies include banks and payroll services. Communities with experience in production have developed longstanding relationships with these entities and have established regulatory environments wherein they can function effectively with a minimum level of duplicative local administration. Easy access to information needed by these entities for risk assessment, compliance, financial transactions, tax payments, etc. should be facilitated by the local government agencies.

FACILITIES

Facilities can include traditional studio space, outdoor areas specifically designed and outfitted for production, post-production studios, film processing facilities, or the availability of specialized equipment such as cameras, cranes, sound recording facilities and even catering trucks and trailers for properly housing cast and crew on set. Some communities might have facilities that they do not realize have a significant value for production such as military bases that could provide extras and equipment for war films, local schools and public buildings, jails and industrial plants.

Communities have at times taken an "if you build it, they will come" approach to facilities. It is important for communities to properly research the facilities that producers may desire and weigh the costs against the economic benefits that may be generated by providing those facilities.

Recently, significant emphasis has been placed on providing post-production and special effects facilities locally. This can be an incentive to producers to remain in a community to complete their production and for encouraging local production. However, these facilities can be quite costly and require highly trained local technicians. Producers will tell you that the equipment is only as good as the operator, and communities should bear the costs of training in mind.

> "The downside (in New Zealand) is that local productions, with their limited budgets, often cannot afford the international rates (at the top post-production facilities). The dilemma for the facilities is: Do they lower them for local production (and), in doing so, risk going broke themselves?" (Don Reynolds, Silverscreen Films co-founder, *The Hollywood Reporter*, February 28, 2006)

CREWS

There are a variety of reasons for developing world-class technical teams that know how to handle cameras, build sets, light scenes, etc. Increasing local employment (both in production and in industries relying on related technical skills) and attracting producers are two of the main reasons. The development of crews can also encourage locally generated production that can tell a community's stories, share their culture and encourage tourism.

Training crews is a long and complicated process that can be accomplished through local training institutions (academies and film schools), incentive programs for visiting producers to train local crews, and through solicitation and incentives for foreign crews to migrate to a community. All have positive and negative factors that should be weighed. A steady stream of production, and the effort to attract and retain it, is critical if the policy decision is made to encourage the growth of local crews. Recent production downturns in Canada and Mexico resulted in extreme hardship for production crews who found themselves idle due to factors beyond individual control, such as a stronger local currency and changes in the subsidy structure in the case of Canada in 2004-2005. Canada has since recovered significantly; however, a great deal of the production work has shifted to the interior provinces as production subsidies in those areas have increased.

> "Our politicians need to understand that foreign productions help support local productions by creating full employment for crews that work both on Hollywood and Czech movies." (Ludmila Claussova, director, Czech Film Commission, *The Hollywood Reporter*, November 1, 2005)

At least as important as training the crews and technicians is the training of the local producers and line producers. These are the people that organize local activities on the ground and are familiar with locations, people, infrastructure, labor, regulations, permitting, etc. Local producers of indigenous product are a major community asset not only for their own productions, but for their ability to attract outside productions by providing reliable, cost-effective and high quality services.

Encouraging and training local producers is important. The relevant film authority or agency should maintain a database of these producers along with their production histories, references, etc. Often a local "qualifying" producer is required to access certain subsidies or to act as the local co-producer under treaties. In those cases, it is even more important that quality personnel are available. As we write this, the province of Manitoba in Canada currently offers significant production incentives that are very difficult to access due to the lack of qualified producers and crews in the area. The same is currently true of the state of New Mexico in the US, where anecdotal information suggests that the wait for qualified crews there is now more than 12 months.

> "Producer Greg Hoffman was able to fill two sound stages (in Romania) with tunnels so intricate that even the 'Catacombs' construction crew – a few dozen carpenters eager to work for $20 a day – would get lost in them." (*Los Angeles Times*, October 2, 2005)

> "As a producer, (Serenity's David) Lester says he is tired of hearing that Los Angeles crafts people are 'too expensive.' They cost more than in other parts of the world, he says, because they know how to do things better and faster." (*Los Angeles Times*, October 9, 2005)

Importantly, film and tourism agencies that promote a community or facilitate production are not, themselves, producers and should not be drawn into organizing production activities. Producers will expect significant assistance from these agencies up to and sometimes including acting as an advocate for the project with local authorities. These agencies will need to learn where to draw the line between facilitating production generally and taking on responsibilities for the individual production.

> "India has no plan to establish a central film commission. Thomas Nickel, head of the Arri Film and TV Services office in Mumbai says foreign producers would be wise to seek out the help of facilitator companies such as OTR Productions or India Take One productions to get the film made efficiently. Those companies will help hire local crews, familiar with Western production practices, jargon, and help avert dangers that any naïve Westerner arriving in India might fall prey to." (*Screen International*, October 28, 2005)

RISK

The noted risk factors – weather, political, currency, crime and labor – are only a few of the potential risks that a production can face. Some, like political and labor risks, may be within the control of local government or production communities; others, like the weather, are not. Since a risk-cost equation will impact the producer's ability to find financing, bond the production and attract talent to the location, the external perception of these risks and of the community also is important. Communities must be self-aware of local risk factors and prepared to discuss them with producers and to work to control or mitigate the factors where possible.

> "Oliver Stone's 'Alexander' faced such a dilemma as did Baz Luhrmann's 'Alexander the Great' project after suicide bombings killed 41 people in Morocco last year. Luhrmann moved the production to his native Australia, while Stone's cameras continued lensing across the Moroccan landscape." (*Variety*, April 12, 2004)

One of the reasons that Southern California became the focus of US production is that the sun shines reliably most of the year. If that is not the case in a community, they might consider promoting the availability of local soundstages rather than outdoor shoots. Most countries enjoy relatively stable political systems, but some with a recent history of unrest may make border entry difficult for some and impossible for others. Some countries will not allow productions with certain subject matter to be shot within their borders.

Kidnappings, theft and extortion are all common dangers in producing in some areas, and if attracting producers is a priority, local authorities need to determine a way to protect them from these problems. Labor disputes are constant threats to production, and many projects have been shut down or seen their costs drastically increase because of actions by government or organized labor in response to such disputes. One bad incident can produce a reputation that will drive producers away and local officials should be active in education and reconciliation in the case of such controversies.

> "As for security, you really have to keep a tight watch on the equipment. Healthcare can also be a major issue, so we advise clients to bring along a nurse, especially if they are getting away from population centres." (Chris Palmer, director of risk security at entertainment insurance broker Aon/Albert G. Ruben, *Screen International*, October 28, 2005)

> "AQTIS interim prexy Celine Daignault said IATSE told distributor 20th Century Fox and the producers that 'there would be labor unrest if they came to Quebec with an AQTIS contract.'" ("Dispute Jousts Jumper – AQTIS, IATSE argue over Liman Pic," *Variety*, March 7, 2006)

"Labor Unrest" – these two words strike fear into the hearts of producers. Labor risk can stem from many factors and can be inflamed by strong unions, weak unions, and even a lack of unions. They can be industry specific (such as writers and actors guilds) or unrelated to production (transportation, sanitation, etc.). The impact of a work stoppage or inability to move goods and people in a timely way is measured in budget over-runs and inability to complete a film in time to meet contractual requirements. A community's ability to guarantee a smooth relationship with local labor representatives can be crucial to attracting production.

MARKETING AND LOGISTICS – MAKING IT HAPPEN

The most beautiful locations, the best crews and the best tax incentives will not attract production if producers do not know they are available. The section on "Marketing and Logistics" makes suggestions for getting the word out and working with producers to make sure that their experience in your Community is the best it can be. As previously mentioned, there is significant competition for production; community investment in attending events such as Locations Trade Show and the American Film Market, staffing offices and training staff, lobbying governments, and in making producers feel welcome are necessary to compete effectively.

ORGANIZATION

One of the first steps in the process for local governments is usually to establish a "Film Commission" as the producer's first or principal point of contact. Today, the reference to film may be anachronistic since these entities deal also with television and commercial productions. In fact, television and commercial production may well be the major drivers of the local production sector in many communities.

A Film Commission may take various forms. In some locations, it is a single person office headed by a Commissioner or Executive Director drawn from within the local government, possibly the tourism authority. More active communities have created full governmental or quasi governmental commissions and staffs, specifically selected for production related experience. It is important to establish the responsibilities and expectations for the organization, which may be limited to granting permits for local filming or extend to an express mandate for economic development with a substantial budget allocated for that purpose.

MARKETING

Film Commissions and the communities they serve may use every conceivable method to get the word out to producers. They make the most of the Internet, creating web sites that showcase locations and provide listings of local talent and crews. Direct mailings and print advertising in publications aimed at producers (like *Locations Magazine, Variety, Hollywood Reporter*, etc.) are also used. Location events such as the Association of Film Commissioners International's (AFCI) annual Locations Trade Show are important opportunities for communities to get the word out to producers as are events such as the American Film Market in Santa Monica in November, Sundance and similar festivals, the television markets NATPE, and MIPCOM and MIPTV in France.

> "The entire world is at our fingertips," says Bill Bowling, location manager on such films as "Red Dragon" and "The Insider." "I can find information fast, get suggestions and follow leads. To be able to quickly explore details of any place on earth is amazing." ("Cyber-Scouting Opens Screen Doors," *Variety*, April 11, 2004)

Obviously, some of the best marketing for a community are the films and TV programs produced there and word of mouth from producers who have had good experiences.

RESOURCES

Producers expect communities to make their experience easier rather than more difficult. This seems self-evident; however, it is often not the case. Sometimes, producers have unrealistic expectations of the community, but there may also be conflicting priorities in a community. At the very least, a community should facilitate any permitting and access issues, providing rapid and clear guidelines for producers as to what is and is not allowed. Ideally, they should be represented on set to resolve any problems a producer may have and should be prepared to help producers through the process of accessing subsidies or other incentives and to act as a fair arbiter or negotiator for local services.

One important factor in being able to offer these services is the expertise of Commission personnel and their relationships with the service providers and other government entities in the community. Developing good relationships with service providers such as hotels and catering services, as well as local health and safety personnel, labor unions and transit authorities, is crucial to providing services to producers.

Of course, allocation of resources will reflect both the community's commitment to attracting production and the potential benefits that can be derived from that activity. It should be noted that resources may be provided for the commission or agency through direct budgeting in the case of a government department, by government payments to a private or quasi-governmental agency to compensate for services performed in the public interest, or by allowing the Film Commission to generate revenues on a fee-for-service basis (e.g., charging producers a modest fee for issuing a permit or providing related services).

GOVERNMENT

It might seem self-evident that a government that wants to attract producers will not drive them away. However, jurisdictions repeatedly "give with one hand" and "take with another," often failing to realize the complex array of regulatory and logistical issues that impact on the production process. For example, a state may enact an attractive subsidy program but leave in place time-consuming or exclusionary import licensing requirements affecting production crew or equipment.

> "We will do everything we can to support and promote film production and make it easier to film in L.A." (Los Angeles Mayor Antonio Villaraigosa, "Film Permit Group Gets a Remake," Los Angeles Times, December 9, 2005)

Governments change and priorities change. No one can expect complete continuity in policies regarding employment, taxation or culture, but it is important for the authorities to effectively communicate these policies to producers and to give confidence that any changes will not have an adverse impact on their ability to produce. Recently, Germany, the United Kingdom and Canada have made major changes in their tax subsidy policies, all to the detriment of certain categories of producers. Some producers have seen projects cancelled entirely due to these changes, while others have located elsewhere to wait out the regulatory process. They will be wary of basing future productions in those areas.

> "There has been progressive debureaucratisation in all spheres," explains Vishvajit Sahay, director (films) at the Ministry of Information & Broadcasting in India. "Government sees foreign film production as a major investment opportunity and the ministry is looking at ways to work more closely with other concerned ministries to facilitate even speedier clearances for foreign projects." (*Screen International*, October 28, 2005)

On the other hand, many of the changes have favored local producers and could mean an increase in employment for those areas and a better return for taxpayer money. The same rules apply, however: the new regime must be adequately communicated to the production industry and the provisions and funding must be sufficiently certain to allow producers to plan financing and budgeting around the new benefits.

INTERNATIONAL CONSIDERATIONS

Whereas most of the suggestions are applicable to production anywhere in the world, trans-national production is subject to special considerations. Often, factors beyond a community's control will have a significant impact on the ability to attract outside production.

Exchange rate fluctuations can make shooting in a country very expensive or relatively cheap. A few years ago, the relative weakness of the Canadian Dollar made Canada a very attractive production location. These days, with the Canadian Dollar much stronger, that exchange rate incentive has essentially disappeared. In 2004, production in Vancouver had dropped to its lowest level in six years. However, increased provincial subsidies and other incentives have resulted in studios there being fully booked for the foreseeable future.

Many countries place a significant premium on the cultural content of production – variously defined to reflect local story line or to involve employment of local talent or crews – particularly if that production is assisted by the government. The content requirements may offset the financial benefits of any local subsidies or tax incentives that are offered and will affect which types of productions are attracted to the area.

> "Marrakech is doing much to woo the international movie community through its annual film festival." (*The Hollywood Reporter*, November 1, 2005)

Security concerns, whether real or imaginary, can have a serious impact on decisions to produce in a country. Whatever the producer's personal attitudes, financial institutions and bonding companies, insurance companies binding coverage on principal talent and others with a stake in the production may all veto a location that seems risky. For example, concerns over Islamic terrorism have affected production in Morocco, one of the world's safest countries. Similarly, reported crime in some countries may be limited to one major city, with outlying communities completely unaffected, but result in the location being shunned by producers nonetheless.

Producers may also be affected by a country's specific political and cultural sensitivities. No country likes to be looked at as ripe for exploitation and few producers wish to attract negative publicity to their films. Promoting inexpensive and flexible labor might be very positive – promoting the fact that people in a country are desperate to work for low pay and will tolerate poor conditions is not.

Governments that actively interfere with the content of a production will have a difficult time attracting producers. Some productions (in subject matter or in the on or off screen conduct of talent and crew) will directly or indirectly violate local customs or sensibilities, and it is important that this is minimized or, at the very least, that producers are made aware of potential difficulties.

TIME HORIZONS AND COSTS

For the community, being realistic about goals and time horizons is important. If you are developing indigenous production, it might be many years before a satisfactory result is achieved. If you want to quickly attract producers with huge subsidies, your time horizon might be shorter (assuming the region has sufficient physical infrastructure to allow production). When spending tax-payers' money, there are inevitably critics who believe they could have spent the funds more effectively. Managing community expectations is crucial.

PRODUCER EXPECTATIONS

Managing producers' expectations is equally important. The goal is not only to have producers return to the community, but for them to spread the word in the greater production industry.

Above all, producers expect that promises will be kept and that they will enjoy a safe, efficient and predictable production experience. Given the inevitable problems associated with production itself, that is a lot to ask. Local communities that can deliver these elements can expect producers to return. Managing producer expectations is part of the job of the local authorities. You can't promise clear skies (or maybe you can), but if you have promised that a street will be blocked, local authorities will be cooperative or labor problems will not occur, you need to be able to deliver on those promises.

This is because even the most expensive productions are budgeted down to the last dollar, Euro or yen. Each day is allocated a certain amount of money based on the needs of the script, and the fact is that most of the money for a production has already been allocated to rights, script, producer, director and cast (what are called the above-the-line expenses). The day-to-day costs are "below-the-line", and that is where budgets are broken. An hour delay in safety inspections or not having the promised rooms or rental cars available can easily waste a day or more of filming, costing a production dearly. Those are the things producers will remember long after the shoot is over.

> "The thing I love about making movies in places where it's not so common is the fact that everyone really bends over backwards to help get your film made." (Producer Randall Emmett, *Variety*, September 7, 2005)

> "The country itself embraces film," said Sam Layani, the owner of one of Morocco's biggest production companies. "They do what it takes to get it done." ("Down, Dirty in Morocco," *Los Angeles Times*, October 16, 2005)

NOW WHAT?

You have decided you want to attract production and decided how you are going to go about putting a plan in place to do just that. What now?

First, build alliances within your own community. Local businesses, civic leaders, labor organizations, economic development organizations, and educational institutions all may play a role in creating the environment that is needed. It is important that these groups become involved both in developing the rationale for building production and in marketing and supporting the effort.

Then, extend this outreach beyond the community. Production is a relationship driven business and there are national and international groups with a common interest and much learning to share. Organizations like the Independent Film and Television Alliance (www.ifta-online.org) and the Association of Film Commissions International (www.afci.org) are there to help.

Do you have a local film school? Are there any famous directors or stars from your area? Ask them why they are or are not producing there. Do you think you already have the best programs in place? Ask yourself what you could do to attract the productions that got away. Have you had some bad experiences with production in your community? Maybe the process will allow you to make those better in the future.

How do you convince your local government to provide the necessary resources? Clearly, the easiest way would be to show them the financial benefits productions can bring. Economic impact is difficult to measure and there is no single standard.

> "Some (communities) multiply the base amount (of production spending) and multiply that by a predetermined number, some include the entire budget of the project, some include how much money the crew spent at area

> restaurants and hotels during their stay and some don't practice any of those techniques." (*The Hollywood Reporter*, April 16, 2006)

That mysterious predetermined number is called an "economic multiplier" and is a commonly used technique to demonstrate the economic impact on the community of spending. It is based on the idea that the money paid for a service or good will circulate within the community in the form of salaries, profits, taxes, purchases and improvements, resulting in an overall increase in community wealth that is many times the amount spent by the production.

> "If film commissions are to make a case for legislation designed to attract filmmakers, or for the very funding required to keep their offices operational, it is the numbers that will convince lawmakers of the economic benefits to the state." (*The Hollywood Reporter*, April 16, 2006)

For other communities, the goals may be cultural or job development. If so, it will be important to identify advocates from within the job training, education, and arts or culture fields who will document the roles that film and production-related skills play in meeting these goals.

How can you find out about films being produced in the future that might choose your community? The industry trade magazines including *Variety, The Hollywood Reporter,* and *Screen International* publish news of upcoming productions as well as production charts listing upcoming film and TV shoots. Forming relationships with producers, studios, talent agencies and even sales agents can result in early information that can put your community in the running.

Finally, we want you to provide producers with the best possible experience in your community. We hope that this document will assist you in doing so.

APPENDIX – RESOURCES

TRADE ASSOCIATIONS AND RELATED NON-PROFITS

Independent Film & Television Alliance (IFTA) and American Film Market (AFM)
www.ifta-online.org

Canadian Film & Television Producers Association (CFTPA)
www.museum.tv/archives/etv/C/htmlC/canadianfilm/canadianfilm.htm

Motion Picture Association of America (M.P.A.A.)
www.mpaa.org

Association of Film Commissions International (A.F.C.I.) and Locations Trade Show
www.afci.org

Film Independent (FIND)
www.filmindependent.org

Independent Feature Project (IFP)
www.ifp.org

International Federation of Producers Associations (FIAPF)
www.fiapf.org

FILM COMMISSIONS AND GOVERNMENTAL ORGANIZATIONS

Australian Film Commission
www.afc.gov.au

California Film Commission
www.film.ca.gov

FilmLA, Inc. (formerly the EIDC)
www.filmla.com

Korean Film Council (KOFIC)
www.koreanfilm.or.kr

New Zealand Film Commission
www.nzfilm.co.nz

The Producers Alliance for Cinema & Television (PACT)
www.pact.co.uk

UK Film Council
www.ukfilmcouncil.org.uk

European Media Programme
http://europa.eu.int/comm/avpolicy/media/index_en.html

PUBLICATIONS – PERIODICAL

Le Film Francais
http://www.lefilmfrancais.com

The Hollywood Reporter
www.hollywoodreporter.com

Locations Magazine (published by AFCI)
http://www.afci.org/publications/index.htm

Screen International
www.screendaily.com

Variety
www.variety.com

PUBLICATIONS – BOOKS

Farber, Donald C., Baumgarten, Paul A., and Fleischer, Mark (2004). *Producing, Financing, and Distributing Film: A comprehensive legal and business guide (2nd edition).* U.S.A.: Amadeus Press/Limelight Editions.

Patz, Deborah (2002). *Film Production Management 101: The ultimate guide for film and television production management and coordination.* U.S.A.: Michael Wiese Productions.

Squire, Jason (2004). *The Movie Business Book (3rd edition).* U.S.A.: Simon & Schuster.

Vogel, Harold (2004). *Entertainment Industry Economics: A guide for financial analysis (6th edition).* U.K.: Cambridge University Press.

ON-LINE SOURCES

The Internet Movie Database – www.IMDb.com and www.IMDbpro.com (subscription) – The most popular site for information regarding film credits and production information.

Studio Systems, Inc. – www.studiosystem.com – A subscription service that provides additional information regarding upcoming productions.

Shooting on Location – www.shootingonlocation.com – A comprehensive overview of potential locations and production contacts worldwide (free registration required).

Los Angeles Times, "Down-Home Directing" and interactive "Runaway Production Map" (Oct. 9, 2005) – www.latimes.com/runaway – Story about US productions choosing to leave California for other locations and related data on state and local incentives.

Production Weekly – www.productionweekly.com – A subscription service providing weekly reports on current production and locations.

FILM FESTIVALS AND MARKETS

American Film Market (AFM), Santa Monica, CA – annually in November

AFI FEST, Hollywood, CA – annually in November

Berlin Film Festival and European Film Market, Berlin, Germany – annually in February

Cannes Film Festival and Market, Cannes, France – annually in May

Hong Kong Film Market, Hong Kong – annually in March

LA Film Festival, Westwood, CA – annually in June

Locations Trade Show, Santa Monica, CA – annually in April

MIPTV/MIPCOM, Cannes, France – Television markets held annually in October and March-April, respectively

NATPE, Las Vegas, NV – Television market – annually in January

Sundance Film Festival, Park City, Utah – annually in January

Toronto Film Festival, Toronto, Canada – annually in September

Venice Film Festival, Venice, Italy – annually in August

Additional information regarding film festivals may be found at www.filmfestivals.com and at www.fiapf.org and in the comprehensive listings of industry events published each year by Screen International (see www.screendaily.com).

Independent
Film & Television
Alliance®

IFTA is the trade association representing the world's independent producers and distributors of entertainment programming, and the institutions that finance these programs.
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COMPLIANCE
CONSULTING

Compliance Consulting is a Los Angeles based firm providing in-depth, knowledge-based expertise to producers, distribution companies, financial institutions and governmental agencies worldwide.
310-441-0156 (ph), www.complianceconsultingllc.com (web)

GALANDA BROADMAN
An Indian Country Law Firm

June 25, 2019

VIA EMAIL

Sen. Mike Crapo
Sen. Benjamin Cardin
Cost Recovery Task Force Co-Chairs
United States Senate
Finance Committee
Cost_Recovery_Taskforce@finance.senate.gov

Re: Accelerated Depreciation For Business Property On Indian Reservations; Indian Country New Market Tax Credits

Senators Crapo & Cardin:

Greetings. Thank you for the invitation to offer these comments to the Cost Recovery Task Force.

I am a Native American lawyer in Seattle, Washington, who assists Indian tribal governments and enterprises throughout the country with economic development initiatives. I am also a member of the advisory board of Travois New Markets, a Community Development Entity (CDE) headquartered in Kansas City, Missouri, which deploys federal New Market Tax Credit (NMTC) allocations throughout Indian Country, Native Alaska, and Native Hawaii.

I have published several articles about tribal economic diversification issues in journals like *Business Law Today* and *Gaming Law Review & Economics* and been quoted on tribal legal issues by the *Wall Street Journal* and *New York Times*. In 2005, I published a then ground-breaking article titled, "Attracting private investment in Indian country," in *Indian Country Today*, which profiled the accelerated depreciation tax deduction; and in 2016, I co-published, "Let's seize new market tax credit opportunities" in the same journal.

With a national focus, I write to urge that (1) the accelerated depreciation federal tax deduction for business property on Indian Reservations be permanently extended, and (2) the federal NMTC program also be permanently extended, subject to a 10% set aside for CDEs with the primary mission of serving Indian Country, Native Alaska, and Native Hawaii.

Accelerated Depreciation

Accelerated depreciation remains a critical component of attracting capital-intensive projects to Indian Reservations. It brings highly skilled jobs to Indian communities. Additionally, the money saved in tax deduction can be and is reinvested into the investing business on or off reservations—in other words, accelerated tax depreciation benefits both Indians and non-Indians.

Passed in 1993, the accelerated tax depreciation deduction has been extended at least nine times so far. This means, since its inception, there has been uncertainty in the use and longevity of the accelerated depreciation tax credit. Uncertainty in tax policy diminishes economic activity, especially in Indian Country, Native Alaska, and Native Hawaii. Congress must extend this provision to support Tribes and Alaska Native Villages that are in the process of developing strategic partnerships with investors and to attract new investors.

Accelerated depreciation provides an incentive to invest in Indian Country and Native Alaska by permitting taxpayers to deduct a greater proportion of the cost of the property earlier within its depreciable life. This deduction can reduce taxpayers' tax liability, which acts as an incentive given time value of money—i.e., having a lower tax payment today is worth more to the taxpayer than having the lower payment in the future. Accelerated depreciation was designed to reduce the after-tax cost of capital by leveraging this timing difference by way of tax deduction and thereby making more funds available to the taxpayer for additional investment on Indian Reservations.

However, with the accelerated depreciation deduction having only been renewed sporadically, investors are left uncertain about the viability of long-term investment in Indian Country and Native Alaska. Because investors cannot make determinations based on long-term growth, they are less likely to invest their capital on reservations, which is antithetical to the goal of the accelerated depreciation deduction. This specific deduction offers greater potential for tax savings than regular depreciation, especially for long-term investments and especially on Indian Reservations. To require periodic extensions is to rob this incentive of its full potential and to deprive Indian Country and Native Alaska of much needed capital investment and job opportunity.

The accelerated depreciation federal tax deduction for business property on Indian Reservations must be permanently extended.

The New Market Tax Credit

The NMTC, which brings private investors to low-income communities, is also up for extension. Between about 2006 and 2013, Indian Country roared with housing, community facility and infrastructure construction. In that time, CDEs brought significant economic development to Indian Country, Native Alaska, and Native Hawaii. Four separate CDEs focused on Indian Country allocated $298 million in NMTCs for tribal projects.

In 2013 and 2014, no CDE focused on Indian Country was allocated any NMTC authority. Indian Country loudly exclaimed its disapproval, and officials in Washington, DC heard the message. In 2015, the Chickasaw Nation Community Development Endeavor (CNCDE) landed $20 million in NMTCs. In 2016, Travois secured a $50 million NMTC award. In 2017, CNCDE received an additional $30 million allocation. The Chickasaw and Travois CDEs have since deployed that $100 million in NMTC authority to Indian Country, Native Alaska, and Native Hawaii, exclusively.

Unfortunately, after all that momentum history repeated itself in May of this year, when once again no CDE focused on Indian Country was allocated any NMTC authority.

Since its first round of allocations in 2002, the NMTC program has made 594 awards totaling $29.5 billion in allocation authority. Out of the 594, 18 awards totaling $977 million in NMTC allocations have gone to organizations that plan to invest some or all of the funds in rural Indian Reservations or highly distressed urban communities with significant Indian, Native Alaska, or Native Hawaiian populations. As of 2009, CDEs reported making about $15.8 billion in NMTC investments to about 2,900 projects located in all 50 states. American Indian reservations received only about $62 million of these NMTC investments—or 0.39%. This percentage needs to grow.

Indian Country, Native Alaska, and Native Hawaii need greater access to capital, with too many Indigenous Americans still lacking access to basic infrastructure. For example, 26,000 homes in Indian Country lack access to safe water and/or sanitation service; 40% of on-reservation housing is considered substandard; and nearly one-third of homes on reservations are overcrowded. The NMTC has the potential to attract capital investment towards meeting some of these unmet needs.

The NMTC program must also be permanently extended, with a 10% set aside for CDEs with the primary mission of serving Indian Country, Native Alaska, and Native Hawaii.

Thank you for your time and consideration of my comments.

Very truly yours,

Gabriel S. Galanda
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Statement of the
American Council of Engineering Companies
To the Senate Finance Committee
Cost Recovery Task Force

June 26, 2019

The American Council of Engineering Companies (ACEC) – the business association of the nation's engineering industry – is pleased to submit these comments to the Senate Finance Committee Energy Task Force as it examines temporary tax policy.

Founded in 1906, ACEC is a national federation of 52 state and regional organizations representing more than 5,600 engineering firms and 600,000+ engineers, surveyors, architects, and other specialists nationwide. ACEC member firms drive the design of America's infrastructure and built environment.

The Council strongly supports permanency for the Section 179D energy-efficient commercial buildings tax deduction. Since its enactment in 2005, Section 179D has supported the construction of thousands of energy-efficient buildings and has created or preserved hundreds of thousands of jobs. In addition, it has resulted in lower energy usage and reduced carbon emissions.

Preservation of the deduction is needed, as the higher up-front costs of energy-efficient systems remain a significant burden to building owners, who often must wait many years to realize the energy savings needed to recoup these investments.

This provision allows private building owners to claim a $1.80 per square foot deduction for the installation of certain energy-efficient systems, including lighting, HVAC, and the building envelope. The energy-efficiency improvements must surpass ASHRAE Standard 90.1 by 50 percent, and owners may be able to claim a partial deduction. In the case of a governmental building owner, the law facilitates the allocation of the deduction to the primary designer of the energy-efficient improvements.

ACEC supports certain modifications to Section 179D, such as allowing nonprofit entities to allocate the deduction to the primary designer of the energy-efficient improvements, and technical changes to allow S corporations and partnerships to receive the full benefit of the deduction. We ask for the Committee's consideration of these improvements and look forward to working with the Committee and Treasury on implementation, including ways to improve the allocation of the deduction for public buildings.

Thank you for your consideration of our views on this important tax issue, and we look forward to working with the Senate Finance Committee as it continues its review of expired tax provisions.

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June 26, 2019

The Honorable Mike Crapo
Co-Lead, Cost Recovery Taskforce
Senate Finance Committee
United States Senate

The Honorable Benjamin Cardin
Co-Lead, Cost Recovery Taskforce
Senate Finance Committee
United States Senate

The Honorable Todd Young
Cost Recovery Taskforce
Senate Finance Committee
United States Senate

The Honorable Catherine Cortez Masto
Cost Recovery Taskforce
Senate Finance Committee
United States Senate

Dear Senators Crapo, Cardin, Young and Cortez Masto:

The Senate Finance Committee's bipartisan Taskforce on Cost Recovery is tasked with finding solutions to provide long-term certainty to expired tax provisions related to cost recovery. Important to farmers and ranchers is efficient transportation infrastructure that facilitates the delivery of their products to market and helps them procure the production supplies they need.

Short line railroads are first- and last-mile carriers that connect small towns, farms and factories to the national rail network, creating jobs and stimulating economic growth in thousands of local communities.

Farm Bureau urges you to recommend making the Railroad Track Maintenance Tax Credit, also known as the 45G Tax Credit, permanent.

Sincerely,

Zippy Duvall

Zippy Duvall
President

National Association of College and University Business Officers
1110 Vermont Avenue, NW, Suite 800, Washington DC 20005-3544
T 202.861.2500 F 202.861.2583
www.nacubo.org

June 26, 2019

The Honorable Mike Crapo
Co-Lead
U.S. Senate Committee on Finance
Cost Recovery Taskforce
239 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Benjamin Cardin
Co-Lead
U.S. Senate Committee on Finance
Cost Recovery Taskforce
509 Hart Senate Office Building
Washington, D.C. 20510

Dear Senators Crapo and Cardin:

The National Association of College and University Business Officers (NACUBO) is a nonprofit professional organization representing chief administrative and financial officers at more than 1,900 colleges and universities across the country. NACUBO's mission is to advance the economic vitality, business practices, and support of higher education institutions in pursuit of their missions. Undertaking sustainable and environmentally conscious building projects has become a cornerstone business practice at many of these campuses.

As the Senate Finance Committee Cost Recovery Taskforce considers long-term solutions for expired and expiring tax provisions, NACUBO strongly encourages you to support the extension and expansion of the Section 179D energy efficient building tax deduction.

While in place, Section 179D was a driver of growth in employment and local economies, in addition to providing myriad environmental benefits associated with energy efficient construction and improvements. In addition to extending Section 179D, NACUBO encourages the Taskforce to consider permitting all nonprofit organizations to utilize the deduction. Such an inclusion would provide private nonprofit colleges and universities the same incentive as their public counterparts to undertake energy efficient building and allow them to reap the benefits of the lower operating costs such building provides. This would, in turn, reduce pressure on tuition revenues at these institutions, benefitting schools and students alike.

NACUBO has long emphasized the importance of energy efficiency to its member institutions and the Section 179D deduction has currently been utilized by major public institutions in 25 states. Were the deduction extended and expanded for use by private nonprofit colleges and universities, we anticipate its usage by schools in every state, resulting in lowered operational costs across the board in higher education.

We urge you to reinstate this important deduction and permit its use by all nonprofit entities. We welcome further discussion on this issue and encourage you to reach out with any additional questions you may have.

Sincerely,

Megan Schneider
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Comments of the Kickapoo Traditional Tribe of Texas

Accelerated Depreciation for business property on an Indian reservation

June 28, 2019

For Submission to the Cost Recovery Task Force
Senate Finance Committee
United States Senate
Washington, D.C. 20510
Cost_Recovery_Taskforce@finance.senate.gov

The Kickapoo Traditional Tribe of Texas requests the permanent extension of Section 168(j) of the Internal Revenue Code, which authorizes businesses that operate on Indian reservations to depreciate qualifying property and infrastructure investments at an accelerated rate.

This tax incentive has the potential to attract capital-intensive projects to reservations and bring skilled jobs to Indian communities. The need to consistently extend the accelerated depreciation tax incentive on an annual basis (and/or retroactively) creates confusion and uncertainty that undermines its intended purpose. The uncertainty associated with this tax provision under short-term extensions limits the utility of the provision since business owners cannot rely upon it when considering investing in Indian Country, thereby minimizing its efficacy as an incentive.

Making the accelerated depreciation of qualifying property and infrastructure investments on Indian reservations permanent would create predictability for business owners and would lead to attracting larger, long-term investments in Indian Country. Importantly, as the Tax Cuts and Jobs Act already authorizes businesses to immediately expense their acquisition of business equipment for a ten-year period, making the accelerated depreciation for projects on Indian reservations permanent would not create significant new revenue losses or costs to the federal government.

Kickapoo Traditional Tribe of Texas 2212 Rosita Valley Road, Eagle Pass, Texas 78852 (830) 773-2105
Chairman Estavio Elizondo and Members of the Tribal Council
General Counsel Jason Nelson

To Whom It May Concern,

Senator Inhofe strongly supports maintaining the accelerated depreciation for investment on Indian Lands tax credit. Earlier this year, Senator Inhofe introduced legislation to make this tax credit permanent (S. 1216). Senator Inhofe has introduced similar legislation each Congress since 2005.

The Indian Lands Tax Credit is a key economic development tool, allowing the accelerated depreciation of investments made on former reservation land, and maintaining this credit is critical to fostering continued business investment in communities and areas of our nation with an Indian reservation or former Indian land. In the past decade alone, over 250 individual Oklahoma companies have saved over $700 million in taxes, allowing additional investment into their business operations, training, and other activities. Furthermore, this tax incentive has empowered investment in Oklahoma from companies like OG&E, Macy's and Amazon, accounting for over 8,000 jobs and $370 million in capital investment. The economic development spurred by this tax credit has had material impacts on the people of Oklahoma. Over a 5 year period, in areas of Oklahoma that qualified for this tax credit, 9,500 people were lifted out of poverty.

To highlight the strong support this tax credit has in the State of Oklahoma, please see the attached letters from an array of stakeholders, including:

- The Oklahoma Department of Commerce
- The Oklahoma State Chamber, the Tulsa Regional Chamber, and the Greater Oklahoma City Chamber
- The Oklahoma NAIOP – Commercial Real Estate Development Association
- Oklahoma Gas & Electric

Thank you for the opportunity to weigh in on this important tax credit, and highlight the real value it provides to people and businesses across Oklahoma. Please don't hesitate to reach out, my direct is 202-224-2302.

Thanks,
Dan

____

Daniel J. Hillenbrand
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Office of U.S. Senator James M. Inhofe (R-OK)
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NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

June 26, 2019

Honorable Mike Crapo
Co-Lead
Tax Extenders Task Force on Cost Recovery
Senate Finance Committee
Washington DC 20510

Honorable Ben Cardin
Co-Lead
Tax Extenders Task Force on Cost Recovery
Senate Finance Committee
Washington DC 20510

Dear Honorable Mike Crapo & Honorable Ben Cardin,

In reference to your solicitation for feedback regarding particular temporary tax revisions, the NAIOP Oklahoma Chapter is writing to express its support for a permanent tax extender for accelerated depreciation for investment on Indian Lands. More than two-thirds of the State of Oklahoma qualifies as former Indian Lands and accelerated depreciation historically has been a critical competitive advantage for more than 50% of the businesses located Oklahoma, specifically in commercial real estate development, natural resource/energy production, technology-focused job creation and asset management.

The sunset of PATH Act accelerated depreciation in 2020 threatens to stifle the free flow of capital in Oklahoma for the commercial real estate and energy industries – both of which are critical to the well-being and vitality of our state. Prior to the PATH Act's passage, Indian depreciation aided developers and entrepreneurs with a geographically unique incentive to invest in Oklahoma. Those projects included fossil fuel and renewable energy enterprises, the technology, manufacturing and construction industries and the long-term management of commercially utilized property assets.

The most recent example of Indian Lands incentives was the Macy's fulfillment center in Owasso, Oklahoma which opened in May of 2015. That project marked a $170MM investment into northeast Oklahoma which will create an estimated $800MM economic impact through 2023. The accelerated depreciation was a leading factor in completing this development and inducing Macy's to choose Oklahoma as a place to have their largest fulfillment center in the United States.

We respectfully ask that this subcommittee strongly consider making a permanent extension for accelerated depreciation on Indian Lands. This specific provision is vital to the economic development, energy and commercial property industries of Oklahoma and will be a significant driver for investment in our state. This provision has been accepted and extended multiple times by Congress in the past and its positive impact on Oklahoma proves that it merits permanent extension into the tax code.

NAIOP is the nation's leading trade association for developers, owners, investors and other professionals in industrial, office, retail and mixed-use commercial real estate. We also act as an advocacy organization on behalf of the commercial real estate development industry and are the leading voice for influencing policy on behalf of developers, investors and owners of commercial real estate in the United States. Locally, NAIOP Oklahoma is comprised of over 160 members who exemplify leadership in the industry and are passionate about growing our state and local economies through investment in our communities.

We appreciate your consideration,

Debra Wimpee

Debra Wimpee, Executive Director
NAIOP OKLAHOMA

OGE Energy Corp.

PO Box 321
Oklahoma City, Oklahoma 73101-0321
405-553-3000
www.oge.com

June 5, 2019

Honorable Mike Crapo
Co-Lead, Tax Extenders Task Force on Cost Recovery
Senate Finance Committee
239 Dirksen Senate Office Building
Washington DC 20510

Honorable Ben Cardin
Co-Lead, Tax Extenders Task Force on Cost Recovery
Senate Finance Committee
509 Hart Senate Office Building
Washington DC 20510

Re: Support for Extension of IRC Section 168(j), Accelerated Depreciation on Indian Lands

Dear Senators Crapo and Cardin:

On behalf of OGE Energy Corp. headquartered in Oklahoma City, Oklahoma, I write to you in your capacity as Co-Leads of the Senate Finance Committee Task Force on Cost Recovery to urge extension of the currently expired provisions of IRC Section 168(j) pertaining to accelerated depreciation for investments on Indian Lands. OGE Energy Corp. owns and operates Oklahoma Gas & Electric (OG&E), which is the largest electric utility in Oklahoma. OG&E owns and operates generation and transmission facilities which participate in the 14-state integrated wholesale regional market conducted by the Southwest Power Pool that serves 17.5 million people. In our retail service area, OG&E serves more than 850,000 retail customers across 30,000 square miles in Oklahoma and western Arkansas. In addition to our residential and commercial customers, OG&E serves some of the largest industrial customers in the region and two military bases.

IRC Section 168(j) provides accelerated depreciation lives for certain assets placed in service on qualified Indian reservation property. Section 168(j) provides a depreciation incentive in the form of a shorter recovery period of approximately 40% for nonresidential property. Because of the significant presence of Indian tribes and lands in Oklahoma, a significant percentage of land in Oklahoma meets the Internal Revenue Service-qualifying definition of Indian lands and qualifies for this accelerated depreciation. Use of these accelerated depreciation provisions have generally been in place for depreciable property placed in service during years 1994 through 2017.

Much of the area in Oklahoma meeting the definition of Indian lands under Section 168(j) lies in rural parts of the state which can experience significant economic challenges. The Section 168(j) incentive has been valuable in attracting investments to those parts of the state over the more than two decades of its inclusion in the Internal Revenue Code. Indeed, OG&E has located its generation, transmission and other operating facilities on such Indian lands in Oklahoma. Based on 2015 census data, the Oklahoma Indian reservations and tribal statistical areas (defined by the census in consultation with tribes) continue to face economic conditions that suggest the federal tax policy to encourage investment remains a sound one—on these lands in Oklahoma the median age of individuals was higher than that of the state and country; the median income was lower than that of the state and country; the poverty rates remained higher than that of the state and country; and the percentage of college graduates continued to be lower in 2015 than that of the state and country. That set of demographic/economic conditions is undoubtedly true on other eligible Indian lands in other states.

As with any accelerated depreciation system, the main advantage is the tax savings generated from the ability to claim a higher tax deduction more immediately. Receiving a higher depreciation deduction today allows businesses to reduce their current tax bill, encouraging investment that expands local economic opportunity and employment. Tax savings generated can be reinvested to continue the growth of the business. In the case of OG&E, since federal taxes are recoverable costs in the electric rates charged to our customers, the reduction in tax liability made possible by IRC Section 168(j) equates to lower electricity rates for our customers, empowering them to be more competitive and profitable, expand their businesses, employ more people and generally enhance their economic well-being.

While the Tax Cuts and Job Act of 2017 (TCJA) modified IRC Section 168(k) to grant full expensing of capital additions to most taxpayers, some taxpayers, including electric utilities such as OG&E, were excluded from those full expensing provisions. However, in enacting the TCJA, Congress had no intention to penalize excluded taxpayers, such as OG&E and its customers, by disqualifying them from accessing the benefits of Section 168(j). In the aftermath of the enactment of TCJA, these excluded taxpayers still had the opportunity to benefit from the Section 168(j) acceleration provisions given the laudable congressional intent underlying Section 168(j), specifically to enhance economic opportunity and development on Indian Lands. Failure to extend the Section 168(j) incentives would put those excluded taxpayers in a worse position than was the case prior to TCJA. Regardless of their status vis a vis Section 168(k), entities such as OG&E remain vibrant vehicles for accomplishing the public policy objectives Congress established in enacting Section 168(j). It is with that belief in mind that an extension of Section 168(j) would appear to continue to be both equitable and very sound public policy.

We are pleased to see that Chairman Grassley and Ranking Member Wyden included a two year extension of Section 168(j) in their bi-partisan extenders package, S. 617. Ideally, the Section 168(j) extension should be made permanent so as to provide certainty to potential capital project investors who would be basing decisions on the availability of the Section 168(j) incentives. Given that the incentive had been in place for twenty-four years until the end of 2017, permanency seems reasonable and would encourage more consistent and predictable investment in these Indian lands areas.

Respectfully,

Steve Crall
Director – Corporate Tax
OGE Energy Corp.

Cc: Honorable Charles E. Grassley, Chairman, Senate Finance Committee
Honorable Ron L. Wyden, Ranking Minority Member, Senate Finance Committee
Honorable James Lankford, Member, Senate Finance Committee

June 26, 2019

The Honorable Mike Crapo
Co-Lead
Tax Extenders Task Force on Cost Recovery
Senate Finance Committee
Washington DC 20510

The Honorable Ben Cardin
Co-Lead
Tax Extenders Task Force on Cost Recovery
Senate Finance Committee
Washington DC 20510

Dear Senator Crapo and Senator Cardin:

On behalf of the Tulsa Regional Chamber, the Greater Oklahoma City Chamber, and the State Chamber of Oklahoma, we write to express our strong support for the American Indian Lands Tax Incentive. We urge that this provision be made permanent.

As the three largest chambers of commerce in the state of Oklahoma, our organizations collectively represent over 10,300 companies and businesses. Our geographic footprint includes not only the state's two largest metro regions—Oklahoma City and Tulsa—but also the business interests of cities and communities across the entire state of Oklahoma.

The American Indian Lands Tax Incentive is a key economic development tool for Oklahoma, allowing both the accelerated depreciation of investments made on former reservation land, and employment tax credits as a percentage of wages when employing tribal members or their spouses.

This provision is critical not only to the economy of our state, but also to our Native American heritage. Oklahoma has the largest percentage of American Indian population in the country, and more than two-thirds of the state qualifies as current or former tribal lands. One estimate we received is that more than 250 companies across the state of Oklahoma have used this incentive in the past decade, with an estimated $700 million collective benefit.

Additionally, in recent years the provision allowing for accelerated depreciation of investment on Indian lands was used in northeastern Oklahoma to recruit two prominent companies to invest in Oklahoma: Greenheck and Sofidel. These two projects alone are creating a combined $388 million of investment and 900 jobs in the state of Oklahoma. Within the Greater Oklahoma City Region, there are approximately 7,800 companies that fall within the American Indian Lands Tax Incentive area.

This incentive was also successfully used to recruit both Macy's and Amazon to northeast Oklahoma. Together, these two companies created 2,500 full time jobs, plus another 3,500 part time jobs, and a total of $370 million in capital investment.

Making this incentive permanent is critical in fostering continued business investment in Oklahoma. Short-term extensions of the program, or applying the provision retroactively, hinder the stable environment and ability to plan for the long-term that is necessary to attract economic investment and create jobs.

We respectfully request your support for a permanent extension for the American Indian Lands Tax Incentive—including both the accelerated depreciation for investments and the employment tax credit.

Sincerely,

Mike Neal
President & CEO
Tulsa Regional Chamber

Fred Morgan
President & CEO
State Chamber of Oklahoma

Roy Williams
President & CEO
Greater Oklahoma City Chamber

Sean Kouplen
Secretary of Commerce & Workforce Development
State of Oklahoma

The Honorable Mike Crapo, Co-Lead
Tax Extenders Task Force on Cost Recovery
Senate Finance Committee
Washington DC 20510

The Honorable Ben Cardin, Co-Lead
Tax Extenders Task Force on Cost Recovery
Senate Finance Committee
Washington DC 20510

Dear Senator Crapo and Senator Cardin:

I write to you today to urge the permanent extension of the Accelerated Depreciation for Investment on Indian Lands on behalf of the State of Oklahoma and the Oklahoma Department of Commerce. The Oklahoma Department of Commerce is the primary economic development entity serving the entire State of Oklahoma.

By making this incentive permanent, states like Oklahoma will have increased opportunity to recruit capital investment and jobs, strengthening and diversifying economies, often in rural and impoverished areas of our state and across the nation.

This incentive is a key economic development tool for Oklahoma, allowing both the accelerated depreciation of investments made on former reservation land, and employment tax credits when employing tribal members or their spouses. Oklahoma has the largest percentage of American Indian population in the country, so this portion of the incentive gives our state a competitive advantage. Also, more than two thirds of the land in the State of Oklahoma meets the definition of former Indian lands.

In the five years before the incentive was sunset, poverty rates decreased 0.4 percentage points in areas qualifying for the Accelerated Depreciation in Oklahoma. While this increase may seem minimal, this represents 9,500 fewer people in poverty than in 2012. As a whole, between 2012 and 2017, poverty rates decreased from 18.65% to 18.24% in qualifying counties for the Accelerated Depreciation for Investment on Indian Lands and increased from 13.21% to 13.57% in non-qualifying areas.

With Oklahoma having a higher poverty rate than the national average, this incentive has been helpful in decreasing poverty rates in much of Oklahoma. The improvements made in qualifying areas are continuing to assist the Native American populations and are a vital tool when encouraging companies to invest in high poverty areas.

I appreciate the Committee and your work. I would urge you to consider a permanent extension of the Accelerated Depreciation for Investment on Indian Lands.

Sincerely,

Sean Kouplen
Oklahoma Secretary of Commerce and Workforce Development

900 N. Stiles Avenue | Oklahoma City, OK 73104, USA | 405.815.6552 | Sean.Kouplen@OKcommerce.gov | OKcommerce.gov

April 2, 2019

Senator Chris Coons
127A Russell Senate Office Building
Washington, D.C. 20510

Senator Tom Carper
513 Hart Senate Office Building
Washington, D.C. 201510

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

Dear Senator Carper & Senator Coons,

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

In 1993, I purchased a Delaware HVAC service and equipment distribution company with a staff of 32 associates and $4.1M in revenue.

While the business continued to grow, there became a focus on Building Automation Systems and Service instead of equipment sales. The Contracting Solutions group was established in 1999 to provide building owners packaged solutions for their HVAC needs.

In 2012, we changed the name of our company from Seiberlich Trane to Seiberlich Trane Energy Services to reflect the need of our clients to reduce their energy footprint and lower their operating costs.

Today, we employ over 70 associates with revenues in excess of $20M. We are a Delaware based company with most of our business done with Delaware clients utilizing almost all Delaware labor.

As a past participant in Section 179D, our company has benefited greatly from this powerful incentive. This program has helped us to grow our business, create jobs in the State of Delaware while providing significant improvements and financial savings to all of our clients' facilities. Our company also plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D, as it is a way for us to remain competitive.

Please vote to extend the 179D Deduction for Tax Year 2018, as not only would Seiberlich Trane Energy Services and similar companies continue to benefit, but it will also continue to add jobs to the local Delaware economies. A special <u>Thank You</u> for all that you do for our Great State!

Sincerely,

John R. Seiberlich

John R. Seiberlich
President, Seiberlich Trane Energy Services

66 Southgate Blvd., New Castle, DE 19720
P 302.395.0200 F 302.395.0700
www.seiberlich.com

IDAHO STAGE CONSTRUCTION

Idaho Public Works
16375-AA-1-2-3-5
Idaho Contractors License
RCE-46591

U.S. Senator Mike Crapo
239 Dirksen Senate Building
Washington, DC 20510

Re: The Energy Efficient Commercial Buildings Deduction (IRC Section 179D)

Dear Senator Crapo,

I am writing to express Idaho Stage Construction's support of the Tax Extenders and Disaster Relief Act of 2019 and specifically Section 113 – the Energy Efficient Commercial Buildings Deduction (179D Tax Deduction).

Idaho Stage Construction is headquartered in Kamiah, Idaho and we were founded in 2005. Our company has over 40 years of experience with design/build, construction and construction management projects. Idaho Stage has worked on federal, public and private sector building and remodel projects, including government, industrial, infrastructure, medical, semiconductor and microelectronics facilities, commercial buildings and schools.

Idaho Stage is a certified HUBZone (Historically Underutilized Business Zone) company, which employs entirely local individuals allowing Idaho Stage to supply crucial economic support to the very rural and economically disadvantaged areas of North Central Idaho.

The 179D program has helped us to grow our business and create jobs in our local economy as previously described. We plan to apply for Section 179D on a go-forward basis, as it is a way for us to continue to reinvest in our company and our local communities while still providing quality workmanship to our clients.

We urge you to vote for an extension of the 179D deduction for the calendar years 2018 and 2019. This would not only benefit our company, but the many Idaho small businesses that are similar to ours.
Thank you for your consideration and continued effort on this important issue and all you do for our great state!

Thank You,

Craig A. Roark
Manager

RM MECHANICAL
COMMERCIAL & INDUSTRIAL CONTRACTORS
5998 W. Gowen Rd.
Boise, ID 83709
Ph. 208 / 362-0131
Fax 208 / 362-9790

U.S. Senator Mike Crapo
239 Dirksen Senate Building
Washington, DC 20510

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

As a past participant in Section 179D, RM Mechanical is grateful to have benefited from this powerful incentive. This program has helped us continue to grow our business and allows us to remain competitive in our field. Our company plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D.

Please vote to extend the 179D Deduction for Tax Year 2018, as not only would RM Mechanical and companies similar to ours continue to benefit, but we will also continue to add jobs to the local United States economy. Thank you for all that you do for our country.

Sincerely,

Brad Hom
Chief Financial Officer

R.E. Dimond and Associates, Inc.

May 31, 2019

U.S. Senator Todd Young
185 Dirksen Senate Office Building
Washington, DC 20510

Re: The Energy Efficient Commercial Buildings Deduction (IRC Section 179D)

Senator Young,

I am writing to express R.E. Dimond and Associates, Inc.'s support of the Tax Extenders and Disaster Relief Act of 2019 and specifically Section 113 – the Energy Efficient Commercial Buildings Deduction (or the 179D Tax Deduction).

R.E. Dimond and Associates is a consulting engineering firm located in Indianapolis, Indiana. Since 1977, our firm has specialized in the responsible design of high performing building systems that provide maximum comfort and operational efficiency. With over 25 employees, R.E. Dimond and Associates are mechanical, electrical, plumbing and technology engineers and designers who support our community and want to make our world a better place. We believe in designing buildings that are enduring, sustainable and add to the landscape of the community. We serve clients in public and private sector and our portfolio includes Higher Education, K-12, sports facilities, cultural and community facilities, historic buildings, commercial office buildings, and healthcare.

We have participated in the 179D tax deduction where it was available to us. The 179D program has allowed us to create more jobs for the local economy, be more competitive in bidding our government-owned projects, and more directly impact the energy efficiency on projects we are awarded.

We urge you to vote for an extension of the 179D deduction for the calendar years 2018 and 2019. This would not only benefit our company, but the many Indiana small businesses similar to ours. We thank you for your consideration and continued effort on this important issue. Thank you for all that you do for our great state!

Sincerely,

Daniel E. Dimond, P.E.,
President

732 North Capitol Avenue
Indianapolis, IN 46204
www.redimond.com
(317) 634-4672

RATIO

Architecture Preservation Interior Design Landscape Architecture Urban Design + Planning Graphic Design

May 31, 2019

U.S. Senator Todd Young
185 Dirksen Senate Office Building
Washington, DC 20510

Re: The Energy Efficient Commercial Buildings Deduction (IRC Section 179D)

Dear Senator Young,

The purpose of this letter is to express our support of the recently proposed legislation S.617 – Tax Extender and Disaster Relief Act of 2019. More specifically, Section 113 of the legislation that extends the Internal Revenue Code Section 179D - Energy Efficient Commercial Buildings Deduction ("179D Tax Deduction") for calendar years 2018 and 2019.

Headquartered in Indianapolis, Indiana and founded in 1982, RATIO Architects has partnered with a diverse list of clients to deliver innovative design solutions across the globe. At RATIO, we're passionate about more than just great design. The interests of our people - and the communities in which we live and work - drive the work that we do. With over 150 employees, our team members are empowered to make a difference in the communities in which they live and work, by learning, teaching, volunteering or otherwise helping to make the world a better place.

The 179D program has been a tremendous benefit to our firm, allowing us to reinvest in our business including the creation of technical jobs in Indiana. We have projects completed in 2018 and 2019 that we look forward to pursuing the 179D tax deductions for once the incentive is extended for these calendar years.

Please vote to extend the 179D Deduction for Tax Year 2018 and 2019, as not only would RATIO Architects and companies similar to ours continue to benefit, but we will also continue to add jobs to the local United States economy.
Thank you for your consideration.

Sincerely,

William A. Browne Jr.
Principal / President

101 South Pennsylvania Street Indianapolis, Indiana 46204-3684 317.633.4040 f: 317.633.4153
RATIOdesign.com
smdpstudio.com
Indianapolis, IN Champaign, IL Raleigh, NC Chicago, IL
Affiliates: RATIO States, LLC | RATIO States – NC, PLLC | RATIO Architects of Ohio, LLC | smdp, LLC

Scholer Corporation
ARCHITECTURE ENGINEERING INTERIORS

PRINCIPALS
Steven J. Gloyeske, AIA
Thomas J. Yee, PE
Stephan E. Goffinet, AIA

ASSOCIATES
Ryan L. Haynes, AIA
Tyler J. Heaston, PE
Gerald R. Hicks, AIA
Jason L. Peterson

June 4, 2019

U.S. Senator Todd Young
185 Dirksen Senate Office Building
Washington, DC 20510

Reference: Energy Efficient Commercial Building Tax Deduction (Section 179D)

Dear Senator Young:

The purpose of this letter is to express our support of the recently proposed legislation S.617 - Tax Extender and Disaster Relief Act of 2019. More specifically, Section 113 of the legislation that extends the Internal Revenue Code Section 179D - Energy Efficient Commercial Buildings Deduction ("179D Tax Deduction") for calendar years 2018 and 2019.

Scholer Corporation is an Indiana based company located in Lafayette, Indiana and we have been providing client focused architectural and engineering services for over 94 years. As a participant in Section 179D, we are grateful to have benefited from this powerful incentive. This program has helped us scale our business and allows us to remain competitive in our field. Scholer Corporation plans to apply for Section 179D on qualified projects completed in 2018 and 2019 once the incentive is extended for these calendar years.

Please vote to extend the 179D Deduction for Tax Year 2018 and 2019, as this will continue to add jobs to our local economy and positively impact companies similar to ours.

Thank you for your consideration and for all you do for our great state!

Yours very truly,

SCHOLER CORPORATION

Steven J. Gloyeske, AIA, LEED AP BD+C
President

SJG:sll

111 Walter Scholer Drive : PO Box 808 : Lafayette, Indiana 47902-0808 : tel 765.474.1478 : fax 765.474.3570 : www.scholer.com

THE HAGERMAN GROUP

U.S. Senator Todd Young
185 Dirksen Senate Office Building
Washington, DC 20510

Re: IRC Section 179D - Energy Efficient Commercial Buildings Deduction

Dear Senator Young,

The purpose of this letter is to express our support of the recently proposed legislation S.617 – Tax Extender and Disaster Relief Act of 2019. More specifically, Section 113 of the legislation that extends the Internal Revenue Code Section 179D - Energy Efficient Commercial Buildings Deduction ("179D Tax Deduction") for calendar years 2018 and 2019.

The Hagerman Group has been a leader in the construction industry for over 111 years during which we built our reputation for quality and integrity. We are a family-owned company with a passion for serving our communities. With offices in Fort Wayne and Indianapolis, we service our valued clients throughout the Midwest and across the country for their general contracting, construction management, and design-build needs.

179D has been a powerful incentive for us allowing us to reinvest in our business including the creation of technical jobs in our state, which we currently employ over 400 employees and craftsmen. Our Company has pursued 179D tax deductions where they were available to us and we have projects completed in 2018 and 2019 that we look forward to pursuing once the incentive is extended for these calendar years.

We urge you to vote in favor of extending the Energy Efficient Commercial Buildings Deduction for The Hagerman Group, small business in Indiana, and the Indiana economy that all stand to benefit greatly from this tax deduction. Thank you for your support and consideration for this powerful program.

Sincerely,

Melanie King

Melanie King, CPA
Chief Financial Officer
The Hagerman Group

Mechanical Contractors
DESIGN
Mechanical, Inc.

MSCA STAR QUALIFIED
...your assurance of quality and value

Off: 913-281-7200
Fax: 913-281-7201
100 Greystone Ave. Kansas City, KS 66103

March 26, 2019

U.S. Senator Pat Roberts
717 Hart Senate Office Building
Washington, D.C. 20510

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).
Design Mechanical, Inc. started in September 2003 to provide quality mechanical contracting services to the Kansas City area. Design Mechanical, Inc. provides high quality mechanical construction services with a large focus toward energy cost reduction, consumption and carbon footprint for individual buildings.

As a past participant in Section 179D, our company has benefited greatly from this powerful incentive. This program has helped us to grow our business and keep jobs here in the State of Kansas. Our company has grown to over 120 service technicians, over 175 employees and serve over 2000 customers. Our company also plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D, as it is a way for us to remain competitive.

Recently, I have been made aware of a concern that some government agencies feel they are entitled to receive a type of monetary benefit in exchange for signing the necessary allocation letter, thus reducing the benefit to the small business owner like ourselves, as we would then have to pay the owner. I believe this "pay for signature" practice goes against the intent of Section 179D – my understanding is the program is to incentivize the tax payer that performs the work.

I encourage you to vote in favor of extending the 179D Energy Efficient Commercial Building Tax Deduction for 2018 and forward, as not only would Design Mechanical, Inc. and companies similar to ours continue to benefit, but we will also continue to add jobs to the local Kansas economies. A special Thank You to You and everything you do for our great state!

Sincerely,

William Iler
President

Mechanical Contractors
DESIGN
Mechanical, Inc.

MSCA STAR QUALIFIED
...your assurance of quality and value

Off: 913-281-7200
Fax: 913-281-7201
100 Greystone Ave. Kansas City, KS 66103

March 26, 2019

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717 Hart Senate Office Building
Washington, D.C. 20510

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I encourage you to vote in favor of extending the 179D Energy Efficient Commercial Building Tax Deduction for 2018 and forward, as not only would Design Mechanical, Inc. and companies similar to ours continue to benefit, but we will also continue to add jobs to the local Kansas economies. A special Thank You to You and everything you do for our great state!

Sincerely,

William Iler
President

April 2, 2019

Dear Mr. Pat Roberts,

Renovations always pose interesting opportunities for a mechanical contractor, and healthcare related renovations can be some of the most challenging. Regulations, safety and cleanliness, and maintaining the highest standards of patient care are always important considerations. The renovation of Wesley West ER is an excellent example of such a project.

Wesley Medical Center determined in 2015 that it needed to revamp the existing emergency room at Wesley West Hospital to a Fast Track Emergency Center. This meant an extensive reconfiguration of public, staff and patient areas to fit the new processes that would be implemented. Wesley chose both a general and mechanical contractor that were not only familiar with the project space and systems, but also had a long history of working together and with the health system as a whole.

From a mechanical standpoint, the project involved a reconfiguration of plumbing, medical gas piping, and heating and cooling throughout the space. Due to financial constraints the hospital was wanting to maintain the use of the existing mechanical equipment. Our familiarity with the hospital layout and equipment allowed us to implement the mechanical design without issue and offer value engineering items during the renovation.

Safety is a chief concern on every job and in a healthcare setting safety, organization and cleanliness go hand in hand. Our company as a subcontractor meets not only the safety standards of the building owner, the general contractor, but also our own standards designed to prevent common injuries in mechanical demolition and installation. For example, our company has a 100% glove use policy on all our jobsites. We also host our own weekly safety meetings on site to access possible hazards and review policies. This job was completed with no accidents, injuries or incidents of any sort.

This project represented excellent teamwork from the owner to the general contractor to us and even our subcontractors. All of the players on this project have worked together on numerous projects and the excellent communication made the completing the job almost seamless. Clearly communicated goals, updates and feedback brought this job in on time and under budget, despite the aggressive timeframe.

In the end, the Wesley Healthcare System has a Fast Track emergency center on Wichita's west side that is attractive, sustainable and highly functional. We were able to exceed their high expectations, while offering them cost saving measures. We brought to the table our extensive site knowledge, our vast healthcare experience, and an excellent working relationship with all the parties involved to make this renovation a success.

Sincerely,

Joseph Samia, P.E.
President
Central Consolidated, Inc.

April 2, 2019

Dear Mr. Jerry Moran,

Renovations always pose interesting opportunities for a mechanical contractor, and healthcare related renovations can be some of the most challenging. Regulations, safety and cleanliness, and maintaining the highest standards of patient care are always important considerations. The renovation of Wesley West ER is an excellent example of such a project.

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Sincerely,

Joseph Samia, P.E.
President
Central Consolidated, Inc.

CITADEL BUILDERS, L.L.C.

CITADEL BUILDERS, L.L.C.
GENERAL CONTRACTORS

DENZEL L. CLARK, JR
PRESIDENT

3516 HESSMER AVE.
METAIRIE, LA
70002

Phone:
504-888-9433 x11

Fax:
504.888.6997

Email:
denzel@CitadelBuilders.com

March 27, 2019

U.S. Senator Bill Cassidy
717 Hart Senate Office Building
Washington, D.C. 20510

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

Citadel Builders, LLC was formed in October of 2003 to provide quality construction services in the Gulf Coast Region. We are a Commercial General Contractor headquartered in Metairie, Louisiana, that provides high quality construction services for general building construction in Louisiana and the Gulf Coast region. With an average of over 30 years in the business, the principles of the company have extensive experience building many of Louisiana's finest projects.

As a past participant in Section 179D, our company has benefited greatly from this powerful incentive. This program has helped us to grow our business and keep jobs here in the State of Louisiana. Our company also plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D, as it is a way for us to remain competitive.

However, I have been made aware of a very disturbing occurrence at some of the government building owners. Some of the building owners believe they are entitled to receive some type of benefit (money) in exchange for signing the allocation letter, thus reducing the benefit to the small business owner like ourselves, as we must pay the owner. I believe this "pay for signature" practice goes against the intent of Section 179D, which intended the benefits be received by the small business owners that do the work.

Please vote to extend the 179D Deduction for Tax Year 2018, as not only would Citadel Builders and companies similar to ours continue to benefit, but we will also continue to add jobs to the local and Louisiana economies. A special Thank You to You and all that You do for our Great State!

Regards,

Denzel L. Clark Jr.

CITADEL BUILDERS, LLC
Denzel L. Clark, Jr.
President

AIRTROL
MECHANICAL CONTRACTORS
LOUISIANA STATE LICENSE #2

3960 North Street
Baton Rouge, LA 70806

P.O. Box 64617
Baton Rouge, LA 70896

March 13, 2019

To Senator Cassidy,

Subject: IRC Section 179D Energy Efficient Commercial Buildings Deduction

I am writing as a proud Louisianan building owner to express my support of the 179D Tax Deduction and the recently introduced tax and oversight package; *The Retirement, Savings, and Other Tax Relief Act of 2018* (House Amendment to the Senate Amendment to H.R. 88).

For almost 70 years, Airtrol has provided building owners and operators with the technical knowledge and experience they need for the installation and replacement of mechanical equipment and systems.

Airtrol's history is closely intertwined with that of Louisiana's most historic buildings and institutions. From the State Capitol building to the Old Governor's Mansion to some of the state's most prominent educational institutions, Airtrol has a long history of performing work on numerous area landmarks.

I would like to thank you for your consideration regarding the 179D Tax Deduction extension as our firm has been able to benefit from this power incentive over the last few years. 179D has allowed our company to become more competitive in the market and deliver best in class mechanical systems for all our clients, including our government clients.

The intent of the tax code was and is to strengthen American businesses. Therefore, I am concerned to hear that some government property owners are requesting a "fee" in return for a signed allocation letter. I hope you can understand how this diminished the value of the program. These actions by public administrations seeking payments goes against the intent of Congress that the benefit of Section 179D should go to the businesses performing the work.

An extension of the 179D Tax Deduction for Tax Year 2018 and 2019 would benefit our company immensely. I thank you in advance for your time and consideration and look forward to the continued success of 179D.

Sincerely,
AIRTROL, INC.

FRANCIS C. JUMONVILLE, JR.
Secretary/Treasurer

AIRTROL
MECHANICAL CONTRACTORS
LOUISIANA STATE LICENSE #2

3960 North Street
Baton Rouge, LA 70806

P.O. Box 64617
Baton Rouge, LA 70896

March 13, 2019

To Senator Kennedy,

Subject: IRC Section 179D Energy Efficient Commercial Buildings Deduction

I am writing as a proud Louisianan building owner to express my support of the 179D Tax Deduction and the recently introduced tax and oversight package; *The Retirement, Savings, and Other Tax Relief Act of 2018* (House Amendment to the Senate Amendment to H.R. 88).

For almost 70 years, Airtrol has provided building owners and operators with the technical knowledge and experience they need for the installation and replacement of mechanical equipment and systems.

Airtrol's history is closely intertwined with that of Louisiana's most historic buildings and institutions. From the State Capitol building to the Old Governor's Mansion to some of the state's most prominent educational institutions, Airtrol has a long history of performing work on numerous area landmarks.

I would like to thank you for your consideration regarding the 179D Tax Deduction extension as our firm has been able to benefit from this power incentive over the last few years. 179D has allowed our company to become more competitive in the market and deliver best in class mechanical systems for all our clients, including our government clients.

The intent of the tax code was and is to strengthen American businesses. Therefore, I am concerned to hear that some government property owners are requesting a "fee" in return for a signed allocation letter. I hope you can understand how this diminished the value of the program. These actions by public administrations seeking payments goes against the intent of Congress that the benefit of Section 179D should go to the businesses performing the work.

An extension of the 179D Tax Deduction for Tax Year 2018 and 2019 would benefit our company immensely. I thank you in advance for your time and consideration and look forward to the continued success of 179D.

Sincerely,
AIRTROL, INC.

FRANCIS C. JUMONVILLE, JR.
Secretary/Treasurer

Phone: 225.383.2617
Fax: 225.343.7986
www.airtrolmechanical.com

Ratcliff Construction Company, L.L.C.

3900 LEE STREET · P.O. DRAWER 7538 · ALEXANDRIA, LA 71306 · PHONE (318) 448-0826 · FAX (318) 445-0346

Ratcliff

March 19, 2019

To Whom It May Concern,

Ratcliff Construction is a Louisiana small business headquartered in Alexandria, Louisiana. I am writing to express my support of the recently introduced legislation package called the Tax Extenders and Disaster Tax Relief (S.617) and specifically Section 113 – Energy Efficient Commercial Buildings Deduction (IRC Section 179D or 179D Tax Deduction).

Ratcliff Construction was founded in 1927 as a two-man firm in Alexandria, Louisiana to become a company with three generations of the Ratcliff Family in the Company's leadership. We are a General Contractor and Construction Management company that works on a variety of government-owned buildings including K-12 / Higher Educational Facilities and buildings owned by local government entities.

As part of the Tax Extenders and Disaster Tax Relief bill, the Energy Efficient Commercial Building Tax Deduction (IRC Section 179D) is being considered for a potential extension through December 31, 2019. Ratcliff Construction has taken advantage of this powerful benefit from its work on numerous government-owned energy efficient buildings and would like the opportunity to do so in the future. The benefits of this incentive has allowed us greater ability to take on more projects in turn creating additional jobs.

Despite the numerous advantages of the 179D Tax Deduction, there is one concerning practice in the pursuit of this tax incentive that gives us pause in pursuing a particular building. Some government entities have taken the position that they will provide a valid allocation letter only if they (the government entity) are paid. Thus, they provide the allocation of the 179D tax deduction only after payment is solicited and then made by the company requesting the allocation. The request for payment by the government entities and/or their intermediaries in exchange for the signed allocation letter raised a number of serious legal and ethical questions for us and caused us to withdraw our requests with any government entities that make a similar request for payment.

We urge you to strongly consider how beneficial this tax incentive is for our company, and many other small businesses in Louisiana, when weighing an extension of the 179D Deduction for tax years 2018 and 2019. I understand you time is valuable and appreciate your assistance with this matter.

Sincerely,

Robert T. Ratcliff
Chairman

CITADEL BUILDERS, L.L.C.

CITADEL BUILDERS, L.L.C.
GENERAL CONTRACTORS

DENZEL L. CLARK, JR
PRESIDENT

3516 HESSMER AVE.
METAIRIE, LA
70002

Phone:
504-888-9433 x11

Fax:
504.888.6997

Email:
denzel@CitadelBuilders.com

March 27, 2019

U.S. Senator John Kennedy
717 Hart Senate Office Building
Washington, D.C. 20510

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

Citadel Builders, LLC was formed in October of 2003 to provide quality construction services in the Gulf Coast Region. We are a Commercial General Contractor headquartered in Metairie, Louisiana, that provides high quality construction services for general building construction in Louisiana and the Gulf Coast region. With an average of over 30 years in the business, the principles of the company have extensive experience building many of Louisiana's finest projects.

As a past participant in Section 179D, our company has benefited greatly from this powerful incentive. This program has helped us to grow our business and keep jobs here in the State of Louisiana. Our company also plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D, as it is a way for us to remain competitive.

However, I have been made aware of a very disturbing occurrence at some of the government building owners. Some of the building owners believe they are entitled to receive some type of benefit (money) in exchange for signing the allocation letter, thus reducing the benefit to the small business owner like ourselves, as we must pay the owner. I believe this "pay for signature" practice goes against the intent of Section 179D, which intended the benefits be received by the small business owners that do the work.

Please vote to extend the 179D Deduction for Tax Year 2018, as not only would Citadel Builders and companies similar to ours continue to benefit, but we will also continue to add jobs to the local and Louisiana economies. A special Thank You to You and all that You do for our Great State!

Regards,

CITADEL BUILDERS, LLC
Denzel L. Clark, Jr.
President

JONES ARCH

2019.04.21
U.S. Senator Ed Markey
975 JFK Federal Building
15 New Sudbury Street
Boston, MA 02203

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

Jones Architecture is a service-oriented practice with a broad portfolio of services, particular experience in higher education, and a niche in academic libraries and learning environments. We believe in the power of collaboration across disciplines and seek opportunities to work with our clients in new and inventive ways. Our practice is located in Salem, MA and employs 18 people. We serve public and private institutional clients across New England, but with a focus in Massachusetts, including: Cape Cod Community College, Harvard University, Massasoit Community College, Northeastern University, Northern Essex Community College, Salem State University, University of Massachusetts Boston, and the University of Massachusetts Lowell. We are also currently working with DCAMM on a new building for the Department of Unemployment Assistance in Brockton, MA.

As a past participant in Section 179D, our company has had the opportunity to benefit from this powerful incentive. This program has allowed our team to play a part in the effort to keep jobs here in the great Commonwealth of Massachusetts. Our company also plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D, as it is a way for us to remain competitive in our field and retain valuable talent.

However, I have been made aware of a very disturbing occurrence at some of the government building owners. Some of the building owners believe they are entitled to receive some type of benefit (money) in exchange for signing the allocation letter, thus reducing the benefit to the small business owner like ourselves, as we must pay the owner. I believe this "pay for signature" practice goes against the intent of Section 179D, which intended the benefits be received by the small business owners that do the work.

Please vote to extend the 179D Deduction for Tax Year 2018 and beyond, as not only would Jones Architecture and companies similar to ours continue to benefit, but we will also continue to add jobs to the local Massachusetts economy. Thank you for all that you do for the Commonwealth!

Please do not hesitate to contact me with additional questions or comments. Thank you again for this opportunity.

Sincerely,

Richard Jones, AIA, NCARB, LEED AP BD+C
Director and Founder
Jones Architecture, Inc.
978.744.5200 (office)
617.834.7652 (mobile)
rick@jonesarch.com

A & A Window Products, Inc.
15 Joseph Street, Malden, Massachusetts 02148-4211
Phone (781) 322-9282 • Fax (781) 321-0833

April 22, 2019

U.S. Senator Ed Markey
975 JFK Federal Building
15 New Sudbury Street
Boston, MA 02203

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

A&A Window Products, Inc. was founded in Malden, MA and is a third-generation, family-owned organization which began operations in 1954 with a focus on Cleaning Venetian blinds. A & A Window Products was then incorporated in 1974 and expanded its services to include full-scale window replacements and repairs, curtain walls, architectural panels, and specialty glazing. In 1997, we built a new facility in Malden to help our growth continue.

As a past participant in Section 179D, our company has benefited greatly from this powerful incentive. This program has helped increase our employee base by 50% since 2008 largely because of the capital that 179D has provided and allows my firm help keep jobs here in the State of Massachusetts. Our company also plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D, as it is a way for us to remain competitive.

However, I have been made aware of a very disturbing occurrence at some of the government building owners. Some of the building owners believe they are entitled to receive some type of benefit (money) in exchange for signing the allocation letter, thus reducing the benefit to the small business owner like ourselves, as we must pay the owner. I believe this "pay for signature" practice goes against the intent of Section 179D, which intended the benefits be received by the small business owners that do the work.

Please vote to extend the 179D Deduction for Tax Year 2018, as not only would A&A Window Products and companies similar to ours continue to benefit, but we will also continue to add jobs to the local Massachusetts economy. Thank you for all that you do for our great state!

Sincerely,

Lee Sullivan
President

CONSTRUCTION CORP.

U.S. Senator Ed Markey
975 JFK Federal Building
15 New Sudbury Street
Boston, MA 02203

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

WES Construction Corp. was founded in 1949 in Halifax, Massachusetts. Since our inception, our team works to implement an effective project approach by understanding our client's interests and closely works with the project team to ensure a successful project delivery, both on time and on budget.

As a past participant in Section 179D, our company is grateful to have benefited from this powerful incentive. This program has helped us continue to grow our business and allows us to remain competitive in our field. Our company plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D.

However, I have been made aware of a very disturbing occurrence at some of the government-building owners. Some of the building owners believe they are entitled to receive some type of benefit (money) in exchange for signing the allocation letter, thus reducing the benefit to the small business owner like ourselves, as we must pay the owner. I believe this "pay for signature" practice goes against the intent of Section 179D, which intended the benefits be received by the small business owners that do the work.

Please vote to extend the 179D Deduction for Tax Year 2018, as not only would Wes Construction Corp. and companies similar to ours continue to benefit, but we will also continue to add jobs to the local Massachusetts economy. Thank you for your consideration and all that you do for our community.

Sincerely,

Michael E. Christian

Treasurer

650 Industrial Drive, Halifax, MA 02338
Phone: 781-294-1080 Fax: 781-294-4597 wesconstructioncorp.com

WES
CONSTRUCTION CORP.

U.S. Senator Elizabeth Warren
2400 JFK Federal Building
15 New Sudbury Street
Boston, MA 02203

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

WES Construction Corp. was founded in 1949 in Halifax, Massachusetts. Since our inception, our team works to implement an effective project approach by understanding our client's interests and closely works with the project team to ensure a successful project delivery, both on time and on budget.

As a past participant in Section 179D, our company is grateful to have benefited from this powerful incentive. This program has helped us continue to grow our business and allows us to remain competitive in our field. Our company plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D.

However, I have been made aware of a very disturbing occurrence at some of the government-building owners. Some of the building owners believe they are entitled to receive some type of benefit (money) in exchange for signing the allocation letter, thus reducing the benefit to the small business owner like ourselves, as we must pay the owner. I believe this "pay for signature" practice goes against the intent of Section 179D, which intended the benefits be received by the small business owners that do the work.

Please vote to extend the 179D Deduction for Tax Year 2018, as not only would Wes Construction Corp. and companies similar to ours continue to benefit, but we will also continue to add jobs to the local Massachusetts economy. Thank you for your consideration and all that you do for our community.

Sincerely,

Michael E. Christian

Treasurer

650 Industrial Drive, Halifax, MA 02338
Phone: 781-294-1080 Fax: 781-294-4597 wesconstructioncorp.com

D.D.S. Industries, Inc.

SECTION 179D ENERGY EFFICIENT COMMERCIAL BUILDINGS DEDUCTION ALLOCATION FORM

As part of the Energy Policy Act of 2005, Congress enacted Section 179D of the Internal Revenue Code to encourage the design and construction of energy efficient buildings. Per IRC §179D(d)(4) and Notice 2008-40, building owners of energy efficient commercial buildings may take a deduction arising from the installation of energy efficient commercial building property as part of the interior lighting, HVAC and hot water systems, or building envelope systems. If the building owner is a government entity, they may allocate the deduction to a designer of the energy efficient commercial building property. A review of all energy efficient systems in the allocated building(s) will be performed on behalf of the building owner. If allocable deductions are identified, they will be allocated to the eligible designers as identified below.

D.D.S. Industries, Inc. created technical specifications for the installation of the energy efficient commercial building property which resulted in reduced energy consumption and is eligible to be allocated the 179D Energy Efficient Commercial Building Deduction. Specifically, *D.D.S. Industries, Inc.* provided input into the creation of technical specifications through the following:

D.D.S. Industries, Inc. was the mechanical contractor for this renovation project. *D.D.S. Industries, Inc.* proposed solutions throughout the pre-construction phase that changed the basis of design. These changes were accepted by the owner.

The role of the allocating government entity is to confirm the scope of work performed and related information provided herein as eligible to pursue for the IRC §179D deduction by the taxpayer seeking the allocation, and not for determining if in fact the commercial building property is energy efficient.

Atlantis Charter School hereby allocates *D.D.S. Industries, Inc.* the Section 179D deduction for the property described below:

Atlantis Charter School Building Information				
Property Name	**Property Address**	**Placed in Service**	**Cost of Property**	**Allocation Percentage**
Atlantis Charter School	991 Jefferson St. Fall River, MA 02721	January 2018	$2,684,349	100%

Following a third-party certification by a licensed professional engineer or contractor in the jurisdiction of the building, *Atlantis Charter School* will be provided with a summary analysis detailing the energy-saving improvements and the final Section 179D deduction amount.

The authorized owner representative is not responsible for certification of the energy efficient commercial building property. The taxpayer receiving the allocation is solely responsible for obtaining the required certification and onsite verification and for ensuring their accuracy and substance.

D.D.S. Industries, Inc.

Atlantis Charter School Representative Information	
Representative Name:	
Government Entity Name:	*Atlantis Charter School*
Title:	
Mailing Address:	
Telephone Number:	
E-mail:	

D.D.S. Industries, Inc. Representative Information	
Representative Name:	Dwight Silvia
Eligible Taxpayer Entity Name:	D.D.S. Industries, Inc.
Title:	President
Address:	250 Ace St. Fall River, MA 02720
Telephone Number:	(508) 678-3698
Representative E-mail:	dsilvia287@aol.com

Under penalties of perjury, I declare that I have examined this allocation, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this allocation are true, correct, and complete.

AGREED TO AND ACCEPTED:

Signature (Atlantis Charter School Representative)

Date

Signature (D.D.S. Industries, Inc. Representative)

04/18/19

Date

D.D.S. Industries, Inc.

SECTION 179D ENERGY EFFICIENT COMMERCIAL BUILDINGS DEDUCTION ALLOCATION FORM

As part of the Energy Policy Act of 2005, Congress enacted Section 179D of the Internal Revenue Code to encourage the design and construction of energy efficient buildings. Per IRC §179D(d)(4) and Notice 2008-40, building owners of energy efficient commercial buildings may take a deduction arising from the installation of energy efficient commercial building property as part of the interior lighting, HVAC and hot water systems, or building envelope systems. If the building owner is a government entity, they may allocate the deduction to a designer of the energy efficient commercial building property. A review of all energy efficient systems in the allocated building(s) will be performed on behalf of the building owner. If allocable deductions are identified, they will be allocated to the eligible designers as identified below.

D.D.S. Industries, Inc. created technical specifications for the installation of the energy efficient commercial building property which resulted in reduced energy consumption and is eligible to be allocated the 179D Energy Efficient Commercial Building Deduction. Specifically, *D.D.S. Industries, Inc.* provided input into the creation of technical specifications through the following:

D.D.S. Industries, Inc. was the mechanical contractor for this renovation project. *D.D.S. Industries, Inc.* proposed solutions throughout the pre-construction phase that changed the basis of design. These changes were accepted by the owner.

The role of the allocating government entity is to confirm the scope of work performed and related information provided herein as eligible to pursue for the IRC §179D deduction by the taxpayer seeking the allocation, and not for determining if in fact the commercial building property is energy efficient.

Bristol Community College hereby allocates *D.D.S. Industries, Inc.* the Section 179D deduction for the property described below:

Bristol Community College Building Information				
Property Name	**Property Address**	**Placed in Service**	**Cost of Property**	**Allocation Percentage**
Thomas A. Rodgers, Jr. Science Building (Building E)	777 Elsbree St. Fall River, MA 02720	February 2018	$205,875	100%

Following a third-party certification by a licensed professional engineer or contractor in the jurisdiction of the building, *Bristol Community College* will be provided with a summary analysis detailing the energy-saving improvements and the final Section 179D deduction amount.

The authorized owner representative is not responsible for certification of the energy efficient commercial building property. The taxpayer receiving the allocation is solely responsible for obtaining the required certification and onsite verification and for ensuring their accuracy and substance.

D.D.S. Industries, Inc.

Bristol Community College Representative Information	
Representative Name:	
Government Entity Name:	*Bristol Community College*
Title:	
Mailing Address:	
Telephone Number:	
E-mail:	

D.D.S. Industries, Inc. Representative Information	
Representative Name:	Dwight Silvia
Eligible Taxpayer Entity Name:	D.D.S. Industries, Inc.
Title:	President
Address:	250 Ace St. Fall River, MA 02720
Telephone Number:	(508) 678-3698
Representative E-mail:	dsilvia287@aol.com

Under penalties of perjury, I declare that I have examined this allocation, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this allocation are true, correct, and complete.

AGREED TO AND ACCEPTED:

Signature (Bristol Community College Representative)

Signature (D.D.S. Industries, Inc. Representative)

Date

04/18/19

Date

D.D.S. Industries, Inc.

SECTION 179D ENERGY EFFICIENT COMMERCIAL BUILDINGS DEDUCTION ALLOCATION FORM

As part of the Energy Policy Act of 2005, Congress enacted Section 179D of the Internal Revenue Code to encourage the design and construction of energy efficient buildings. Per IRC §179D(d)(4) and Notice 2008-40, building owners of energy efficient commercial buildings may take a deduction arising from the installation of energy efficient commercial building property as part of the interior lighting, HVAC and hot water systems, or building envelope systems. If the building owner is a government entity, they may allocate the deduction to a designer of the energy efficient commercial building property. A review of all energy efficient systems in the allocated building(s) will be performed on behalf of the building owner. If allocable deductions are identified, they will be allocated to the eligible designers as identified below.

D.D.S. Industries, Inc. created technical specifications for the installation of the energy efficient commercial building property which resulted in reduced energy consumption and is eligible to be allocated the 179D Energy Efficient Commercial Building Deduction. Specifically, *D.D.S. Industries, Inc.* provided input into the creation of technical specifications through the following:

D.D.S. Industries, Inc. was the mechanical contractor for this renovation project. *D.D.S. Industries, Inc.* proposed solutions throughout the pre-construction phase that changed the basis of design. These changes were accepted by the owner.

The role of the allocating government entity is to confirm the scope of work performed and related information provided herein as eligible to pursue for the IRC §179D deduction by the taxpayer seeking the allocation, and not for determining if in fact the commercial building property is energy efficient.

Dartmouth Public Schools hereby allocates *D.D.S. Industries, Inc.* the Section 179D deduction for the property described below:

Dartmouth Public Schools Building Information				
Property Name	**Property Address**	**Placed in Service**	**Cost of Property**	**Allocation Percentage**
Dartmouth Middle School	366 Slocum Rd. Dartmouth, MA 02747	December 2018	$137,577	100%

Following a third-party certification by a licensed professional engineer or contractor in the jurisdiction of the building, *Dartmouth Public Schools* will be provided with a summary analysis detailing the energy-saving improvements and the final Section 179D deduction amount.

The authorized owner representative is not responsible for certification of the energy efficient commercial building property. The taxpayer receiving the allocation is solely responsible for obtaining the required certification and onsite verification and for ensuring their accuracy and substance.

D.D.S. Industries, Inc.

Dartmouth Public Schools Representative Information	
Representative Name:	
Government Entity Name:	*Dartmouth Public Schools*
Title:	
Mailing Address:	
Telephone Number:	
E-mail:	

D.D.S. Industries, Inc. Representative Information	
Representative Name:	Dwight Silvia
Eligible Taxpayer Entity Name:	D.D.S. Industries, Inc.
Title:	President
Address:	250 Ace St. Fall River, MA 02720
Telephone Number:	(508) 678-3698
Representative E-mail:	dsilvia287@aol.com

Under penalties of perjury, I declare that I have examined this allocation, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this allocation are true, correct, and complete.

AGREED TO AND ACCEPTED:

Signature (Dartmouth Public Schools Representative)

Date

Signature (D.D.S. Industries, Inc. Representative)

04/08/09

Date

D.D.S. Industries, Inc.

SECTION 179D ENERGY EFFICIENT COMMERCIAL BUILDINGS DEDUCTION ALLOCATION FORM

As part of the Energy Policy Act of 2005, Congress enacted Section 179D of the Internal Revenue Code to encourage the design and construction of energy efficient buildings. Per IRC §179D(d)(4) and Notice 2008-40, building owners of energy efficient commercial buildings may take a deduction arising from the installation of energy efficient commercial building property as part of the interior lighting, HVAC and hot water systems, or building envelope systems. If the building owner is a government entity, they may allocate the deduction to a designer of the energy efficient commercial building property. A review of all energy efficient systems in the allocated building(s) will be performed on behalf of the building owner. If allocable deductions are identified, they will be allocated to the eligible designers as identified below.

D.D.S. Industries, Inc. created technical specifications for the installation of the energy efficient commercial building property which resulted in reduced energy consumption and is eligible to be allocated the 179D Energy Efficient Commercial Building Deduction. Specifically, *D.D.S. Industries, Inc.* provided input into the creation of technical specifications through the following:

D.D.S. Industries, Inc. was the mechanical contractor for this renovation project. *D.D.S. Industries, Inc.* proposed solutions throughout the pre-construction phase that changed the basis of design. These changes were accepted by the owner.

The role of the allocating government entity is to confirm the scope of work performed and related information provided herein as eligible to pursue for the IRC §179D deduction by the taxpayer seeking the allocation, and not for determining if in fact the commercial building property is energy efficient.

Steamship Authority hereby allocates *D.D.S. Industries, Inc.* the Section 179D deduction for the property described below:

Steamship Authority Building Information				
Property Name	Property Address	Placed in Service	Cost of Property	Allocation Percentage
Steamship Authority General Offices	228 Palmer Ave. Falmouth, MA 02540	October 2018	$1,820,209	100%

Following a third-party certification by a licensed professional engineer or contractor in the jurisdiction of the building, *Steamship Authority* will be provided with a summary analysis detailing the energy-saving improvements and the final Section 179D deduction amount.

The authorized owner representative is not responsible for certification of the energy efficient commercial building property. The taxpayer receiving the allocation is solely responsible for obtaining the required certification and onsite verification and for ensuring their accuracy and substance.

D.D.S. Industries, Inc.

Steamship Authority Representative Information	
Representative Name:	
Government Entity Name:	*Steamship Authority*
Title:	
Mailing Address:	
Telephone Number:	
E-mail:	

D.D.S. Industries, Inc. Representative Information	
Representative Name:	Dwight Silvia
Eligible Taxpayer Entity Name:	D.D.S. Industries, Inc.
Title:	President
Address:	250 Ace St. Fall River, MA 02720
Telephone Number:	(508) 678-3698
Representative E-mail:	dsilvia287@aol.com

Under penalties of perjury, I declare that I have examined this allocation, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this allocation are true, correct, and complete.

AGREED TO AND ACCEPTED:

Signature (Steamship Authority Representative)

Date

Signature (D.D.S. Industries, Inc. Representative)

04/18/19

Date

D.D.S. Industries, Inc.

SECTION 179D ENERGY EFFICIENT COMMERCIAL BUILDINGS DEDUCTION ALLOCATION FORM

As part of the Energy Policy Act of 2005, Congress enacted Section 179D of the Internal Revenue Code to encourage the design and construction of energy efficient buildings. Per IRC §179D(d)(4) and Notice 2008-40, building owners of energy efficient commercial buildings may take a deduction arising from the installation of energy efficient commercial building property as part of the interior lighting, HVAC and hot water systems, or building envelope systems. If the building owner is a government entity, they may allocate the deduction to a designer of the energy efficient commercial building property. A review of all energy efficient systems in the allocated building(s) will be performed on behalf of the building owner. If allocable deductions are identified, they will be allocated to the eligible designers as identified below.

D.D.S. Industries, Inc. created technical specifications for the installation of the energy efficient commercial building property which resulted in reduced energy consumption and is eligible to be allocated the 179D Energy Efficient Commercial Building Deduction. Specifically, *D.D.S. Industries, Inc.* provided input into the creation of technical specifications through the following:

D.D.S. Industries, Inc. was the mechanical contractor for this renovation project. *D.D.S. Industries, Inc.* proposed solutions throughout the pre-construction phase that changed the basis of design. These changes were accepted by the owner.

The role of the allocating government entity is to confirm the scope of work performed and related information provided herein as eligible to pursue for the IRC §179D deduction by the taxpayer seeking the allocation, and not for determining if in fact the commercial building property is energy efficient.

Town of Middleborough hereby allocates *D.D.S. Industries, Inc.* the Section 179D deduction for the property described below:

Town of Middleborough Building Information				
Property Name	Property Address	Placed in Service	Cost of Property	Allocation Percentage
Wastewater Treatment Facility	Joe Ciaglo Way Middleborough, MA 02346	June 2018	$977,554	100%

Following a third-party certification by a licensed professional engineer or contractor in the jurisdiction of the building, *Town of Middleborough* will be provided with a summary analysis detailing the energy-saving improvements and the final Section 179D deduction amount.

The authorized owner representative is not responsible for certification of the energy efficient commercial building property. The taxpayer receiving the allocation is solely responsible for obtaining the required certification and onsite verification and for ensuring their accuracy and substance.

D.D.S. Industries, Inc.

Town of Middleborough Representative Information	
Representative Name:	
Government Entity Name:	*Town of Middleborough*
Title:	
Mailing Address:	
Telephone Number:	
E-mail:	

D.D.S. Industries, Inc. Representative Information	
Representative Name:	Dwight Silvia
Eligible Taxpayer Entity Name:	D.D.S. Industries, Inc.
Title:	President
Address:	250 Ace St. Fall River, MA 02720
Telephone Number:	(508) 678-3698
Representative E-mail:	dsilvia287@aol.com

Under penalties of perjury, I declare that I have examined this allocation, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this allocation are true, correct, and complete.

AGREED TO AND ACCEPTED:

Signature (Town of Middleborough Representative)

Date

Dwight D. Silvia

Signature (D.D.S. Industries, Inc. Representative)

04/18/19

Date

general contracting
construction management
design/build

U.S. Senator Benjamin Cardin
509 Hart Senate Office Building
Washington, DC 20510

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

As a family-owned and operated company, Dustin Construction, Inc. has been serving the Washington, D.C. area for the past 60 years. Over the past six decades, we've established a portfolio of commercial, government, and private projects with an emphasis on educational facilities. Our portfolio includes hundreds of renovations, additions, and new elementary, middle, and high schools, university housing, academic buildings and athletic centers, community centers, police and fire stations, parking garages, churches and an array of other commercial and government facilities.

As a participant in Section 179D, our company is grateful to have benefited from this powerful incentive. This program has helped us continue to grow our business and allows us to remain competitive in our field. Our company plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D.

Please vote to extend the 179D Deduction for Tax Year 2018 and Tax Year 2019, as not only would Dustin Construction and companies similar to ours continue to benefit, but we will also continue to add jobs to the local economy. Thank you for your consideration and all that you do for our community.

Sincerely,

Kelly C Kopp

Kelly Cummings Kopp

CFO/Corporate Secretary

Mueller

1306 Concourse Drive, Suite 100
Linthicum, MD 21090
410.646.4500 tel
410.646.4738 fax
www.muellerassoc.com

May 29, 2019

Senator Ben Cardin
100 S. Charles St.
Baltimore, MD 21201

Dear Senator Cardin:

Mueller Associates is a mid-sized business headquartered in Linthicum, Maryland. I am writing to express my support of the recently introduced legislation package called the Tax Extenders and Disaster Tax Relief (S.617) and specifically Section 113 – Energy Efficient Commercial Buildings Deduction (IRC Section 179D or 179D Tax Deduction).

Here at Mueller Associates we specialize in cultural, educational, corporate, and laboratory spaces that require advanced performance of HVAC, plumbing, power, fire protection, and lighting systems.

As part of the Tax Extenders and Disaster Tax Relief bill, the Energy Efficient Commercial Building Tax Deduction (IRC Section 179D) is now being considered for a potential extension through December 31, 2019. Mueller Associates has taken advantage of this powerful benefit from our work on numerous government-owned energy efficient buildings and would like to continue to do so in the future. The benefits of this incentive allowed us greater ability to take on more projects in turn creating additional jobs.

We urge you to strongly consider how beneficial this tax incentive is for our company, and many other small and midsized businesses in Maryland, when weighing an extension of the 179D Deduction for tax years 2018 and 2019. I understand you time is valuable and appreciate your assistance with this matter.

Sincerely,
MUELLER ASSOCIATES, INC.

Todd Garing

Todd Garing, PE, LEED AP $_{\mathrm{BD+C}}$
Vice Presdient

TJG
cc: RAM, SAG, KHR – Mueller Associates, Inc.

PRITCHETT
C O N T R O L S

May 31, 2019

U.S. Senator Ben Cardin
509 Hart Senate Office Building
Washington, DC 20510

Re: The Energy Efficient Commercial Buildings Deduction (IRC Section 179D)

I am writing to express Pritchett Controls, Inc. support of the legislative package in the Senate called the Tax Extenders and Disaster Relief Act of 2019 and specifically Section 113 – Energy Efficient Commercial Buildings Deduction (Internal Revenue Code Section 179D or 179D Tax Deduction).

Pritchett Controls is an employee-owned and operated company headquarters in Maryland. As we like to say, we are employee-owned and employee-powered. We specialize in the design and implementation of lighting and HVAC controls system with the explicit purpose of making the buildings they are installed in more energy efficient. Our projects span Federal, State, and Municipal government entities including, but not limited to: Federal Agency, State Agency, higher education, and K-12 school buildings.

We have participated in the 179D tax deduction where it was available to us. These impactful deductions have allowed us to create more jobs for the local economy, be more competitive in bidding our government-owned projects, and more directly impact the energy efficiency on projects we are awarded.

Section 179D has been effective law in encouraging and rewarding energy efficient building design. This deduction has been a game changer for my business and the government-owned buildings we work on. We urge you to vote for an extension of the 179D deduction for the calendar years 2018 and 2019. This plea is not just for Pritchett Controls, Inc. and its employee-owners, but for Maryland's small businesses that will benefit from this and add more jobs to our local economy.

We thank you for your consideration and continued effort on this important issue for Maryland's small businesses.

Timothy Pritchett
President

6980 MUIRKIRK MEADOWS DRIVE, BELTSVILLE, MARYLAND 20705
P| 301-470-7300 F| 301-470-4126 TF| 877-743-2363 WWW.PRITCHETTCONTROLS.COM

TIDEWATER INC ENGINEERS / SCIENTISTS / PROGRAM MANAGERS

U.S. Senator Ben Cardin
509 Hart Senate Office Building
Washington, DC 20510

Re: IRC Section 179D - Energy Efficient Commercial Buildings Deduction

The purpose of this letter is to express our support of the recently proposed legislation S.617 – Tax Extender and Disaster Relief Act of 2019. More specifically, Section 113 of the legislation that extends the Internal Revenue Code Section 179D - Energy Efficient Commercial Buildings Deduction ("179D Tax Deduction") for calendar years 2018 and 2019.

Tidewater, Inc. is an engineering, construction, and facilities management company with project managers, engineers, scientists, construction estimators, and HVAC licensed and certified personnel on staff providing us with a diverse and deep bench of talent adding value to the projects we are awarded. The Company serves both private and government entities across the United States. Headquartered in Maryland, we have a long-standing relationship with many Federal Government Agencies including the United States Military.

Our Company has pursued 179D tax deductions where they were available to us. It has been a powerful incentive for us allowing us to reinvest in our business including the creation of technical jobs in our great State of Maryland. We have projects completed in 2018 and 2019 that we look forward to pursuing the 179D tax deductions for once the incentive is extended for these calendar years.

Again, we urge you to vote in favor of extending the IRC Section 179D – Energy Efficient Commercial Buildings Deduction for Tidewater, Inc., small business in Maryland, and the Maryland economy that all stand to benefit greatly from this tax deduction. Thank you for your time and consideration for this impactful tax incentive.

Kindest Regards,

Chris Johns, CPA
Controller
chris.johns@tideh2o.net
(410) 540-8700 – office
(443) 845-6537 - cell

edcon inc.
general contractors
P.O. BOX 100 PEAK, SC 29122 803-345-3791

U.S. Senator Tim Scott
717 Hart Senate Office Building
Washington, D.C. 20510

Subject: IRC Section 179D Energy Efficient Commercial Buildings Deduction

Dear Senator Scott:

I am writing as a South Carolinian small business owner to express my support of the recently introduced tax and oversight package, *The Retirement, Savings, and Other Tax Relief Act of 2018* (House Amendment to the Senate Amendment to H.R. 88).

Edcon, Inc. was founded on June 1, 1988 in the town of Peak, South Carolina. We are a family-owned General Contractor and Construction Management firm with decades of experience in K-12 Educational Facility projects. Our work has surpassed 50+ educational facilities across fifteen school districts, resulting in much-needed renovations and new construction buildings for our expanding communities.

As a part of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D) is up for potential extension through the 2018 calendar year. Our company has been able to capture this powerful benefit from our work at numerous local school districts, and hope to continue to do so moving forward.

While Section 179D has been good news for our South Carolina small business, we want to bring to your attention that there is a very concerning practice among a few government property owners who think they should get money in exchange for providing the designer – such as Edcon, Inc. – the allocation letter required by the IRS. We also understand that in some situations government property owners have withheld providing the allocation letter for the 179D tax benefits to eligible businesses unless they are provided a payment from the small business. It would appear that these actions by government property owners to seek payments goes against the intent of Congress that the tax benefits of Section 179D should go to those businesses that do the design work.

An extension of the 179D Deduction for Tax Year 2018 would benefit our company immensely and allow us to create even more jobs in the South Carolina economy. We understand your time is valuable and appreciate any and all assistance in this matter.

Sincerely,

Eddie Edwards
President

DON
M.
BARRON
CONTRACTOR
INC.

U.S. Senator Tim Scott
717 Hart Senate Office Building Washington, D.C. 20510

Subject: IRC Section 179D Energy Efficient Commercial Buildings Deduction Dear Senator Scott:
I am writing as a Louisiana small business owner to express my support of the recently introduced tax and oversight package, *The Retirement, Savings, and Other Tax Relief Act of 2018* (House Amendment to the Senate Amendment to H.R. 88).

By way of background, Don M. Barron Contractor, Inc. is a construction company located in Farmerville, Louisiana and has been in operation since 1965. We have worked on many jobs in the public sector including school districts within the State of Louisiana.

As a part of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D) is up for renewal through the 2018 calendar year. The 179D program has been a tremendous resource for Louisiana small businesses. It has been a way for our company to remain competitive and to impact our state's economy through growth and creating good jobs in our community. Our company has been able to capture this powerful benefit from the work we perform, and hope to continue to do so moving forward.

While Section 179D has been a good resource for our Louisiana small businesses, we want to bring to your attention that there is a concerning practice among a few government agencies who think they are entitled to compensation in exchange for providing companies allocation letter required by the IRS. It causes me great concern that in some situations government property owners have withheld providing the allocation letter for the 179D tax benefits to eligible businesses unless they are provided a payment from the small business. It would appear that these actions by public administrations seeking payments goes against the intent of Congress that the tax benefits of Section 179D should go to those businesses that perform the work.

An extension of the 179D Deduction for Tax Year 2018 would benefit our company immensely and allow us to create even more jobs in the Louisiana economy. We understand your time is valuable and appreciate any and all assistance in this matter.

Sincerely,

Ron S. Barron
President

408 CEDAR STREET, P.O. DRAWER 399 FARMERVILLE, LA 71241-0399 PHONE: (318) 368-2622 FAX: (318) 368-9615

Adrian L. Merton
INCORPORATED

Heating & Air Conditioning Specialists

9011 EAST HAMPTON DR., CAPITOL HEIGHTS, MD 20743 OFFICES (301) 336-2700 SERVICE (301) 336-7900 FAX NO. (301) 336-6076

U.S. Senator Benjamin Cardin
509 Hart Senate Office Building
Washington, DC 20510

Re: IRC Section 179D - Energy Efficient Commercial Buildings Deduction

Dear Senator Cardin,

The purpose of this letter is to express our support of the recently proposed legislation S.617 – Tax Extender and Disaster Relief Act of 2019. More specifically, Section 113 of the legislation that extends the Internal Revenue Code Section 179D - Energy Efficient Commercial Buildings Deduction ("179D Tax Deduction") for calendar years 2018 and 2019.

Headquartered out of Capitol Heights, Maryland, Adrian L. Merton, Inc. is a Design/Build Mechanical Contractor with experience since 1966 in the design, installation, and service of commercial, industrial and residential equipment. We are a diversified company, with over 130 employees, and successful in the new construction, building retrofit, service, and maintenance for all types of mechanical systems.

179D has been a powerful incentive for us allowing us to grow and scale our business and continue to create innovative concepts that improve the design towards more energy efficient buildings. The 179D program allows us to continue to create and maintain technical jobs and provide competitive pay to our skilled workers and to our full-time mechanical engineers. We look forward to applying for the 179D tax deduction for projects placed into service in 2018 and 2019, once the incentive is extended for these calendar years.

We urge you to vote in favor of extending the Energy Efficient Commercial Buildings Deduction for Adrian L. Merton, small businesses in Maryland alike, and the Maryland economy that all stand to benefit greatly from this tax deduction. Thank you for your support and consideration for this powerful program.

Sincerely,

Timothy Merton
Vice President - AL Merton Inc.

P.O. BOX 3570, CAPITOL HEIGHTS, MD 20791-3570

COMFORT SYSTEMS USA

675 Bering Drive, Suite 400
Houston, Texas 77057
Phone: 713-830-9600
Fax: 713-830-9696

June 11, 2019

U.S. Senator Ben Cardin
509 Hart Senate Office Building
Washington, DC 20510

Re: **Energy efficient commercial buildings deduction (sec. 179D)**

Dear Senator Cardin,

Comfort Systems USA is America's leader in installation and service for building mechanical systems. Over the years, we merged with the best regional experts, and now provide nationwide reach through thirty-seven (37) subsidiary companies that are prepared to build, service or retrofit any mechanical, HVAC or electrical system.

I write you today in support of the Energy efficient commercial buildings deduction (sec. 179D) (the "179D Deduction"), which is included in the Tax Extender and Disaster Relief Act of 2019. Our reach extends into Maryland where we have operated through a number of our subsidiary companies, namely, Environmental Air Systems, LLC; Hess Mechanical, LLC; Seasonair, Inc.; ColonialWebb Contractors Company; and Comfort Systems USA Strategic Accounts, LLC.

As a participant in the now expired 179D Deduction, our company is grateful to have benefited from this powerful incentive. Whenever we complete a project that qualifies under this legislation, if extended, we plan to apply for the 179D Deduction.

Please vote to extend the 179D Deduction through 2019. Comfort Systems USA, and companies similar to ours, would continue to benefit as well as add or maintain jobs in the local U.S. economy.

Sincerely,

Jay Burgess
Tax Director

Nevada Licenses
#17788, 18634, & 73006
California License
#463167

D & D PLUMBING, INC.

1655 Greg Ct.
Sparks, NV 89431
(775) 358-2378
FAX (775) 358-8135

U.S. Senator Catherine Cortez Masto
516 Hart Senate Office Building
Washington, DC 20510

Re: The Energy Efficient Commercial Buildings Deduction (IRC Section 179D)

I am writing to express D&D Plumbing, Inc.'s support of the legislative package in the Senate called the Tax Extenders and Disaster Relief Act of 2019 and specifically Section 113 – Energy Efficient Commercial Buildings Deduction (Internal Revenue Code Section 179D or 179D Tax Deduction).

In 1978, D&D Plumbing was established by brothers Dale, Dalton and Jerry Lowery as a full-service plumbing shop. In the early 1980s, D&D expanded their services to include hydronic heating, snowmelt systems, steam boilers and solar systems. Through their hard work and honesty, the Lowery brothers established the company as one of the premier mechanical firms in northern Nevada.

We have participated in the 179D tax deduction where it was available to us. These impactful deductions have allowed us to create more jobs for the local economy, be more competitive in bidding our government-owned projects, and more directly impact the energy efficiency on projects we are awarded.

Section 179D has been effective law in encouraging and rewarding energy efficient building design. This deduction has been a game changer for my business and the government-owned buildings we work on. We urge you to vote for an extension of the 179D deduction for the calendar years 2018 and 2019.

This plea is not just for D&D Plumbing, but for Nevada's small businesses that will benefit from this and add more jobs to our local economy.

We thank you for your consideration and continued effort on this important issue for Nevada's small businesses.

Sincerely,

Waylon Lowery

Waylon Lowery, PE
Mechanical Engineer / Project Manager

general contracting
construction management
design/build

U.S. Senator Benjamin Cardin
509 Hart Senate Office Building
Washington, DC 20510

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

As a family-owned and operated company, Dustin Construction, Inc. has been serving the Washington, D.C. area for the past 60 years. Over the past six decades, we've established a portfolio of commercial, government, and private projects with an emphasis on educational facilities. Our portfolio includes hundreds of renovations, additions, and new elementary, middle, and high schools, university housing, academic buildings and athletic centers, community centers, police and fire stations, parking garages, churches and an array of other commercial and government facilities.

As a participant in Section 179D, our company is grateful to have benefited from this powerful incentive. This program has helped us continue to grow our business and allows us to remain competitive in our field. Our company plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D.

Please vote to extend the 179D Deduction for Tax Year 2018 and Tax Year 2019, as not only would Dustin Construction and companies similar to ours continue to benefit, but we will also continue to add jobs to the local economy. Thank you for your consideration and all that you do for our community.

Sincerely,

Kelly Cummings Kopp

Kelly Cummings Kopp

CFO/Corporate Secretary

GRUNLEY

June 24, 2019

U.S. Senator Benjamin Cardin
509 Hart Senate Office Building
Washington, DC 20510

Re: IRC Section 179D - Energy Efficient Commercial Buildings Deduction

Senator Cardin,

The purpose of this letter is to express our support of the recently proposed legislation S.617 – Tax Extender and Disaster Relief Act of 2019. More specifically, Section 113 of the legislation that extends the Internal Revenue Code Section 179D - Energy Efficient Commercial Buildings Deduction ("179D Tax Deduction") for calendar years 2018 and 2019.

Founded in 1955 and headquartered in the Washington metropolitan area, Grunley Construction Company specializes in building new facilities as well as renovations, restorations and modernizations of large-scale commercial, institutional and government buildings, including offices, universities/schools, courthouses, laboratories, data centers, multi-family residential properties, performing arts centers, embassies, monuments and museums.

179D has been a powerful incentive for us allowing us to grow and scale our business and continue to create innovative concepts that improve the design towards more energy efficient buildings. The 179D program allows us to continue to create and maintain technical jobs and provide competitive pay to our skilled workers. We look forward to applying for the 179D tax deduction for projects placed into service in 2018 and 2019, once the incentive is extended for these calendar years.

We urge you to vote in favor of extending the Energy Efficient Commercial Buildings Deduction for Grunley Construction Company, small businesses in Maryland alike, and the Maryland economy that all stand to benefit greatly from this tax deduction. Thank you for your support and consideration for this powerful program.

Sincerely,

GRUNLEY CONSTRUCTION CO., INC

Kenneth M. Grunley, President and CEO
KMG/rlc

IDAHO STAGE
CONSTRUCTION

Idaho Public Works
16375-AA-1-2-3-5
Idaho Contractors License
RCE-46591

U.S. Senator Mike Crapo
239 Dirksen Senate Building
Washington, DC 20510

Re: The Energy Efficient Commercial Buildings Deduction (IRC Section 179D)

Dear Senator Crapo,

I am writing to express Idaho Stage Construction's support of the Tax Extenders and Disaster Relief Act of 2019 and specifically Section 113 – the Energy Efficient Commercial Buildings Deduction (179D Tax Deduction).

Idaho Stage Construction is headquartered in Kamiah, Idaho and we were founded in 2005. Our company has over 40 years of experience with design/build, construction and construction management projects. Idaho Stage has worked on federal, public and private sector building and remodel projects, including government, industrial, infrastructure, medical, semiconductor and microelectronics facilities, commercial buildings and schools.

Idaho Stage is a certified HUBZone (Historically Underutilized Business Zone) company, which employs entirely local individuals allowing Idaho Stage to supply crucial economic support to the very rural and economically disadvantaged areas of North Central Idaho.

The 179D program has helped us to grow our business and create jobs in our local economy as previously described. We plan to apply for Section 179D on a go-forward basis, as it is a way for us to continue to reinvest in our company and our local communities while still providing quality workmanship to our clients.

We urge you to vote for an extension of the 179D deduction for the calendar years 2018 and 2019. This would not only benefit our company, but the many Idaho small businesses that are similar to ours.
Thank you for your consideration and continued effort on this important issue and all you do for our great state!

Thank You,

Craig A. Roark
Manager

ISLAND CONTRACTING, INC.

General Contractors

U.S. Senator Benjamin Cardin
509 Hart Senate Office Building
Washington, DC 20510

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)
I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).
Island Contracting, Inc. is a minority owned, SBA certified 8(a) disadvantaged business with professional capabilities that provide engineering, general contracting and construction management services to the Maryland area.

As a past participant in Section 179D, our company has benefited greatly from this powerful incentive. This program has helped us to grow our business and keep jobs here in the State of Maryland. Island Contracting, Inc. also plans to apply for Section 179D on a go-forward basis, as it is a way for us to continue providing quality workmanship to its clients, community involvement, and training of future craftsmen.

Please vote to extend the 179D Deduction for Tax Year 2018, as not only would island Contracting, Inc. and companies similar to ours continue to benefit, but we will also continue to add jobs to the local Maryland economy. Thank you for all that you do for our great state!

Sincerely,

George Grillo Jr,
President
Island Contracting, Inc.
6728B Industrial Dr.
Betsville, MD 20705

6728 B Industrial Drive, Beltsville MD 20705

Phone: 301 345-1767 Fax: 301 474-0391 Email: sales@islandcontractinginc.net

KETTELHUT CONSTRUCTION, INC.

General Contractor/Construction Manager

740 Sagamore Parkway South
Lafayette, IN 47905
(765) 447-2181
Fax (765) 447-7122

May 30, 2019

U.S. Senator Todd Young
251 North Illinois St., Ste. 120
Indianapolis, IN 46204

Re: Energy Efficient Commercial Building Tax Deduction (Section 179D)

Senator Young:

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

Kettelhut Construction, Inc. has been in business for over 80 years and we have grown from a small business in West Lafayette to a top 10% construction company in the country, employing over 60 people. We have had a rewarding and close relationship with the people of Central Indiana and the various crafts of the local Building Trades. The technical abilities and work ethic of those people together with our professional capabilities, building skills and management style have helped to build a company to where it is today.

As a participant in Section 179D, our company has benefited greatly from this powerful program. The 179D program has helped us to grow our business and keep jobs here in the State of Indiana. Kettelhut Construction also plans to apply for Section 179D on a go-forward basis, as it is a way for us to continue providing quality workmanship to its clients, community involvement, and training of future craftsmen.

Please vote to extend the 179D Deduction for Tax Year 2018 and 2019, as this would not only positively impact Kettelhut Construction and companies alike, but we will also continue to add jobs to the local economy. Thank you for all that you do for our state!

Sincerely,

KETTELHUT CONSTRUCTION, INC.

Brad Deno
Brad Deno
President

MEP Holding Company

Headquarters
2350 N. Shadeland Avenue
Indianapolis, IN 46219-1736

317-543-3460
Fax 317-543-3476

May 29, 2019

U.S. Senator Todd Young
251 North Illinois St., Ste. 120
Indianapolis, IN 46204

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

Dear Mr. Young,

I write you today to voice my company's support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

MEP Holding Companies, Inc. was established in Indianapolis, IN in 2006. Since then, MEP Holding Companies, Inc. has expanded throughout the United States, and has grown to over 400 employees. The company focus includes but is not limited to plumbing, heating, air-conditioning, and similar work.

As a past participant in Section 179D, our company is grateful to have benefited from this powerful Incentive. This program has helped us continue to grow our business and allows us to remain competitive in our field. Our company plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D.

Please vote to extend the 179D Deduction for Tax Years 2018 and 2019, as not only would MEP Holding Companies, Inc. and companies similar to ours continue to benefit, but we will also continue to add jobs to the local United States economy. Thank you for all that you do for our country.

Sincerely,

Sherry Dean, CPA
CFO

Mueller
1306 Concourse Drive, Suite 100
Linthicum, MD 21090
410.646.4500 tel
410.646.4738 fax
www.muellerassoc.com

May 29, 2019

Senator Ben Cardin
100 S. Charles St.
Baltimore, MD 21201

Dear Senator Cardin:

Mueller Associates is a mid-sized business headquartered in Linthicum, Maryland. I am writing to express my support of the recently introduced legislation package called the Tax Extenders and Disaster Tax Relief (S.617) and specifically Section 113 – Energy Efficient Commercial Buildings Deduction (IRC Section 179D or 179D Tax Deduction).

Here at Mueller Associates we specialize in cultural, educational, corporate, and laboratory spaces that require advanced performance of HVAC, plumbing, power, fire protection, and lighting systems.

As part of the Tax Extenders and Disaster Tax Relief bill, the Energy Efficient Commercial Building Tax Deduction (IRC Section 179D) is now being considered for a potential extension through December 31, 2019. Mueller Associates has taken advantage of this powerful benefit from our work on numerous government-owned energy efficient buildings and would like to continue to do so in the future. The benefits of this incentive allowed us greater ability to take on more projects in turn creating additional jobs.

We urge you to strongly consider how beneficial this tax incentive is for our company, and many other small and midsized businesses in Maryland, when weighing an extension of the 179D Deduction for tax years 2018 and 2019. I understand you time is valuable and appreciate your assistance with this matter.

Sincerely,
MUELLER ASSOCIATES, INC.

Todd Garing

Todd Garing, PE, LEED AP $_{BD+C}$
Vice Presdient

TJG
cc: RAM, SAG, KHR – Mueller Associates, Inc.

open control systems | A DIVISION OF envelop facility technologies

U.S. Senator Todd Young
185 Dirksen Senate Office Building
Washington, DC 20510

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I am writing to you to thank you for taking time to review the extenders package including the Energy Efficient Commercial Building Tax Deduction (Section 179D) incentive and to convey my support for the bill.

Open Control Systems is a local company serving many areas throughout Indiana. A large portion of our projects include school districts. With assistance from the incentive, we have consistently invested in our company, new technologies, and equipment to better serve our clients including those community schools.

Our company is grateful to have benefited from the incentive as it allows us to invest in our business and provide the best service to our community. We continuously choose to include Section 179D in our future planning for this reason.

Please vote to extend the 179D Deduction for Tax Year 2018 and Tax Year 2019, as it has a direct impact on our local economy. We are proud to serve Indiana and want our business along with others to continue to gain strength, increase local jobs, and add to improved infrastructure.

Sincerely,

Travis G. Ihnen, President

PRITCHETT
CONTROLS

May 31, 2019

U.S. Senator Ben Cardin
509 Hart Senate Office Building
Washington, DC 20510

Re: The Energy Efficient Commercial Buildings Deduction (IRC Section 179D)

I am writing to express Pritchett Controls, Inc. support of the legislative package in the Senate called the Tax Extenders and Disaster Relief Act of 2019 and specifically Section 113 – Energy Efficient Commercial Buildings Deduction (Internal Revenue Code Section 179D or 179D Tax Deduction).

Pritchett Controls is an employee-owned and operated company headquarters in Maryland. As we like to say, we are employee-owned and employee-powered. We specialize in the design and implementation of lighting and HVAC controls system with the explicit purpose of making the buildings they are installed in more energy efficient. Our projects span Federal, State, and Municipal government entities including, but not limited to: Federal Agency, State Agency, higher education, and K-12 school buildings.

We have participated in the 179D tax deduction where it was available to us. These impactful deductions have allowed us to create more jobs for the local economy, be more competitive in bidding our government-owned projects, and more directly impact the energy efficiency on projects we are awarded.

Section 179D has been effective law in encouraging and rewarding energy efficient building design. This deduction has been a game changer for my business and the government-owned buildings we work on. We urge you to vote for an extension of the 179D deduction for the calendar years 2018 and 2019. This plea is not just for Pritchett Controls, Inc. and its employee-owners, but for Maryland's small businesses that will benefit from this and add more jobs to our local economy.

We thank you for your consideration and continued effort on this important issue for Maryland's small businesses.

Timothy Pritchett
President

R.E. Dimond and Associates, Inc.

May 31, 2019

U.S. Senator Todd Young
185 Dirksen Senate Office Building
Washington, DC 20510

Re: The Energy Efficient Commercial Buildings Deduction (IRC Section 179D)

Senator Young,

I am writing to express R.E. Dimond and Associates, Inc.'s support of the Tax Extenders and Disaster Relief Act of 2019 and specifically Section 113 – the Energy Efficient Commercial Buildings Deduction (or the 179D Tax Deduction).

R.E. Dimond and Associates is a consulting engineering firm located in Indianapolis, Indiana. Since 1977, our firm has specialized in the responsible design of high performing building systems that provide maximum comfort and operational efficiency. With over 25 employees, R.E. Dimond and Associates are mechanical, electrical, plumbing and technology engineers and designers who support our community and want to make our world a better place. We believe in designing buildings that are enduring, sustainable and add to the landscape of the community. We serve clients in public and private sector and our portfolio includes Higher Education, K-12, sports facilities, cultural and community facilities, historic buildings, commercial office buildings, and healthcare.

We have participated in the 179D tax deduction where it was available to us. The 179D program has allowed us to create more jobs for the local economy, be more competitive in bidding our government-owned projects, and more directly impact the energy efficiency on projects we are awarded.

We urge you to vote for an extension of the 179D deduction for the calendar years 2018 and 2019. This would not only benefit our company, but the many Indiana small businesses similar to ours. We thank you for your consideration and continued effort on this important issue. Thank you for all that you do for our great state!

Sincerely,

Daniel E. Dimond, P.E.,
President

732 North Capitol Avenue
Indianapolis, IN 46204
www.redimond.com
(317) 634-4672

RATIO

Architecture Preservation Interior Design Landscape Architecture Urban Design + Planning Graphic Design

May 31, 2019

U.S. Senator Todd Young
185 Dirksen Senate Office Building
Washington, DC 20510

Re: The Energy Efficient Commercial Buildings Deduction (IRC Section 179D)

Dear Senator Young,

The purpose of this letter is to express our support of the recently proposed legislation S.617 – Tax Extender and Disaster Relief Act of 2019. More specifically, Section 113 of the legislation that extends the Internal Revenue Code Section 179D - Energy Efficient Commercial Buildings Deduction ("179D Tax Deduction") for calendar years 2018 and 2019.

Headquartered in Indianapolis, Indiana and founded in 1982, RATIO Architects has partnered with a diverse list of clients to deliver innovative design solutions across the globe. At RATIO, we're passionate about more than just great design. The interests of our people - and the communities in which we live and work - drive the work that we do. With over 150 employees, our team members are empowered to make a difference in the communities in which they live and work, by learning, teaching, volunteering or otherwise helping to make the world a better place.

The 179D program has been a tremendous benefit to our firm, allowing us to reinvest in our business including the creation of technical jobs in Indiana. We have projects completed in 2018 and 2019 that we look forward to pursuing the 179D tax deductions for once the incentive is extended for these calendar years.

Please vote to extend the 179D Deduction for Tax Year 2018 and 2019, as not only would RATIO Architects and companies similar to ours continue to benefit, but we will also continue to add jobs to the local United States economy.
Thank you for your consideration.

Sincerely,

William A. Browne Jr.
Principal / President

101 South Pennsylvania Street Indianapolis, Indiana 46204-3684 317.633.4040 f: 317.633.4153
RATIOdesign.com
smdpstudio.com
Indianapolis, IN Champaign, IL Raleigh, NC Chicago, IL
Affiliates: RATIO States, LLC | RATIO States – NC, PLLC | RATIO Architects of Ohio, LLC | smdp, LLC

RM MECHANICAL
COMMERCIAL & INDUSTRIAL CONTRACTORS
5998 W. Gowen Rd.
Boise, ID 83709
Ph. 208 / 362-0131
Fax 208 / 362-9790

U.S. Senator Mike Crapo
239 Dirksen Senate Building
Washington, DC 20510

Subject: Energy Efficient Commercial Building Tax Deduction (Section 179D)

I write you today in support of the recent extenders package, the Energy Efficient Commercial Building Tax Deduction (Section 179D).

As a past participant in Section 179D, RM Mechanical is grateful to have benefited from this powerful incentive. This program has helped us continue to grow our business and allows us to remain competitive in our field. Our company plans to apply for Section 179D on a go-forward basis, whenever we complete a project that qualifies under Section 179D.

Please vote to extend the 179D Deduction for Tax Year 2018, as not only would RM Mechanical and companies similar to ours continue to benefit, but we will also continue to add jobs to the local United States economy. Thank you for all that you do for our country.

Sincerely,

Brad Hom
Chief Financial Officer

Scholer Corporation
ARCHITECTURE ENGINEERING INTERIORS

PRINCIPALS
Steven J. Gloyeske, AIA
Thomas J. Yee, PE
Stephan E. Goffinet, AIA

ASSOCIATES
Ryan L. Haynes, AIA
Tyler J. Heaston, PE
Gerald R. Hicks, AIA
Jason L. Peterson

June 4, 2019

U.S. Senator Todd Young
185 Dirksen Senate Office Building
Washington, DC 20510

Reference: Energy Efficient Commercial Building Tax Deduction (Section 179D)

Dear Senator Young:

The purpose of this letter is to express our support of the recently proposed legislation S.617 - Tax Extender and Disaster Relief Act of 2019. More specifically, Section 113 of the legislation that extends the Internal Revenue Code Section 179D - Energy Efficient Commercial Buildings Deduction ("179D Tax Deduction") for calendar years 2018 and 2019.

Scholer Corporation is an Indiana based company located in Lafayette, Indiana and we have been providing client focused architectural and engineering services for over 94 years. As a participant in Section 179D, we are grateful to have benefited from this powerful incentive. This program has helped us scale our business and allows us to remain competitive in our field. Scholer Corporation plans to apply for Section 179D on qualified projects completed in 2018 and 2019 once the incentive is extended for these calendar years.

Please vote to extend the 179D Deduction for Tax Year 2018 and 2019, as this will continue to add jobs to our local economy and positively impact companies similar to ours.

Thank you for your consideration and for all you do for our great state!

Yours very truly,

SCHOLER CORPORATION

Steven J. Gloyeske, AIA, LEED AP BD+C
President

SJG:sll

111 Walter Scholer Drive : PO Box 808 : Lafayette, Indiana 47902-0808 : tel 765.474.1478 : fax 765.474.3570 : www.scholer.com

THE HAGERMAN GROUP

U.S. Senator Todd Young
185 Dirksen Senate Office Building
Washington, DC 20510

Re: IRC Section 179D - Energy Efficient Commercial Buildings Deduction

Dear Senator Young,

The purpose of this letter is to express our support of the recently proposed legislation S.617 – Tax Extender and Disaster Relief Act of 2019. More specifically, Section 113 of the legislation that extends the Internal Revenue Code Section 179D - Energy Efficient Commercial Buildings Deduction ("179D Tax Deduction") for calendar years 2018 and 2019.

The Hagerman Group has been a leader in the construction industry for over 111 years during which we built our reputation for quality and integrity. We are a family-owned company with a passion for serving our communities. With offices in Fort Wayne and Indianapolis, we service our valued clients throughout the Midwest and across the country for their general contracting, construction management, and design-build needs.

179D has been a powerful incentive for us allowing us to reinvest in our business including the creation of technical jobs in our state, which we currently employ over 400 employees and craftsmen. Our Company has pursued 179D tax deductions where they were available to us and we have projects completed in 2018 and 2019 that we look forward to pursuing once the incentive is extended for these calendar years.

We urge you to vote in favor of extending the Energy Efficient Commercial Buildings Deduction for The Hagerman Group, small business in Indiana, and the Indiana economy that all stand to benefit greatly from this tax deduction. Thank you for your support and consideration for this powerful program.

Sincerely,

Melanie King

Melanie King, CPA
Chief Financial Officer
The Hagerman Group

TIDEWATER INC ENGINEERS / SCIENTISTS / PROGRAM MANAGERS

U.S. Senator Ben Cardin
509 Hart Senate Office Building
Washington, DC 20510

Re: IRC Section 179D - Energy Efficient Commercial Buildings Deduction

The purpose of this letter is to express our support of the recently proposed legislation S.617 – Tax Extender and Disaster Relief Act of 2019. More specifically, Section 113 of the legislation that extends the Internal Revenue Code Section 179D - Energy Efficient Commercial Buildings Deduction ("179D Tax Deduction") for calendar years 2018 and 2019.

Tidewater, Inc. is an engineering, construction, and facilities management company with project managers, engineers, scientists, construction estimators, and HVAC licensed and certified personnel on staff providing us with a diverse and deep bench of talent adding value to the projects we are awarded. The Company serves both private and government entities across the United States. Headquartered in Maryland, we have a long-standing relationship with many Federal Government Agencies including the United States Military.

Our Company has pursued 179D tax deductions where they were available to us. It has been a powerful incentive for us allowing us to reinvest in our business including the creation of technical jobs in our great State of Maryland. We have projects completed in 2018 and 2019 that we look forward to pursuing the 179D tax deductions for once the incentive is extended for these calendar years.

Again, we urge you to vote in favor of extending the IRC Section 179D – Energy Efficient Commercial Buildings Deduction for Tidewater, Inc., small business in Maryland, and the Maryland economy that all stand to benefit greatly from this tax deduction. Thank you for your time and consideration for this impactful tax incentive.

Kindest Regards,

Chris Johns, CPA
Controller
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