



## Fiscal Estimate Narratives

DOR 6/20/2007

LRB Number	07-2456/1	Introduction Number	AB-0378	Estimate Type	Original
<b>Description</b> The motor vehicle fuel tax imposed on fuel from a renewable resource, income and franchise tax credits related to renewable energy, and requiring the exercise of rule-making authority					

### Assumptions Used in Arriving at Fiscal Estimate

This bill creates seven nonrefundable energy credits. They are (1) an alternative energy sources credit, (2) an energy efficient commercial building credit, (3) a research expense credit, (4) a research facilities credit, (5) a clean fuel fueling station credit, (6) an energy efficient home construction credit, and (7) an energy efficiency home improvement credit. The credits are based on the amount paid in the taxable year for any of the following: (a) equipment that generates electricity from solar energy, wind energy, or agricultural waste, as well as a credit in the amount of \$0.10 per kilowatt-hour for electricity generated from solar, wind, or agricultural waste, (b) research and development related to designing and manufacturing equipment that generates electricity from solar energy, wind energy, garbage, or agricultural or organic waste, (c) the construction of an energy efficient commercial building, (d) the installation of fuel station equipment that dispenses fuel that, generally, consists of at least 85% ethanol or 20% biodiesel fuel, (e) building materials used by a contractor to construct an energy efficient home, and (f) energy efficient equipment and products that the person installs in his or her principal residence. Unused credits may be carried over and offset against tax for up to 15 years.

In addition, the bill provides that a business engaged in the construction of a power production plant that derives energy from a renewable resource may be certified to receive angel investments.

Finally, the bill provides that the motor vehicle fuel tax does not apply to ethanol contained in motor vehicle fuel that consists of at least 85% ethanol or to biomass or any other renewable resource contained in biodiesel fuel that contains at least 20% biomass or other renewable resource.

### Fiscal Effect

The fiscal effect of the bill in its entirety cannot be estimated. However, some provisions of the bill can be estimated, and the revenue loss that would result from those provisions is estimated to be at least \$5.2 million GPR in FY08 and \$11.7 GPR million in FY09. In addition, the bill would result in an estimated loss of \$1.25 million SEG (Transportation Fund) in FY08 and \$1.7 million SEG in FY09. (See detail below). Additional GPR revenue loss from the provisions of the bill that cannot be estimated could potentially be as large or larger than those that can be estimated.

**Alternative Energy Sources Credit** -- The fiscal effect would be a loss of revenue of \$3 million GPR per year, the maximum in the bill. The bill provides a maximum credit of \$1 million each for individuals, corporations, and insurance companies.

**Energy Efficient Commercial Building Credit** -- It is not known how many qualifying energy-efficient commercial buildings will be built in Wisconsin. Therefore, the fiscal effect of this provision cannot be estimated. As an example, the Census Bureau estimates that the average size of commercial buildings in the Midwest region is 13,500 square feet (sf). The credit is limited to \$1.80 per sf. Therefore, an average size qualified commercial building would be eligible for a credit of \$24,300 (13,500 x \$1.80). If 100 average sized buildings are built, the fiscal effect would be a revenue loss of \$2,430,000 GPR. The revenue loss would be greater to the extent that more or larger qualifying commercial buildings are built in a year.

**Research Expense and Research Facilities Credits** -- The fiscal effect would be a reduction in revenue of \$225,000 GPR in FY09 and \$275,000 GPR in FY10 for a total reduction in revenue of \$500,000 (\$250,000 each for the expense for equipment and facilities credits, the maximum allowed in the bill).

**Clean Fuel Fueling Station Credit** -- The estimated fiscal effect would be a reduction in revenue of \$225,000 GPR in FY08 and \$500,000 GPR in FY09.

**Energy Efficient Home Construction Credit** -- It is not known how many energy-efficient homes will be

constructed in Wisconsin. Therefore, the fiscal effect of this provision cannot be estimated. As an example of what the fiscal effect may be, according to the Census Bureau approximately 35,800 homes were constructed in Wisconsin in 2006. The maximum credit allowed in the bill is \$2,000 per home constructed. Assuming the same number of homes is constructed in a given year as in 2006, and 10% of the homes were certified as eligible for the maximum credit, the fiscal effect would be a reduction in revenue of \$7,160,000 GPR  $((35,800 \times 10\%) \times \$2,000)$ .

Energy Efficiency Home Improvement Credit -- Data are not available on the amount of energy-efficient windows, skylights, doors, metal roofing, electric heat pumps, furnaces, or insulation, or the number of methane water heaters or corn- and wood-burning furnaces that are sold in Wisconsin in a year. Therefore, the fiscal effect of the entire provision cannot be estimated. Based on data from the Home Appliance Manufacturers Association, approximate sales of Energy Star-compliant dishwashers and clothes washers in Wisconsin will be equal to \$80 million in 2007. The credit for these items is equal to 10% of the purchase price, therefore the fiscal effect of providing this credit is a revenue loss of \$8 million GPR per year.

Angel Investment Credits -- The bill expands the definition of businesses that are eligible to be certified for Angel Investment Tax Credits to include businesses that construct power production plants that derive energy from renewable sources. Because there is currently a statutory cap on the amount of credits that can be certified in a year, this provision will have no fiscal effect.

E85 and Biodiesel Fuel Tax Exemption -- The Legislative Fiscal Bureau estimates that 4,050,000 gallons of the ethanol portion of E85 will be sold at retail in Wisconsin in FY08, and 5,400,000 gallons will be sold in FY09. The current excise tax rate is \$0.309 per gallon. Therefore the estimated revenue loss to the Transportation Fund is \$1.25 million SEG  $(4,050,000 \text{ gallons} \times \$0.309)$  in FY08 and \$1.7 million SEG in FY09  $(5,400,000 \text{ gallons} \times \$0.309)$ .

### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

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<b>Description</b> The motor vehicle fuel tax imposed on fuel from a renewable resource, income and franchise tax credits related to renewable energy, and requiring the exercise of rule-making authority			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes	\$		\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
<b>TOTAL State Costs by Category</b>	<b>\$</b>		<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
		Increased Rev	Decreased Rev
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
<b>TOTAL State Revenues</b>	<b>\$</b>		<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		State	Local
NET CHANGE IN COSTS	\$		\$
NET CHANGE IN REVENUE		\$See text	\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	
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		<b>Date</b>	
		6/20/2007	