

## Fiscal Estimate - 2011 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 11-3647/1	<b>Introduction Number</b> SB-362	
<b>Description</b> A sales and use tax exemption for building materials that become a part of a facility for a local unit of government or nonprofit organization		
<b>Fiscal Effect</b>		
<b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
<b>Local:</b> <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs      3. <input type="checkbox"/> Increase Revenue <b>5. Types of Local Government Units Affected</b> <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities 2. <input checked="" type="checkbox"/> Decrease Costs      4. <input checked="" type="checkbox"/> Decrease Revenue <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others      stadium districts <input checked="" type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory <input checked="" type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
<b>Fund Sources Affected</b>		
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS <b>Affected Ch. 20 Appropriations</b>		
<b>Agency/Prepared By</b> DOR/ Robert Schmidt (608) 267-9892	<b>Authorized Signature</b> Paul Ziegler (608) 266-5773	<b>Date</b> 1/9/2012

## Fiscal Estimate Narratives

DOR 1/9/2012

LRB Number	11-3647/1	Introduction Number	SB-362	Estimate Type	Original
<b>Description</b> A sales and use tax exemption for building materials that become a part of a facility for a local unit of government or nonprofit organization					

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, school districts, municipalities, counties and nonprofit organizations do not pay sales or use tax on their purchases of tangible personal property. However, construction contractors pay sales or use tax on purchases of tangible personal property used in real property construction regardless of whether the construction is for an entity that is exempt from sales and use tax.

Under the bill, tangible personal property that becomes a component of a facility owned by a school district, municipality, county or nonprofit organization would be exempt from sales and use taxes when purchased by a construction contractor pursuant to a contract with a school district, municipality, county, or nonprofit organization. A facility under the bill would mean any building, shelter, parking lot, parking garage, athletic field, athletic park, storm sewer, or water supply system but would not include a highway, street, or road.

For this fiscal note, it is assumed that 80% of the value of the building materials used in construction activities for all affected local governments and all affected nonprofit entities are currently exempt. This assumption reflects that most major construction projects, especially those of larger governmental and nonprofit entities, are of sufficient magnitude and undertaken with sufficient lead time to induce government or nonprofit entities to use their current law authority to purchase building materials directly to reduce costs. Given the wide scope and variety of construction projects; including many smaller and/or unique projects, projects undertaken under short timelines, and those undertaken by smaller entities; 20% of the value of the building materials for all construction relevant to this bill are assumed to be subject to tax under current law.

County, City, Village, and Town Construction: Based on information from the United States Census Bureau, construction expenditures listed under this exemption for local governments (excluding school districts) in Wisconsin totaled \$911.5 million in 2009. IHS Global Insight currently forecasts that state and local government construction will decrease 13.1% from 2009 to 2012. Assuming Wisconsin local government construction decreases by the same percentage, 2012 construction expenditures for Wisconsin local governments are estimated at \$792.0 million. Based on information from the Economic Census; materials, supplies and components used in construction are estimated at 30.5% of the value of construction. Assuming that 80% of these purchases are made directly by the exempt body, it is estimated that \$48.3 million ( $\$792 \text{ million} \times 30.5\% \times 20\%$ ) of construction material purchases by contractors pursuant to contracts with counties, cities, villages, and towns will be taxable in 2012.

School District Construction: Based on information provided by the Department of Public Instruction, school construction expenditures totaled \$222.4 in FY 2011. IHS Global Insight forecasts that state and local government construction will decrease 2.33% from 2011 to 2012. Assuming Wisconsin school district construction expenditures decreases at the same rate, 2012 Wisconsin school district construction expenditures are estimated at \$217.2 million. Assuming that 80% of these purchases are made directly by the exempt body and that 30.5% of the construction expenditures are related to materials, it is estimated that \$13.2 million ( $\$217.2 \text{ million} \times 30.5\% \times 20\%$ ) of construction material purchases by contractors pursuant to contracts with school districts will be taxable in 2012.

Nonprofit organizations affected by the bill would include hospitals, religious organizations, private schools, and a variety of interest groups and associations.

As reported in DOR's Towns, Village and City Taxes 2010 report, the value of taxable real estate across the state of Wisconsin was \$484.0 billion in 2010. According to Department of Revenue's Tax Exemption Devices report, an estimated \$21.6 billion of private real property was owned by exempt organizations in 2010 (4.46% of the value of taxable real estate). According to the Census Bureau, private construction expenditures in Wisconsin totaled \$23.83 billion in 2007. IHS Global Insight currently forecasts that nonresidential construction will decrease approximately 25% from 2007 to 2012. Assuming the share of Wisconsin nonprofit construction is reflective of real property owned by exempt organizations versus taxable

property, and that nonprofit organization construction will reflect changes in national trends in nonresidential construction, Wisconsin nonprofit organization construction is estimated to be \$797.6 million (4.46% x \$23.83 billion x 75%) in 2012. Assuming that 80% of these purchases are made directly by the exempt body, it is estimated that \$48.6 million ( $\$797.6 \times 30.5\% \times 20\%$ ) of construction material purchases by contractors pursuant to contracts with nonprofit organizations will be taxable in 2012.

Total Expenditures for Construction Materials Affected under the Bill: Total annual expenditures for taxable construction materials for school, local government and nonprofit construction are an estimated \$110.2 million (\$48.3 million + 13.2 million + 48.6 million) in 2012.

Revenue Impact: It is estimated that state sales and use tax collections will decrease under the bill by \$5.5 million (5% x \$110.2 million). County and stadium district sales taxes were 8.2% of state sales tax revenues in FY11. Assuming this percentage does not change, county and stadium district sales taxes will decrease by about \$450,000 per year.

Local Government Costs: To the extent that local government construction contracts would not include state, county, and stadium district sales and use taxes under the bill, construction expenditures could decrease by up to \$3.3 million, assuming all tax savings are passed on to the local governments. Administrative costs related to materials purchasing and project management of entities that currently purchase materials directly may decrease under the bill.

Administrative costs would be minimal and absorbed by the department.

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

## Fiscal Estimate Worksheet - 2011 Session

Detailed Estimate of Annual Fiscal Effect

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<b>Description</b> A sales and use tax exemption for building materials that become a part of a facility for a local unit of government or nonprofit organization			
<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, ets.)</b>			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$-5,500,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$-5,500,000</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$see text
NET CHANGE IN REVENUE		\$-5,500,000	-\$450,000
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	
DOR/ Robert Schmidt (608) 267-9892		Paul Ziegler (608) 266-5773	
		<b>Date</b>	
		1/9/2012	