

Fiscal Estimate Narratives

DOR 3/30/2017

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|---|-----------|---------------------|---------|---------------|----------|
| LRB Number | 17-1828/1 | Introduction Number | AB-0174 | Estimate Type | Original |
| Description a sales and use tax exemption for building materials that become a part of a facility for a technical college district or for the University of Wisconsin | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

Current law provides that the sale of tangible personal property that becomes a component of a facility in this state that is owned by a county, municipality, school district, or nonprofit organization is exempt from the sales tax and the use tax. The exemption applies to tangible personal property purchased by a construction contractor who transfers the property to the county, municipality, school district, or nonprofit organization as part of constructing the facility. This bill expands the exemption to tangible personal property transferred from a contractor to a technical college district, to any institution or campus in the University of Wisconsin System, or to the University of Wisconsin-Extension.

UW System:

The Governor's 2017-19 capital budget recommendations included \$128.3 million in UW capital expenditures and a recommendation that \$159.6 million of UW projects be included in the all-agency projects program. According to the 2012 Economic Census, the cost of materials is approximately 30% of the total cost of construction. Assuming this percentage stays constant and further assuming the approval of \$287.9 million in UW capital expenditures, the department estimates the cost of materials to be \$86.4 million for the biennium or \$43.2 million per year.

Fiscal Effect:

It is estimated that state sales and use tax collections will decrease under the bill by about \$2.2 million ($\$43.2 \text{ million} * 5\%$) on an annual basis. The fiscal effect could be larger/smaller to the extent that UW construction expenditures differ from the Governor's capital budget recommendation.

Wisconsin Technical Colleges:

According to the Wisconsin Technical College System Office, districts spent about \$92 million on construction projects in FY16. Assuming this level of spending remains constant, the department estimates the cost of materials to be \$27.5 million ($\$92 \text{ million} * 30\%$) on an annual basis.

Fiscal Effect:

Based on information gathered from several Wisconsin technical colleges, the department estimates direct-owner purchases (exempt from sales tax), as a share of construction materials spending, to be 75%. It is estimated that state sales and use tax collections will decrease under the bill by about \$345,000 ($\$27.5 \text{ million} * 25% * 5\%$) on an annual basis.

Total Revenue Impact:

The department estimates that state sales and use tax collections will decrease under the bill by about \$2.5 million on an annual basis. County and baseball district sales taxes were 7.7% of state sales tax revenues in FY16. Assuming this percentage does not change, county and stadium district sales taxes will decrease by approximately \$196,000 per year.

Construction costs for UW and technical college projects may decrease to the extent contractors pass tax savings to their customers.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2017 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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|---|---|-------------------------------|
| LRB Number 17-1828/1 | Introduction Number AB-0174 | |
| Description a sales and use tax exemption for building materials that become a part of a facility for a technical college district or for the University of Wisconsin | | |
| I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): | | |
| II. Annualized Costs: | | |
| Annualized Fiscal Impact on funds from: | | |
| | Increased Costs | Decreased Costs |
| A. State Costs by Category | | |
| State Operations - Salaries and Fringes | \$ | \$ |
| (FTE Position Changes) | | |
| State Operations - Other Costs | | |
| Local Assistance | | |
| Aids to Individuals or Organizations | | |
| TOTAL State Costs by Category | \$ | \$ |
| B. State Costs by Source of Funds | | |
| GPR | | |
| FED | | |
| PRO/PRS | | |
| SEG/SEG-S | | |
| III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.) | | |
| | Increased Rev | Decreased Rev |
| GPR Taxes | \$ | \$-2,500,000 |
| GPR Earned | | |
| FED | | |
| PRO/PRS | | |
| SEG/SEG-S | | |
| TOTAL State Revenues | \$ | \$-2,500,000 |
| NET ANNUALIZED FISCAL IMPACT | | |
| | <u>State</u> | <u>Local</u> |
| NET CHANGE IN COSTS | \$ | \$ |
| NET CHANGE IN REVENUE | \$-2,500,000 | -\$196,000 |
| Agency/Prepared By | | |
| Authorized Signature | | Date |
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| | | 3/30/2017 |