

Fiscal Estimate - 2017 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 17-4749/1	Introduction Number SB-785
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Description
 providing funding, creating an individual income tax credit, and providing a levy limit exception for lead service line replacement and making an appropriation

Fiscal Effect

State:

<input type="checkbox"/> No State Fiscal Effect	<input type="checkbox"/> Increase Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<input checked="" type="checkbox"/> Indeterminate	<input checked="" type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Increase Existing Appropriations	<input type="checkbox"/> Decrease Existing Appropriations	<input type="checkbox"/> Decrease Costs
<input type="checkbox"/> Create New Appropriations		

Local:

<input type="checkbox"/> No Local Government Costs	5. Types of Local Government Units Affected	
<input checked="" type="checkbox"/> Indeterminate	<input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities <input checked="" type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts	
1. <input type="checkbox"/> Increase Costs	3. <input checked="" type="checkbox"/> Increase Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input checked="" type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
2. <input type="checkbox"/> Decrease Costs	4. <input type="checkbox"/> Decrease Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	

Fund Sources Affected	Affected Ch. 20 Appropriations
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	

Agency/Prepared By DOR/ Craig Steinfeldt (608) 266-5705	Authorized Signature Jamie Adams (608) 266-6785	Date 2/14/2018
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Fiscal Estimate Narratives

DOR 2/14/2018

LRB Number	17-4749/1	Introduction Number	SB-785	Estimate Type	Original
Description providing funding, creating an individual income tax credit, and providing a levy limit exception for lead service line replacement and making an appropriation					

Assumptions Used in Arriving at Fiscal Estimate

The bill relates to lead service line (LSL) replacement in municipalities. This fiscal note addresses the nonrefundable individual income tax credit and levy limit exception.

Individual Income Tax Credit

The bill creates a nonrefundable individual income tax credit for qualifying expenses incurred by an individual to replace a lead service line (LSL) that carries water to the individual's principal dwelling. The maximum amount of credit that may be claimed each year for an individual dwelling is \$200 and the amount may be claimed for not more than 10 years.

The U.S. Environmental Protection Agency has identified at least 176,000 LSLs in Wisconsin, but was unable to locate documentation for all Wisconsin communities. A 2016 American Water Works Association Survey estimated that there are 240,000 LSLs in Wisconsin. Note that not all LSLs carry water to a principal dwelling and only a fraction of those will be replaced each year.

Information from Milwaukee Water Works, suggests that average cost of LSL replacement in 2017 was \$13,100, of which \$7,100 was on the private property side and the remaining \$6,000 was on the public property side. The property owner share was capped at \$1,600, which suggests that individuals generally would have been able to claim the full credit amount over multiple years.

It is unknown how many LSL replacements will occur each year and how the individual claimant payments to municipalities will be allocated. As such, the fiscal effect of the credit is unknown. However, as an informational example, if 5% of the 240,000 estimated LSLs are replaced each year beginning in 2018 and individuals are required to pay at least \$200 per year for five years, the total amount of the credit would be approximately, \$2.4 million in tax year 2018, increasing to about \$12 million annually after five years. Based on the experience with other nonrefundable credits, the department expects that revenue would be reduced by about 85% of the total credit amount, or \$2.0 million in fiscal year 2019, increasing to \$10.2 million annually by fiscal year 2023. To the extent that the actual experience differs from the example with respect to the claimants' share of LSL replacement cost, the payment schedule to the municipality, or the number of qualifying LSL replacements, the fiscal effect would be different as well.

Levy Limit Exception

Current law establishes local levy limits for political subdivisions, defined as a city, village, town, or county. No political subdivision may increase its preceding year levy beyond its valuation factor (the percentage change in equalized value due to net new construction).

The bill creates a new levy limit exception for the amount a political subdivision levies in that year for costs related to the replacement of LSLs. Any amount so levied may be used only to benefit homeowners for such costs.

Under the bill, if a political subdivision imposes a fee or charge on homeowners for LSL replacement, the fee or charge may not result in a lien on real property if unpaid.

The local fiscal effect is indeterminate. Tax levies would increase by the amount of spending on LSL replacement costs that benefit homeowners as determined by local officials. LSLs are not an issue for all municipalities. May, 2016 data from the League of Wisconsin Municipalities indicates at least 10 municipalities have 30 percent or more of LSLs.

For illustrative purposes, replacing 5 percent of the LSLs each year and assuming costs of \$6,000 for the public side in the 10 municipalities would increase the average municipal tax levy by 7.35 percent. The levy increase would result in a tax bill increase of \$124 on a median value home (\$161,622) in those 10 municipalities.

The bill does not reduce revenues to tax increment districts.

Long-Range Fiscal Implications