

Fiscal Estimate Narratives

DOR 7/7/2005

LRB Number	05-2699/1	Introduction Number	AB-555	Estimate Type	Original
Subject					
Individual and corporate tax credit for certain WHEFA bonds re: educational facility					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, the Wisconsin Health and Educational Facilities Authority (WHEFA) may issue bonds to finance any project undertaken by an educational institution for an educational facility. This bill has two purposes. First, it creates an individual and corporate income tax exemption for bonds issued by WHEFA for that purpose, on or after the effective date of this bill. Second, the Wisconsin Association of Independent Colleges and Universities (WAICU) is added to the definition of "educational institution" and certain WAICU facilities are added to the definition of "educational facilities".

Only WHEFA bonds issued for educational purposes qualify for this tax exemption. Based on discussions with WHEFA staff, it is estimated that about 10% of the bonds issued in any given year are for educational purposes. Total issues average \$600 million annually, and WHEFA bonds earn an average of 5% interest. It is assumed that approximately 50 percent of WHEFA bonds are purchased by Wisconsin residents; thus, the bill would exempt about \$1.5 million in interest earnings from annual issuances (\$600 million x 10% x 5% x 50%). Applying the average marginal tax rate of 5.5% to this amount shows that the bill would reduce revenues by \$82,500 in FY07.

In each subsequent year, the new issue of bonds will add to the amount of interest earnings that are exempt from income tax. Interest earnings on bonds issued in the second year will accumulate with those from the first year, and so on, making the fiscal effect larger each year. Assuming the circumstances described above continue, the revenue decrease of \$82,500 in FY07 will increase by \$82,500 every year through FY16. At this point, it is assumed that the issuance of new bonds will be matched by the retirement of old bonds through repayment and refinancing, and equilibrium will be achieved. This balance will be achieved around FY16 when the total annual fiscal effect will be approximately \$825,000.

If this bill is adopted before July 31, 2005, the exemption will apply to bonds issued from that date. This would mean that issuances in the final seven months of 2005 would be eligible for the exemption, and, using assumptions from above, the fiscal effect in FY06 would be approximately \$50,000. If the adoption comes after July 31, 2005 however, the bonds to which this exemption first applies will be those issued in 2006. This would mean that the first fiscal effect would be seen in FY07 as described above.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
Revenue decrease of \$50,000 in FY06 (depending on date of adoption; see text of fiscal note), and \$82,500 in FY07; revenue decreases will grow by approximately \$82,500 in subsequent years through FY16.			
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	\$	\$-825,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$-825,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$FY16 -\$825,000	\$
Agency/Prepared By		Authorized Signature	Date
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