

FISCAL ESTIMATE FORM

1999 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB # 99-3762/1

INTRODUCTION # SB 470

Admin. Rule #

Subject

Expand Sales and Use Tax Exemption to Include Building Materials Sold to Builders of Municipal Projects

Fiscal Effect

State: No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

- Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation

Increase Costs - May be Possible to Absorb
 Within Agency's Budget Yes No

Decrease Costs

Local: No Local Government Costs

1. Increase Costs
 Permissive Mandatory
 2. Decrease Costs
 Permissive Mandatory

3. Increase Revenues
 Permissive Mandatory
 4. Decrease Revenues
 Permissive Mandatory

5. Types of Local Governmental Units Affected:
 Towns Villages Cities
 Counties Others SWPBPD
 School Districts WTCS Districts

Fund Sources Affected

- GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations

Assumptions Used in Arriving at Fiscal Estimate:

Under current law, construction contractors are considered consumers of materials purchased for use in building projects. Therefore, contractors are subject to sales and use tax on materials purchased for use in the construction, renovation or development under contract to a municipality or school district. If a municipality or school district purchases construction materials and supplies directly, they are exempt from the sales and use tax. This bill would create an exemption from the sales and use tax for building materials, supplies and equipment when purchased by private contractors solely for use in construction, renovation or development of property pursuant to a contract with a municipality or school district.

Based on a 1999 Department of Revenue survey of local governments, architectural firms, school districts and statewide organizations representing local governments and school districts, the Department determined that in aggregate local governments and school districts utilize their exemption 37% of the time. Schools purchase nearly 50% of their materials directly; however, the largest and smallest districts generally do not have the time or resources to manage materials procurement for their projects. Local governments utilize their sales tax exemption even less frequently than school districts—only 20% of local government materials are purchased directly.

State Revenue Loss

1. **School Construction Materials:**

Based on Department of Public Instruction data for school building and construction note and bond approvals, construction expenditures by public school systems in Wisconsin were \$641.8 million in 1998. Assuming growth in construction costs of 12% since 1998, the value of school construction would be \$718.8 million (\$641.8 million x 1.12) in 2000. Based on U.S. Census of Construction, 32.6% of construction costs are attributable to materials; therefore, expenditures for school construction materials

(continued on page two)

Long-Range Fiscal Implications:

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue John T. Stott, (608) 266-9706	Yeang-Eng Braun (608) 266-2700 <i>Yeang Eng Braun</i>	3/28/00

would be \$234.3 million ($\$718.8 \text{ million} \times .326$) in 2000. Using 1999 survey results it is estimated that 50% of these expenditures are currently taxable, the amount of expenditures affected by this bill would be approximately \$117.2 million ($\$234.3 \text{ million} \times .50$) in 2000.

2. Municipal and County Construction Materials:

Based on Department of Revenue's municipal financial reporting statistics, construction expenditures by local governments and counties were \$424.6 million in 1997. Using a price index of 18%, it is estimated that the value of municipal and county construction will be \$501.0 million ($\$424.6 \text{ million} \times 1.18$) in 2000. Materials used in municipal and county building construction will cost an estimated \$163.3 million ($\$501.0 \text{ million} \times .326$) in 2000. Assuming that 80% of material purchases are currently taxable, the amount of expenditures affected by this bill would be approximately \$130.6 million ($\$163.3 \text{ million} \times .80$) in 2000.

3. Fiscal Effect:

Public school system construction costs would generate \$5.9 million ($\$117.2 \text{ million} \times .05$), and municipal and county construction projects would generate \$6.5 million ($\$130.6 \text{ million} \times .05$) in sales tax revenue from materials purchased by contractors in 2000. The combined sales tax revenue loss for the state due to this bill would be \$12.4 million ($\$5.9 \text{ million} + \6.5 million) annually.

Local Revenue Loss

County and stadium sales tax revenues were 6.24% of state sales tax revenues in 1998. Assuming this percentage applies, county and stadium sales tax revenues would decline by \$0.8 million ($\$12.4 \text{ million} \times .0624$) annually.

Local Spending Decrease

Assuming construction contractors reduce the construction price to account for the reduced materials cost, local governments and school districts would realize saving of \$12.4 million in state sales taxes and \$0.8 million in county and stadium sales taxes if construction materials were exempt, for a total of \$13.2 million. School districts and municipalities that currently purchase materials directly would have reduced administrative costs related to the purchasing and project management functions that are necessary under current law.

YRB 3/28/00

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

1999 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB # 99-3762/1

Admin. Rule #

INTRODUCTION # SB 470

Subject
 Expand Sales and Use Tax Exemption to Include Building Materials Sold to Builders of Municipal Projects

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 State funds from:	
A. State Costs by Category	Increased Costs	Decreased Costs
State Operations - Salaries and Fringe	\$	\$ -
(FTE Position Changes)	(FTE)	(- FTE)
State Operations-Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	\$	\$ -
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
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	\$	\$ - 12.4 million
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	\$	\$ - 12.4 million

NET ANNUALIZED FISCAL IMPACT

STATE

LOCAL

NET CHANGE IN COSTS

\$

\$ -13.2 million

NET CHANGE IN REVENUES

\$ -12.4 million

\$ -0.8 million

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue John T. Stott, (608) 266-9706	Yeang-Eng Braun <i>Yeang-Eng Braun</i> (608) 266-2700	3/28/00