

### Fiscal Estimate - 2001 Session

Original       Updated       Corrected       Supplemental

<b>LRB Number</b> <b>01-2035/3</b>	<b>Introduction Number</b> <b>AB-423</b>
<b>Subject</b> Individual income tax exemption for private college bonds; allow private college association to issue bonds	
<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 checked="" type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs      3. <input type="checkbox"/> Increase Revenue      5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities 2. <input type="checkbox"/> Decrease Costs      4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts	
<b>Fund Sources Affected</b> <b>Affected Ch. 20 Appropriations</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>Agency/Prepared By</b> DOR/ Pamela Walgren (608) 266-7817	<b>Authorized Signature</b> Dennis Collier (608) 266-5773
<b>Date</b> 5/18/01	

## Fiscal Estimate Narratives

DOR 5/30/01

LRB Number	01-2035/3	Introduction Number	AB-423	Estimate Type	Corrected
<b>Subject</b>					
Individual income tax exemption for private college bonds; allow private college association to issue bonds					

### 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. Interest on the bonds is exempt from federal law, but is taxable at the state level. An educational institution is a corporation, agency, or association that is authorized by state law to provide or operate an educational facility. An educational facility is a private, nonprofit, regionally accredited, postsecondary educational institution.

The draft would provide an income tax exemption for bonds issued by WHEFA to finance any project undertaken by an educational institution or by the Wisconsin Association of Independent Colleges and Universities for an educational facility. Under the draft, an educational facility also means an institution, place, building, or other structure used by the Wisconsin Association of Independent Colleges and Universities solely for providing one or more supporting services to one or more educational institutions.

Staff at the Wisconsin Association of Independent Colleges and Universities has indicated that the organization is considering offering centralized functions to obtain economies of scale for member institutions for functions such as purchasing, financial aid and payroll processing. Such an effort may require additional facilities. At present, construction is not planned and estimates are not available for costs or dates.

Based on information from WHEFA, interest on currently outstanding educational bonds (not including refunding bonds) totals approximately \$10 million annually. WHEFA estimates that Wisconsin residents hold approximately 25% of these bonds, but that the amount could increase to 50% if the bonds were exempt. This estimate assumes a constant level of outstanding bonds. Since most corporations are subject to the franchise tax, not the income tax, the estimate assumes a tax rate of 6.5%, the rate applicable to most individual income. Should the actual number of bonds issued annually or the interest rates of those bonds change, the actual fiscal effect would also change.

If 25% of the bonds continue to be held by state residents, the estimated fiscal effect of exempting the bond interest is to reduce individual income tax revenues by \$160,000 annually (\$10 million x 25% x 6.5%). If 50% of the bonds were held by state residents, the fiscal effect would be to reduce individual income tax revenues by \$320,000 annually (\$10 million x 50% x 6.5%).

If the provision is interpreted as including refunding bonds and 25% of the bonds continue to be held by state residents, the estimated fiscal effect of exempting the bond interest is to reduce individual income tax revenues by \$240,000 annually (\$15 million x 25% x 6.5%). If 50% of the bonds were held by state residents the fiscal effect would be \$480,000 annually (\$15 million x 50% x 6.5%).

### Long-Range Fiscal Implications