

Fiscal Estimate - 2001 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 01-1886/1	Introduction Number AB-688
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Subject
 Sales tax and a use tax exemption for building materials

Fiscal Effect

State:

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

Local:

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

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Fiscal Estimate Narratives

DOR 1/14/02

LRB Number	01-1886/1	Introduction Number	AB-688	Estimate Type	Original
Subject					
Sales tax and a use tax exemption for building materials					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, building materials, supplies and equipment are exempt from sales and use tax if purchased by a unit of local government. Under the bill, building materials, supplies and equipment are exempt from sales and use tax, regardless of the purchaser, if the materials, supplies and equipment are acquired for or used solely in the construction, renovation or development of property under a contract with a town, village, city, county or school district.

According to the DPI School Performance Report, school district expenditures for facilities were \$539.7 million in the 1999-2000 school year. Based on US Census of Construction data, materials are assumed to be 37.9% of construction costs and so building materials for school facilities are estimated to have cost about \$204.6 million ($\$539.7 \text{ million} \times 37.9\%$) in 1999-2000. Based on a survey of architectural firms, school districts and school district associations, it is estimated that 50% of construction materials are bought by contractors and so \$102.3 million ($\$204.6 \text{ million} \times 50\%$) are subject to sales and use tax.

Based on the 2000 Department of Revenue Financial Reports for local governments, total town, village, city and county construction expenditures are estimated to be about \$652.0 million in 1999. Based on the US Census of Construction, materials are assumed to be 37.9% of construction costs and so materials are estimated to have cost about \$247.1 million ($\$652.0 \text{ million} \times 37.9\%$) in 1999. Based on a survey of architectural firms, local governments and local government associations, it is estimated that local governments buy about 20% of construction materials and contractors buy 80%. Thus, about \$197.7 million ($\$247.1 \text{ million} \times 80\%$) of construction materials for local government projects are subject to sales and use tax.

Total taxable expenditures for materials, supplies and equipment for construction of town, village, city, county or school district facilities are estimated to be \$300.0 million ($\$102.3 \text{ million} + \197.7 million) in 1999. Therefore, assuming local government spending on building materials, supplies and equipment remains constant, state sales and use tax revenues are estimated to decrease by about \$15.0 million ($\$300.0 \text{ million} \times 5\%$) annually under the bill.

County, baseball park district and football stadium district sales and use taxes are currently about 7.064% of state taxes and so these taxes are estimated to decrease by about \$1.1 million ($\$15 \text{ million} \times 7.064\%$) annually under the bill.

To the extent construction cost reductions due to the sales tax exemption under the bill are passed through to school districts, school district borrowing and debt service costs may decrease. Since school district debt levies are included in the statutory definition of partial school revenues, the state's two-thirds funding commitment may also decrease as a result of the bill.

To the extent school districts and municipalities that currently directly purchase construction materials reduce or cease such purchases due to the bill, school district and municipal administrative costs related to such purchases would also likely decrease.

The Department would incur one-time costs of \$56,100 to notify retailers of the new exemption. The bill does not provide funding for this amount.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
\$56,100 - GPR expenditure to inform retailers of the law change.			
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, ets.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$-15,000,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-15,000,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-15,000,000	\$-1,100,000
Agency/Prepared By		Authorized Signature	Date
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