

Fiscal Estimate Narratives
WHEDA 2/21/2003

LRB Number	03-0920/1	Introduction Number	AB-98	Estimate Type	Original
Subject					
Exempt from taxation WHEDA interest income					

Assumptions Used in Arriving at Fiscal Estimate

Assumptions include \$37.5 annual issuance, 6 yr avg bond life, marginal tax rate of 6.77%, average coupon rate of 4.6%, and existing in state participation in bond program will go from 5% to 35% (based on other states experience). costs will incrementally step up for six years, peak at year 6 and continue at that level indefinitely unless assumptions change.

First year loss to existing revenue stream of \$5,800. In the sixth year, loss will be @\$35,000. NO COST TO EXISTING REVENUE FOR THE FIRST THREE YEARS AS WHEDA WOULD AGREE TO REIMBURSE THE STATE FOR ACTUAL REVENUE LOSS FOR THOSE FIRST THREE YEARS PER AN AGREED UPON FORMULA.

Cost for additional level of participation (35%) is an opportunity cost, not an actual cost to existing revenue stream, because without the double tax exemption, there won't be any increase in participation levels. Maximum opportunity cost conservatively assuming all additional in state participation in these bonds replaces investment in taxables, also steps up to @ \$210,000 in year six.

Since rate reduction will be passed on to borrowers, there taxable income will increase by the amount of that interest savings and will be taxed at income rates, further mitigating the fiscal impact.

Double tax exemption puts WHEDA on an equal footing with WHEFA, local housing authorities, redevelopment authorities, and a recent City of Manitowoc Bond issuance for double tax exempt bonds for housing purposes, authorized under Chpater 229.

Long-Range Fiscal Implications

see above