

Fiscal Estimate Narratives
DOR 3/11/2004

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|--|------------------|---------------------|---------------|---------------|-----------------|
| LRB Number | 03-4328/2 | Introduction Number | SB-507 | Estimate Type | Original |
| Subject | | | | | |
| Income tax deduction for interest on WHEFA bonds; proceeds used for hospital information technology upgrades | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

This bill would create an income tax exemption for interest on bonds or notes issued by the Wisconsin Health and Educational Facilities Authority (WHEFA) if the proceeds of the bond or note are used by a health facility to purchase information and technology equipment. This bill would first apply to taxable years beginning on January 1, 2006.

WHEFA issues about \$25 million annually in bonds and notes, the proceeds of which are used by a health facility to purchase information and technology equipment. These bonds have an average life of 5 years and an average annual interest rate of 5%.

Based on conversations with WHEFA, it is assumed that if this bill were enacted, the annual amount of qualifying bonds issued would double from the current amount. For taxable years 2006 through 2010, WHEFA would issue \$50 million annually in qualifying bonds. Thus, the amount of qualifying bonds outstanding in each of these tax years would be \$50 million in 2006, \$100 million in 2007, \$150 million in 2008, \$200 million in 2009 and \$250 million in 2010. For taxable years after 2010, it is assumed that the outstanding bonds would retire at the same rate at which new bonds would be issued, and therefore, the amount of bonds outstanding in 2011 and beyond would be \$250 million.

Assuming an average annual interest rate of 5% and assuming all outstanding bonds are held by Wisconsin taxpayers in the top taxable income bracket, the revenue loss resulting from this bill would be a one-time loss for tax years 2006 through 2009 and an annual loss of \$0.8 million ($\$250 \text{ million} \times .05 \times .0675$) for tax years after 2009.

The revenue loss from this bill would be as follows:

2006: \$0.2 million ($\$50 \text{ million} \times 5\% \times 6.75\%$)
2007: \$0.3 million ($\$100 \text{ million} \times 5\% \times 6.75\%$)
2008: \$0.5 million ($\$150 \text{ million} \times 5\% \times 6.75\%$)
2009: \$0.7 million ($\$200 \text{ million} \times 5\% \times 6.75\%$)
2010 and thereafter: \$0.8 million ($\$250 \text{ million} \times 5\% \times 6.75\%$)

These estimates could be higher or lower depending on the amount of bonds issued, the terms of the bonds issued and the share of the bonds that is owned by Wisconsin taxpayers.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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|--|--|---------------|
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| Income tax deduction for interest on WHEFA bonds; proceeds used for hospital information technology upgrades | | |
| I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): | | |
| One-time revenue loss of \$0.2 million in 2006, \$0.3 million in 2007, \$0.5 million in 2008 and \$0.7 million in 2009. | | |
| 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 | \$ | \$ |
| GPR Earned | | |
| FED | | |
| PRO/PRS | | |
| SEG/SEG-S | | |
| TOTAL State Revenues | \$ | \$ |
| NET ANNUALIZED FISCAL IMPACT | | |
| | <u>State</u> | <u>Local</u> |
| NET CHANGE IN COSTS | \$ | \$ |
| NET CHANGE IN REVENUE | \$SeeText | \$ |
| Agency/Prepared By | Authorized Signature | Date |
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