

Fiscal Estimate Narratives

DOR 2/29/2008

LRB Number	07-4045/1	Introduction Number	SB-506	Estimate Type	Original
Description Income and franchise tax credits for insulating concrete forms used to construct a building and energy efficient products					

Assumptions Used in Arriving at Fiscal Estimate

This bill creates an income and franchise tax credit equal to 50% of the amount that the taxpayer pays in the taxable year to either purchase for use in this state or manufacture in this state 1) insulating concrete forms used to construct a building, and 2) any item of tangible personal property that is governed by and satisfies certain energy standards. Manufacturing costs incurred in Wisconsin would be eligible for credit whether the items are sold within or outside of Wisconsin.

To meet the requirements under provision 2) above any of the following energy standards must be met:

- a) The 2001 supplement to the 2000 International Energy Conservation Code;
- b) The 2004 supplement to the 2003 International Energy Conservation Code; and
- c) The 2007 energy efficiency guidelines established by the federal environmental protection agency and the federal department of energy under the Energy Star program.

Unused credit may be carried forward and used for up to 15 years.

Fiscal Effect

The fiscal effect of the bill in its entirety cannot be estimated. However, some provisions of the bill can be estimated, and the revenue loss that would result from those provisions is estimated to be at least \$213 million per year (see detail below). The revenue loss from the provisions of the bill that cannot be estimated could potentially be as large or larger than those that can be estimated.

Insulating Concrete Forms -- Based on information from the Insulated Concrete Form Association, sales of insulating concrete forms in Wisconsin were estimated to be \$6.6 million in 2007. The department estimates that approximately 75% of credits claimed in a year by corporations (which are assumed to be the primary claimant under this provision) are used to offset tax liability in that year. As such the credit would reduce tax revenues by an estimated \$2.5 million annually (\$6.6 million x 0.5 x 75%). This amount reflects the purchase price for sales in Wisconsin only. To the extent that the estimate does not include the cost to manufacture forms which would also be eligible for a credit, nor does it include a factor for any increase in the sales or manufacture of insulating concrete forms that would likely result from the incentive created by the credit, the fiscal effect would likely be higher.

International Energy Conservation Code -- Data do not exist to estimate this provision. According to the Wisconsin Department of Commerce, the International Energy Conservation Code(IECC) is not typically used to rate individual products used in construction. Instead, whole buildings or systems within a building are built to meet the IECC standards.

Energy Star Product Purchases -- Based on data from national and Wisconsin sources for a selection of Energy Star products, the fiscal effect of providing a credit for the purchase of Energy Star products is estimated to be a reduction in revenue of at least \$195.6 million annually (see detailed estimate in the attached spreadsheet). To the extent that the estimate includes only a portion of the approximately 50 product types rated under the Energy Star program and does not include a factor for any increase in the sales of Energy Star products that would likely result from the incentive created by the credit, the fiscal effect is likely significantly higher.

Energy Efficient Products Manufacturing -- Data do not exist to allow for an estimate of the fiscal effect of providing a credit for 50% of the cost to manufacture all of the energy efficient products covered under the bill. However, an analysis of the manufacture of energy efficient windows suggests a significant revenue loss. Based on an analysis of data on window manufacturing in Wisconsin as well as data from tax returns, the fiscal effect of providing an income and franchise tax credit for 50% of the cost to manufacture energy

efficient windows is estimated to be a an annual revenue loss of \$15 million. To the extent that the estimate includes only one of the approximately 50 product types rated under the Energy Star program, and does not include any products that meet the IECC standards and does not include a factor for any increase in the manufacturing of energy efficient products that would likely result from the incentive created by the credit, the fiscal effect is likely significantly higher.

Based on the above, the fiscal effect from those provisions is estimated to be a revenue loss of at least \$213 million per year (\$2.5 million (insulating concrete forms) + \$195.6 million (Energy Star product purchases) + \$15 million (manufacture of energy efficient windows)). The revenue loss from the provisions of the bill that cannot be estimated could potentially be as large or larger than those that can be estimated.

The administrative costs under this proposal are \$21,000 for printing of forms and \$8,400 for programming changes and modifications to business rules. All costs are one time.

Long-Range Fiscal Implications

Appliance Sales and Price Estimates, 2007

Product	Room Air Conditioners ²	Dehumidifiers ²	Refrigerators ²	Freezers ²	Clothes Washers ²	Attic Insulation ³	Replacement Windows- Occupied (purchases) ⁴	Replacement Windows- Rental Property (purchases) ⁴	Furnaces (residential) ⁵	Furnaces (commercial) ⁵	Total
US Annual Sales (units or dollars)	9,500,000	1,577,000	11,798,000	2,235,000	9,624,000	\$1,193,280,000	\$5,930,706,600	\$1,747,773,300	42,400	10,600	
Wisconsin Sales (units or dollars) ¹	171,000	28,386	212,364	40,230	173,232	\$21,479,040	\$106,752,719	\$31,459,919	90%	90%	
Energy Star % of Sales	36%	25%	25%	25%	42%		90%	90%	90%	90%	
Energy Star Price	\$300	\$200	\$1,200	\$800	\$750				\$3,000	\$3,000	
Total Sales	\$18,468,000	\$1,419,300	\$63,709,200	\$8,046,000	\$54,568,080	\$21,479,040	\$96,077,447	\$28,313,927	\$114,000,000	\$28,500,000	\$434,580,994
Credit @ 50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Credit Amount	\$9,234,000	\$709,650	\$31,854,600	\$4,023,000	\$27,284,040	\$10,739,520	\$48,038,723	\$14,156,964	\$57,000,000	\$14,250,000	\$217,290,497
Percent of Credit Used	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Annual State Tax Loss	\$8,310,600	\$638,685	\$28,669,140	\$3,620,700	\$24,555,636	\$9,665,568	\$43,234,851	\$12,741,267	\$51,300,000	\$12,825,000	\$195,561,447

Notes/Assumptions:

1. Assume that Wisconsin accounts for 1.8% of US sales, based on percentage of population.
2. Source for US Sales for these products: <http://www.aham.org/hi/a/GetDocumentAction/1/8910>
3. Source: Joint Center for Housing Studies, Harvard, Foundations for Future Growth of Remodeling Industry
4. Source: U. S. Census Bureau, Expenditures for Residential Improvements and Repairs, 1994 - 2006
5. Furnaces -- Information from Focus on Energy (Wisconsin Energy Conservation Corporation)

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): The administrative costs under this proposal are \$21,000 for printing of forms and \$8,400 for LTE salary and fringe. The LTEs are needed to perform the programming changes in WINPAS, develop business rules, and test the system. All costs are one time. \$26,600 will be against Ch. 20.566(1)(a) and \$2,800 against Ch. 20.566(3)(a).			
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			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$See Text	\$
Agency/Prepared By		Authorized Signature	Date
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