

### Fiscal Estimate - 2011 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 11-3678/1	<b>Introduction Number</b> SB-508	
<b>Description</b> Creation of the Wisconsin Next Generation Reserve Board and Wisconsin next generation reserve fund, authorizing the State of Wisconsin Investment Board to provide certain advice, services, and facilities to state agencies and others, requiring the exercise of rule-making authority, and making appropriations		
<b>Fiscal Effect</b>  <b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input checked="" 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 type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
<b>Local:</b> <input 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      0 <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 checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input checked="" type="checkbox"/> SEG <input type="checkbox"/> SEGS 20.195, 20.536(1)(k)		
<b>Agency/Prepared By</b> DOR/ Bradley Caruth (608) 261-8984	<b>Authorized Signature</b> John Koskinen (608) 267-8973	<b>Date</b> 2/24/2012

## Fiscal Estimate Narratives

DOR 2/24/2012

LRB Number	11-3678/1	Introduction Number	SB-508	Estimate Type	Original
<b>Description</b> Creation of the Wisconsin Next Generation Reserve Board and Wisconsin next generation reserve fund, authorizing the State of Wisconsin Investment Board to provide certain advice, services, and facilities to state agencies and others, requiring the exercise of rule-making authority, and making appropriations					

### Assumptions Used in Arriving at Fiscal Estimate

This bill creates the Wisconsin Next Generation Reserve Board, with the primary function of making grants, loans, and investments in Wisconsin bioscience companies. The bill also creates the Wisconsin next generation reserve fund for use by the reserve board. Each year beginning in fiscal year 2013, the Department of Revenue (DOR) is required to deposit into the reserve fund an amount equal to a portion of withholding taxes from designated bioscience companies and hospitals.

Under the bill, DOR is directed to determine the total amount of withholding taxes due and payable from designated bioscience companies and hospitals during fiscal year 2012. These companies are identified by the North American Industry Classification System (NAICS) codes provided by the companies, which indicate the companies' principal business activities. In particular, the bill requires that the companies use the 6-digit NAICS code for one of the following thirty principal business activities:

Wet Corn Milling  
Soybean Processing  
Other Oilseed Processing  
Ethyl Alcohol Manufacturing  
All Other Basic Organic Chemical Manufacturing  
Cellulosic Organic Fiber Manufacturing  
Nitrogenous Fertilizer Manufacturing  
Phosphatic Fertilizer Manufacturing  
Fertilizer (Mixing Only) Manufacturing  
Pesticide and Other Agricultural Chemical Manufacturing  
Medicinal and Botanical Manufacturing  
Pharmaceutical Preparation Manufacturing  
In-Vitro Diagnostic Substance Manufacturing  
Biological Product (except Diagnostic) Manufacturing  
Electromedical and Electrotherapeutic Apparatus Manufacturing  
Analytical Laboratory Instrument Manufacturing  
Irradiation Apparatus Manufacturing  
Surgical and Medical Instrument Manufacturing  
Surgical Appliance and Supplies Manufacturing  
Dental Equipment and Supplies Manufacturing  
Ophthalmic Goods Manufacturing  
Dental Laboratories  
Testing Laboratories  
Research and Development in Biotechnology  
Research and Development in the Physical, Engineering, and Life Sciences (except Biotechnology)  
HMO Medical Centers  
Freestanding Ambulatory Surgical and Emergency Centers  
Medical Laboratories  
Diagnostic Imaging Centers  
General Medical and Surgical Hospitals

Beginning in fiscal year 2013, DOR is directed to deposit 95 percent of the amount by which withholding tax of the qualifying companies exceeds the withholding tax for fiscal year 2012. The bill limits annual deposits to no more than \$50 million and limits total deposits to no more than \$500 million. DOR may not make any deposits into the fund on or after December 31, 2026.

DOR does not currently require companies to provide 6-digit NAICS codes on returns. Instead, DOR

requests 4-digit codes, which more broadly categorize primary business activities. For example, 541380 is the 6-digit NAICS code for "testing laboratories" (included in the list above) and 5413 is the 4-digit NAICS code which includes testing laboratories, but which is more broadly defined as "architectural, engineering, and related services." The 6-digit NAICS codes are data captured when they are provided, but neither the 6-digit codes nor the 4-digit codes are subject to independent verification by DOR since they do not affect tax calculations.

Based on data from DOR, the Department of Workforce Development, and the U.S. Census Bureau, it is estimated that the qualifying businesses will remit \$494 million of withholding tax in fiscal year 2012. However, DOR will only be able to verify \$105 million, absent improved NAICS code information provided by qualifying companies. For the remainder of this fiscal estimate, it is assumed that DOR will obtain improved NAICS codes from qualifying businesses and hospitals. If that is not the case, the fiscal effect of the bill will be substantially lower.

The fiscal effect of the bill will also depend on the annual growth in withholding tax remitted by qualifying businesses. Using the history of payroll growth of bioscience companies and hospitals for the the period from 2000 to 2010, implies an estimated annual growth rate of 5.6 percent. Alternatively, the forecasted wage and salary growth for Wisconsin as a whole, for 2013 is 3.9 percent. Using those rates, 95 percent of the increase in withholding tax would be between \$17.7 million and \$26.2 million in fiscal year 2013.

Under the bill, withholding taxes remitted by qualifying companies in future years would be compared to the fiscal year 2012 total, resulting in cumulative increases in the amounts deposited into the reserve fund by DOR. Under the high growth rate scenario above (5.6 percent), DOR would deposit the annual maximum of \$50 million into the account for fiscal years 2014 to 2022. In fiscal year 2023, DOR would deposit the remaining \$23.8 million to reach the overall maximum of \$500 million. Under the low growth rate scenario (3.9 percent), DOR would deposit \$36.2 million in fiscal years 2014 and DOR would deposit the annual maximum of \$50 million into the account for fiscal years 2015 to 2022. DOR would deposit the remaining \$46.1 million to reach the overall maximum of \$500 million in fiscal year 2023.

#### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2011 Session

Detailed Estimate of Annual Fiscal Effect

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<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
	State Operations - Salaries and Fringes	\$	\$
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)</b>			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$-50,000,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S (20.195,)	50,000,000	
	<b>TOTAL State Revenues</b>	<b>\$50,000,000</b>	<b>\$-50,000,000</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$SeeText	\$
NET CHANGE IN REVENUE		\$0	\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
DOR/ Bradley Caruth (608) 261-8984		John Koskinen (608) 267-8973	2/24/2012