

Fiscal Estimate - 2011 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 11-3125/2	Introduction Number AB-0021 (SE1)
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Description
 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

Fiscal Effect

State:

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

Local:

<input type="checkbox"/> No Local Government Costs	5. Types of Local Government Units Affected	
<input type="checkbox"/> Indeterminate	<input type="checkbox"/> Towns	<input type="checkbox"/> Village <input type="checkbox"/> Cities
1. <input type="checkbox"/> Increase Costs	<input type="checkbox"/> Counties	<input type="checkbox"/> Others <u>0</u>
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> School Districts	<input type="checkbox"/> WTCS Districts
2. <input type="checkbox"/> Decrease Costs		
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		
3. <input type="checkbox"/> Increase Revenue		
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		
4. <input type="checkbox"/> Decrease Revenue		
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory		

Fund Sources Affected	Affected Ch. 20 Appropriations
<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)	

Agency/Prepared By DOR/ Bradley Caruth (608) 261-8984	Authorized Signature John Koskinen (608) 267-8973	Date 11/1/2011
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Fiscal Estimate Narratives

DOR 11/1/2011

LRB Number	11-3125/2	Introduction Number	AB-0021	Estimate Type	Original
		(SE1)			
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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 \$11.4 million and \$17.6 million in fiscal years 2014 and 2015 respectively. Deposits would increase annually, reaching the annual maximum in fiscal year 2020 and reaching the overall maximum of \$500 million in fiscal year 2026.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2011 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):		
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	\$SeeText	\$
NET CHANGE IN REVENUE	\$	\$
Agency/Prepared By		
Authorized Signature		Date
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		11/1/2011