

Fiscal Estimate - 2017 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 17-4050/1	Introduction Number AB-0001 (AU7)
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Description
 authorizing the creation of an electronics and information technology manufacturing zone, making changes to the enterprise zone tax credit program, authorizing limited use of the design-build construction process, granting contingent highway bonding authority, and making appropriations

Fiscal Effect

State:

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

Local:

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

Fund Sources Affected **Affected Ch. 20 Appropriations**

GPR
 FED
 PRO
 PRS
 SEG
 SEGS

Agency/Prepared By DOR/ Robert Schmidt (608) 266-5773	Authorized Signature Robert Schmidt (608) 266-5773	Date 8/3/2017
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Fiscal Estimate Narratives

DOR 8/3/2017

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Assumptions Used in Arriving at Fiscal Estimate

This fiscal estimate pertains only to the provisions of the bill related to creating an electronics and information technology manufacturing zone credit, modifications of the enterprise zone credit, creation of a sales and use tax exemption, the creation of special provisions for tax incremental financing districts (TIDs), and notices sent by the Department of Revenue to disregarded entities or the entity's owners.

ELECTRONICS AND INFORMATION TECHNOLOGY MANUFACTURING ZONE CREDIT

The bill would create a refundable electronics and information technology manufacturing zone income and franchise tax credit. Credits would be certified by the Wisconsin Economic Development Corporation (WEDC), and WEDC may designate only one zone. The zone shall remain in effect for no more than 15 years.

The credit would have two components, one for 17% of payroll expenditures for jobs located in the zone, and another for 15% of significant capital expenditures in the zone. The maximum credits that WEDC may certify is \$2.85 billion (a maximum of \$1.5 billion for the payroll component and a maximum of \$1.35 billion for the capital expenditures component). WEDC shall allocate the credit for capital expenditures over a seven-year period.

WEDC shall revoke certification for the credit if a certified business does any of the following:

1. Supplies false or misleading information to obtain the tax credits.
2. Leaves the electronics and information technology manufacturing zone to conduct substantially the same business outside the zone.
3. Ceases operations in the electronics and information technology manufacturing zone and does not renew operation of the business or a similar business in the zone within 12 months.

The amount and timing of the fiscal effect from this provision is dependent on the timing and amount of eligible zone payroll and capital expenditures by the certified business. A tentative schedule for the expenditures and credit is included as an attachment to this estimate. The total credits certified for all years, and thus the fiscal effect, cannot exceed the maximums under the bill. The fiscal effect could be less than the maximum to the extent that payroll and/or capital expenditures for the certified business are lower than anticipated.

MODIFICATIONS TO THE ENTERPRISE ZONE CREDIT

The bill would make the following changes to the current law enterprise zone credit:

1. Increase the number of enterprise zones that may be designated by WEDC from 30 to 35;
2. Allow WEDC to re-designate a zone if WEDC revokes the certification for credits for the zone and cancels the designation, or if the zone expires; and
3. Allow WEDC to certify no more than one financial services technology business that, after completing a competitive corporate relocation process, retains its headquarters in Wisconsin and maintains at least 93% of its full-time employees in the base year as determined by WEDC. The maximum amount that could be claimed by the financial services technology business is \$2 million per year for a maximum of five years.

Allowing WEDC to designate five additional enterprise zones and allowing WEDC to re-designate zones would increase expenditures from the appropriation for the enterprise zone credit by an estimated \$13.5 million in FY 2020, \$11.25 million annually from FY 2021 through FY 2026, \$6.75 million in FY 2027, and

\$2.25 million in FY 2028.

Allowing WEDC to designate a zone for a financial services technology business would increase expenditures from the appropriation for the enterprise zone credit by an estimated \$2.0 million annually from FY 2020 through FY 2024.

CREATION OF A SALES AND USE TAX EXEMPTION

The bill creates a sales and use tax exemption for the sale of building materials, supplies, and equipment used solely to construct facilities located in an electronics and information technology manufacturing zone if the capital expenditures for constructing the facilities may be claimed as income and franchise tax credits as certified by WEDC.

According to a study from EY (formerly Ernst & Young), construction expenditures for the Foxconn project are estimated to be \$5.57 billion. The study further assumes that taxable building materials would make up 50% of the construction expenditures. The department estimates the exemption would reduce state sales/use tax revenue by about \$139 million ($\$5.57 \text{ billion} * 50\% * 5\%$).

Local (county and baseball district) sales taxes were 7.7% of state sales tax revenues in FY16. Assuming this percentage does not change, local sales taxes will decrease by about \$10.7 million ($\$139 \text{ million} * 7.7\%$). The local amount will vary to the extent construction takes place in a county subject to the baseball district tax (if it is still in place) and/or the county sales tax.

These figures represent the total sales tax revenue loss for the project. The annual amounts will depend on the start date and the duration of the project.

SPECIAL PROVISIONS FOR TIDS

Under the bill, a municipality may create a tax incremental district (TID) in an electronics and information technology manufacturing (EITM) zone. The bill specifies that such a district may only be suitable for industrial sites or mixed-use development. The bill allows for several exceptions to current law regarding creation dates, document submission dates, and excluding the EITM TID taxable property from the 12 percent limit calculation. The bill also allows for a municipality to incur costs outside of the EITM TID boundaries, provided the expenditures benefit the TID and are located in the same county. The bill increases the allowable life and period during which DOR may allocate positive tax increments from 20 years to 30 years for an EITM TID.

The local fiscal effect regarding the EITM TID is indeterminate as the location and project costs are unknown. The average tax increment value by municipality in 2017 is \$47 million, while TIDs terminating in 2017 had an average life of 18 years. The EITM zone TID could have a multi-billion dollar increment value once fully developed. Including the EITM TID in the 12 percent limit calculation would prevent most municipalities from creating additional TIDs under current law.

The bill does not have a direct impact on the tax increments generated in existing TIDs.

NOTICES TO A DISREGARDED ENTITY OR THE ENTITY OWNER

Under the bill, a notice sent by the Department to a the owner of an entity that is disregarded under section 7701 of the Internal Revenue Code or to the entity is considered a notice sent to both and both are liable for any amounts due as specified in the notice. The provision is expected to have a minimal fiscal effect.

ADMINISTRATIVE COSTS

The Department is able to administer the provisions of the bill within its current budget.

Long-Range Fiscal Implications

Payroll Credit

Assume hiring ramps up starting in CY 2017

Assume maximum 13,000 FTE with avg salary \$53,875 in CY2021

Assume two-year lag between expense year and fiscal year for claim based on experience in enterprise zone credit

CY	Payroll Expense	FY	Credit Amount
2017	13,815,616	2019	2,348,655
2018	140,075,000	2020	23,812,750
2019	350,187,500	2021	59,531,875
2020	560,300,000	2022	95,251,000
2021	703,375,000	2023	119,573,750
2022	703,375,000	2024	119,573,750
2023	703,375,000	2025	119,573,750
2024	703,375,000	2026	119,573,750
2025	703,375,000	2027	119,573,750
2026	703,375,000	2028	119,573,750
2027	703,375,000	2029	119,573,750
2028	703,375,000	2030	119,573,750
2029	703,375,000	2031	119,573,750
2030	703,375,000	2032	119,573,750
2031	703,375,000	2033	119,573,750
2032	703,375,000	2034	3,744,470
Total			1,500,000,000

Capital Expenditure Credit

Maximum total credit of \$1.35b spread over seven years

Assume two-year lag between expense year and fiscal year for claim based on experience in enterprise zone credit

CY	Capital Expenditures	FY	Credit Amount
2018	676,000,000	2020	192,857,143
2019	4,608,000,000	2021	192,857,143
2020	4,306,500,000	2022	192,857,143
2021	1,132,000,000	2023	192,857,143
2022	12,500,000	2024	192,857,143
		2025	192,857,143
		2026	192,857,142
Total			1,350,000,000

Fiscal Estimate Worksheet - 2017 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	\$See Text	\$
NET CHANGE IN REVENUE	\$See Text	\$
Agency/Prepared By		
Authorized Signature		Date
DOR/ Robert Schmidt (608) 266-5773		8/3/2017
Robert Schmidt (608) 266-5773		