

Fiscal Estimate Narratives

DOR 3/22/2022

LRB Number	21-0750/1	Introduction Number	AB-1117	Estimate Type	Original
Description creating the Wisconsin Renewable Energy Development Authority to participate in and guarantee certain energy-related loans, implement other energy-related programs, and make certain grants and making an appropriation					

Assumptions Used in Arriving at Fiscal Estimate

This fiscal estimate pertains to the provisions administered by the Department of Revenue. The bill creates the Wisconsin Renewable Energy Development Authority (WREDA) and authorizes WREDA to implement programs for developing renewable resources, reducing energy consumption, and improving energy efficiency. Under the bill, a property tax exemption is created for all property owned or leased by WREDA, provided that the use of the property is primarily related to the purposes of the authority. The bill also authorizes WREDA to have up to \$500 million in outstanding bonds at any time and creates an individual and corporate income tax exemption for interest from bonds issued by WREDA.

Property Taxes

The department does not have value or location information on the type of facility the WREDA might own or lease. The bill would create an indeterminate tax shift to other taxable properties if WREDA owned or leased a currently taxable property. If WREDA owned or leased a currently tax-exempt property, then the bill would have no fiscal impact.

Tax Increment Finance

If WREDA owned or leased a taxable property in a tax increment district (TID), then an indeterminate revenue loss may occur for the TID. The bill would have no fiscal effect if the property owned or leased was currently tax exempt.

Sales Taxes

Under the bill, purchases by WREDA are exempt from sales tax. The overall fiscal effect is indeterminate but expected to be minimal.

Income Tax Exemption

The bill creates an exemption under both the individual and corporate income tax for interest on bonds issued by WREDA. Because virtually all corporations pay the franchise tax rather than the corporate income tax, the fiscal effect of this provision would only relate to the individual income tax.

The authority is authorized to have a maximum of \$500 million in outstanding bonds at a time. IHS Markit estimates a bond rate for municipal bonds for 2022 of 2.59%, implying that WREDA could pay approximately \$12.95 million annually in interest on \$500 million of bonds. Based on a review of individual income tax returns with state and municipal interest income, the average marginal tax rate is 5.1%, implying a tax reduction of \$660,000 annually associated with \$12.95 million of eligible interest income.

The fiscal effect will be lower to the extent that the bonds are bought by residents of other states. There is likely to be some home-state bias, in which bond purchasers prefer to buy bonds from their state of residence due to the preferential treatment, but the size of that bias is unknown. Based on data from the Bureau of Economic Analysis, Wisconsin personal interest income accounts for about 1.4% of national interest income. If national bond purchasers exhibit no home-state bias, the annual fiscal effect could be reduced to \$9,240 (1.4% x \$660,000). As an example of a national bond market with some home-state bias, if Wisconsin residents purchase 10% of WREDA bonds, the fiscal effect would be approximately \$66,000 annually (10% x \$660,000).

The fiscal effect of the exemption will be lower to the extent that WREDA issues less than the maximum amount of debt authorized under the bill. The fiscal effect will also be higher (lower) to the extent that the interest rate for debt issued by WREDA is higher (lower) than the rate estimated by IHS Markit.

The department can absorb minor administrative costs.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2021 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description creating the Wisconsin Renewable Energy Development Authority to participate in and guarantee certain energy-related loans, implement other energy-related programs, and make certain grants and making an appropriation		
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	\$	\$-660,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$-660,000
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$-660,000	\$
Agency/Prepared By	Authorized Signature	Date
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