

### Fiscal Estimate - 2021 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>21-4956/1</b>	<b>Introduction Number</b> <b>SB-631</b>
<b>Description</b> Creating a sales tax exemption for materials used to construct workforce housing developments or to conduct workforce housing rehabilitation projects	
<b>Fiscal Effect</b>	
<b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input 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 checked="" type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input 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 <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs      4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
<b>5. Types of Local Government Units Affected</b> <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others      0 <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 type="checkbox"/> SEG <input type="checkbox"/> SEGS	
<b>Agency/Prepared By</b>	<b>Authorized Signature</b>
DOR/ Travis Arthur (608) 266-8565	Jamie Adams (608) 266-6785
	<b>Date</b>
	10/21/2021

## Fiscal Estimate Narratives

DOR 10/21/2021

LRB Number	21-4956/1	Introduction Number	SB-631	Estimate Type	Original
<b>Description</b> Creating a sales tax exemption for materials used to construct workforce housing developments or to conduct workforce housing rehabilitation projects					

### Assumptions Used in Arriving at Fiscal Estimate

The bill creates a sales and use tax exemption for the sale of building materials, supplies, equipment, and landscaping and lawn maintenance services if the property or service is acquired solely for, or used solely in, the development or construction of a workforce housing development or used solely in, a workforce development rehabilitation project. The exemption does not apply if the property or services are for the construction or development of property for public use, including sidewalks and sewer lines, within the development.

The bill defines "workforce housing development" to mean a housing development in Wisconsin that meets all of the following conditions:

1. It consists of land proposed for newly platted residential use.
2. The housing costs for households occupying the development's residential units do not exceed, or are not expected to exceed, 30 percent of the median household income for the county in which the development is located.
3. The residential units are intended for initial occupancy by households whose income is at least 60 percent, but not more than 120 percent, of the county's median household income.

The bill defines "workforce housing rehabilitation project" as a project involving improvement to housing in this state to maintain the housing in a decent, safe, and sanitary condition or to restore it to that condition if the estimated value of each residential unit undergoing rehabilitation does not exceed the maximum amount determined by Wisconsin Housing and Economic Development Authority (WHEDA) and if the project involves lead paint removal or structural improvements.

Under the bill, the tax exemption may only be claimed by a person holding an exemption certificate issued by the WHEDA.

The bill will result in a reduction in state and local sales and use tax collections compared to current law for the building materials and services used in qualifying projects. The department does not have data on future construction projects (scale, location, housing type) that would qualify, therefore the magnitude of the fiscal effect is indeterminate.

Using Census data on construction spending, and IHS data on manufactured homes, the department estimates Wisconsin residential construction spending on multi-family and manufactured housing will reach \$1.16 billion in FY 2022. Assuming 25% of the construction satisfies the conditions under the bill, and 37.8% of the cost of construction is for materials, supplies, and equipment (based on additional Census data), the department estimates residential construction spending on building materials for workforce housing developments to be \$109.6 million ( $\$1.16 \text{ billion} * 25\% * 37.8\%$ ).

Using department data on landscaping/lawn services the department estimates spending on residential landscaping/lawn services to reach \$269.1 million in FY 2022. Assuming 25% of these services are used on workforce housing developments, the department estimates spending on landscaping/lawn services for workforce housing developments to be \$67.3 million.

Using data from the 2017 Economic Census and assuming rehabilitation projects will apply to both single family and multi-family units, the department estimates spending on building materials for rehabilitation projects to reach \$631.4 million in FY 2022. Assuming 25% of these projects satisfy the conditions under the bill, department estimates spending on workforce rehabilitation projects to be \$157.8 million.

The department estimates sales and use tax revenues will decrease by \$16.7 million ( $(\$109.7 + \$67.3 + 157.8)$

\* 5%) under the bill. The fiscal effect will be higher/lower to the extent the share of workforce housing developments are greater/less than the department's estimates.

County sales and use taxes were 8.3% of state sales and use taxes in FY 2021. Assuming this percentage does not change, county tax collections would decrease by \$1.4 million ( $\$16.7 \text{ million} \times 8.3\%$ ) per year under the bill.

#### Administrative Costs:

The department estimates one-costs of \$2,700 for training and updating publications along with ongoing costs of \$10,800 to respond to questions and reviewing records for audit. These costs cannot be absorbed with current resources.

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

## Fiscal Estimate Worksheet - 2021 Session

Detailed Estimate of Annual Fiscal Effect

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  Updated
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<b>Description</b> Creating a sales tax exemption for materials used to construct workforce housing developments or to conduct workforce housing rehabilitation projects		
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>  The department estimates one-costs of \$2,700 for training and updating publications.		
<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	\$10,800	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$10,800</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>		
GPR	10,800	
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, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$10,800	\$
NET CHANGE IN REVENUE	\$See Text	\$
<b>Agency/Prepared By</b> <b>Authorized Signature</b> <b>Date</b>		
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