



**Wisconsin Rural Water Association**  
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To: Chairperson John Spiros  
Members, Assembly Committee on Ways and Means

From: David Lawrence, Executive Director, Wisconsin Rural Water Association

Date: October 8, 2015

Subject: **Support for Assembly Bill 313**

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The Wisconsin Rural Water Association (WRWA) is a nonprofit organization that represents 676 water & wastewater systems providing services to over four million Wisconsin residents. We are also the leading provider of training and technical assistance to water & wastewater system operators, managers and administrative personnel in the state of Wisconsin.

**WRWA supports AB 313, which would allow contractors to directly purchase construction materials without paying sales tax on behalf of the tax-exempt customers.** This change would ensure that the project costs for critical water system projects would remain tax-exempt regardless if the local government or a hired contractor purchases the materials.

Allowing contractors to directly purchase construction and facility materials will streamline projects and reduce unnecessary costs from being added onto projects. Water utilities across the state are executing multi-stage projects to replace water infrastructure and improve water quality. This bill ensures there are no further delays, costs or administrative work necessary for water utilities to acquire the materials necessary for improvements of water and wastewater facilities.

Currently, in order to utilize the tax-exempt status on projects, the local water utility would need to purchase the materials directly and pass them along to the contractor. This creates several administrative requirements, including additional staff time and paperwork. Especially in small communities, these obstacles may be so prohibitive that the local water utility may opt to have the contractor purchase the materials and pay the additional sales tax on the project.

This bill cuts burdensome red tape and will save money for local water utilities, as well as other tax-exempt entities. On behalf of WRWA, I ask for your support of AB 313.

Thank you for your time and consideration.



## MEMORANDUM

**TO:** Honorable Members of the Assembly Committee on Ways and Means

**FROM:** Kyle Christianson, Director of Government Affairs *kc*

**DATE:** October 8, 2015

**SUBJECT:** Support Assembly Bill 313

The Wisconsin Counties Association (WCA) supports Assembly Bill 313, which streamlines local government purchasing procedures for infrastructure projects. This amendment does not adopt new tax exemptions, but ensures local government purchasing is done as efficiently and cost-effective as possible.

Under current law, tax-exempt entities making infrastructure improvements must purchase materials directly from suppliers in order to avoid paying sales tax. The bill allows building contractors to use the sales tax exempt status of an exempt entity when purchasing goods or services exclusively for construction for the exempt entity.

Although counties can avoid paying sales tax on these materials by making the purchase themselves, this is often a logistical and administrative burden at a time when counties are looking for efficiencies and cost-saving measures. Waukesha County recently built a new Health and Human Services building. The county made \$8.2 million in direct purchases on behalf of its contractor for a tax savings of \$418,362. To realize these savings, the county had to complete its own purchase orders and cut separate checks directly to 58 vendors in order to avoid paying the state sales tax.

It is advantageous to counties and other units of local government to allow contractors to purchase materials when constructing or remodeling facilities because it saves the time of county employees and eliminates an additional step in the construction process.

WCA respectfully requests that the Committee support Assembly Bill 313.

Please feel free to contact WCA if you need additional information.



# AGC of Wisconsin

S K I L L      R E S P O N S I B I L I T Y      I N T E G R I T Y

4814 East Broadway, Madison, WI 53716 • (608) 221-3821 • (608) 221-4446 FAX • [www.agcwi.org](http://www.agcwi.org)

Date: October 8, 2015

To: Members – Assembly Ways and Means Committee

From: Jim Boullion, Director of Government Affairs

**Re: Support AB 313 - Sales Tax on Construction Materials for Tax Exempt Projects**

**The issue** – The Wisconsin Dept. of Revenue has determined that if a contractor purchases the “real property” (bricks, windows, etc...) that go into a construction project for a tax-exempt owner the contractor is the final consumer of these materials and must pay the sales tax. However, if the tax-exempt owner directly purchases the materials from the supplier they do not pay the sales tax. This legislation will allow contractors to directly purchase these “real property” materials for tax-exempt owners just as the contractor can currently purchase the tangible personal property (cabinets, desks, etc...) and resell them without charging the sales tax on those materials.

**Who is affected?** – Any public or private tax-exempt entity that contracts for a building such as counties, cities, towns, villages, school districts, churches, civic groups, etc... In addition, every contractor who works on one of these jobs is affected because their risk and paperwork load is greatly increased. It is especially difficult for smaller contractors to deal with.

**What do they do now?** - To utilize their tax-exemption, tax-exempt entities are allowed to make a “direct purchase” of all of the materials for their building from the suppliers and transfer those materials to their contractor. While most tax-exempts and their contractors are able to complete the costly and time consuming paperwork necessary to make the direct purchase option work, some decide to have the building contractors purchase the materials and add the cost of the 5% state sales tax to their buildings.

**Why don't all tax-exempt entities directly purchase materials to save this cost?**

- **Lack of Time** - The most common reason is the time and effort it takes to have employees handle the paperwork. It can take hundreds of hours of staff time to handle the purchase orders, invoicing and contractor coordination necessary for just one project.
- **Lack of Expertise** - Even if a school, local government or other tax-exempt wants to purchase materials directly to save the 5% tax, they often lack the expertise to handle it. Contractors do what they can to assist, but it takes a knowledgeable person on the owner's side to be sure everything is taken care of properly and prevent costly errors from occurring.
- **Liability problems** – Under the direct purchase method that tax-exempts are currently forced to use, if an error is made in the material ordering or if a warrantee issue develops and the entities that actually purchased these items are different that the one who installed them, conflicts can arise.

**Why this solution?** - The DOR already allows contractors to purchase “tangible personal property” for tax-exempt projects without paying sales taxes. Tangible personal property includes things like gym lockers, appliances, desks, and other items that can be easily replaced in a building. The proposal would simply allow the use of the same process for the purchase of the rest of the materials used in these buildings like bricks, mortar, windows and steel. It is also a system that the State currently allows for the construction of waste treatment facilities [*Wis. Stats. §77.54(26)*] and special district stadiums such as Lambeau Field and Miller Park [*Wis. Stats. §70.11(36)*].

**Is this a new tax exemption?** – No. The real world effect of this bill is not to create a new tax exemption. It simply reduces government “red-tape,” streamlines the current tax procedures and provides a cost effective way for schools, local governments and other tax-exempt entities to provide more services at a lower cost. In this era of trying to save money, cut costs and get more efficiency out of the employees we have, this bill is a winner for everyone!

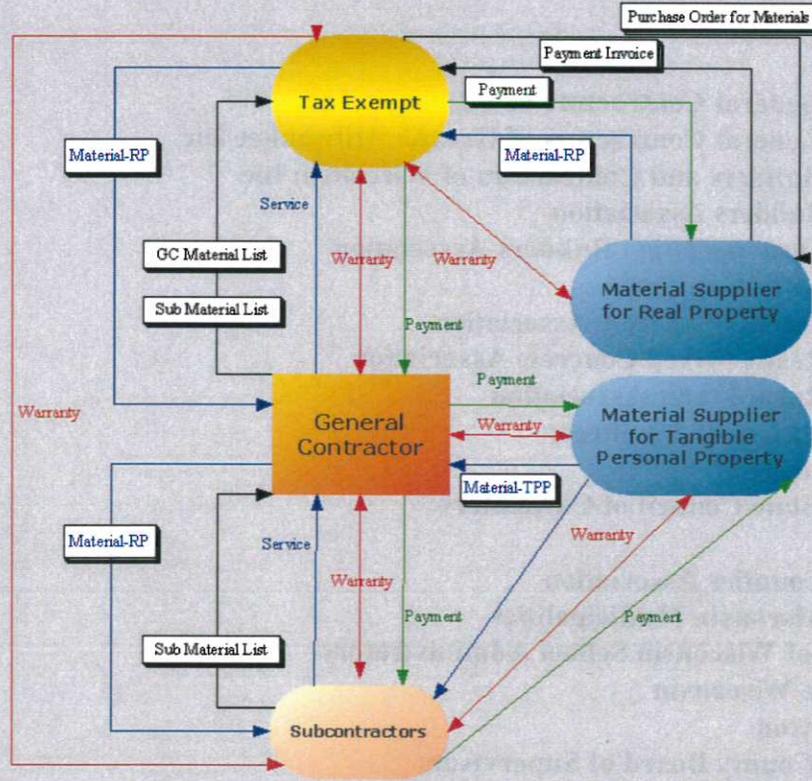
**Will there be “cheating”?** – While no one can guarantee that someone will not try to take advantage of this rule change, it is very unlikely that it will create any new problems. Contractors can already purchase any of these materials for “resale” and not pay the sales tax. The main question is this, why would a contractor take the risk of violating state tax laws and criminal charges simply to save 5% on the purchase of some additional materials? If someone does try to take advantage of the system, there is a very accurate paper trail that is left with every vendor who they buy from. When the DOR audits either the contractor or vendor the odds are very good that they will be found out. The risk/reward calculation just isn't there for most contractors to try and cheat.

**Who supports the bill?** – Last session 15 groups registered in support of AB 76, and it was adopted by the Assembly as an amendment to Special Session Bill 1 (later removed in the Senate). During the 2011 session 20 organizations registered in support of AB 380, and the bill passed the Assembly Ways and Means Committee unanimously on a bipartisan vote. In 2006, 43 groups registered in favor of the bill. There has been no registered opposition to the bill in any of those sessions.

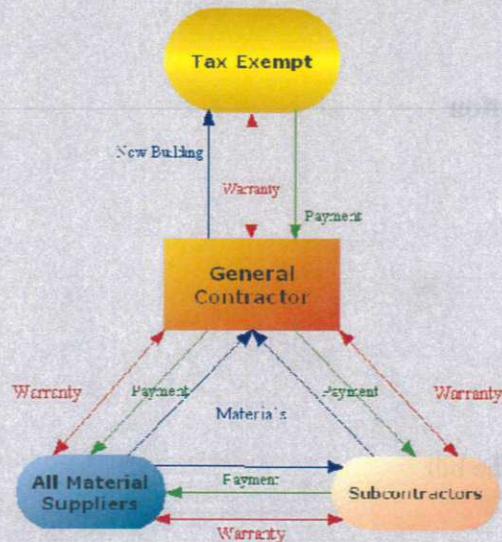
**What is the cost?** – In 2014 the Dept. of Revenue estimated that 20% of tax-exempt projects in Wisconsin pay the sales tax resulting in \$6 million of revenue per year. This was truly an estimate because there is no reporting of how many tax exempt's actually direct purchase materials vs. paying the sales tax. However, based on three surveys done by AGC of Wisconsin in 2000, 2004 and in 2013 we are confident that the cost is actually much less. Those surveys showed that the well over 90% of the dollar value of non-road construction projects done by tax-exempts already avoid paying the sales tax by doing the extra paperwork. These surveys also show that the vast majority of this money comes from local public/municipal projects. The private sector tax-exempts overwhelmingly (over 95%) use the direct purchase option and don't pay the tax. We would be glad to share the details of those surveys with anyone who is interested.

**Summary** – Allowing contractors to directly purchase materials will reduce red tape, save time and save money for all tax-exempt clients. None of the savings goes to the contractors. The vast majority of the savings will go to local municipalities who are investing in their aging infrastructure. These savings will reduce local property taxes and leave more money to deliver other important services.

## - Current Law - Tax Exempt "Direct" Purchase



## - Proposed - Flow Through Purchase for all Materials



**2015-16 Wisconsin State Legislative Session**  
**Senate Bill 227/AB 313**  
**Sales Tax on Construction Materials for Tax Exempt Projects**  
Updated: September 29, 2015



For

1. **Associated General Contractors of Wisconsin Inc**
2. **Associated General Contractors of Greater Milwaukee Inc**
3. **Associated Builders and Contractors of Wisconsin Inc**
4. **Wisconsin Builders Association**
5. **Wisconsin Transportation Builders Association**
6. **M.A. Mortenson Company**
7. **Wisconsin Precast Concrete Association**
8. **Wisconsin Ready Mixed Concrete Association**
9. **Wisconsin Rural Water Association**
10. **Wisconsin Society of Architects**
11. **NAIOP Wisconsin**
12. **Wisconsin State Council of Carpenters**
  
13. **Wisconsin Counties Association**
14. **League of Wisconsin Municipalities**
15. **Association of Wisconsin School Administrators**
16. **Leading Age Wisconsin**
17. **City of Madison**
18. **Outagamie County Board of Supervisors**
19. **Milwaukee Metropolitan Sewerage District**
20. **Municipal Environmental Group - Water Division**
21. **Wisconsin Association of Independent Colleges and Universities**
22. **Wisconsin Association of School Boards Inc**
23. **Wisconsin Association of School Business Officials**
24. **Wisconsin Association of School District Administrators**
25. **Wisconsin Association of School Personnel Administrators**
26. **Wisconsin Council for Administrators of Special Services**



Undisclosed

27. **Wisconsin Realtors Association**
28. **Milwaukee County**

\* There are no registered opponents of the bill

2013-2014 Legislative Session  
Registrations on Assembly Bill 76\*

Updated February 10, 2014

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1. Associated Builders and Contractors of Wisconsin Inc - For
  2. Associated General Contractors of Wisconsin Inc – For
  3. Dane County - For
  4. League of Wisconsin Municipalities - For
  5. M.A. Mortenson Company - For
  6. Milwaukee Area Technical College – Undisclosed
  7. Milwaukee Metropolitan Sewerage District - For
  8. Miron Construction - For
  9. Municipal Environmental Group - Water Division
  10. Outagamie County Board of Supervisors - For
  11. Wisconsin Builders Association - For
  12. Wisconsin Counties Association - For
  13. Wisconsin Credit Union League – Undisclosed
  14. Wisconsin Hospital Association Inc (WHA) - Undisclosed
  15. Wisconsin Society of Architects - For
  16. Wisconsin State Council of Carpenters - For
  17. Wisconsin Technical College District Boards Association Inc - For
  18. Wisconsin Transportation Builders Association - For
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2011-2012 Legislative Session  
Registrations on Assembly Bill 380\*

Updated: April 3, 2012

American Council of Engineering Companies of Wisconsin	1/10/2012	
American Subcontractors Association of Wisconsin	1/31/2012	
Associated Builders and Contractors of Wisconsin Inc	12/13/2011	
Associated General Contractors of Greater Milwaukee Inc	12/7/2011	
Associated General Contractors of Wisconsin Inc	11/28/2011	
Association of Wisconsin Tourism Attractions	12/16/2011	
Construction Business Group	12/7/2011	
League of Wisconsin Municipalities	11/21/2011	
Medical College of Wisconsin	12/14/2011	
Milwaukee Metropolitan Sewerage District	12/13/2011	
Miron Construction	12/12/2011	
Operating Engineers Local #139	12/7/2011	
Outagamie County Board of Supervisors	12/6/2011	
Waukesha County	12/2/2011	
Wisconsin Association of Independent Colleges and Universities	12/22/2011	
Wisconsin Builders Association	12/9/2011	
Wisconsin Council on Children & Families	2/8/2012	
Wisconsin Laborers District Council	12/2/2011	
Wisconsin Realtors Association	12/12/2011	
Wisconsin Society of Architects	11/18/2011	
Wisconsin State Council of Carpenters	12/15/2011	
Wisconsin Towns Association	12/3/2011	

\* There were no registered opponents of the bill in either session.

# Supporters of Changing the Sales Tax on Construction Materials Rule 2005-06 Legislative Session

## SENATE BILL 57 / ASSEMBLY BILL 126\*

Updated: October 13, 2005

### **Construction Associations**

1. Associated General Contractors of Wisconsin - AGC-Wis
2. Associated General Contractors of Greater Milwaukee - AGC-GM
3. Associated Builders and Contractors of Wisconsin - ABC
4. Wisconsin Builders Association - WBA
5. Wisconsin Society of Architects - AIA-Wis
6. American Council of Engineering Companies of Wis. - ACEC-Wis
7. National Electrical Contractors Association of Wisconsin - NECA-Wis
8. National Electrical Contractors Association of Milwaukee - NECA-Milwaukee
9. Mechanical Contractors Association of Wisconsin - MCA
10. Plumbing Heating Cooling Contractors of Wisconsin - PHCC-Wis
11. American Subcontractors Association - ASA
12. Wisconsin Transportation Builders Association - WTBA
13. Wisconsin Underground Contractors Association - WUCA
14. Aggregate Producers of Wisconsin, Inc.

### **Business Organizations**

15. Wisconsin Manufacturers and Commerce - WMC
16. National Federation of Independent Business - NFIB
17. Wisconsin Hospital Association - WHA
18. Aurora Health Care
19. American Red Cross

### **Labor Unions**

20. Wisconsin State Council of Carpenters
21. Operating Engineers Local 139
22. Wisconsin Laborers District Council
23. International Brotherhood of Electrical Workers Construction Electrician Local Unions

### **Local Government**

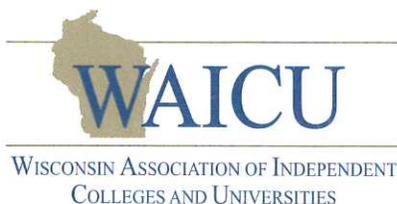
24. League of Wisconsin Municipalities
25. Wisconsin Alliance of Cities, Inc.
26. Wisconsin Towns Association
27. Wisconsin Counties Association
28. Dane County Cities & Villages Association
29. Kenosha County
30. Waukesha County
31. Outagamie County Board of Supervisors

### **Schools and Not for Profits**

32. Milwaukee Public Schools
33. Wisconsin Association of Independent Colleges and Universities
34. Wisconsin Association of School Boards Inc
35. Wisconsin Alliance of School District Administrators
36. Wisconsin Association of School Business Officials
37. Association of Wisconsin School Administrators
38. Wisconsin Council for Administrators of Special Services
39. Wisconsin Technical College District Board Association
40. Wisconsin Library Association
41. Municipal Environmental Group - Water Division
42. Waukesha County Technical College
43. Municipal Electric Utilities of Wisconsin

\* There were no registered opponents of the bill

ALVERNO COLLEGE  
BELLIN COLLEGE  
BELOIT COLLEGE  
CARDINAL STRITCH UNIVERSITY  
CARROLL UNIVERSITY  
CARTHAGE COLLEGE  
COLUMBIA COLLEGE OF NURSING  
CONCORDIA UNIVERSITY  
EDGEWOOD COLLEGE  
LAKELAND COLLEGE  
LAWRENCE UNIVERSITY  
MARIAN UNIVERSITY



WISCONSIN'S PRIVATE, NONPROFIT COLLEGES AND UNIVERSITIES  
WORKING TOGETHER FOR EDUCATIONAL OPPORTUNITY

MARQUETTE UNIVERSITY  
MEDICAL COLLEGE OF WISCONSIN  
MILWAUKEE INSTITUTE OF ART & DESIGN  
MILWAUKEE SCHOOL OF ENGINEERING  
MOUNT MARY UNIVERSITY  
NASHOTAH HOUSE  
NORTHLAND COLLEGE  
RIPON COLLEGE  
ST. NORBERT COLLEGE  
SILVER LAKE COLLEGE  
VITERBO UNIVERSITY  
WISCONSIN LUTHERAN COLLEGE

## Assembly Committee on Ways and Means

### TESTIMONY

By

**Dr. Rolf Wegenke, President**

**Wisconsin Association of Independent Colleges and Universities (WAICU)**

**October 7, 2015**

### **Assembly Bill 313 – relating to a sales and use tax exemption for building materials that become a part of a facility for a local unit of government or nonprofit organization.**

Chair Spiros and members of the Committee, my name is Rolf Wegenke, I am president of the Wisconsin Association of Independent Colleges and Universities or WAICU, representing Wisconsin's 24 private, nonprofit institutions of higher learning. WAICU's mission is: "Wisconsin's private, nonprofit colleges and universities working together for educational opportunity." Operating without taxpayer support, WAICU members provide a public service – educating nearly 60,000 students each year.

On behalf of WAICU's members, I want to thank you for holding this hearing on Assembly Bill 313, a bill to create a sales and use tax exemption for building materials that become a part of a facility for a local unit of government or non-profit organization.

This tax exemption will serve as an important complement to WAICU members' efforts to help control college costs. Through the *WAICU Collaboration Project*, we are leading the nation in keeping college affordable. The U.S. Congress has called WAICU's efforts "transformative." The WAICU Collaboration Project can document an annual \$18 million in savings for our membership, these savings help hold down college costs. Your bill will help us do more.

Additionally, institutions of higher learning face significant regulation and are always looking for ways to reduce costs associated with government red tape. This bill will help reduce staff time dedicated to these activities and instead focus on advancing educational opportunity and preparing our next generation of workers.

This legislation will directly benefit students attending Wisconsin private colleges and universities as the money saved will enable us to support ever-increasing amount of privately funded student aid – our fastest growing expenditure. Assembly Bill 313 has WAICU's strong support.