The Effects of the Sales and Use Tax Exemption For Repairs to Railroad Rolling Stock

Compiled by
the staff of the
Education and Taxability Section,
Wyoming Department of Revenue

and edited by
Terri Lucero, Administrator

Tenth Edition

2005, W.S. 39-15-105(a)(viii)(Q) and W.S. 39-16-105(a)(viii)(F)

Revenue, Department of
(011)
http://revenue.wyo.gov

Cheyenne, Wyoming 82002

November 26, 2018

Table of Contents

Overview

Original House Bill No. 93 (Enrolled Act No. 116) was signed by Governor Freudenthal into law on March 3, 2005. This act relates to taxation and revenue and provides for a sales and use tax exemption for the sales/purchases of tangible personal property or services performed for the repair, assembly, alteration or improvement of railroad rolling stock. The act provides for a reporting requirement and an effective date of July 1, 2005. Originally the exemption provided a sunset date of July 1, 2015. During the 2015 Legislative Session the exemption was extended until July 1, 2021. The railroad rolling stock exemption is located within the "economic incentive" group of sales and use tax exemptions in the Wyoming statutes. [W.S. 39-15-105(a)(viii) and W.S. 39-16-105(a)(viii)]

Specific Reporting Requirements by Statute

Wyo. Stat. Ann. § 39-15-105(b)

> "The Wyoming business council, the department of workforce services and the department of revenue shall jointly report to the joint revenue interim committee on or before December 1 of each year that the exemption is in effect. If requested by the department of revenue, any person utilizing the exemption shall report to the department the amount of sales tax exempted, and the number of jobs created or impacted by the utilization of the exemption."

This report is to evaluate the cumulative effects of the exemption from initiation of the exemption and shall include:

(i) A history of employment in terms of the numbers of employees, full-time and part time employees, and rate of turnover classified by the 2007 edition, as amended, of the North American Industry Classification System (NAICS) code manufacturing section 31 – 33 from information collected by the Department of Employment;
(ii) A history of wages and benefits disaggregated by gender for each job category; and
(iii) A comprehensive history of taxes paid to the state of Wyoming.

Findings

This year represents the tenth year the Department of Revenue has requested information from companies potentially utilizing the exemption. The Department did not survey companies in 2013 or 2014 as the legislature only required reporting until 2012 and did not renew the reporting requirement until 2015. Therefore the graphs and tables included in this report will omit these periods.

For FY18 the Department of Revenue surveyed ten (10) businesses which are or we believe have been engaged in activities involving the repair of railroad rolling stock. Of the seven (7) that responded, one does not employ any personnel in the State of Wyoming. This company purchases repair materials and services from another entity in Wyoming. One additional

respondent is not able to distinguish employment data for employees specifically involved in the repair of railroad rolling stock from any other of their Wyoming divisions. As a result we will include their utilization of the exemption but we are forced to disregard their employment data as it does not accurately reflect the number of employees involved in the repair, assembly, alteration or improvement of railroad rolling stock in Wyoming.

Exemption Cost

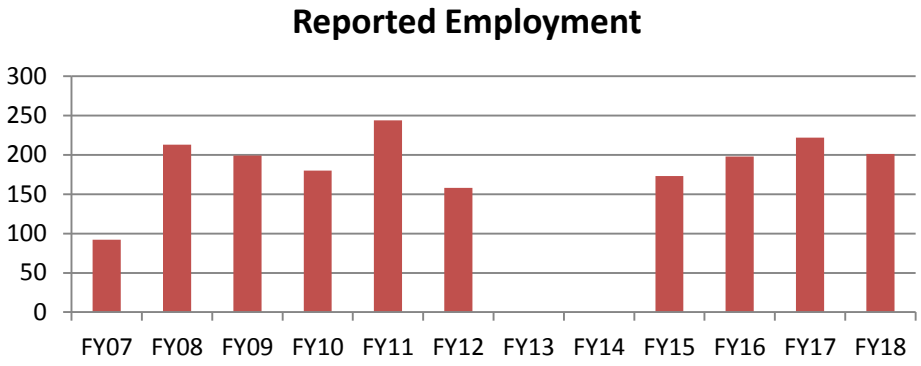
Based on survey responses for FY18, to include the company that reported utilization of the exemption but without any Wyoming employees, there was $22,165,343.49 in exempt railroad rolling stock repair purchases by the companies surveyed. Applying the statewide sales and use tax rate average of 5.38%, this amounted to $1,192,495.48 in unrealized sales and use tax revenue by the State of Wyoming for FY18. Cumulatively the industry has made in excess of $189.6M in exempt purchases of materials and services for the repair of railroad rolling stock since FY07 which translates to approximately $10.1M in sales tax revenues. Further, given that the respondents have indicated over $1M in usage for the 2 years both preceding and succeeding FY13 and FY14, it is likely that similar utilization occurred in those years. Considering this, the Department projects the actual total utilization in the $13M range. The table below details the annual and cumulative effects of the exemption. In FY18, the single user with the highest dollar reported indicated $11.9 million in exempt purchases, or 53.7% of the total exemption utilization.

Year	Purchases	Unrealized Sales Tax
FY07	$ 4,723,041.72	$ 247,487.39
FY08	$ 12,101,048.54	$ 634,094.94
FY09	$ 18,148,496.79	$ 950,981.23
FY10	$ 20,302,330.34	$ 1,063,842.11
FY11	$ 20,963,069.39	$ 1,098,464.84
FY12	$ 18,996,192.79	$ 1,012,497.08
FY15	$ 26,166,620.16	$ 1,405,147.50
FY16	$ 23,518,585.07	$ 1,270,003.59
FY17	$ 22,553,707.50	$ 1,213,389.46
FY18	$ 22,165,343.49	$ 1,192,495.48
TOTAL	**$ 189,638,435.79**	**$ 10,088,403.62**

Employment

The number of positions available by companies engaged in the repair of railroad rolling stock has varied throughout the Department's evaluation period. In FY07, when the Department first began surveying companies engaged in the repair of railroad rolling stock, only 92 positions existed. This peaked in FY11 with 244 positions. Between FY11 and FY12 the sector lost 35%

of those positions, ending the year with 158. Between FY15 through FY17 the group regained 64 of those positions but in FY18 it lost 21 of those it previously gained. As a result FY18 employment indicated 5 persons taking ownership roles plus 199 full-time and 2 part-time positions. The table below illustrates the total reported employment year over year.



By occupational classification, in FY18 companies reported 46% of their workers were unskilled. This is more than in any other year and more than three times higher than first reported in FY07. Interesting of all the occupational classifications, it is the only one that experienced job growth in FY18 – even with a decline in overall employment. The tables below display the total positions available per year and per occupational classification and as a percentage of total positions for the year.

	FY07	*FY08*	*FY09*	*FY10*	*FY11*	*FY12*	*FY15*	*FY16*	*FY17*	*FY18*
Supervisor / Manager	7	25	26	18	30	20	19	27	26	20
Administrative Svcs	2	7	4	4	11	5	9	9	6	6
Customer Svc		5	3	11	7					
Skilled Labor	70	109	127	120	160	117	85	99	119	83
Unskilled Labor	13	67	39	27	36	16	60	63	71	92

	FY07	*FY08*	*FY09*	*FY10*	*FY11*	*FY12*	*FY15*	*FY16*	*FY17*	*FY18*
Supervisor / Manager	8%	12%	13%	10%	12%	13%	11%	14%	12%	10%
Administrative Svcs	2%	3%	2%	2%	5%	3%	5%	5%	3%	3%
Customer Svc		2%	2%	6%	3%					
Skilled Labor	76%	51%	64%	67%	66%	74%	49%	50%	54%	41%
Unskilled Labor	14%	31%	20%	15%	15%	10%	35%	32%	32%	46%

By gender, men account for 97% of the workforce. Of the 6 women holding positions, 4 were in administrative services and the remaining 2 were unskilled laborers.

Wages

As expected, wages have fluctuated, with a generalized increase, since FY07. In that year the average wage across the industry was $17.20/hour. By FY18 average wage had increased to

$24.48/hour, an increase of 42% - outpacing inflation over the same period by 16%. The table below details the average wage per occupational classification as well as the yearly average wage.

	FY07	FY08	FY09	FY10	FY11	FY12	FY15	FY16	FY17	FY18
Supervisor / Manager	$25.47	$26.77	$30.82	$31.65	$32.70	$31.81	$32.48	$31.18	$34.38	$33.77
Administrative Services	$13.65	$12.43	$15.52	$16.20	$17.28	$17.82	$20.28	$21.03	$20.90	$18.12
Customer Service		$29.28	$17.59	$19.53	$19.24					
Skilled Labor	$14.77	$17.11	$20.21	$21.60	$21.73	$18.73	$21.36	$21.53	$22.74	$25.55
Unskilled Labor	$14.89	$14.33	$15.30	$15.86	$16.51	$17.89	$17.24	$19.19	$19.90	$20.49
Average	$17.20	$19.98	$19.89	$20.97	$21.49	$21.56	$22.84	$23.23	$24.48	$24.48

In occupational categories where women are represented, men's wages outperform women's. In FY18 men in administrative positions were paid $18.93/hour whereas women were paid $17.71/hour and in unskilled labor men were paid $20.51/hour with women only earning $19.59/hour for the same work.

Benefits

With regards to the benefits offered to employees, until FY16 this has remained relatively constant with all companies offering benefits that included medical insurance, dental insurance, prescription benefits, vision and retirement (either in the form of a 401(k) or railroad pension program). In FY16 one employer reported they did not offer any benefits to their employees. That employer did not report in FY17. In FY18 the same employer reported but indicated that they only offered limited benefits – medical, dental and vision insurance. Given that this employer provides jobs to 21 persons, this leaves 10.5% of the workforce without prescription coverage or retirement benefits.

Turnover

In FY07 respondents reported a total turnover rate at 10%. This was the highest reported until FY17, when it increased to 15%. In FY18 this dropped to 8.6%. The occupational classification with the highest percentage of turnover in FY18 was for skilled labor at 19.0%. Looking at turnover on the long term, the average of all occupational classifications was 5.8%

Survey Process and Costs

Due to the limited number of businesses contacted for this report, the cost to mail was nominal. As a result, the primary expense associated with this report is the time spent following up with the respondents and reviewing and analyzing the data received as well as the preparation of this report. The Department estimates office personnel expended 60 to 70 hours over the course of several weeks on this endeavor.

REMI Analyses: Economic Impacts

The analyses of the economic impacts of the sales and use tax exemptions for the sales/purchases of tangible personal property or services performed for the repair, assemble, alteration, or improvement of railroad rolling stock was prepared using the Regional Economic Models, Inc. (REMI) PI+ model. REMI PI+ is the next generation Policy Insight model built exclusively for Wyoming. It is an integrated model that combines the best features of the input-output, general equilibrium, econometric, and economic geography methodologies. PI+ is also a dynamic rather than a static model allowing for year-by-year analysis of the total regional effects of any specific policy initiative.

Category	Years					Average
(Change from Baseline)	2017	2018	2019	2020	2021	2017-2030
Total Employment - Jobs	-18	-24	-29	-33	-35	-33
Other Services	-8	-11	-14	-16	-17	-18
Retail Trade	-3	-4	-4	-4	-4	-4
Construction	-2	-3	-4	-4	-4	-3
Accommodation & Food Services	-1	-1	-1	-1	-2	-2
All Other	-3	-5	-6	-7	-8	-7
Population - Individuals	-7	-14	-21	-28	-35	-42
Wages and Salaries	-$0.5	-$0.7	-$0.9	-$1.1	-$1.2	-$1.2
Personal Income	-$0.8	-$1.2	-$1.6	-$1.9	-$2.2	-$2.4
Disposable Personal Income	-$0.7	-$1.1	-$1.4	-$1.7	-$2.0	-$2.1
Gross Domestic Product	-$1.2	-$1.7	-$2.1	-$2.3	-$2.5	-$2.5
Output	-$2.5	-$3.5	-$4.2	-$4.7	-$5.0	-$4.8
Note: All dollar amounts are expressed as millions of fixed (2016) dollars.						

The economic impact of the removal of the sales tax exemption for the sales/purchases of tangible personal property or services performed for the repair, assemble, alteration, or improvement of railroad rolling stock was modeled in REMI as an increase in the production costs for this repair and maintenance industry of $2.0 million per year beginning in 2017. This exemption removal would result in an average annual loss of 33 jobs and a decrease in GDP of $2.5 million per year over the period of 2017 to 2030 when compared to the baseline scenario.

Other services (defined as NAICS 811; repair and maintenance), retail trade, and construction sectors will sustain most of the job losses. Direct job losses will be found in the other services and construction sectors while retail trade, being a consumption-driven industry, will see a decline in employment as personal income and salaries are reduced.

Key Definitions

Total Employment comprises estimates of the number of non-farm jobs, full-time plus part-time, by place of work. Full-time and part-time jobs are counted at equal weight. Includes direct, indirect, and induced jobs.

Population reflects mid-year estimates of people, including survivors from the previous year, births, special populations, and three types of migrants (economic, international, and retired).

Wages and Salaries are the monetary remuneration of employees, including the compensation of corporate officers; commissions, tips, and bonuses; voluntary employee contributions to certain deferred compensation plans, such as 401(k) plans; and receipts in kind that represent income. Wages and salaries disbursements are affected by changes in Wage Rate and Employment.

Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

Disposable Personal Income equals personal income minus personal taxes.

Gross Domestic Product or **GDP** is the market value of goods and services produced by labor and property. It is often referred to as "value added" and is equal to its gross output (sales or receipts and other operating income, plus inventory change) minus its intermediate inputs (consumption of goods and services purchased from other industries or imported).

Output is the amount of production, including all intermediate goods purchased as well as value-added (compensation and profit). Output can also be thought of as sales or supply or simply price multiplied by quantity (P×Q).

About the REMI PI+ Model

The REMI PI+ model incorporates aspects of four major modeling approaches: Input-Output, General Equilibrium, Econometric, and Economic Geography. Each of these methodologies has distinct advantages as well as limitations when used alone. The REMI integrated modeling approach builds on the strengths of each of these approaches.

The REMI model at its core has the inter-industry relationships found in Input-Output models. As a result, the industry structure of a particular region is captured within the model, as well as transactions between industries. Changes that affect industry sectors that are highly interconnected to the rest of the economy will often have a greater economic impact than those for industries that are not closely linked to the regional economy.

General Equilibrium is reached when supply and demand are balanced. This tends to occur in the long run, as prices, production, consumption, imports, exports, and other changes occur to stabilize the economic system. For example, if real wages in a region rise relative to the U.S.,

this will tend to attract economic migrants to the region until relative real wage rates equalize. The general equilibrium properties are necessary to evaluate changes such as tax policies that may have an effect on regional prices and competitiveness.

REMI is sometimes called an "Econometric model," as the underlying equations and responses are estimated using advanced statistical techniques. The estimates are used to quantify the structural relationships in the model. The speed of economic responses is also estimated, since different adjustment periods will result in different policy recommendations and even different economic outcomes.

The New Economic Geography features represent the spatial dimension of the economy. Transportation costs and accessibility are important economic determinants of interregional trade and the productivity benefits that occur due to industry clustering and labor market access. Firms benefit having access to a large, specialized labor pool and from having access to specialized intermediate inputs from supplying firms. The productivity and competitiveness benefits of labor and industry concentrations are called agglomeration economies, and are modeled in the economic geography equations.

The primary national, state, and county data source for REMI PI+ is the Bureau of Economic Analysis (BEA) State Personal Income (SPI) and Local Area Personal Income (LAPI) series (which also include employment and total population at both the state and county level). REMI also relies on numerous other data sources including the Bureau of Labor Statistics, Energy Information Administration, Center for Disease Control and Prevention, National Center for Health Statistics, and the Department of Defense. *Source: remi.com.*

Wyoming Business Council Regional Project Assessment System (RPAS)

Railroad rolling stock tax incentive economic analysis

The RPAS model has been developed for Wyoming by Applied Economics, LLC of Phoenix, Arizona, www.aeconomics.com. The model identifies measurable effects associated with either a specific activity in a specific location or the value of economic and revenue impacts of existing businesses. The model has multipliers for 66 NAICS-based industry types based on Minnesota IMPLAN group data. It provides the value of additional output for job creation in addition to the direct jobs created and measures direct and indirect property and sales tax benefits to local and state revenues.

Year	Workforce	Average Wage	Total Direct Wages		Output from Employment Income
2009	180	$ 41,371	$ 7,446,816		$ 41,742,400
2010	244	$ 43,618	$ 10,642,694		$ 59,656,582
2011	155	$ 44,699	$ 6,928,376		$ 38,836,335
2012	188	$ 44,845	$ 8,430,822		$ 47,258,150
2013	188	$ 46,176	$ 8,681,088		$ 48,660,991
2014	173	$ 47,507	$ 8,218,746		$ 46,069,378
2015	198	$ 48,318	$ 9,567,043		$ 53,627,126
2016	222	$ 50,918	$ 11,303,885		$ 63,362,824
2017	201	$ 50,918	$ 10,234,598		$ 57,369,040
Totals			$ 81,454,069		$ 456,582,826

- **Jobs, wages and output:**
    - The year and workforce numbers are from Department of Revenue annual reports, except 2012 & 2013 when there were no reports. WBC has averaged 2009, 2010, 2011 and 2015 for the estimated workforce in 2012 and 2013.
    - Wage data is taken from the 2016 surveys returned by companies to the Department of Revenue. The surveys provided data on number of jobs and hourly wages for supervisors, skilled labor, sales/ customer service, admin and unskilled labor. The WBC compiled the numbers and created an average. This average is used for all prior years.
    - Output represents the total economic activity generated. It is derived from employment income and calculated by the WBC economic impact model. The inputs are direct employment numbers and average wages. The model then calculates additional multipliers of the wages rolling over in the community.

- **Real estate market valuation for tax assessment purposes collected directly from companies in previous year. Current numbers are a conservative estimate of property values.**

	2017	2016	2015	2014	2013	2012	2011	2010	2009
Union Tank Car	277,287	277,287	277,287	281,289	284,772	292,819	299,678	297,053	277,287
Big Horn Divide - Shoshoni	669,800	669,800	669,800	701,100	358,400	366,700	350,000	350,000	350,000
Progress Rail - Rock Springs	263,214	263,214	263,214	242,507	194,814	194,814	195,171	195,171	194,900
Progress Rail - Bill	583,050	583,050	583,050	584,100	527,200	529,900	495,400	495,400	503,700
Totals	1,793,351	1,793,351	1,793,351	1,808,996	1,365,186	1,384,233	1,340,249	1,337,624	1,325,887

Rolling Stock Impact Summary

Year	Local Real Property Tax	Local Personal Property Tax	Local Sales Taxes	Total Local Taxes	State Sales Tax	Total State and Local Taxes	Unrealized Revenue from Sales Taxes	Net Return to State and Local Governments
2009	323,339	32,009	99,975	455,323	281,536	736,859	634,094	102,765
2010	454,278	59,077	118,023	631,378	332,361	963,739	950,981	12,758
2011	309,989	79,213	93,236	482,438	262,559	744,997	1,063,842	(318,845)
2012	380,325	99,563	100,573	580,461	283,218	863,679	1,098,464	(234,785)
2013	394,857	117,304	101,162	613,323	284,877	898,200	1,012,497	(114,297)
2014	385,704	132,623	97,652	615,979	274,994	890,973	1,405,147	(514,174)
2015	447,866	146,147	105,302	699,315	296,536	995,851	1,270,003	(274,152)
2016	515,874	158,708	116,689	791,271	328,604	1,119,875	1,213,389	(93,514)
2017	489,859	168,081	110,085	768,025	310,007	1,078,032	1,192,495	(114,463)
Totals	3,702,091	992,725	942,697	5,637,513	2,654,692	8,292,205	9,840,912	(1,548,707)

- Approximately half of property tax revenue supports local school mill levies
- Direct and indirect property and sales tax is calculated by the WBC economic impact model. The inputs are assessed property valuation and equipment capital expenditures. Value of equipment was reported by one company. Others did not thus the model understates property tax on equipment. The model then calculates the direct property and sales tax paid to local and state. It also creates and calculates multipliers for direct employees and indirect employment increase in property and sales tax spending.