



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 21, 2019

Honorable Brett Harrell
Chairman, House Ways and Means
133 State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 352 (LC 43 1203)

Dear Chairman Harrell:

The bill would extend the sunset date for the sales tax exemption provided to Competitive Projects of Regional Significance from June 30, 2019 to June 30, 2024. For a project to qualify for the exemption, the commissioner of the Georgia Department of Economic Development must determine that a company location or expansion could occur in another state or country and that the company's location or expansion in Georgia would have a significant impact on the region. Once a project has been granted this exemption, any otherwise taxable purchases made during the time of construction are exempt, including those occurring after any applicable sunset date.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated state revenue reductions of \$5.1 million to \$18.6 million in FY 2021. Local revenue losses range from \$4.2 million to \$15.3 million in FY 2021. The estimates are based on a small number of large dollar projects that have qualified for the exemption; therefore, a difference of one or two projects in a given year could significantly impact the estimates. Details of FRC's analysis are included in the appendix.

Table 1. Estimated State Revenue Effects of LC 43 1203

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
State Revenue Effect					
High	(\$9.3)	(\$18.6)	(\$18.6)	(\$19.5)	(\$20.3)
Low	(\$2.5)	(\$5.1)	(\$5.1)	(\$5.1)	(\$5.1)
Local Revenue Effect					
High	(\$7.7)	(\$15.3)	(\$15.3)	(\$16.0)	(\$16.7)
Low	(\$2.1)	(\$4.2)	(\$4.2)	(\$4.2)	(\$4.2)

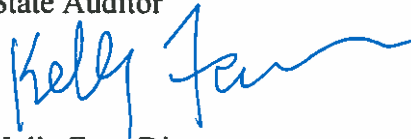
Impact on State Expenditures

The Department of Revenue and Department of Economic Development would require no additional funding as a result of the bill.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The extension of the sunset date will reduce state sales tax collections because of the construction expenses for the projects that are granted this exemption between FY 2020 and FY 2024. Construction expenditures for materials are taxable expenditures (taxed upon purchase by contractors or by the project owner, if purchased directly). The revenue effects of Competitive Projects of Regional Significance (CPRS) approved during the extended sunset period under the proposed bill are based on the reported facts and assumptions below. Resulting otherwise-taxable investment projections are provided in Table 2.

- The Department of Revenue (DOR) was unable to provide data on exempt sales to CPRS projects, so the estimates rely upon GDEcD-reported aggregate planned investment since the previous renewal of the exemption in 2016, a total of \$3.175 billion announced investment over four projects announced over roughly three years for an average of about \$1.06 billion per year.
- Over the first four years of the CPRS exemption, 2012-15, aggregate announced investment was \$3.8 billion over six projects for a \$949 million annual average total announced investment.
- For the high estimate, average annual investment is assumed to be 10 percent higher than the recent average over FY 2020-22 (\$1.17 billion per year) and 20 percent higher over FY 2023-24 (\$1.27 billion per year). For the low, the annual average is assumed to remain at 2016-2019 levels, \$1.06 billion per year on average.
- Capital expenditures for manufacturing machinery and equipment are already exempt for sales taxes in Georgia under O.C.G.A. §48-8-3.2, so any portion of the project investment for such assets would not contribute to the cost of the CPRS exemption. The expenditures included in the estimate for manufacturing projects would include only the materials, fixtures, and ancillary otherwise-taxable costs of the buildings and real property improvements.
- Based on data obtained from corporate financial statements, the Bureau of Economic Analysis, and the U.S. Census, it is estimated that between 12 percent and 40 percent of the project investments will be on otherwise-taxable expenditures. The low share of 12 percent, which is used in the low case estimates, is for manufacturing projects where an estimated 30 percent or less of total plant investment is for buildings and improvements, and 40 percent of that amount is assumed to be for otherwise taxable purchases. For the high case, the 40 percent otherwise-taxable share for non-manufacturing projects is used.
- A study published in the journal *Economic Letters* indicates that large commercial projects take, on average, about one and a half years to complete accounting for construction time only. Of course, large construction projects also require significant planning and site preparation lead times. The estimate assumes that half of a project's exempt expenditures will occur in the same year that they qualify for the exemption with the other half occurring in the following year.

- Some of the projects that have been previously granted this exemption will likely still be incurring otherwise-taxable costs during FY 2020, but those expenditures are exempt regardless of the passage of this legislation.
- The estimate assumes that all of the projects approved would have been constructed in the absence of this exemption.
- Local effects assume a tax rate of 3.29 percent, the Tax Foundation’s reported January 2019 weighted average local rate for Georgia.

It is important to note that, because of the large size of some projects and the small numbers of projects approved for this exemption in the past, the general lack of useful data about the projects or the otherwise-taxable spending involved, and the flexibility in the law as to what projects might qualify in the future, these estimates are highly speculative. Though we believe the range estimates bound what is most likely to be experienced, the possibility that state and local revenue costs could fall significantly above or below these estimates cannot be ruled out.

Table 2. Project Expenses and Revenue Effects

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Investment Amount for Projects Authorized					
High	\$1,164	\$1,164	\$1,164	\$1,270	\$1,270
Low	\$1,058	\$1,058	\$1,058	\$1,058	\$1,058
Estimated Annual Expenditures for Authorized Projects					
High	\$582	\$1,164	\$1,164	\$1,217	\$1,270
Low	\$529	\$1,058	\$1,058	\$1,058	\$1,058
Otherwise Taxable Amount					
High	\$233	\$466	\$466	\$487	\$508
Low	\$63	\$127	\$127	\$127	\$127