



DEPARTMENT OF AUDITS AND ACCOUNTS

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December 20, 2019

Honorable Frank Ginn
State Senator
121-I State Capitol
Atlanta, Georgia 30334

SUBJECT: Revised Fiscal Note
Senate Bill (LC 44 1306)

Dear Senator Ginn:

The original fiscal note for LC 44 1306 has been revised and replaced. The fiscal note overestimated the amount of spending by the authorities that are subject to the bill.

The bill would provide a sales tax exemption for all purchases made by a local water or sewer authority. The purchases would be exempt from both state and local sales tax. The bill has no effective date but is assumed to be July 1, 2020 for purposes of the fiscal note.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated the bill would decrease state revenue \$3.0 million in FY 2021, with the loss growing slightly in subsequent years (**Table 1**). Local sales tax revenue loss is estimated at \$2.5 million in the initial year. It should be noted that these amounts include the loss of sales tax on supplies only. It does not include any loss of sales tax paid currently on capital purchases, as capital expenditures by authorities were not readily available or apparent. The attached appendix details the analysis.

Table 1. Net Revenue Effects of LC 44 1306

(\$ millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State Sales Tax	(\$3.0)	(\$3.1)	(\$3.2)	(\$3.3)	(\$3.4)
Local Sales Tax	(\$2.5)	(\$2.6)	(\$2.7)	(\$2.7)	(\$2.8)

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The state and local revenue effects were estimated using FY 2018 water and sewer authority financial data provided by the Department of Community Affairs (DCA). The data included financial information from 41 water and sewer authorities that report to DCA, 33 of which reported positive operating expenses or revenues (the others reporting only financing transactions, balances, or related expenses). The estimates assume that the water authorities reporting zero operating expenses serve only financing purposes and in the jurisdictions they serve, the governments themselves make all purchases of tangible supplies or equipment themselves and thus would not be taxable.

For the 33 authorities reporting operating expenses at the authority level, reported expenditures for supplies are assumed to have been taxed under the sales tax. It is possible that additional taxable spending was included in another operating expense category, but such amounts could not be estimated from the data available. Total supplies expense reported by these authorities for FY 2018 was approximately \$69.1 million.

Additionally, it can be assumed that these 33 operating authorities also make equipment purchases and other capital expenditures at the authority level, thus paying sales tax on some or all of these purchases as well. However, data provided by DCA did not include any information on capital expenditures by the authorities, though virtually all of them reported capital assets and depreciation costs on their books.

Thus, the authorities' supplies expenditures and implied sales tax costs should be viewed as a lower bound estimate of the taxable expenditures and sales taxes paid by the authorities. To the extent of tangible goods purchases that are booked in other accounting categories, the cost of the proposed exemption could be materially higher.

The FY 2018 supplies expenditure figures are projected forward at a growth rate of 3 percent per annum to allow for population growth and inflation, and the resulting projected taxable expenditures for FY 2021-25 are presented in Table 2 below.

Projected revenue losses from the proposed exemption are reported in Table 1, the local loss assuming an average local sales tax rate of 3.33%, the population-weighted average as of July 1, 2019, according to the Tax Foundation.

Table 2. Projected Taxable Local Water and Sewer Expenditures

<i>(\$ millions)</i>	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Supplies Expenses	\$75.5	\$77.8	\$80.1	\$82.5	\$85.0