



March 17, 2023

Honorable Chuck Hufstetler  
Chairman, Senate Finance Committee  
121-C State Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 504 (LC 33 9456S)

Dear Chairman Hufstetler:

This bill would require counties and municipalities with independent school districts to report the value of level 1 freeport exempted property in their jurisdictions to the Department of Revenue (DOR) annually. DOR would certify these values as correct, and then provide them to the Department of Education (GaDOE). GaDOE would be required to subtract 40% of the value of level 1 freeport exempted property from the county or municipality’s equalized adjusted school property tax digest, which would affect the calculation of the local five mill share and equalization grant portions of the Quality Basic Education (QBE) formula.

**Department of Education Costs**

GaDOE reported that the bill would cost the state an estimated \$292 million. Because reducing a school district’s tax digest reduces the amount it must contribute in local five mill share, \$93 million in additional state funds (Table 1) would be needed to make up the QBE funding gap. Reducing districts’ tax digests would also require the state to contribute an estimated \$199 million in additional QBE equalization grant funding (Table 1).

**Table 1. Estimated FY 2024 Costs to State<sup>1</sup>**

	<b>Local Five Mill Share<sup>2</sup></b>	<b>Equalization</b>
New (with level 1 freeport reduction)	(\$2,489,000,000)	\$955,000,000
Original (without level 1 freeport reduction)	(\$2,582,000,000)	\$756,000,000
<b>Total Cost to State</b>	<b>\$93,000,000</b>	<b>\$199,000,000</b>

<sup>1</sup> Tax year 2021 data was used in these calculations.

<sup>2</sup> Because the local five mill share represents local funding, it reduces the amount of funds the state must contribute to education via QBE. Thus, the local five mill share is presented as a negative number.

Currently, 165 of the state’s 180 school districts have freeport exemptions. While most are at 40%, a few municipalities have exemptions at higher rates of 50% or 100%. If additional counties or municipalities approve new freeport exemptions or if percentages are increased at the local level, the cost to the state would subsequently increase.

A significant change in freeport exemption property values in tax year 2022 would also impact state costs. The total value of level 1 freeport exemption property in all counties and municipalities with independent school districts grew over 24% from 2017 to 2021, rising from \$36.9 to \$45.9 billion. Given the state's recent economic growth, values may increase in 2022, which would further reduce districts' local five mill share obligations and increase the state's QBE equalization grant burden. This would increase the estimates shown in Table 1. For example:

- If each district's reported value increased 10% in 2022, \$102 million in state funds would be required to fill the local five mill share gap. An additional \$202 million would be required for equalization grant funding, making the total estimated cost to the state \$304 million.

### **Department of Revenue Costs**

DOR reported no additional costs associated with collecting, verifying, and reporting level 1 freeport exemption property values each year.

Respectfully,



Greg S. Griffin  
State Auditor



Kelly Farr, Director  
Office of Planning and Budget

GSG/KF/jm