



DOAA

Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

December 4, 2023

Honorable Rhonda Burnough
State Representative
409-C Coverdell Legislative Office Building
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill (LC 43 2902)

Dear Representative Burnough:

The bill would exempt construction materials used in qualifying capital outlay projects for educational purposes in a qualifying jurisdiction from the sales and use tax. Qualifying projects are those approved and funded through educational special purpose local option sales taxes (ESPLOST) within a county that levies a sales and use tax under Section 25 of the Metropolitan Atlanta Rapid Transit Authority (MARTA) Act of 1965 and does not contain an independent school district. Clayton County is the one county collecting a MARTA tax that would qualify. The exemption would be applicable from July 1, 2024, through June 30, 2029.

Impact on State Revenue

Georgia State University’s Fiscal Research Center (FRC) estimated that the bill would decrease state and local sales tax revenue as shown in Table 1. The appendix provides details of the analysis.

Table 1. Estimated State and Local Revenue Loss from LC 43 2902

(\$ millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
High Estimate					
State	\$ 2.40	\$ 2.40	\$ 0.81	\$ 0.81	\$ 0.81
Local	\$ 2.42	\$ 2.42	\$ 0.82	\$ 0.82	\$ 0.82
Low Estimate					
State	\$ 1.92	\$ 1.92	\$ 0.65	\$ 0.65	\$ 0.65
Local	\$ 1.94	\$ 1.94	\$ 0.65	\$ 0.65	\$ 0.65

Impact on State Expenditures

The Department of Revenue (DOR) would be able to implement the provisions of the bill with existing resources.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

Under current law, materials used in construction in Georgia are subject to sales tax at the time of purchase rather than upon sale or delivery of the completed construction project. The proposed bill would exempt such materials from this tax for the period July 1, 2024, to June 30, 2029, under certain conditions. Qualifying criteria for the proposed sales tax exemption include the following:

- Eligible materials must be used in capital outlay projects for educational purposes approved and funded through educational special purpose local option sales taxes (ESPLOST).
- Project must be located in a county that currently collects a MARTA tax and does not contain within it an independent school district.

Of the three counties currently collecting a MARTA tax, only Clayton lacks an independent school district. Clayton County is currently undertaking construction projects approved under ESPLOST VI and, beginning January 1, 2024, will proceed with projects approved under ESPLOST VII, approved by voter referendum in March 2023.

This analysis is based on the following data and assumptions:

- Reports by Clayton County School District detail each ESPLOST project, including project status and total cost. The total costs from the remaining projects of ESPLOST VI are estimated at \$52.5 million during FY 2025–29. The recently approved projects of ESPLOST VII are estimated at \$350 million over FY 2025–30.
- Based on completed and proposed projects, 60 percent of material spending for Clayton County’s ESPLOST VII is expected to occur during FY 2025 and FY 2026, with 30 percent between FY 2027 and FY 2029. The remaining 10 percent is expected to be spent during FY 2030, after the proposed exemption expires.
- The share of construction expenditures from the purchase of materials varies widely, based on the type of building and design choices. The estimates assume a high and low share of total project costs of 40 and 50 percent, respectively, for materials. These are based on industry sources including ProEst, a construction estimation software.
- The local tax rate in Clayton County is 4 percent, except for College Park where the rate is 5 percent. Based on identified project locations, the estimates assume an effective local tax rate of 4.03 percent.

Reductions to state and local revenues are derived from the high and low estimates of construction material costs (Table 2), after accounting for both the state and effective local tax rates.

Table 2. Construction Cost Estimates for Educational Capital Outlay Projects – Clayton

(\$ millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Total Project Costs	\$120.07	\$120.07	\$40.59	\$40.59	\$40.59
Estimated Taxable Materials					
High Case (50%)	\$60.04	\$60.04	\$20.30	\$20.30	\$20.30
Low Case (40%)	\$48.03	\$48.03	\$16.24	\$16.24	\$16.24