



DEPARTMENT OF AUDITS AND ACCOUNTS

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January 31, 2018

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 697 (LC 33 7152)

Dear Chairman Powell:

The bill would extend the existing sales tax exemption for nonprofit health centers and volunteer health clinics for five additional years from the current expiration date of June 30, 2018.

Georgia State University's Fiscal Research Center estimated that an extension of the tax exemption would reduce state sales tax revenue by \$2.0 million to \$2.1 million in FY 2019 (Table 1). The amount would be \$2.4 million to \$2.7 million in FY 2023. Local sales tax revenue loss would be \$1.5 million to \$1.6 million in FY 2019 and \$1.8 million to \$2.0 million in FY 2023. Details of the analysis are in the attached appendix.

Table 1. Estimated State and Local Revenue Loss

<i>(\$ millions)</i>	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
State Revenue Loss:					
High Estimate	\$2.1	\$2.3	\$2.4	\$2.5	\$2.7
Low Estimate	\$2.0	\$2.1	\$2.2	\$2.3	\$2.4
Local Revenue Loss:					
High Estimate	\$1.6	\$1.7	\$1.8	\$1.9	\$2.0
Low Estimate	\$1.5	\$1.6	\$1.6	\$1.7	\$1.8

Impact on Expenditures

The bill would not result in new expenditures by the Department of Revenue.

Sincerely,



Greg S. Griffin
State Auditor



Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Absent the existing exemptions, which under current law are set to expire on June 30, 2018, sales and use tax would be charged on tangible goods such as medical durables, medical nondurables and administrative supplies. Medical services, prescription drugs, and prescription eyeglasses and contact lenses are exempt under other provisions of Georgia law. Key data and assumptions applying to both exemptions covered by this bill are detailed below, followed by those applicable specifically to each exemption.

- Using health care spending statistics from the Bureau of Economic Analysis (BEA), the estimated high and low average taxable share of health care spending is between about 8.3 and 8.8 percent. These low and high estimates include spending on non-prescription pharmaceuticals and other medical supplies, therapeutic medical equipment, and an assumed 5 percent of total spending attributable to general or administrative supplies. The low and high shares represent the estimated taxable shares for the latest 15 and the latest five years of available data, respectively.
- Growth in taxable spending is assumed at a rate of between about 4.8 and 5.6 percent, base, the low and high again reflecting differences in recent and longer-term spending growth trends.

Section 1, paragraph (7.05)(A) of HB 697 extends the state sales and use tax exemption granted to nonprofit health centers established under the authority of United States Public Health Service Act, 42 U. S. C. Section 254b.

- The federal Health Resources & Services Administration (HRSA) websites reports 35 Federally Qualified Health Centers (FQHCs) in Georgia as of 2016.
- HRSA estimated that 457,644 patients were served at Georgia FQHCs in 2016 with an average cost of \$1,023 per patient, for base year (CY 2016) taxable spending of between approximately \$38.7 and \$41.1 million.

Table A1. State Sales Tax Revenue Loss from Section 1 (7.05)(A)

(\$ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
High Estimate	\$1.88	\$1.98	\$2.09	\$2.21	\$2.33
Low Estimate	\$1.74	\$1.82	\$1.91	\$2.00	\$2.09

Section 1, paragraph (7.3) of HB 697 provides for an extension to the exemption from state sales and use taxes for all tangible personal property sold to nonprofit volunteer health clinics used exclusively for the provision of treatment. To qualify for the exemption a nonprofit volunteer health clinic must be a tax-exempt organization under the internal revenue code and receive a determination letter from the commissioner. The bill requires that volunteer health clinics primarily treat the indigent with incomes below 200 percent of the federal poverty level.

- The Georgia Charitable Clinic Network (GCCN), a member organization of volunteer clinics in Georgia, reported 95 volunteer clinics as members as of 2013 (GCCN currently reports “90+” clinics as members). It is assumed that the GCCN clinics are the same as the nonprofit volunteer health clinics (VHC) as described in the bill.
- A study by the University of Georgia’s Economic Evaluation Research Group estimated 200,830 patients were treated by GCCN volunteer clinics in 2013 at an average cost of \$285 per patient. Allowing for patient population growth of 1 percent annually and healthcare inflation at a rate of 3.6 percent per year, these figures imply base year (CY 2016) taxable spending of between \$5.4 and \$5.8 million.

Table A2. State Sales Tax Revenue Loss from Section 1 (7.3)(A)

<i>(\$ thousands)</i>	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
High Estimate	\$263	\$278	\$293	\$310	\$327
Low Estimate	\$243	\$255	\$267	\$280	\$293