



## DEPARTMENT OF AUDITS AND ACCOUNTS

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**Greg S. Griffin**  
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February 23, 2017

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

SUBJECT: Fiscal Note  
House Bill 247 (LC 34 5116S)

Dear Chairman Powell:

The bill would amend the sales tax exemption for tangible personal property and services (including machinery, equipment, and materials) to include, for a limited period of time, maintenance and replacement parts for machinery or equipment used to mix, agitate, and transport freshly-mixed concrete.

The bill does not specify an effective date, so the estimates below assume the exemption takes effect beginning July 1, 2017. The proposed exemption expires as of July 1, 2020.

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state sales tax revenue by \$1 million to \$1.4 million in FY 2019 and FY 2020 (Table 1). FRC also estimated reductions in local sales tax revenue of approximately \$1 million in FY 2019 and FY 2020. The assumptions used by FRC are included in the appendix.

**Table 1. Estimated State and Local Revenue Effects from HB 247**

(\$ millions)	FY 2018	FY 2019	FY 2020
State Revenue Effects:			
High	(\$1.3)	(\$1.4)	(\$1.4)
Low	(\$1.0)	(\$1.0)	(\$1.0)
Local Revenue Effects*:			
High	(\$1.0)	(\$1.0)	(\$1.1)
Low	(\$0.7)	(\$0.8)	(\$0.8)

\* Assumes a 3% average local rate.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin". The signature is written in a cursive style with a prominent initial "G".

Greg S. Griffin  
State Auditor

A handwritten signature in blue ink that reads "Teresa A. MacCartney". The signature is written in a cursive style with a prominent initial "T".

Teresa A. MacCartney, Director  
Office of Planning and Budget

GSG/TAM/st

### Analysis by the Fiscal Research Center

The proposed bill would add a new sub-paragraph (12) to O.C.G.A. §48-8-3.2(e) specifying that, until July 1, 2020, maintenance and replacement parts for equipment used to mix, agitate, and transport freshly-mixed concrete in a plastic or unhardened form would be eligible for the sales and use tax exemption under that code section for tangible personal property that is necessary and integral to the manufacturing process. Such equipment is understood to consist primarily of concrete mixing trucks, and components and equipment thereof.

According to the National Ready Mixed Concrete Association (NRMCA) 2014 Fleet Benchmarking survey, there were an estimated 65,000 concrete mixing trucks in the U.S. in 2014. Based on Census County Business Patterns data on industry establishments and employment for 2014, and Economic Census data from 2007 and 2012 on the value of shipments, Georgia’s share of the national ready mixed concrete fleet is assumed to be between 3.0 and 3.5 percent.

The same survey reported that maintenance costs for the industry’s truck fleet in Southeastern U.S. states were estimated to be \$4.00 per cubic yard in total and \$2.55 per cubic yard for parts and components the purchase of which would be taxable in Georgia under current law. This latter figure is assumed, for purposes of this fiscal note, to represent taxable maintenance costs per cubic yard delivered in Georgia as of calendar 2014. Growth in maintenance costs over the period of the estimates is assumed to match the recent national historical rate of 4.5 percent annually, the average rate of growth in cost per cubic yard since 2010, according to NRMCA.

NRMCA also reports that, in the Southeast, the average annual volume of concrete delivered per truck was 4,334 cubic yards in 2014. This figure is assumed to be constant (that is, any volume growth would be reflected in fleet growth over the longer term) and is multiplied by the taxable maintenance cost per cubic yard estimate to estimate the annual cost per truck.

Expected fleet growth through 2020 is uncertain. On the low side, IBISWorld forecasts industry revenue growth of 2.6 percent annually, on average, and price growth of 3.8 percent annually, which together would imply that industry shipments in quantity terms are expected to decline at a rate of about 1.2 percent annually from 2015 to 2020. On the other hand, Moody’s Economy.com forecasts nominal growth in nonresidential construction activity nationally for 2017 and 2018 of 5.7 and 6.4 percent, respectively, suggesting growth in quantity terms of better than 2 percent annually, on average. Thus for purposes of the estimates herein, fleet growth of between -1 and 2 percent is assumed. Table 2 summarizes the fleet and maintenance cost estimates.

**Table 2. Georgia Ready Mixed Truck Fleet and Taxable Maintenance Costs**

<i>(Totals in millions)</i>	FY 2018	FY 2019	FY 2020
GA Mixing Truck Fleet – High	2,474	2,523	2,574
GA Mixing Truck Fleet – Low	1,882	1,863	1,844
Taxable Maintenance Cost/Truck	\$12,896	\$13,476	\$14,082
Total Taxable Maintenance Costs:			
High	\$31.9	\$34.0	\$36.2
Low	\$24.3	\$25.1	\$26.0