F I S C A L   I M P A C T   R E P O R T

SPONSOR Garcia, MH **DATE TYPED** 2-21-05 **HB** 811

SHORT TITLE Public School Construction Gross Receipts **SB**

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	**FY06**			
	($13,500.0)	Similar	Recurring	General Fund
	($8,900.0)	Similar	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files
Taxation and Revenue Department
Public Education Department
Public Schools Facility

SUMMARY

House Bill 811 would provide a gross receipts tax deduction for receipts from construction services provided to a local school district or the public school facilities authority for the construction of public school facilities.

The bill has an effective date of July 1, 2005.

FISCAL IMPLICATIONS

The Public School Facilities Authority (PSFA) estimates that Public School Capital Outlay Council annual awards will be approximately $100-125 million annually, and, on average, will be matched by an equal local contribution. This implies total school construction services of $200 to $250 million. In addition, school districts finance projects outside the PSFA process. TRD assumes that these projects would increase total activity by approximately 50 percent. So, assuming the base is $340 million (PSFA midpoint, or $225 million plus an additional $115 million in locally financed projects) and an average tax rate of 6.6 percent, revenues would be reduced by approximately $22.4 million. About 60 percent of this or $13.5 million would impact the general fund. The estimated revenue loss to local governments would be about $8.9 million.

ADMINISTRATIVE IMPLICATIONS

Administrative implications are expected to be relatively modest.

OTHER SUBSTANTIVE ISSUES

The Public Education Department noted that no other public works construction projects are exempt from the gross receipts tax, and that this tax is a primary source of local government finance. School construction projects would benefit, but other government services would be negatively impacted.

The Taxation and Revenue Department raised this policy issue:

> The sale of construction services and materials to government entities -- federal, state, local and tribal -- is generally taxable under the gross receipts tax. The proposal would provide exemptions from this tax for certain spending by state and local government entities. This raises the concern that the federal government could potentially challenge the taxation of construction sold to the federal government as discriminatory. Given the large presence of federal facilities in the state, this could pose a serious threat to the state's tax base. Construction services currently contribute about 12% of the GRT tax base, equivalent to about $300 million of state and local tax revenue per year.

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