



## DEPARTMENT OF AUDITS AND ACCOUNTS

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April 13, 2007

Honorable Chip Rogers, Chairman  
Senate Finance Committee  
Coverdell Legislative Office Building, Room 325-B  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 162 Substitute  
(LC 18 6487S)

Dear Chairman Rogers:

This bill provides for an exemption from sales and use taxes for all tangible personal property sold to nonprofit volunteer health clinics and used exclusively for the provision of treatment. To qualify for the exemption, these nonprofit volunteer health clinics must primarily provide treatment to the indigent, operate as a tax exempt organization under the Internal Revenue Code, and obtain an exemption determination letter from the state revenue commissioner. The exemption would be effective during the period beginning July 1, 2007, and ending June 30, 2009. Also, this bill exempts from the sales tax the sale of tangible personal property used in direct connection with the construction of a performing arts amphitheater. An amphitheater, as defined in the bill, refers to a facility constructed after the effective date of bill, costing in excess of \$30 million, and consisting of more than 60,000 square feet of space. The bill applies to purchases occurring from July 1, 2007, to June 30, 2008. In addition, this bill exempts from the state sales tax qualified sales of admission tickets, food, beverages, or concessions by an authority that manages a galleria convention center and performing arts center. Qualified sales are defined as those sales occurring on or after the effective date of the bill and until the total amount of exempted sales and use tax equals \$3 million. After such total has been reached, no further sales tax exemption is allowed.

The Georgia State University Fiscal Research Center provided the following estimate of the revenue impact of this bill:

## Nonprofit Volunteer Health Clinics

The estimated cost to the state for this provision of the bill is extremely speculative. 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. However, it is difficult to get an accurate count of current qualifying nonprofit volunteer health clinics in the state. The Volunteers in Health Care organization (VIH) defines a “free clinic” as a nonprofit organization that relies on the spirit of volunteerism to provide health care to the uninsured. This definition excludes federally qualified community health centers. The VIH also notes that these “free clinics” may still charge a nominal fee for their services. The VIH estimates that there is at least one free clinic in every state and that some states have over 30. Georgia is not listed as one of the states with over 30 clinics. Thus, it is assumed that Georgia currently has 30 qualifying nonprofit volunteer health care clinics. The VIH estimate that roughly 3 million uninsured people were served in free clinics in 2003 in the country. Georgia’s share of the uninsured would be roughly 90,000 people, assuming these uninsured are evenly distributed by population per state.

The bill requires that volunteer health clinics primarily treat the indigent with incomes below 200 percent of the federal poverty level. Based on the 2005 federal poverty threshold, this definition would allow individuals with incomes of approximately \$20,000 to qualify for treatment. For a family of four with two minor children this limit rises to approximately \$39,000. In addition, the bill does not require that these clinics exclusively treat indigent people. Thus, it seems likely that all of the estimated 90,000 uninsured people would qualify for treatment in nonprofit volunteer health clinics under the bill.

Sales and use tax is only charged on purchases of tangible goods like medical supplies, medicines and office supplies. Services are not subject to the tax and prescription drugs are also exempt. In a report summarizing Georgia’s health care costs for fiscal year 2004, the Kaiser Foundation estimates that 1.9 percent of Georgia medical costs were for medical nondurables and 1.5 percent of medical costs in the state were for medical durables. The nonprofit volunteer health clinics’ administrative supply cost is assumed to be 5 percent of medical costs. Therefore, the proportion of total medical expenses subject to sales and use tax is estimated at 8.4 percent.

There are no good estimates for the cost of medical care provided at volunteer health clinics in Georgia. However, FQHCs and volunteer health centers are likely to treat the same type of patients with similar ailments. Thus, cost estimates for FQHCs in Georgia are used.

The Georgia Association for Primary Health Care (GAPHC) estimates that the yearly per-patient medical expense at FQHCs is \$385. This estimate is considerably less than the Georgia Department of Community Health (DCH) estimate for the per-patient expense for Medicaid of \$4,510 in fiscal year 2004. This is likely due to the nature of care provided at FQHCs and volunteer health clinics versus full service hospitals. Patients that require extensive medical care would likely be transferred to a hospital rather than receive treatment at an FQHC or volunteer health clinic. To calculate the lower bound cost estimate for this bill, the GAPHC estimate of \$385 is used. To calculate the upper bound cost estimate for this bill, the GAPHC estimate will be doubled. This upper bound is more in line with the DCH Medicaid estimate.

If medical nondurables, medical durables, and administrative supply cost are subject to state sales and use tax at a four percent rate, then the total revenue lost to the state is approximately \$116,000 to \$233,000 per fiscal year. If county revenue is included at an average rate of 3 percent, that adds an additional \$87,000 to \$175,000 to the cost per fiscal year.

Finally, Georgia has approximately 5,100 federally tax exempt 501(c)(3) organizations. These organizations receive approximately \$300 million in contributions per year. It is possible that some current federally tax exempt organizations may decide to open up volunteer health clinics to take advantage of the state sales tax exemption. This could add additional cost to the state.

#### Performing Arts Amphitheater Facility

This bill exempts from the sales tax base the sales of tangible personal property used in direct connection with the construction of a performing arts amphitheater. An amphitheater, as defined by this legislation, refers to a facility constructed after the effective date of this legislation, has costs in excess of \$30 million, and consists of more than 60,000 square feet of space. The legislation applies to purchases occurring after June 30, 2007 and before July 1, 2008. The estimate assumes that only one facility in the state would be eligible for the exemption specified in the legislation. It is assumed that the exemption does not apply to purchases of property used to maintain or upgrade existing performing arts centers.

Based on published estimates in the range of \$40 million for the expected cost of the facility, the revenue impact to the state from the loss of state sales tax revenue from construction expenses associated with the construction of the amphitheater is estimated to be approximately \$2 million in fiscal year 2008. The revenue impact to the local governments from the loss of local sales tax revenue from construction expenses associated with the construction of the amphitheater is estimated to be approximately \$1 million in fiscal year 2008.

Qualified Sales of Admission Tickets and Concessions

The legislation stipulates that tickets, food, beverages, and concessions sold at the performing arts center are exempt from state and local sales tax. The exemption would continue until the combined amount of state and local tax receipts from the combined sum of all such sales reaches \$3 million. After the tax receipts from the combined sum of all such sales exceeds \$3 million, no state or local sales tax exemption shall be allowed on such items. It is assumed that this is a lifetime cap of \$3 million and not an annual one. This exemption would be effective for sales occurring upon or after completion of the facility and until the \$3 million tax receipt cap is reached.

The combined revenue effect to the state and local government from the loss of sales tax revenue associated with the sale of tickets, food, beverages, and concessions is shown in Table 1. It is estimated that it will take over 10 years to exceed the \$3 million limit.

Table 1. Revenue Effect of Sales Tax Exemption for  
Tickets/Concessions/Beverages  
(\$ in 000/State Fiscal Years)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>	
Effect to State Government		-90	-92	-95	-97	-99	-473
<u>Effect to Local Government</u>		<u>-68</u>	<u>-69</u>	<u>-71</u>	<u>-73</u>	<u>-75</u>	<u>-356</u>
Combined Total		-158	-161	-166	-170	-174	-829

Sincerely,

/s/ Russell W. Hinton  
State Auditor

/s/ Shelley C. Nickel, Director  
Office of Planning and Budget