



## DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 4-114  
Atlanta, Georgia 30334-8400

Russell W. Hinton  
State Auditor  
(404) 656-2174

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 186 Substitute  
(LC 14 9734S)

Dear Chairman Rogers:

This bill would make the sale of tangible personal property to, or used for or in the construction of, an alternative fuel facility exempt from the sales and use tax. The alternative fuel facility must be dedicated to the production and processing of ethanol, biodiesel and butanol when such fuels are derived from biomass materials such as agricultural products, or from animal fats, or the wastes of such products or fats that are intended to be produced in this state. This exemption would be in force from July 1, 2007 through June 30, 2012. The exemption would not apply to sales of tangible property that occur after the start of production and processing at the facility.

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

In assessing the impact of this proposed exemption, it is important to note that sales of tangible personal property directly used in a manufacturing or processing process are currently exempt from the state sales and use tax. Thus, the incremental impact of this proposed legislation would be to exempt materials used in the construction of the building housing the processing equipment, computer and other office equipment, and furnishings for the facility.

Staff of the Georgia Environmental Facilities Authority surveyed developers

regarding proposed alternative fuels facilities in all stages of development within Georgia. The information gathered included size, capital investment and feedstock. This information indicates a wide range of potential capital investment depending upon the size of the facility and the type of feedstock used. The survey also indicated that the proportion of total start-up costs that would be covered by the exemption could vary greatly. For example, some developers planned to use existing structures so that little or no construction materials would be required. Others planned to build new structures to house the processing equipment. In all, GEFA staff estimate that approximately 10% of total investment costs would be on tangible property covered only by this exemption. Finally, there is great uncertainty regarding the number and timing of such facilities. One factor impacting the development potential is the price of gasoline and diesel fuels which have been very volatile.

The revenue impact of this legislation is uncertain since its impact depends on the number of plants to be developed in Georgia, their size and the costs of tangible property covered by this legislation. The revenue estimate for the period July 1, 2007 through June 30, 2012 relies on assumptions regarding the number of facilities developed per year, the total cost per facility and the percent of the costs covered by the exemption.

Using data from the GEFA survey, the average cost per million gallons of capacity for a biodiesel facility is assumed to be approximately \$990,000 and the typical capacity size is assumed to be 15 million gallons. The assumptions for ethanol plants are \$1,700,000 per million gallons of capacity and the typical size is 100 million gallons. For both facility types, it is assumed that 10% of total costs are for tangible property covered only by the proposed exemption.

It is assumed that two ethanol facilities and two biodiesel facilities are completed per year.

Based on the assumptions regarding future development activity and cost parameters, the expected reduction in state sales tax revenue is \$1.5 million per year in FY 2008 through FY 2012. Assuming a 3% local sales tax rate, the expected impact on local government revenue is a reduction of \$1.1 million per year for each of those fiscal years.

Sincerely,

/s/ Russell W. Hinton  
State Auditor

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

