

**Local Mandate Fiscal Impact Estimate
Kentucky Legislative Research Commission
2016 Regular Session**

Part I: Measure Information

Bill Request #: 1963

Bill #: HB 518

Bill Subject/Title: AN ACT relating to sales and use tax.

Sponsor: Representative Russ. A. Meyer

Unit of Government: City County Urban-County
Unified Local
 Charter County Consolidated Local Government

Office(s) Impacted: _____

Requirement: Mandatory Optional

Effect on Powers & Duties: Modifies Existing Adds New Eliminates Existing

Part II: Purpose and Mechanics

HB 518 exempts gross receipts from sales of building materials, fixtures, or supplies to a construction contractor if there are to be permanently incorporated into a structure or improvement to real property, or will be completely consumed in fulfilling a construction contract with a governmental agency or would otherwise be exempt if purchased directly by the governmental agency.

This exemption shall be effective on purchases made on or after August 1, 2016, but before August 1, 2020.

HB 518 defines “governmental agency” as a cabinet, department, bureau, commission, board, or other statutory or constitutional agency of the state, counties, cities, or special districts as defined in KRS 65.005.

Part III: Fiscal Explanation, Bill Provisions, and Estimated Cost

The fiscal impact of HB 518 on local governments is indeterminable.

The number or cost of construction projects currently being considered, or any future proposed construction projects (not yet known) is not available. This exemption is not available for current construction projects.

This proposal would affect, possibly stimulate, construction projects within local jurisdictions during the four year time frame. Depending on the project, significant savings could be generated for the local governments **if the savings are passed on to the local governments by the contractors.** However, since larger construction contracts are debt financed, a portion of those savings would accrue over several years.

According to 2013 census data, Kentucky’s state and local government construction costs were \$2.976 billion. Using 2012 Economic Census data, approximately 30% of the total construction costs or \$890 million can be attributed to materials, components and supplies. For purposes of this analysis, it is assumed that local governments and special districts account for approximately 43% of the total state and local government construction costs resulting in an **annual** \$23 million savings to local government from not having to pay sales tax.

	(Millions)
State and local government construction cost:	\$ 2,976
Approximately 30% attributable to materials:	30%
Materials cost:	\$ 893
Assumed 43% of the total to be local government and local government construction cost:	43%
Local Government Construction Cost:	\$ 384
State Sales Tax:	6%
Projected Annual Savings to local governments:	\$ 23

Data Source(s): U.S. Census 2012 Economic Census, 2013 State and Local Finance, LRC Staff

Preparer: Wendell F. Butler **Reviewer:** JWN **Date:** 3/7/16