

**STORAGE NAME:** h0377a.sa.doc  
**DATE:** March 20, 2001

**HOUSE OF REPRESENTATIVES  
COMMITTEE ON  
STATE ADMINISTRATION  
ANALYSIS**

**BILL #:** HB 377  
**RELATING TO:** Tax Exemption/Public Works Project  
**SPONSOR(S):** Representative(s) Gardiner  
**TIED BILL(S):** None

**ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:**

- (1) STATE ADMINISTRATION YEAS 4 NAYS 0
  - (2) FISCAL POLICY & RESOURCES
  - (3) COUNCIL FOR SMARTER GOVERNMENT
  - (4)
  - (5)
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**I. SUMMARY:**

At present, a 6 percent tax is imposed upon the cost of materials that become a component part or ingredient of finished (manufactured) asphalt, and upon the cost of transportation of the components or ingredients.

In addition, an indexed tax is imposed on manufactured asphalt. The indexed tax was originally fixed at 38 cents per ton. It is adjusted on July 1 of each year according to a formula tied to the Producer Price Index. The indexed tax is currently fixed at 49 cents per ton.

It is estimated that more than 70 percent of manufactured asphalt used is used in conjunction with government public works contracts.

During the 2000 Legislative Session, the Legislature established a 40 percent exemption from the indexed tax for manufactured asphalt used in any federal, state, or local government public works project.

This bill increases the exemption from the indexed tax from 40 to 60 percent on manufactured asphalt used for any federal, state, or local government public works project.

This bill has a total negative fiscal impact of (\$700,000) on state and local governments. See Section III, "Fiscal Analysis and Economic Impact Statement", for explanation.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- |                                   |   |                             |   |
|-----------------------------------|---|-----------------------------|---|
| 1. <u>Less Government</u>         | Yes <input type="checkbox"/>            | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u>             | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/>            |
| 3. <u>Individual Freedom</u>      | Yes <input type="checkbox"/>            | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/>            | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u>      | Yes <input type="checkbox"/>            | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Section 212.06, F.S., requires a 6 percent use tax<sup>1</sup> on the cost of materials that become a component part or ingredient of finished (manufactured) asphalt, and upon the transportation of the components or ingredients. In addition, an indexed tax<sup>2</sup> of 38 cents per ton was imposed on manufactured asphalt for the first year. The indexed tax is adjusted on July 1 of each year according to a formula tied to the Producer Price Index,<sup>3</sup> as calculated and published by the U.S. Department of Labor, Bureau of Statistics. In 1999, the indexed tax was set at 48 cents per ton.<sup>4</sup> In 2000, the indexed tax increased to 49 cents per ton.<sup>5</sup>

Contractors factor the cost of this tax into bids for construction projects. It is estimated that more than 70 percent of manufactured asphalt is used in conjunction with government public works contracts.<sup>6</sup> Therefore, government is paying more for contracts on public work projects as a result of higher bids from contractors who must take into account this tax.

In 1999, the Legislature amended s. 212.06, F.S., providing an exemption from the indexed tax on manufactured asphalt of 20 percent for any state or local government public works project.<sup>7</sup> In 2000, the Legislature again amended s. 212.06, F.S., raising the exemption from the indexed tax to 40 percent on manufactured asphalt used for any state or local government public works project.<sup>8</sup>

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<sup>1</sup> The purpose of a "use tax" in this instance is to treat persons or companies equally whether they are buying the actual manufactured asphalt or buying the components or ingredients needed to manufacture the asphalt. Telephone conversation with staff from Florida's Department of Revenue, Research and Analysis Division, on March 8, 2001.

<sup>2</sup> An indexed tax is typically a tax rate that gets adjusted annually; an indexed tax has a base number that is changed in response to external information, often in response to federal data. In the case of manufactured asphalt, it is based on a fraction; the numerator is the annual average of the "materials and components for construction" series of the producer price index, as calculated by the United States Department of Labor, Bureau of Statistics for the previous calendar year, and the denominator is the annual average of the same series for calendar year 1998, pursuant to telephone conversation with staff from Florida's Department of Revenue, Research and Analysis Division, on March 8, 2001.

<sup>3</sup> The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. Department of Labor, Bureau of Labor Statistics, <http://stats.bls.gov/text%5Fonly/ppihome%5Ftxt.htm>, March 8, 2001.

<sup>4</sup> State of Florida, Department of Revenue, <http://www.state.fl.us/dor/tips/tip98a113.htm>, March 8, 2001.

<sup>5</sup> Telephone conversation with Linda Bridges of the Florida Department of Revenue, March 16, 2001.

<sup>6</sup> Report provided by Florida's Department of Revenue, Research and Analysis Division, by facsimile transmission on March 1, 2001.

<sup>7</sup> Section 212.06(1)(c)2.a., F.S.

<sup>8</sup> Section 212.06(1)(c)2.b., F.S.

C. EFFECT OF PROPOSED CHANGES:

This bill amends s. 212.06(1)(c), F.S., increasing the exemption from the indexed tax from 40 to 60 percent on manufactured asphalt used for any federal, state, or local government public works project.

D. SECTION-BY-SECTION ANALYSIS:

Section 1 – Amends s. 212.06, F.S., to state that beginning July 1, 2001, the indexed tax imposed on manufactured asphalt that is used for any federal, state, or local government public works project shall be reduced by 60 percent.

Section 2 – Provides an effective date of July 1, 2001.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

For FY 2001-02, this bill will have a negative revenue impact of (\$600,000) on state government. State government will experience a loss of \$600,000 in revenue as a result of a reduction in the amount of tax collected.<sup>9</sup>

For FY 2002-03, this bill will have a negative revenue impact of (\$700,000) on state government. State government will experience a loss of \$700,000 in revenue as a result of a reduction in the amount of tax collected.<sup>10</sup>

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

For FY 2001-02, this bill will have a negative revenue impact of (\$100,000) on local governments. Local governments will experience a loss of \$100,000 in revenue as a result of a reduction in the amount of tax collected.<sup>11</sup>

For FY 2002-03, this bill will have a negative revenue impact of (\$100,000) on local governments. Local governments will experience a loss of \$100,000 in revenue as a result of a reduction in the amount of tax collected.<sup>12</sup>

2. Expenditures:

None

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<sup>9</sup> Pursuant to Revenue Impact Conference on March 16, 2001.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None

D. FISCAL COMMENTS:

None

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds, or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that counties or municipalities have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

See Section III, "Consequences of Article VII, Section 18 of the Florida Constitution" for comments.

B. RULE-MAKING AUTHORITY:

None

C. OTHER COMMENTS:

None

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None

VII. SIGNATURES:

COMMITTEE ON STATE ADMINISTRATION:

Prepared by:

Staff Director:

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