



# OPPAGA

Office of Program Policy Analysis and Government Accountability

## Research Memorandum

May 30, 2019

### **Almost Half of Governmental Entities with Public Works Projects Use Owner Direct Purchase Tax Exemption, but Utilization Challenges Exist**

#### **EXECUTIVE SUMMARY**

Florida law allows governmental entities to directly purchase materials for public works construction projects tax-free through the Owner Direct Purchase (ODP) sales tax exemption. In order to take advantage of the ODP tax exemption, governmental entities must order and pay for construction materials directly from the vendor, as opposed to using a contractor or subcontractor to procure those materials.

Fewer than half of governmental entities we surveyed had public works projects between Fiscal Years 2014-15 and 2016-17, and thus, could use the ODP sales tax exemption. However, of those with public works projects, almost half used the exemption. Entities most likely to have public works projects, particularly educational entities, are also likely to use the ODP process. Governmental entities reported considering several factors in their decision to use the tax exemption, including the dollar value of the purchase order, project, or individual item.

Most ODP users reported no challenges when using ODP, but some entities and industry stakeholders reported project delays due to excessive paperwork and accounting issues. These entities proposed process improvements, including reducing paperwork and increasing the use of electronic documentation, providing better information on the use of the exemption, and allowing contractors to use the ODP tax exemption on behalf of the governmental entity.

If the ODP process were streamlined and all construction materials spending used ODP, we estimate a reduction of state tax revenues by a total of \$1.3 to \$1.8 billion from Fiscal Year 2019-20 through Fiscal Year 2022-23. We also provide estimates of lost tax revenues for 50% and 75% of construction materials spending using OPD for the same period.

#### **SCOPE**

The Florida Legislature directed OPPAGA to assess the utilization of the Owner Direct Purchase sales tax exemption and the effect on state tax revenue from streamlining the exemption process.

# INTRODUCTION

As directed by the Legislature, OPPAGA reviewed the current utilization of the Owner Direct Purchase (ODP) sales tax exemption by governmental entities on public work projects and answered five questions.

1. What is the ODP tax exemption and what is the process to use it?
2. How many governmental entities are using the ODP tax exemption?
3. What are the challenges to using the ODP tax exemption?
4. Could the ODP tax exemption process be changed to encourage governmental entities to use the tax exemption?
5. What would be the effect on state tax dollars of increased utilization of the ODP tax exemption?

## Methodology

The Owner Direct Purchase sales tax exemption is intended to benefit governmental entities by providing tax savings on public works projects. Our review of the ODP tax exemption evaluates the extent to which it is used by governmental entities, any potential challenges users face during the process, and the effect of increased utilization on state tax dollars. To understand the process used to obtain the tax exemption and to identify potential challenges associated with this process, OPPAGA interviewed industry stakeholders, including contractors, subcontractors, and vendors.

To assess the utilization of the ODP tax exemption, OPPAGA sent surveys to 2,564 governmental entities. The survey was sent to entities required to provide financial reporting to the Department of Financial Services under Ch. 218, *Florida Statutes*, including cities, counties, and special districts, and other state and local governmental entities (colleges, property appraisers, school districts, sheriff's offices, state agencies, and state universities). Survey respondents provided information for their public works projects for Fiscal Year 2014-15 through Fiscal Year 2016-17, including any use of ODP, if applicable.

Our findings report results from our survey analysis, supplemented with publicly available construction expenditure data. First, we calculate estimates of statewide public works and ODP use using survey data weighted by entity type. Second, we report raw survey response results for detailed results about how governmental entities currently use ODP, users' and non-ODP users' experiences with and opinions about the process, and ideas about improving the process. Finally, to calculate the fiscal impact we rely on estimates of ODP spending calculated using our survey results combined with publicly available construction expenditure data. (See Appendix A for additional details about our methodology.)

# QUESTIONS AND ANSWERS

## What is the ODP tax exemption and what is the process to use it?

Florida law allows governmental entities to directly purchase materials for public works construction projects tax free through the Owner Direct Purchase (ODP) sales tax exemption.<sup>1,2</sup> Governmental entities include any agency or branch of the United States government, a state, county, or municipality, or political subdivision of the state. These entities can use the tax exemption on material purchases made for newly constructed public works, as well as for the repair, alteration, or improvement of existing public works. Construction materials purchased must be for tangible personal property that will be incorporated into or become part of a public facility. In order to take advantage of the ODP tax exemption, governmental entities must order and pay for construction materials directly from the vendor, as opposed to using a contractor or subcontractor to procure those materials on their behalf.

The Department of Revenue's Rule 12A-1.094, *Florida Administrative Code*, outlines six requirements for governmental entities that wish to use the ODP tax exemption.

1. **Direct Purchase Order.** The governmental entity must issue its purchase order directly to the vendor supplying the materials the contractor will use and provide the vendor with a copy of the governmental entity's Florida's Consumer's Certification of Exemption.<sup>3</sup>
2. **Direct Invoice.** The vendor's invoice must be issued to the governmental entity, rather than to the contractor.
3. **Direct Payment.** The governmental entity must make payment directly to the vendor from public funds.
4. **Passage of Title.** The governmental entity must take title to the tangible personal property from the vendor at the time of purchase or delivery by the vendor.
5. **Assumption of the Risk of Loss.** A governmental entity will be deemed to have assumed the risk of loss if it purchases insurance covering damage or loss and is the beneficiary of the insurance.
6. **Certificate of Entitlement.** To be entitled to purchase materials tax exempt for a public works project, a governmental entity is required to issue a Certificate of Entitlement to each vendor and to the governmental entity's contractor to affirm that the tangible personal property purchased from that vendor will go into or become a part of a public work.

The department has a limited role in the ODP process. It issues the Certificate of Exemption and provides technical assistance to ODP users. The department has issued 11 technical assistance documents from 2014 to 2017 clarifying the proper use of the ODP process. In addition, in the course of an audit, the department may review whether a material supplier correctly applied the ODP tax exemption to a purchase.<sup>4</sup>

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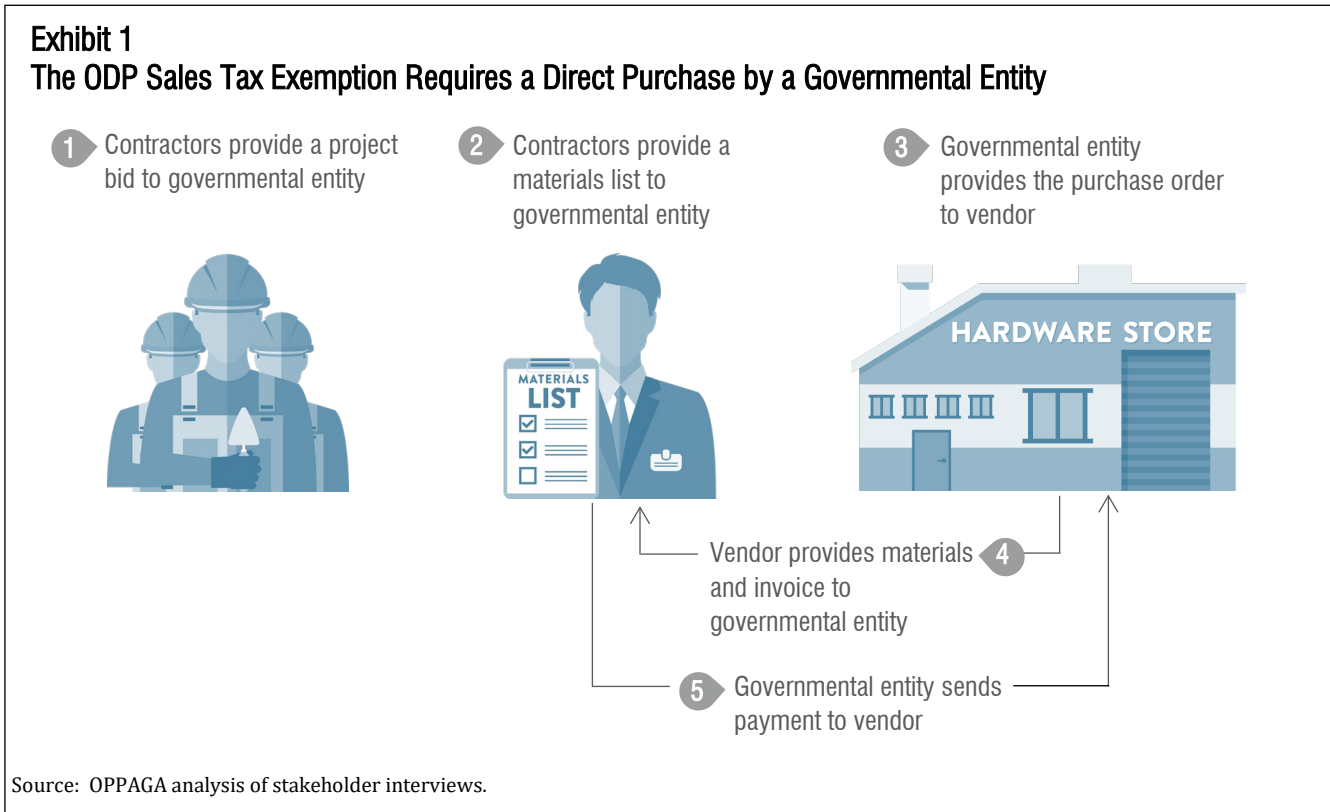
<sup>1</sup> Section [212.08\(6\)\(a\)](#), *F.S.*

<sup>2</sup> Public works are defined in [Rule 12A-1.094\(1\)\(c\)](#), *F.A.C.*, as projects for public use or enjoyment, financed and owned by the government, in which private persons undertake the obligation to do a specific piece of work that involves installing tangible personal property in such a manner that it becomes a part of a public facility.

<sup>3</sup> The Department of Revenue issues Florida's Consumer's Certification of Exemption to verified governmental entities for the purpose of purchasing goods and services exempt from state sales tax; [Rule 12A-1.038](#), *F.A.C.*

<sup>4</sup> The department conducts audits to determine whether businesses correctly collected, reported, and paid state taxes. These audits are not specific to the ODP tax exemption.

The role of general contractors and subcontractors differs when an ODP tax exemption is used. Generally, a contractor issues the governmental entity a bid for the project that includes the cost of materials and labor. If the governmental entity wishes to use the ODP tax exemption, then the contractor must deduct the material costs from the project bid. At this point, the governmental entity staff assumes responsibility for the ODP process for construction materials. The staff coordinates the order, payment, and receipt of materials with the contractor or subcontractor. Without the use of ODP, the general contractor would assume these responsibilities. (See Exhibit 1.)



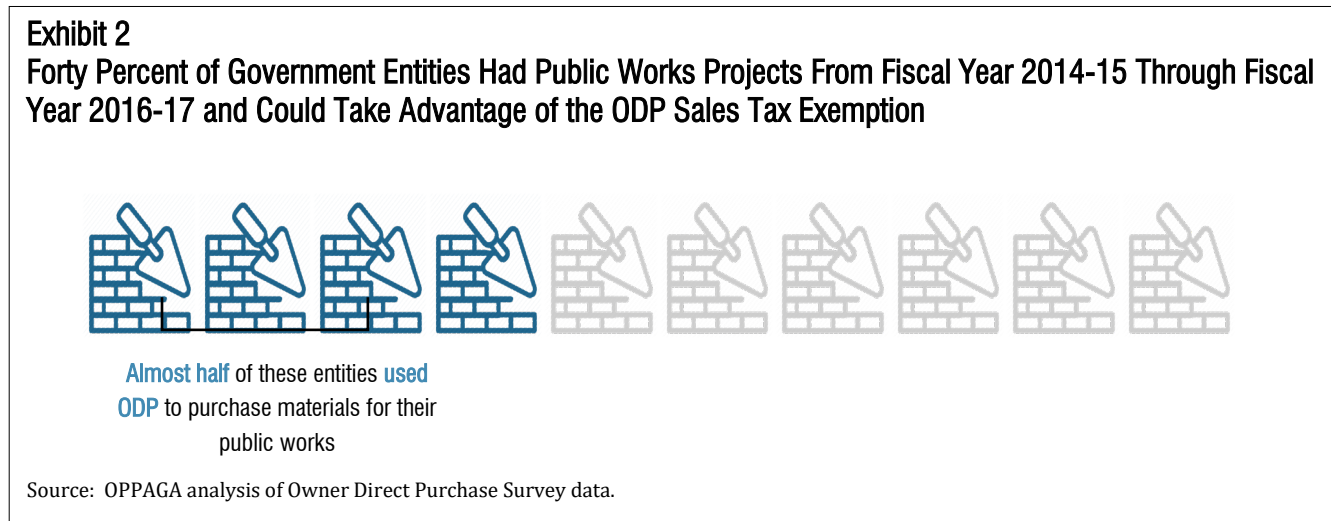
## How many governmental entities are using the ODP tax exemption?

Fewer than half of governmental entities surveyed had public works projects during our three-year review period, and thus, could use the ODP sales tax exemption. However, of those with public works projects, almost half used the exemption. When we examined public works projects and ODP tax exemption use by entity type, we found that the entities most likely to have public works projects, particularly educational entities, are also likely to use the ODP tax exemption process. Governmental entities reported considering several factors in their decision to use the tax exemption, including the dollar value of the purchase order, project, or individual item.

**Fewer than half of governmental entities reported having public works projects from Fiscal Year 2014-15 through Fiscal Year 2016-17.** In order to use the ODP tax exemption from Fiscal Year 2014-15 through Fiscal Year 2016-17, a governmental entity would need to construct public works. According to OPPAGA survey estimates, the majority of public entities had not constructed public works during the review period and, thus, could not take advantage of ODP.

We use survey results to estimate state totals for the number of governmental entities with public works projects and the number that used ODP. These estimates indicate that statewide, approximately 1,020 (40%) of the 2,564 governmental entities had public works projects from Fiscal Year 2014-15 through Fiscal Year 2016-17.

**Almost half of governmental entities that had public works from Fiscal Year 2014-15 through Fiscal Year 2016-17 used the ODP sales tax exemption to purchase some construction materials.** Of the entities that had public works projects from Fiscal Year 2014-15 through Fiscal Year 2016-17, an estimated 474 entities used the ODP tax exemption (47%), while 546 entities did not use the ODP tax exemption for their public works projects (53%). Although we found nearly half of governmental entities used ODP during the review period, in many cases the exemption was used for a portion of entities' construction materials purchases and not all eligible construction materials purchases. (See Exhibit 2.)



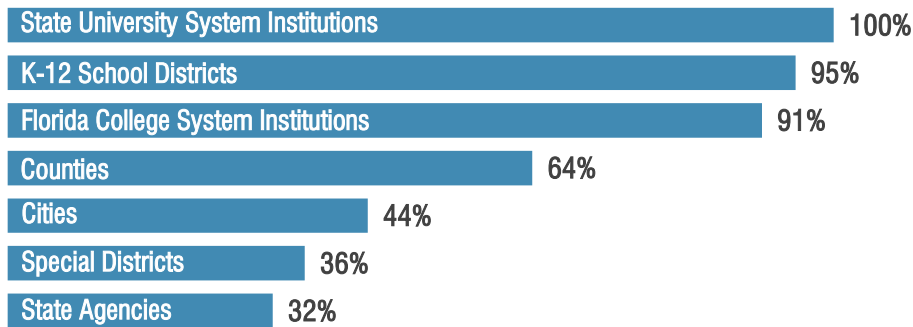
Governmental entities reported using the ODP process to purchase construction materials primarily for the improvement, alteration, or repair of existing public works (67%); however, just over half also reported using ODP for materials purchased for newly constructed public works (55%).

**Entities most likely to have public works projects are likely to use the ODP tax exemption.** Estimates from our survey data show that the number of entities with public works projects varied significantly by type of governmental entity. Specifically, over 90% of Florida College System and State University System entities reported public works, compared with fewer state agencies (53%) and special districts (28%).

We found that these same entities had a high degree of ODP use. From Fiscal Year 2014-15 through Fiscal Year 2016-17, of all entities with public works, we estimate that over 90% of educational entities, including Florida College System institutions, K-12 school districts, and State University System institutions, used ODP for the purchase of construction materials. In contrast, fewer than 40% of special districts and state agencies used ODP during the same period. (See Exhibit 3.) While proportionally fewer special districts used the ODP sales tax exemption, they represent the single largest category of government entity types, thus their low rate of ODP use has a disproportionate effect on the overall ODP usage estimate.

### Exhibit 3

#### Educational Entities Used the ODP Sales Tax Exemption More Often Than All Other Entities With Public Works Projects<sup>1</sup>



<sup>1</sup> We excluded property appraisers, sheriff's offices, and other entities (such as planning councils) from this exhibit since few of them had public works.

Source: OPPAGA analysis of Owner Direct Purchase Survey data.

#### **Entities considered several factors when deciding whether to use ODP sales tax exemptions.**

Governmental entities made several considerations before deciding whether to use the ODP tax exemption process when procuring construction materials and how much material to purchase using ODP. Most often, ODP users (24%) reported the dollar amount for the individual purchase order for materials was the main factor considered when deciding whether to use the tax exemption. Overall, 59% of ODP users reported a minimum purchase order threshold of \$5,000 or more before considering whether to use the ODP process to obtain the sales tax exemption. Governmental entities and industry stakeholders mentioned that there is often a dollar threshold under which the staff time required of the ODP process is not worth the realized tax savings.

ODP users also cited that the total dollar amount of the project (22%) was a factor they considered when deciding whether to use ODP. Stakeholders confirmed that high dollar projects could yield large savings, which resulted in more governmental entities' willingness to use ODP. ODP users also considered the type of project (21%) prior to deciding whether to use ODP. For example, some projects, such as school building construction, have higher labor costs associated with them, resulting in fewer opportunities for savings on construction materials. Finally, some ODP users considered the type of materials purchased (13%) before following through with the ODP process. Stakeholders and some ODP users reported that they are more likely to use the ODP process for expensive individual items, such as air conditioning systems, with a known cost.

## **What are the challenges to using the ODP tax exemption?**

Most ODP users did not report challenges with using the ODP sales tax exemption and reported at most a moderate level of additional effort to administer the ODP process. Some survey respondents and industry stakeholders reported that excessive paperwork and accounting issues associated with the ODP tax exemption delayed projects. They also cited other challenges, including additional staff time to administer the ODP process.

**The majority of governmental entities reported no challenges when using ODP.** Most ODP tax exemption users reported that the ODP process did not require a high level of effort and that it was not challenging to administer. Specifically, the majority of entities that used ODP (84%) reported a low or

moderate level of additional effort was needed to administer ODP. Further, 73% of ODP users reported that they did not experience any challenges when using ODP.

**Some ODP users, non-ODP users, and industry stakeholders reported challenges with the tax exemption process.** About a quarter of ODP users (23%) reported that the ODP process proved challenging, and non-ODP users presented issues that deterred them from using the tax exemption. Similarly, industry stakeholders also reported challenges to using the ODP process.

About one-third of non-ODP users (32%) and ODP users who reported challenges (37%) stated that the process delays project completion. Specifically, ODP users stated that the process presents additional accounting issues and that associated paperwork may delay the project. Most industry stakeholders concurred that there are too many layers of approval and paperwork involved with administering ODP, which often resulted in delayed payments to suppliers after delivering construction materials. This was especially problematic for stakeholders when there was a deductive change order for materials, which adds another administrative burden for contractors and may cause project delays, especially if an elected board's approval is required for each purchase.<sup>5</sup>

Survey and interview respondents also noted other challenges to using the exemption. For example, 29% of non-ODP users and 37% of ODP users who reported challenges cited that the process took up too much staff time. Industry stakeholders acknowledged this, reporting that they hired additional staff to coordinate ODP activities (e.g., order, payment, and receipt of materials) with the governmental entity's staff. In addition, ODP users described communication challenges throughout the ODP process. These entities stated that working with contractors and vendors to complete the ODP process proved challenging (e.g., entities felt that industry representatives did not understand the process and communicating with them was difficult). Finally, 37% of non-ODP users presented uncertainty regarding the potential tax savings realized with the ODP tax exemption as a deterrent from using the process; however, few ODP users that reported challenges (7%) shared this concern.

## **Could the ODP tax exemption process be changed to encourage governmental entities to use the tax exemption?**

Governmental entities and industry stakeholders proposed changes to improve and simplify the ODP tax exemption process. These proposed changes included reducing paperwork and increasing the use of electronic documentation, providing better information on the use of the exemption, and allowing contractors to use the ODP tax exemption on behalf of the governmental entity. Governmental entities reported that they would increase the amount of materials they purchase using the tax exemption if the process were improved.

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<sup>5</sup> When the governmental entity orders the construction materials from the vendor, the cost of materials and sales tax is deducted from the subcontractor's contracted amount because they did not pay for the materials or tax. This cost reduction is conducted using a deductive change order, which must be submitted by the contractor or subcontractor for every purchase. Some governmental entities are required to have their elected governing boards approve all change orders, which can further delay the process.



**ODP users, non-ODP users, and industry stakeholders reported that the tax exemption process could be streamlined.** Of entities responding to questions on whether the ODP process could be improved, many governmental entities (35), including ODP users and non-users, suggested that streamlining the ODP process is needed (e.g., reduction in paperwork or simplifying the process). Proposed suggestions to streamlining the process include providing an electronic system to upload ODP documentation, using electronic invoices, and standardizing the purchase order submittal process among the subcontractors, general contractor, and governmental entity. Some governmental entities (14) also stated that the process could be improved if better information was made available on how to use the ODP process (for both governmental entities and industry stakeholders). Governmental entities and industry stakeholders also suggested that contractors should be able to use the tax exemption to directly purchase materials from vendors for projects they are contracted to perform for governmental entities, rather than requiring the governmental entities to make a direct purchase with vendors.

#### ENTITIES AND INDUSTRY STAKEHOLDERS PROPOSED OPTIONS TO STREAMLINE THE ODP PROCESS

- Reduce paperwork and/or provide electronic options for documentation
- Provide better information about how to use ODP
- Allow contractors to use the ODP tax exemption on governmental entities' behalf

**Governmental entities reported that they would purchase more materials using the ODP tax exemption if the process were improved.** Forty-three percent of ODP users reported that the process could be improved; 27% reported that they would purchase a lot more or all of their construction materials tax free using ODP if the process were improved. Additionally, as previously stated, ODP users' main consideration for whether to use the tax exemption was the dollar amount for an individual purchase order. Of ODP users who said they would use ODP more if the administrative burden were reduced, 40% reported that they would lower the threshold for the purchase order amount if the ODP process were streamlined. This would result in entities purchasing more construction materials for public works projects tax free.

Some entities that did not use the ODP process from Fiscal Year 2014-15 through Fiscal Year 2016-17 also stated that streamlining the ODP exemption process would motivate them to use it. Of the 41 non-ODP users who responded to a survey question about streamlining the process, 28 (68%) reported that they would use ODP if the administrative burden associated with the process were reduced. If the ODP process were streamlined, 20 of the 28 non-ODP users above reported that they would take advantage of a streamlined tax exemption by purchasing half or more of their construction materials using ODP.

## What would be the effect on state tax dollars of increased utilization of the ODP tax exemption?

To determine the effect of streamlining the ODP sales tax exemption on state revenues, we estimated historical ODP tax exemption use, then projected how much additional tax revenue would be lost if ODP use was expanded. Under a streamlined ODP tax exemption process, assuming 100% utilization of the exemption, we estimate a reduction of state tax revenues by a total of \$1.3 to \$1.8 billion from Fiscal Year 2019-20 through Fiscal Year 2022-23.



Historically, less than a quarter of public construction materials spending went through the ODP process. We estimated the percent of construction materials that used the ODP tax exemption using a combination of our survey results and data on public construction spending from Fiscal Year 2014-15 through Fiscal Year 2016-17. For this period, we estimate that approximately 16% to 22% of public construction materials spending used the ODP tax exemption.

Increased utilization of the ODP tax exemption could reduce state tax revenues by a total of \$1.3 to \$1.8 billion from Fiscal Year 2019-20 through Fiscal Year 2022-23. If the historical rate of ODP use continued in the future, we estimate that approximately \$4.9 to \$7.0 billion in public construction materials spending would be taxed in Fiscal Year 2018-19 and a total of \$21.1 to \$30.4 billion would be taxed from Fiscal Year 2019-20 through Fiscal Year 2022-23. At the current 6% state tax rate, this would result in the state collecting approximately \$289 to \$418 million in tax revenue in Fiscal Year 2018-19 and approximately \$1.3 to \$1.8 billion from Fiscal Year 2019-20 through Fiscal Year 2022-23. This revenue would be lost if ODP use were expanded, so that all construction materials spending was exempted by using the ODP process.

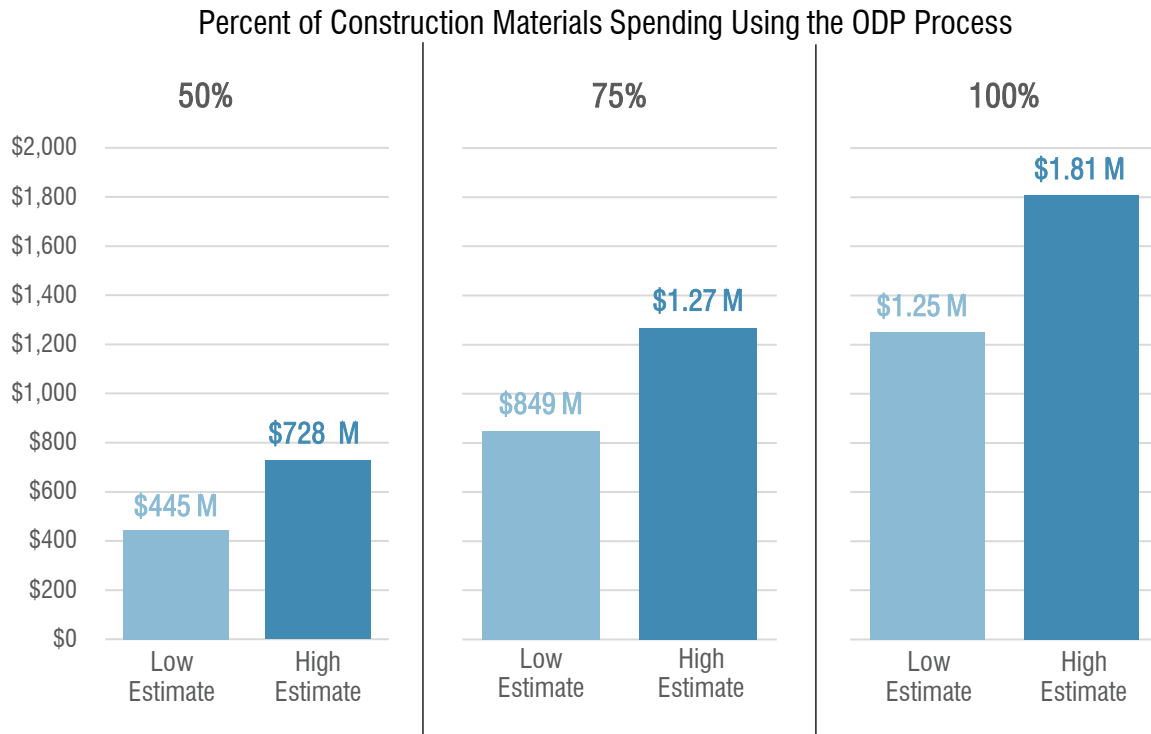
The above estimate presents the maximum projected effect on tax revenue, since it assumes improvements to the ODP process would result in all public construction materials spending using the tax exemption. We did so to provide the most conservative estimate. However, as noted above, some survey respondents reported that, even with improvements to the process, they likely would not use ODP for all construction materials spending. Thus, Exhibit 4 shows the additional amount of estimated tax revenue lost for Fiscal Year 2019-20 through Fiscal Year 2022-23 for different ODP usage rates. Specifically, the exhibit shows the revenue lost if use of ODP were expanded from the current 16% to 22% of construction materials spending to 50%, 75%, and 100%.<sup>6</sup> Survey responses did not provide enough information to determine a definitive percentage for construction materials that entities would purchase tax free if improvements were made.

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<sup>6</sup> For example, if streamlining resulted in 50% of construction material spending going through the ODP process, up from the current estimate of 16% to 22%, this would be an additional 28% to 34% of construction material spending that goes through the ODP process. It is this increase that is shown in Exhibit 4.

**Exhibit 4**

**Estimates of Lost Tax Revenues from Streamlining the ODP Process Range From \$445 Million to \$1.8 Billion for Fiscal Year 2019-20 Through Fiscal Year 2022-23**



Source: OPPAGA analysis of Owner Direct Purchase Survey data and construction spending data from the U.S. Census Bureau and the Office of Economic and Demographic Research.

However, a portion of this state revenue loss could potentially be offset by reduced state spending on construction materials. The taxes on construction materials are paid by state, local, and federal public entities. If ODP were streamlined so these public entities paid less in taxes, this would reduce the construction costs for these entities. Part or all of the savings for state agencies could be returned to the state budget, offsetting part of the lost tax revenue. Local and federal entities pay approximately 56% of the estimated \$1.3 to 1.8 billion in taxes on public construction materials purchases. Thus, this amount (\$702 million to \$1 billion) would not be collected or recouped by the state.

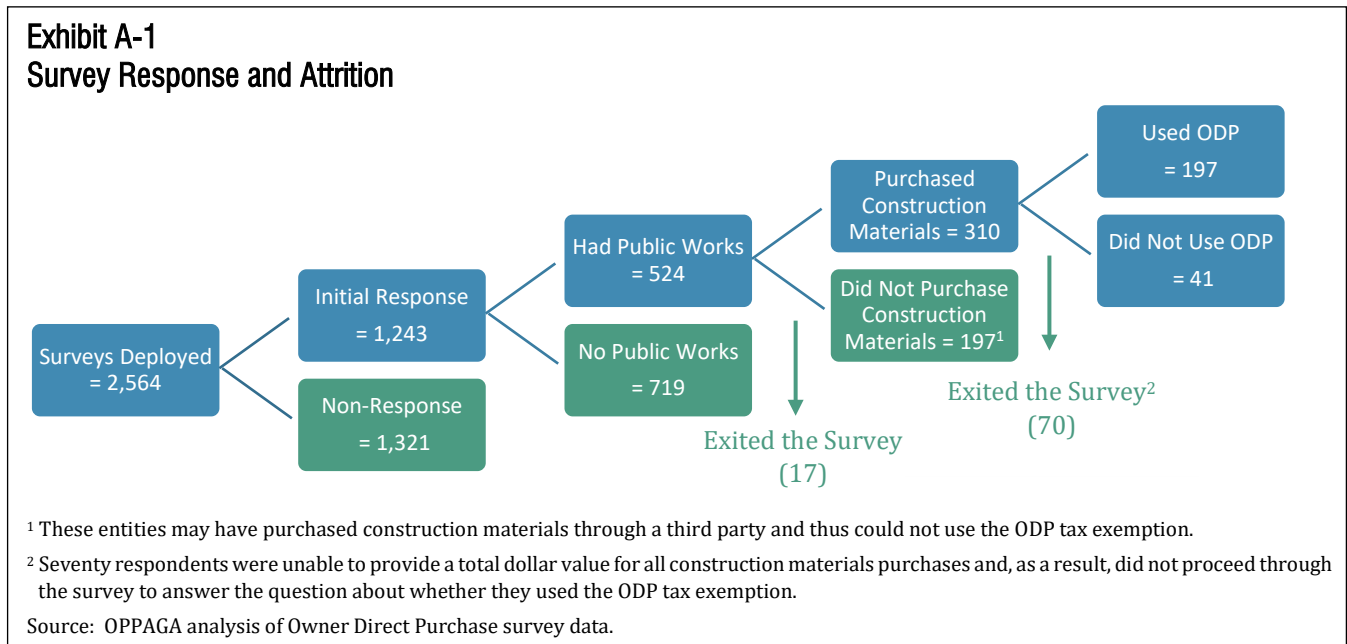
# APPENDIX A

## Methodology

We used OPPAGA survey data and publicly available construction expenditure data to estimate use of the Owner Direct Purchase (ODP) tax exemption and to determine the fiscal impact of expanding use of the tax exemption. As detailed below, where possible, we calculated representative statewide estimates from the survey results. To project the fiscal impact of the OPD exemption and potential expanded use of the exemption, we used our estimates of statewide ODP spending calculated from our survey results combined with publicly available construction expenditure data. Below we detail the survey response rates, statewide ODP use estimation procedure, and methodology for projecting the fiscal impact of potential expanded ODP use.

### Survey and Survey Response Rate

To analyze the ODP sales tax exemption, including its use and fiscal impact, we surveyed public entities in the state about their public works and construction activities. The survey included questions about construction materials spending that used ODP and opinions about the ODP process. We sent surveys to 2,564 public entities, including state agencies, cities, colleges and universities, counties, property appraisers, school districts, special districts, and other entities.<sup>7</sup> Almost half (48%) of the public entities responded to the survey by answering the first question regarding whether they had engaged in a public works project from Fiscal Year 2014-15 through Fiscal Year 2016-17. Entities that had public works and purchased construction materials were asked to answer additional survey questions about their use of and opinions about the ODP tax exemption. Exhibit A-1 provides overall response and survey attrition counts.



As noted below, for questions with a sufficiently large number of respondents, we calculated statewide estimates from the survey responses. However, detailed questions concerning experience with and

<sup>7</sup> Other entities included, but were not limited to, regional planning councils and utility authorities.

opinions about the ODP process were only asked of the relatively small number of respondents who reported using the ODP tax exemption. Because of the smaller number of respondents, we did not generalize to the full population of public entities and instead reported unweighted (raw) survey results.

## Statewide Estimates

We weighted survey data for questions with a sufficiently large number of respondents for two purposes: 1) to produce three-year statewide estimates of public works and ODP use and 2) to calculate the total dollar amount spent through the ODP process. The estimates of statewide use provide an estimate of ODP eligibility and use across the state. We use the spending amount estimates for the fiscal impact analyses. Different types of public entities had different survey response rates. To make the statewide estimates representative of the full population of public entities, we scaled (weighted) question responses by the share of entities eligible to answer the question who actually responded. Since different questions were only asked of certain sub-populations, this required separate weighting for each question asked of a subset of the population. We did this to ensure that entity types with lower response rates would have their counts scaled up to represent their share of the overall population.

## Estimates of the Effect of Increased Utilization of the Tax Exemption on State Tax Dollars

To estimate how expanded ODP use would influence state revenue, we used three data sources and incorporated basic assumptions used in prior estimates. A detailed explanation of our methodology follows this brief introductory summary that describes our major research steps.

- First, we used two different sources of information that estimated total construction expenditures by government entities (local, state, and federal): Office of Economic and Demographic Research (EDR) and U.S. Census government expenditure survey data.
- Second, we scaled these estimates to reflect the share of construction spending on materials.
- Third, we used our survey estimate of ODP spending to calculate the historical proportion of construction materials spending that used the ODP tax exemption.
- Fourth, using this proportion and EDR and Census-based projections of future public construction materials spending, we projected the range of spending that would be taxed using current ODP use rates. Applying the current 6% tax rate for construction materials, we projected the amount of tax revenues that would be collected over the next five years under current ODP use rates. This provided a high-end estimate of the amount of revenues that could be lost if ODP use was expanded.
- Finally, we noted that the effect of this potential lost revenue on the state's budget would be partially mitigated by the fact that state agencies would have lower construction costs since they would avoid paying the 6% tax on materials.

Two data sources provided total construction expenditure estimates: EDR's annual total public construction expenditure estimates produced for the Florida Economic Estimating Conference, which provided the low estimate, and U.S. Census Survey of State and Local Finances, which provided the high estimate. We used two data sources because they differ in methodological approach and estimated amount. EDR projections include annual construction expenditures in Florida by state, local, and federal governmental entities through Fiscal Year 2022-23. The U.S. Census, based on their Survey of State and Local Finances, provides estimates of prior year construction spending for state

government and local governmental entities for Fiscal Years 2015-16 and 2016-17. Based on EDR's estimate that 5% of public projected construction expenditures are by the federal government, we increased the Census construction spending estimate by 5% to add the federal component. In order to project future construction spending based on historical Census estimates, we applied the growth rate shown in EDR's projections of construction spending. Consistent with prior estimates, we presumed material costs to be 50% of total construction expenditure costs.

We estimated the maximum total effect on state revenue in the future if the use of ODP was expanded to exempt all public construction materials purchases. Dividing OPPAGA's survey estimates of the construction materials spending that used ODP by the EDR and Census estimates of total public construction materials spending for Fiscal Year 2014-15 through Fiscal Year 2016-17, we calculated the approximate percentage of construction materials purchases that used the ODP tax exemption. We estimated that 16% to 22% of construction materials spending used the ODP tax exemption and 78% to 84% did not. We applied those historical percentages to future expenditures to estimate the amount that would be exempt and the amount that would not be exempt in the future, presuming current usage rates.

Next, we applied the 6% tax rate to estimate the associated amount of revenue forgone and revenue collected under current ODP usage. The latter amount is the estimated state revenue loss in the event that use of the ODP tax exemption were expanded to cover all construction materials spending in the future. However, survey respondents reported that even with improvements to the process, they likely would not use ODP for all construction materials spending. So, we provided estimates for additional revenue lost if ODP use expanded from the current percentage up to 50%, 75%, and 100%. For example, if streamlining resulted in 50% of construction material spending using the ODP process, up from the current estimate of 16% to 22%, this would be an additional 28% to 34% of construction material spending that uses the ODP process.

Lastly, we estimated the amount of revenue generated from state government purchases, since state spending declines could offset this portion of revenue loss. To estimate the amount of revenue paid by the state government, we used Census historical information to determine the state's share of total construction spending and presumed that the share of taxable spending was equal to the share of total spending.