DEPARTMENT OF AUDITS AND ACCOUNTS

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February 13, 2017

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 211 (LC 43 0505)

Dear Chairman Powell:

The bill would create a new personal income tax credit for purchasers of owner-occupied homes located within attendance zones of certain low-performing elementary schools. Purchases eligible for the credit must be located in the attendance zone of a public elementary school that is among the lowest 5 percent in academic achievement in the state. The credit would be up to $2,500 per year for five years, subject to certain conditions. The credit would be nonrefundable and may not be carried forward.

The bill would be effective on July 1, 2017 and applicable for taxable years beginning on or after January 1, 2017. However, the first date by which the Department of Education (DOE) is required to publish a list of qualifying school attendance zones is November 1, 2017. It is unclear if lists are intended to apply to future home purchases or those made in the tax year in which the list is produced. For purposes of the fiscal note, it is assumed that the 2017 list would be applicable to all home purchases in eligible attendance zones made in tax year 2017.

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state tax revenue by $1.9 million to $3.1 million in FY 2018 (Table 1). The loss would grow to $17.6 million to $29.7 million in FY 2022. The revenue impact includes a loss of state revenue and a small increase in sales tax revenue due to the increased disposal income for credit recipients. The assumptions used by FRC are included in the appendix.

Table 1: Estimated Net State Revenue Effects of HB 211 LC 43 0505

($ *millions*)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High	($3.1)	($9.4)	($15.9)	($22.7)	($29.7)
Low	($1.9)	($5.8)	($9.7)	($13.6)	($17.6)

The Department of Revenue estimated that the bill would result in one-time costs of approximately $164,000 and annual costs of $130,272. The one-time costs include $152,000 for IT system changes and $12,000 for training, form updates, and taxpayer outreach. Annual costs of $130,272 are for two additional employees ($40,000 each plus benefits).

Sincerely,

Greg S. Griffin

Greg S. Griffin
State Auditor

Teresa A. MacCartney

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

In order to qualify for a credit under the proposed legislation, the purchased home must be located within the attendance zone of a "lowest-performing" public elementary school, defined as being among the bottom five percent of schools by student achievement. The list of lowest-performing schools would be determined by the Governor's Office of Student Achievement (GOSA) and reported by DOE by November 1st of each year. Based on recent student achievement rating information provided by GOSA, a list of 61 Georgia elementary schools was compiled to identify attendance zones likely to qualify for the credit.

Note that, for purposes of these estimates, it has been assumed that schools with non-traditional, county-wide (unless because the school is the sole elementary school in the county) or larger attendance zones would not be qualified attendance zones for the credit. However, as currently written, the bill does not preclude the possibility. Based on the most recent GOSA data, three charter schools with county-wide attendance zones (one actually covering three metro counties) could currently be ranked in the lowest-performing 5 percent.

According to Zillow Research, approximately 127,000 single family homes, condominiums, and cooperative apartments were sold in Georgia in 2015, excluding bank owned and auction foreclosure sales. ZIP Codes represent the smallest geographic area that home sales are tracked. Approximately 15 percent of the 127,000 sales occurred in ZIP Codes associated with the list of 62 elementary school attendance zones compiled for the purposes of the estimate. ZIP Codes, however, are geographically larger than elementary school attendance zones and therefore include sales that would not qualify for a tax credit. Based on geocoded sales transaction data for the attendance and ZIP Code zones, approximately 3.4 percent of statewide sales are likely to be located within the appropriate attendance zones. However, Census data reveals that owner-occupancy rates of homes (other than apartments) in these attendance zones tends to run about 10 percent below the rate statewide, reducing the share of statewide sales that are likely to be eligible for the credit to about 3.1 percent. Finally, given variation across attendance zones and uncertainties about which zones might qualify in a given year, the estimates assume a range for the credit-eligible share of statewide home sales of between 2.5 and 3.7 percent, or 20 percent above and below the 3.1 percent midpoint. Forecasts from the National Association of Realtors indicate that home sales growth will be about 3.7 percent per year from 2015 levels through 2022. Homes sales in Georgia increased at one half of a percent per year between 2013 and 2015. The high and low annual growth rates estimates are 3.7 percent and 0.5 percent.

The amount of the credit is $2,500 each year for five consecutive years beginning 180 days after purchasing the home, for a total of $12,500, provided the purchaser continues to own and reside in the home. The credit is nonrefundable and the unutilized credit in any year cannot be carried forward. Based on Georgia tax liabilities for filers in the relevant ZIP Codes, only about one half of credits earned each year are expected to be utilized. Credits earned in each tax year are assumed to affect state tax collections at the time of filing, resulting in a revenue effect in the fiscal year beginning June 30 of the given tax year. High and low estimates for qualifying purchases each year and the resulting utilized credits (including continuing credits from earlier purchases) by fiscal year are detailed in Tables 2 and 3.

Table 2: Estimated Qualifying Home Sales

(in thousands)	**CY 2017**	**CY 2018**	**CY 2019**	**CY 2020**	**CY 2021**
Estimated Home Sales					
High Growth	136.4	141.5	146.7	152.1	157.8
Low Growth	128.1	128.8	129.4	130.1	130.7
Number qualifying for credit:					
High Share Estimate	5.0	5.2	5.4	5.6	5.8
Low Share Estimate	3.1	3.2	3.2	3.2	3.2

Table 3. State Income Tax Revenue Effect:

($ *millions*)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
High	($3.1)	($9.5)	($16.1)	($23.0)	($30.1)
Low	($2.0)	($5.9)	($9.8)	($13.8)	($17.8)