DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

January 30, 2017

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

SUBJECT: Fiscal Note
House Bill 59 (LC 44 0200)

Dear Chairman Powell:

The bill would amend an income tax credit for the rehabilitation of qualifying income-producing historic properties. It would eliminate the current $5 million and $10 million annual caps per certified structure, the $25 million aggregate cap for large projects, and the restriction on more than one approved application for a certified structure in a 10-year period. The bill also removes the restriction on a taxpayer's ability to see or assign rehabilitation tax credits more than once and extends the sunset date to December 31, 2027. The bill would be effective on January 1, 2018 and apply to certified rehabilitation projects completed on or after January 1, 2019.

The University of Georgia's Carl Vinson Institute of Government (CVIOG) estimated that the bill would reduce state revenue by $53.5 million in FY 2020 (Table 1), the first year impacted by the changes. The revenue reduction is estimated at $55.9 million in FY 2022. CVIOG's assumptions and analysis are included in the appendix.

Table 1: Estimated Reduction in State Income Tax Revenue

($ millions)	FY2018*	FY2019*	FY2020	FY2021	FY2022
Projected QRE	$304.5	$309.2	$313.9	$318.7	$323.6
Tax Credit Under Current Law	$25.0	$25.0	$25.0	$25.0	$25.0
Tax Credit Under LC 44 0200	$25.0	$25.0	$78.5	$79.7	$80.9
Impact of Bill	**$0**	**$0**	**$53.5**	**$54.7**	**$55.9**

*The cap would remain in place for calendar years 2017 and 2018 so FY2018 and FY2019 revenues are unaffected.

The Department of Revenue estimated that the tax exemption will result in approximately $28,900 in additional agency costs. These include approximately $25,000 to update IT systems and $3,900 for form changes, regulation updates, and training.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the CVIOG

This legislation amends the income tax credit for rehabilitation of qualifying income-producing historic properties in O.C.G.A. §48-7-29.8. The current tax credit is equal to 25 percent of qualified rehabilitation expenses (QRE) approved by the Department of Natural Resources (DNR) and is capped at $5 million for any single property. The aggregate tax credit for all properties that receive at least $300,000 under the program is capped at $25 million. This bill would eliminate the $5 million cap per project and the $25 million aggregate cap for large projects.

The bill also removes the restriction that no more than one application for any individual certified structure can be made in a 120 month (10 year) period. It allows an application for tax credits to be made by a taxpayer who is party to an executed written agreement for the purchase of real property for which the tax credit is to be claimed. It also removes the restriction on a taxpayer's ability to sell or assign rehabilitation tax credits more than once and extends the sunset date of the program from December 31, 2021 to December 31, 2027. The amendment would become effective on January 1, 2018 and apply to certified rehabilitation projects completed on or after January 1, 2019, thus affecting state income tax revenues beginning in FY2020.

The $25 million aggregate cap for large projects is not removed by the proposed legislation until 2019, but data obtained from DNR indicates that the cap was reached in 2016 and will be reached again in 2017 and 2018. During 2016, DNR certified 12 applications for large projects. Those projects represented $417 million in QRE which would have produced $104 million in tax credits without the cap. DNR has approved 25 large projects for 2017 with an estimated $192 million in QRE that would produce $48 million without the cap. Year to date, seven projects are approved for 2018 with a total of $172 million in QRE that would produce $43 million in tax credits.

Several other states, including Missouri, Virginia, Wisconsin, and Massachusetts that have similar historic preservation tax credit programs with large caps, or no cap at all, were surveyed regarding the level of tax credits generated. Annual tax credits in these states typically range from 20 percent to 30 percent of QRE and result in $50 million to $100 million in tax credits annually. Some showed significant year-to-year variation depending on the number and size of rehabilitation projects completed in a given year. Massachusetts reported that their $50 million cap is reached each year, and Virginia issues about $100 million annually with no cap. Missouri, with an economy about 60 percent the size of Georgia's, typically exceeds $50 million annually.

Based on the experience in these states and the figures reported for 2016 and 2017 by DNR, it is reasonable to expect that QRE in the future will continue at current levels. Averaging the reported QRE figures for 2016 and 2017, we project $304.5 million in QRE for 2018 and apply a growth rate for subsequent years using the Producer Price Index for Maintenance and Repair of Non-Residential Buildings reported by the Federal Reserve Bank in St. Louis to project QRE through FY2022 (line 1 in Table 1).

Under current law, total credits for all projects earning more than $300,000 each may not exceed $25 million per calendar year. If the cap were to remain in place through 2021 it is projected that total tax credits would equal the cap in each year and reduce state revenue by that amount through FY2022 (line 2 in Table 1).

The proposed changes would become effective for projects completed on or after January 1, 2019 and would thus be included in tax filings beginning in tax year 2020. Thus, no change from the existing law would be realized during FY2018 and FY2019. For comparison purposes, Table 1 on page 1 shows tax credits based on projected QRE under the existing cap (line 2) and without a cap (line 3), along with the net change, for 2018 through 2022 (line 4).