DEPARTMENT OF AUDITS AND ACCOUNTS

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February 26, 2018

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

SUBJECT: Fiscal Note
House Bill 843 (LC 43 0829)

Dear Chairman Powell:

The bill would expand the geographic area qualifying for the jobs tax credit under O.C.G.A. §48-7-40.1. Currently, businesses must be located in a census tract adjacent to a federal military installation where pervasive poverty is present. The bill would expand the qualifying geographic area to any census tract in a county containing a federal military base with a garrison of at least 5,000 federal or military personnel that also contains an industrial park owned and operated by a governmental entity.

The tax credit amounts to an annual $3,500 per newly created job for up to five years, but the credit is only given if the business creates at least two new jobs in a year and other qualifications are met. No effective date is given in the bill, so the credit is assumed to be available for new jobs created on or after July 1, 2018.

Impact on Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by up to $400,000 in FY 2019 (Table 1). The range of increase to a loss between $800,000 and $4.3 million in FY 2023. Details of the analysis are in the appendix. Pursuant to the declared intention of the bill's author, FRC limited the scope of its analysis to census tracts that house a military base and industrial park of the kind described above. If the bill is interpreted to apply to all census tracts within a county that houses a military base and industrial park of the kind described above, the revenue impact will be greater.

Table 1. Estimated State Revenue Loss from HB 843 LC 43 0829

($ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue Loss (Low)	-	$0.4	$0.7	$0.7	$0.8
Revenue Loss (High)	$0.4	$1.5	$2.6	$3.4	$4.3

Impact on Expenditures
The Department of Revenue (DOR) estimated one-time costs of $61,500 for updating IT systems, form update, system testing, and training and education.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Data

Data for the analysis came from multiple sources. A list of military bases in Georgia was obtained from the Department of Transportation's Bureau of Transportation Statistics. Information on the number of federal and military personnel garrisoned at these bases was gathered through military installations' official websites, online encyclopedias, and other sources. Ownership information for industrial park sites was obtained through the site selection tool on Electric Cities of Georgia's website. Quarterly census tract-level data on manufacturing employment were obtained through the Georgia Department of Labor. Finally, information about census tracts already designated or eligible for a job tax credit under current law came from the Georgia Department of Community Affairs website.

Qualifying Census Tract Determination

Counties that contain a military installation fitting the criteria in the proposed legislation were determined, and the census tracts within these counties already eligible for the job tax credit under another provision were identified and removed from the analysis to avoid double counting. Other qualifying designations include military or opportunity zones and less developed census tracts. Counties designated as tier 1 job tax credit counties, which offer larger tax credits per newly created job than the proposed amendment, were removed from the analysis as well. Of the remaining census tracts, those containing an industrial park owned and operated by a governmental entity were verified. These census tracts would become eligible for the job tax credit under the proposed amendment.

Currently, all census tracts affected by this amendment are covered under other provisions of the job tax credit that provide equal or larger credits per newly created job than this provision would allow. Of the 11 potential census tracts, six are designated (or eligible to be designated) as military zones under paragraph (2) of subsection (c), one as an opportunity zone, and four as less developed census tracts. In addition, two counties containing qualifying military installations are designated as tier 1 job tax credit counties that offer larger tax credits per job than the proposed amendment.

Estimate Range

The low estimate assumes no change in the status of the 11 census tracts meeting the military and industrial park criteria except the expiration of one tract's opportunity zone status in 2021. The estimated revenue effects of this tract's tax credit under the amendment are incorporated in 2022 and 2023. In addition, one other census tract will become eligible for the amendment when a proposed industrial park with an estimated 200 newly created jobs is built in approximately 2020. The growth in manufacturing employment in both tracts was forecasted using historical trends in census tract-level manufacturing employment from January 2013 to June 2017. The revenue effects of these two census tracts form the baseline revenue loss (low) estimate.

The annual employment growth projections for both counties and the one-time addition of 200 jobs from the new industrial park were added and multiplied by the $3,500 credit to arrive at the annual baseline estimate. It was assumed that the 200 new jobs from the industrial park were created in a single year, 2020; therefore 2021-23 include these 200 jobs due to the five-year length of the credit.

The high estimate builds on the low estimate. It assumes that one census tract would become eligible for the tax credit in each year of the analysis from the addition of a prototypical industrial park employing 200 individuals. To estimate the underlying manufacturing growth in any county that could become eligible, a prototypical census tract was created as an average of all potential tracts' manufacturing growth. The number of manufacturing jobs created in this prototypical census tract—independent of a new industrial park—was forecasted using a linear trend analysis of the average of the manufacturing employment across all census tracts in the qualifying counties. That is, the high estimate includes the initial jobs created in the hypothetical new industrial and also the trend-estimate of other manufacturing jobs created in the same census tract, but outside of the park. The sum of the estimated number of new manufacturing jobs per year multiplied by the $3,500 credit gives the revenue effect of the proposed legislation each year.

For both estimates, it was assumed that all jobs created would meet the requirements for a job tax credit (two or more new jobs created by the firm, 35 hours per week minimum, etc.) and that all 200 jobs created through the prototypical industrial park were created in a single year. It was also assumed that census tracts eligible, but not designated, for a job tax credit under current law would become designated areas by 2018 (i.e., those eligible for the military zone status would claim that status in place of this proposed amendment).

Table A1 shows the estimated number of new manufacturing jobs eligible for the tax credit from 2019 to 2023. The estimates assume linear growth in new jobs, and a new job is counted in only one year (i.e., it does not incorporate the five-year length of the credit per job). The spike in employment in 2020 comes from the creation of a proposed industrial park included in the low estimate. Credits from newly-created jobs in a given are assumed to impact tax payments evenly between the fiscal year ending and the fiscal year beginning in the calendar year.

Table A1. Estimated Number of New Manufacturing Jobs Eligible for the Tax Credit

	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023
Low Estimate	0	200	0	10	19
High Estimate	209	418	226	245	263

Note, finally, that it is possible that a qualifying industrial park is developed within this five-year window that attracts one or more much larger employers, resulting in a significantly greater cost of the tax credits. However, with no knowledge of such a planned or pending projects and given the long lead-time one might expect for such a project, none were assumed.