DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

January 16, 2024

Honorable Shaw Blackmon
Chairman, House Ways and Means
133 State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill 814 (LC 50 0599)

Dear Chairman Blackmon:

The bill would amend the definition of a qualified investment property within the manufacturers' investment tax credit under O.C.G.A. §§ 48-7-40.2 through 40.4 to include ground networks and fiber-optic cables installed within or outside a telecommunication facility. Under current law, land acquisition, improvements, buildings, building improvements, machinery and equipment are included in the calculation of the credit when they are associated with the expansion or construction of a manufacturing or telecommunication facility. The bill would be effective for new investments made on or after July 1, 2024, and applicable to taxable years starting on or after January 1, 2024.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue as shown in **Table 1**. The high and low estimates are based on varying assumptions related to the portion of broadband expenditures qualifying under the bill, the growth of the expenditures and the portion of grant and loan supported investment that qualifies for the credit. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of HB 814 LC 50 0599

($ *millions*)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
High Estimate	($6.7)	($23.7)	($40.2)	($49.6)	($54.2)
Low Estimate	($4.9)	($17.6)	($29.9)	($36.8)	($40.3)

Impact on State Expenditures
The Department of Revenue would be able to implement the provisions of the bill without additional funding.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

Under current law, O.C.G.A. §§ 48-7-40.2 through 40.4 detail a tax credit (MITC) for investment in manufacturing and telecommunications facilities (or support facilities) in the state by businesses operating such a facility in the state for the immediately preceding three years. Credit rates vary depending on the county in which the investment is made, based on the tier designation of the county as determined by the Department of Community Affairs—from 5–8 percent in tier 1 counties, 3–5 percent in tier 2, and 1–3 percent in tiers 3 and 4. The higher end of the credit-rate range is available for recycling or pollution control equipment, which is assumed not to be applicable for changes made under this bill.

The proposed bill would expand the definition of qualified investment property from land acquisition, improvements, buildings, building improvements, machinery and equipment to include off-site ground networks and fiber-optic cables connected to a new or expanding telecommunication facility. Broadband expansion into rural and underserved areas is a focus of multiple federal grant programs, which precipitated the creation of the Georgia Broadband Deployment Initiative and Georgia Broadband Plan. Total public grant and loan support to provide broadband access is expected to total $1.6 billion between 2024 and 2029.

USTelecom's (The Broadband Association) 2022 Broadband Capital Expenditure Report indicated that telecom firms invested $102.4 billion in infrastructure during 2022. Based on Georgia's share of telecom industry (NAICS 517) revenues reported by the 2022 U.S. Economic Census, an estimated $4.32 billion of that investment was in Georgia. According to the research company Omdia, which maintains a detailed database of telecom operator capital expenditures (capex) called the Telecom Capex Tracker, 62 percent of telecom capital expenditures are for civil infrastructure, access network materials, transport materials, and core materials. The remaining percentage is primarily for software, IT, or central facility-related expenditures. Therefore, 62 percent of capital expenditures is assumed to represent the portion of overall broadband investment that comprises off-site ground networks.

The data and assumptions used to estimate the revenue impacts of the proposed bill are as follows.

- Of the estimated $4.32 billion of Georgia's telecom broadband investment in 2022, between 57 and 67 percent are assumed to be on off-site ground network equipment and construction materials, which is five percent above and below the percentage indicated by Omdia.
- USTelecom Broadband Capital Expenditure Report data show that U.S. broadband expenditures grew at 3.9 percent annually between 2012 and 2022. This is assumed to be driven by demand forces and capital depreciation. The estimates assume a high baseline growth rate of 4.9 percent annually after 2022 and a low estimate of 2.9 percent.
- Investment associated with federal grant and loan programs is assumed to be in addition to the demand and depreciation driven baseline growth in broadband capital investment. The estimates assume that 35 percent of the $1.6 billion ($551.5 million) in expected grant-supported investment will occur during 2024 with diminishing percentages of the $1.6 billion expended each year until complete in 2029. Half of total investment in 2024, publicly supported as well as private, is assumed to occur after July 1, the first day that investments are assumed to qualify.
- The treatment for purposes of the credit of off-site ground network investment that has been supported by federal, state, or local funding is uncertain. Reports by the Benton Institute indicate that recent federal legislation defined federal broadband grant funding as taxable income for the grantee, suggesting the investment made with the after-tax funds would qualify as investment by the grantee for tax purposes. Thus, the high estimates assume that all publicly supported off-site ground network investment will be included as qualified investment property. Nevertheless, the low estimates assume only 25 percent would qualify. This assumption is based

on match requirements in grant programs, the largest of which, Broadband Equity, Access, and Deployment (BEAD), includes a 25 percent match requirement.

- Projects that earn MITC cannot also earn credits under job tax provisions (O.C.G.A. §§ 48-7-40 or 40.1), quality job tax credits (§ 48-7-40.17), or optional investment tax credits (§§ 48-7-40.7, 40.8, or 40.9). It is assumed that this requirement has led manufacturers to generate MITC but not subsequently utilize them. Generated credits can be carried forward for up to 10 years. The estimates assume 35 percent of credits are utilized in the first year after generation with declining utilization percentages until 70 percent of generated credits have been utilized five years after generation.
- Broadband expansion, along with the corresponding off-site ground network expansion, is assumed to occur all over the state. The estimates assume an average credit rate of 2.03 percent, which is the county population weighted average tier credit rate.

The change would be effective for new investments made on or after July 1, 2024, provided such investment is also made in a firm tax year beginning on or after January 1, 2024. For simplicity, investments made on or after July 1, 2024, are assumed to be eligible.

High and low qualified investment property estimates for 2024–29 based on these data and assumptions are presented in Table 2. The high estimates are based on 67 percent of broadband capital expenditures being off-site ground network capital investment, baseline growth of 4.9 percent, and all grant and loan supported investment qualifying. The low estimates are based on 57 percent of broadband capital expenditures being off-site ground network capital investment, baseline growth of 2.9 percent, and 25 percent of grant and loan supported investment qualifying to generate credits.

Table 2. Qualified Investment Property and Generated Credits CY 2024-2029

($ *millions*)	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
Baseline						
High	$3,184	$3,341	$3,506	$3,679	$3,861	$4,051
Low	$2,606	$2,683	$2,762	$2,843	$2,926	$3,012
Total with Public Grant and Loan Supported						
High	$3,735	$3,735	$3,821	$3,915	$3,939	$4,051
Low	$2,744	$2,781	$2,841	$2,902	$2,946	$3,012
Generated Credits at 2.03 Percent Average Credit Rate						
High	$38	$76	$78	$80	$80	$82
Low	$28	$57	$58	$59	$60	$61

The resulting revenue impacts detailed in Table 1 are based on these calendar year high and low generated credit estimates, with 35 percent utilized in the following calendar year and 20, 10, and 5 percent utilized over the subsequent three years, respectively. Calendar year aggregate utilized credits are then converted to fiscal years using averaging.