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

March 26, 2018

Honorable Chuck Hufstetler
Chairman, Senate Finance
121-C State Capitol
Atlanta, Georgia 30334

SUBJECT: Revised Fiscal Note
House Bill 327 (LC 34 5429S)

Dear Chairman Hufstetler:

The original fiscal note for LC 34 5429S, dated March 21, 2018, has been revised and replaced. The fiscal note did not include the correct amount of funds to be distributed between the state and local governments in FY 2020. The FY 2020 state revenue loss related to revenue distribution was overstated, as was the local revenue gain.

The bill would modify several provisions related to the Title Fee Ad Valorem Tax (TAVT). It would change the distribution of revenue between the state and local governments; modify the treatment of out-of-state registrations, vehicles transferred through divorce settlements or business restructurings, pre-1963 vehicles, for-hire charter buses and motor coaches, and vehicles donated to nonprofit organizations; and clarify the valuation of KIT cars. The legislative changes would be effective for registrations, purchases, and distributions occurring on or after July 1, 2019.

Impact on State and Local Revenue

Georgia State University's Fiscal Research Center (FRC) estimated the bill's impact on state and local revenue. FRC found that state revenue would decrease by $18.9 million in FY 2020, the first year of the bill's full impact (Table 1 on the following page). The state revenue loss would be $16.8 million in FY 2023. The bill would decrease local revenue by $18.3 million in FY 2020 and by $20.0 million in FY 2023 (Table 2). While the bill does not take effect until FY 2020, FRC did estimate small revenue changes in FY 2019 due to anticipated shifting of purchases or registrations as a result of the bill. Details of FRC's analysis are included in the appendix.

Table 1. Projected State Revenue Effects of HB 327 LC 34 5429S

($ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue distribution—state and local govt[1]	$0.0	($4.5)	($1.6)	$0.0	($2.0)
Treatment of vehicles donated to nonprofits	*Revenue Loss of less than $1 million annually*				
Modify treatment of OOS registrations	($2.1)	($13.1)	($13.0)	($13.2)	($13.3)
Modify treatment of vehicles transferred through divorce settlements	$0.0	($1.1)	($1.2)	($1.3)	($1.4)
Modify treatment of Non-IRP buses	($0.3)	($0.2)	($0.1)	($0.0)	($0.0)
Valuation of KIT Cars, Modify treatment for pre-1963 vehicles	*Revenue Effect of less than $1 million annually*				
Total State Revenue Effect	($2.4)	($18.9)	($15.9)	($14.5)	($16.8)

Note: Numbers may not add due to rounding.
Note: LC 34 5429S has no provision affecting leased vehicles. House Bill 340, passed during the 2017 session, changed the method of assessing leased vehicles, resulting in an estimated state revenue reduction in FY 2019 of $55.4 million.
[1] In a calendar year, the amounts in Tables 1 and 2 would cancel out. However, the delay in money being transferred to the state results in slight differences when reported by fiscal year.

Table 2. Projected Local Revenue Effects of HB 327 LC 34 5429S

($ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue distribution—state and local govt[1]	$0.0	$4.7	$1.4	$0.0	$2.4
Treatment of vehicles donated to nonprofits	*Revenue Gain of less than $1 million annually*				
Modify treatment of OOS registrations	($3.1)	($20.6)	($19.5)	($19.8)	($20.0)
Modify treatment of vehicles transferred through divorce settlements	$0.0	($2.0)	($2.0)	($2.1)	($2.2)
Modify treatment of Non-IRP buses	($0.4)	($0.4)	($0.2)	($0.0)	($0.0)
Valuation of KIT Cars, Modify treatment for pre-1963 vehicles	*Revenue Effect of less than $1 million annually*				
Total Local Revenue Effect	($3.5)	($18.3)	($20.3)	($21.9)	($20.0)

Note: Numbers may not add due to rounding.
Note: LC 34 5429S has no provision affecting leased vehicles. House Bill 340, passed during the 2017 session, changed the method of assessing leased vehicles, resulting in an estimated local revenue reduction in FY 2019 of $18.7 million.
[1] In a calendar year, the amounts in Tables 1 and 2 would cancel out. However, the delay in money being transferred to the state results in slight differences when reported by fiscal year.

Impact on Agency Costs

The Department of Revenue (DOR) is implementing a new Driver Record and Integrated Vehicle Enterprise System (DRIVES) that is scheduled to be completed May 27, 2019. DOR officials contend that making the changes in the bill after that date (July 1, 2019) will result in additional costs of $5.6 million. If the changes are effective on the May 27, 2019 implementation date, they can be incorporated into the existing project scope at no additional cost.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

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Analysis by the Fiscal Research Center

Change the State and Local allocation schedule of TAVT revenues -
The legislation modifies the current allocation schedule of TAVT revenues between the state and local governments. Under current law, TAVT revenues are shared between the state and local governments according to a formula specified in O.C.G.A §48-5C-1. Under the current law arrangement, local government receipts for a given year must fall within a range of plus or minus 1 percent of the local government target amount. If local government revenues for the previous year do not fall within this range, the allocation between the state and local governments for the current year is adjusted so that with the application of the adjusted rates the local revenue for the prior year would have equaled the target amount.

Under the proposed law, the state share will equal 40 percent of total TAVT revenues and the local share will equal 60 percent in perpetuity. Lastly, the proposed legislation leaves unchanged the provision that local county governments may retain up to a maximum of 1 percent of state TAVT proceeds to defray cost of administration.

- State and local revenues are forecasted based on historical TAVT data from the Georgia Department of Revenue (DOR) and reflect the forecast of vehicle registrations in Georgia produced by Moody's Analytics for years 2018-23.

- Vehicle prices are assumed to increase at an average annual rate of 1.15 percent over all types of vehicle transactions over the 2018-23 period.

- The revenue effects presented in Table 1 and Table 2 assume the counties retain 1 percent of state revenues as compensation for administrative costs.

- The forecasted effective state and local TAVT rates under current law and the proposed law are as follows:

Current Law	**CY 2019**	**CY 2020**	**CY 2021**	**CY 2022**	**CY 2023**
State Government	0.0317	0.0297	0.0279	0.0281	0.0301
Local Government	0.0383	0.0403	0.0421	0.0419	0.0399

Proposed Law	**CY 2019***	**CY 2020**	**CY 2021**	**CY 2022**	**CY 2023**
State Government	0.0280	0.0280	0.0280	0.0280	0.0280
Local Government	0.0420	0.0420	0.0420	0.0420	0.0420

*Represents state and local TAVT rate as of July 1, 2019.

Treatment of vehicles donated to a nonprofit organization -
This legislation modifies the distribution of the revenues from the TAVT levied on vehicles donated to nonprofit organizations. Under current law, vehicles transferred to a nonprofit organization are subject to a 1 percent TAVT rate upon transfer with all the proceeds distributed to the state government. Under the proposal, these transfers would still be subject to a 1 percent TAVT rate that would be shared between the state and local governments using the annual shares for the standard TAVT transactions discussed above. The estimate reflects the shift in current law revenues from the state to the local governments but no overall change in revenues from the taxation of these transfers.

Treatment of out-of-state vehicles -
The proposed legislation modifies the procedures for the registration of out-of-state vehicles when an owner is relocating to Georgia. Under current law, the TAVT is levied on the fair market value of the vehicle at

the time it is registered in Georgia and the owner is allowed to pay the tax liability in two equal amounts over a 12-month period. Under the proposal, the TAVT rate for the registration of out-of-state vehicles would be equal to 3 percent of the fair market value of the vehicle and may be paid in one lump sum or in two equal installments over a 12-month period.

- The estimate assumes that approximately 94,000 vehicles will be registered as OOS transfers in 2019 and this amount is assumed to remain flat over the 2018-2022 period based on historical trends of U.S. Census Bureau data of domestic migration into Georgia since 2010.

- The average value of an OOS vehicle is assumed to be $17,022 in 2019 and is based on TAVT data provided by DOR for prior years. This value is assumed to grow annually at a rate of about 1.5 percent based on historical data of the CPI for used vehicles produced by the Bureau of Labor Statistics and based on historical TAVT data.

- The revenue estimate reflects the fact that some individuals are choosing to pay the current OOS registration fee in one payment instead of two equal installments over a 12- month period.

- This estimate also incorporates the state and local TAVT rates that will arise due to the change in the allocation of revenues between the state and local governments.

- The estimate assumes that because taxpayers could reduce their TAVT liability by $681 in 2019, some amount of April, May, and June 2019 registrations will be shifted into July of 2019 to take advantage of the reduced rate.

Vehicles transferred through divorce settlements –
This legislation also allows vehicles transferred because of a divorce decree to be subject to a reduced state TAVT rate of 0.5 percent of vehicle fair market value and a reduced local TAVT rate of 0.5 percent of vehicle fair market value. Under current law, vehicles transferred because of a divorce decree are subject to the standard TAVT rate applicable to other transactions, such as dealer or casual sales.

- Based on data from the Centers for Disease Control, the national divorce rate in 2016 was 3.3 per 1,000 persons. Using this information, the estimate assumes approximately 34,000 divorces annually in Georgia.

- Based on data from the American Community Survey for 2013, Georgia residents owned 1.3 vehicles per household.

- Assuming half of the vehicles per household are transferred in a divorce settlement, the estimate assumes roughly 14,000 vehicles are transferred via a divorce settlement per year.

- Conversations with individuals at the DOR indicated that the TAVT levied currently in some of these cases may already be the reduced rate, as there seems to be some confusion among the county agents about how to process these transactions under current law. This is reflected in the estimate.

- The average value of vehicles transferred in a settlement is based on the historical values of casual sales transactions and is estimated to equal approximately $4,300 in 2019.

- This estimate also incorporates the state and local TAVT rates that will arise due to the change in the allocation of revenues between the state and local governments.

Kit Cars and pre-1963 vehicles –
The legislation allows kit cars to be valued at the greater of the retail selling price of the kit or the average of the current fair market value and the current wholesale value of the motor vehicle as listed in the current valuation book utilized by the state revenue commissioner. The modification in this bill codifies the typical treatment of these vehicles under current law.

In addition, the bill modifies the treatment of pre-1963 model vehicles. Vehicles with a model year prior to 1963, for which a conditional title has been obtained, would be allowed to opt into the TAVT system upon payment of a state TAVT payment equal to 0.5 percent of the fair market value of the vehicle and a local TAVT payment equal to 0.5 percent of the fair market value of the vehicle.

For-hire charter buses or motor coaches –
In the case of for-hire charter buses and motor coaches which seat at least 15 passengers or more, the legislation allows the TAVT to be paid over a 12-month period in two equal installments. Under current law, the TAVT liability for these vehicles is due in full at the time of titling.

- The estimate assumes that 150 such vehicles are titled each year in Georgia with an average value of $250,000.

- If more vehicles are titled in the state or if these vehicles have a higher average value the provision will reduce state and local revenues by more than that shown in Table 1 and Table 2. If there are fewer vehicles or if the average value is less than $250,000, the revenue loss will be less.