DEPARTMENT OF AUDITS AND ACCOUNTS

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March 13, 2017

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

SUBJECT: Fiscal Note
House Bill 59 (LC 44 0439S)

Dear Chairman Hufstetler:

The bill would amend an income tax credit for the rehabilitation of qualifying income-producing historic properties. It would raise the individual project cap from $5 million to $10 million for any single property and from $10 million to $20 million for properties that generate 200 or more full time, permanent jobs or $5 million in annual payroll within two years of being placed in service. It would also redefine large projects as those receiving an individual credit of at least $500,000 (from current $300,000) and raise the annual aggregate program cap for all large projects from the current $25 million to $50 million.

The bill also removes the restriction on a taxpayer's ability to see or assign rehabilitation tax credits more than once and the sunset date of the credit. The bill maintains the restriction on more than one approved application for a certified structure in a 10-year period. The bill would apply to certified rehabilitation projects completed on or after July 1, 2017, thus affecting state income tax revenues beginning FY 2018.

Impact on State Revenue
The University of Georgia's Carl Vinson Institute of Government (CVIOG) estimated that the bill would reduce state revenue by $24.8 million in FY 2018 (Table 1) and by similar amounts in subsequent years. CVIOG's assumptions and analysis are included in the appendix.

Table 1. Estimated Revenue Reduction in State Income Tax Revenue, LC 44 0439S

($ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
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 0439S	$49.8	$50.8	$50.8	$50.8	$50.8
Impact of Bill	**$24.8**	**$25.8**	**$25.8**	**$25.8**	**$25.8**

Impact on Agency Costs

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/jb

Analysis by the Carl Vinson Institute of Government

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 or $10 million for properties that generate 200 or more full time, permanent jobs or $5 million in annual payroll within two years of being placed in service. The aggregate tax credit for all properties that receive an individual credit of at least $300,000 (large projects) under the program is currently capped at $25 million annually. This bill would redefine large projects as those receiving an individual credit of at least $500,000, raise the individual project cap from $5 million to $10 million for any single property and from $10 million to $20 million for properties that generate 200 or more full time, permanent jobs or $5 million in annual payroll within two years of being placed in service and raise the annual aggregate program cap for all large projects from the current $25 million to $50 million.

The bill maintains 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, provides for the automatic repeal and replacement of this Code Section with a revised Code Section on January 1, 2028 and removes the sunset date of the program. The amendment would become effective for certified rehabilitation projects completed on or after July 1, 2017, thus affecting state income tax revenues beginning in FY 2018.

Data obtained from DNR indicate that the current $25 million cap was reached in 2016 and is expected to be reached again in 2017, 2018, and 2019. 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 in tax credits without the cap. Currently, 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 its $50 million cap is reached each year, and Virginia issues about $100 million in tax credits 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 of 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 FY 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 FY 2022 (line 1 in Table 1).

Under the proposed legislation, total credits for all projects earning more than $500,000 each may not exceed the $50 million annual aggregate program cap. Projects earning less than $500,000 in credits do not count towards the $50 million cap. Raising the per project cap from $300,000 to $500,000 would mean that those projects earning between $300,000 and $500,000 in credits would no longer count towards the program cap. Based on historical data, such projects would add an estimated additional $800,000 per year to the cost of the program by virtue of falling in the uncapped (i.e. less than $500,000 per project) part of the program. Total credits for large projects completed between July 1, 2017 and December 31, 2017 are estimated to be $24 million. If the proposed $50 million cap were to remain in place through 2021 it is projected that total tax credits for large projects would equal the cap for all years after 2017 and that those projects receiving between $300,000 and $500,000 in credits and now falling outside the cap would reduce tax revenues by an additional $800,000 annually through FY 2022 (combined in line 3, Table 1).

The proposed changes would become effective for projects completed on or after July 1, 2017 and would thus be included in tax filings affecting revenues in FY 2018. For comparison purposes, Table 1 shows tax credits based on projected QRE under the existing ($25 million) cap on line 2 and under the proposed ($50 million) cap on line 3, along with the net change, for FY 2018 through FY 2022 (line 4).