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Bill Analysis

"Georgia Renaissance Act" is Well-Intentioned, but Costly

Bill Analysis: House Bill 128 (LC 34 3600)

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Dubbed the Georgia Renaissance Act, House Bill 128 would create $30 million worth of new tax credits aimed at revitalizing local downtowns, making it one of Georgia's costliest economic development programs. The proposal calls for a mix of tax incentives to entice Georgia businesses and real estate developers to renovate existing buildings or launch new construction projects – both commercial and residential – within clearly defined downtown boundaries. Its stated goals are to make Georgia's small towns more attractive to private investment and new residents, thereby leading to new job creation and improved quality of life.

While well-intentioned, HB 128 is an expensive new tax credit program in a time of budgetary constraints. Since Georgia already foregoes nearly $300 million in revenue per year on largely unproven tax credits for economic development,[1] lawmakers must closely consider whether now is the time for more.

Cost

While there is not yet an official fiscal note, the Georgia Renaissance Act would cost state taxpayers around $30 million per year beginning in the budget year that starts July 1, 2014 (FY 2015).[2] This would make the program one of Georgia's most expensive tax credits explicitly devoted to economic development (Table 1). Additionally, because the bill does not currently include a sunset (or expiration) date, the new program's costs represent an ongoing revenue loss for the foreseeable future.

HB 128 Would Create Georgia's 3rd Largest Economic Development Tax Credit

	Annual Cost* (in millions)
Film Tax Credit	86.0
Jobs Tax Credit	48.0
Georgia Renaissance Act	***30.0***
Employer's credit for employee retraining	29.0
Research Tax Credit	13.0
Manufacturer's Investment Tax Credit	9.0
Port Activity Tax Credit	7.0
Qualified Investor Tax Credit	7.0
Quality Jobs Tax Credit	5.0
Other Economic Development Credits	84.5

Source: GBPI analysis of Georgia Tax Expenditure Report for 2014

Notes: (1) "Annual Cost" refers to the estimated FY 2014 fiscal impact for all credits other than the Georgia Renaissance Act, whose fiscal impact is laid out in HB 128; (2) See GBPI analysis "Georgia FY 2014 Budget for Business Tax Breaks" for more details on "Other Economic Development Credits," and (3) Additional corporate tax credits not related to economic development, such as for land conservation or private school scholarships, are not included.

What the Bill Would Do

The primary goal of the bill is to spur revitalization of downtown districts in small Georgia communities. It is based on the idea that attractive, vibrant downtowns can be an important economic asset when effectively and soundly developed, such as by encouraging the creation of new small businesses and attracting new residents. Each vacant storefront costs the state and local economy up to $400,000 according to the Georgia Municipal Association (GMA).[3] Other observers have noted that vibrant downtowns with high quality of life help attract the sought-after "creative class" of young and mobile workers.[4]

Several states previously enacted similar types of downtown-development programs, often in the name of historical preservation but in some cases for economic development as well. HB 128 is partially modeled on those other states' efforts.[5]

The bill has three main components:

- **Commercial Projects** – $20 million per year in credits ranging from 10 to 25 percent of the costs of new construction or renovation projects within specific downtown districts – dubbed Renaissance Districts;
- **Residential Projects** – $5 million per year in credits for up to 5 percent of the purchase or up to 15 percent of renovation costs of owner-occupied housing in Renaissance Districts; and
- **Revolving Loan Fund** – $5 million per year in credits for individual or corporate contributions to the Georgia Renaissance Fund, a component of the new program that will provide low-interest loans to businesses investing within Renaissance Districts.

Beyond these basic tenets, there are some additional details that are important for lawmakers to consider:[6]

- The bulk of the tax credit program would be administered through a new entity called the Georgia Downtown Partnership, which would be a public-private partnership between private sector leaders and the Department of Community Affairs (DCA). The revolving loan, or "Renaissance Fund," portion of the bill would be administered by the Georgia Cities Foundation, an independent nonprofit that makes low-interest loans to Georgia entrepreneurs.
- There would be a cap on the maximum amount of credits an individual taxpayer could claim, specifically $500,000 for commercial projects, $250,000 for contributions to the revolving loan fund and $50,000 for purchases or renovations of owner-occupied housing.
- Tax credits would be awarded on a first-come, first-served basis, similar to Georgia's existing tax scholarship for private school students.
- The tax credit would be nonrefundable. In other words, it could not exceed a taxpayer's annual state income tax liability.
- Recipients would be allowed to transfer or sell the tax credit to an eligible third-party and all credits could carry forward (or apply to future years' tax liability) for up to five years.
- DCA would be required to establish geographical quotas aimed at ensuring the tax credits were equitably distributed throughout the state. For example, 10 percent of credits might be designated for Atlanta, versus 30 percent for mid-size cities, and so on.

Policy Consideration: Lawmakers must decide whether now is the time for new tax credits

HB 128 appears to be a good-faith effort to help strengthen some of Georgia's struggling small towns. But given the bill's high cost, lawmakers should weigh it carefully against other uses of increasingly scarce state funds. Georgia's revenues are down significantly since the recession, and several state services are still reeling from bone-deep cuts incurred in the last few years. All new programs, regardless of merit, must be judged against competing priorities.

This is especially true of economic development programs carried out through the tax code, since there is no good way of knowing whether these investments truly stimulate the economy or create jobs. Georgia already spends nearly $300 million each year on corporate tax credits for jobs and growth, but the state does not take a very close look at whether the efforts really work. Georgia was recently ranked as one of 26 states that are "trailing behind" on measuring if its economic development tax credits are effective, which basically means the programs are not reviewed very often, or very thoroughly.[7]

Considering Georgia's lack of consistent review, as well as the fact that tax-side spending programs have a generally spotty track record in other states,[8] policymakers must carefully consider whether the time is right for a new tax credit program. If lawmakers would like HB 128 to pass, they must require its supporters satisfy a high burden of proof that its benefits are worth the cost. At the very least, the final version of the bill should include a sunset date requiring periodic review, ideally every three to five years.

Endnotes

[1] GBPI analysis based on official Georgia Tax Expenditure Report for FY 2014. Described more fully in "Georgia FY 2014 Budget for Business Tax Breaks," Georgia Budget and Policy Institute. 2/7/2013. http://gbpi.org/overview-georgia%E2%80%99s-2014-budget-for-business-tax-breaks

[2]House Bill 128. The legislation explicitly calls for $30 million to be the annual cap on how many tax credits can be awarded, but due to some intricacies of the bill – namely the fact that credits can be carried-forward (or applied to future years' tax liability) for up to five years – the full annual cost may be slightly higher.

[3] "Fact Sheet: Georgia Downtown Renaissance Act," Georgia Municipal Association. Accessed 2/12/2013. http://www.gmanet.com/Assets/PDF/renaissance_act.pdf

[4] "What Critics Get Wrong About the Creative Class and Economic Development," The Atlantic Magazine. 7/3/2012. http://www.theatlanticcities.com/jobs-and-economy/2012/07/what-critics-get-wrong-about-creative-class/2430/; and "Out of the Box," Atlanta Business Chronicle. 3/5/2011. http://www.bizjournals.com/atlanta/print-edition/2011/05/13/out-of-the-box.html

[5]Georgia Municipal Association (GMA), by email. 2/10/2013. Examples include Arkansas's Central Business Improvement District Rehabilitation and Development Tax Credit Act (http://www.dfa.arkansas.gov/offices/exciseTax/TaxCredits/Pages/BusinessIncentivesandTaxCreditPrograms.aspx#3) and the Maryland Sustainable Communities Act (http://planning.maryland.gov/PDF/YourPart/SustainableCommunitiesSustainableCommunities Act2010.pdf).

[6] Details obtained from text of HB 128 and "Georgia Downtown Renaissance Act," Georgia Municipal Association. Accessed 2/12/2013. http://www.gmanet.com/Assets/PDF/renaissance_act_detail.pdf

[7]"Evidence Counts," Pew Center on the States. 4/12/2012. http://www.pewstates.org/research/reports/evidence-counts-85899378806

[8]The experiences of other states shed some doubt on whether corporate tax credits really help the economy or create jobs. Evidence shows that credits sometimes reward companies for investments that would have happened otherwise, such as when a company opens a new location it was planning regardless of whether it received public assistance. Corporate credits also drain state governments of funds for vital services like education and transportation, which leads to harmful budget cuts that undermine economic growth and lower quality of life. On the other hand, credits are likely useful in at least some cases, such as when they make a previously unfeasible business deal make sense.

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