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Adding Up the Fiscal Notes: 2015 Session Recap

Session Includes Mix of Sensible Reforms, Questionable Tax Breaks

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Overview

Several pieces of legislation that could affect Georgia's state treasury await either signature or veto by Gov. Nathan Deal, after clearing both the House and Senate in the 2015 session. One of them, House Bill 170, is a reasonable reform designed to raise considerable new money to pay for Georgia's pressing transportation challenges. But several other measures are questionable tax breaks for chosen industries and special interests that in some cases have sizable price tags in lost tax dollars. These non-transportation measures threaten to eat into Georgia's future revenues and therefore limit lawmakers' ability to meet the state's growing needs.

Georgia legislators earned praise this year when they acknowledged new revenue is key to solving the state's most difficult challenges. Lawmakers took the critical step of raising additional tax money for maintaining Georgia's transportation network. That lays a strong groundwork to build on Georgia's momentum in future sessions. Similar actions are needed in future years to address issues like education, health care and economic security, which are just as critical to Georgia's vitality as transportation.

Transportation Package Imperfect but Raises Considerable Revenue

The most significant tax change lawmakers enacted this year, by far, is HB 170, the comprehensive package of tax measures designed to raise additional money for transportation. The measure taken as a whole is an ambitious and sensible collection of tax reforms. No precise revenue estimate is available, but the final draft of HB 170 will likely generate around $900 million in additional transportation funding in the first year, rising above $1 billion in subsequent years. That total includes about $170 million shifted from the state general fund, with new revenues accounting for the remainder.

The specific tax changes the legislation makes would:

- **Modernize Georgia's gas tax.** Georgia's motor fuel tax today combines a 7.5 cent per gallon excise tax and a 4 percent sales tax. One-fourth of the sales tax portion is directed to the state general fund. The two taxes combined to equal 19.3 cents per gallon of gasoline and 21.3 cents per gallon of diesel in 2014. HB 170 switches to a single excise tax of 26 cents per gallon of gas and 29 cents per gallon of diesel. The new rates are also indexed to inflation in 2016 and 2017 and rising fuel efficiency for all years thereafter, so they gradually increase with economic changes over time.

  These reforms keep Georgia's gas tax competitive both regionally and nationally and ensure that motor fuel revenues remain stable in future years. Estimates suggest these changes will raise about $400-$500 million in new gas tax revenue each year. Another $170 million a year moves to transportation from the state general fund, since eliminating Georgia's sales tax on gas takes away the so-called "fourth penny" of that sales tax which previously used for non-transportation needs. Legislators missed an opportunity to reconcile the $170 million general fund loss, which could make it more difficult for lawmakers to fund education and other general services.

- **Create new fees.** HB 170 adds a series of new fees for legislators to spend on roads, bridges and transit in future budgets. These new fees include $5 per night on hotels excluding extended stays of more than 30 days; annual fees of up to $100 for heavy duty trucks determined by weight and annual fees of $200 on electric cars and $300 on commercial electric vehicles.

  There are reasonable arguments for and against each of these fees. The new fees on electric cars, for example, acknowledge that all drivers should pay at least something to help maintain the roads. But $200 is more than double what the average Georgia driver pays in gas taxes. And while the new hotel fee falls onto tourists in large part, it also hits poor Georgia families that sometimes call motels home. Whatever their merits, the fees will combine to raise more than $200 million a year.

- **Eliminate current tax breaks.** HB 170 eliminates existing tax benefits for Delta Air Lines and drivers of electric cars to generate additional revenue. Delta is now exempt from 1 percent of the state's 4 percent sales tax on jet fuel. Eliminating that tax break saves Georgia around $20 million per year. The tax bill also eliminates Georgia's generous income tax credit for electric vehicles, saving the state treasury an estimated $66 million in 2016 and possibly as much as $187 million a year by 2020. Since these new revenues go into the general fund, lawmakers wishing to spend them on transportation will have to earmark them for that purpose in future budgets.

- **Allows local transportation sales taxes.** HB 170 allows counties to levy a voter-approved local sales tax of up to 1 percent for transportation – commonly known by the abbreviation T-SPLOST (Transportation Special Purpose Local Option Sales Tax). Counties choosing to participate would collaborate with cities within their jurisdiction to develop a transportation project list, including things like new roads and expanded bus routes. The bill requires at least 30 percent of the locally-funded projects come from Georgia's statewide transportation plan. Multiple counties could collaborate on project lists, but voters in each county must approve the tax separately. That differs from the statewide T-SPLOST vote in 2012, when votes were tallied regionally.

The transportation bill essentially sets a baseline of nearly $1 billion additional state funds for transportation, which local governments can choose to augment. Experts view $1 billion as the bare minimum required for Georgia to meet its transportation maintenance needs, including routine road repaving and overdue bridge repairs. Lawmakers in future legislative sessions will still grapple with Georgia's other long-term transportation needs, such as more state investment in county transit systems and commuter rail.

Slew of Tax Breaks Erode General Revenues

The 2015 General Assembly's performance on taxes outside of the transportation bill is more mixed. State legislators passed 10 non-transportation bills affecting the state treasury. One is a collection of housekeeping measures Georgia enacts each year to conform to changes in federal tax law. But the other measures create or extend tax breaks for the benefit of a few industries or specific policy goals.

Some of these tax breaks are more sensible than others, but taken together they come are a fairly high price. The 10 non-transportation tax measures would cost the state treasury an estimated $176 million over the next five years. The cost over the next eight fiscal years totals an estimated $271 million, due to long-term costs for three of the bills.

The table below details the potential fiscal impact of the tax breaks. Revenue estimates for each bill come from the state's official fiscal notes when available. When official estimates are unavailable, GBPI analyzes the underlying text of the bill to forecast the state's forgone revenue. The table does not include the HB 170 transportation bill because precise annual estimates are not available.

Wide Array of Tax Breaks Await Gov. Nathan Deal's Signature or Veto

(Estimated revenue change, in millions, by fiscal year)

Bill	Fiscal Years, in Millions	2016	2017	2018	2019	2020	Five Year Total (2016-2020)	Out-Years Total (2012-2023)
HB 63	Companies that pay for employee GEDs, income tax credit	($0.5)	($1.0)	($1.0)	($1.0)	($0.5)	($4.0)	$0.0
HB 200	Electric car charging stations, income tax credit	($0.8)	($0.8)	($0.8)	($0.8)	($0.8)	($3.8)	$0.0
HB 202	Mercedes and private college tax breaks	($0.8)	($0.6)	($0.5)	($0.5)	($0.4)	($2.8)	$0.0
HB 237	"Angel Investor" income tax credit	$0.0	$0.0	($2.5)	($5.0)	($5.0)	($12.5)	($2.5)
HB 292	Annual conformity to federal tax changes	($14.0)	$22.0	$26.0	$22.0	$0.0	$56.0	$0.0
HB 308	Large historic rehabilitation projects, income tax credit	$0.0	($12.5)	($25.0)	($25.0)	($25.0)	($87.5)	($37.5)
HB 339	Videogame companies, income tax credit	($6.3)	($5.3)	($12.5)	($6.3)	$0.0	($37.5)	$0.0
HB 426	Nonprofit health centers & food banks, sales tax exemption	($5.2)	($5.3)	($5.6)	($5.7)	($5.9)	($27.8)	$0.0
HB 428	Atlanta Aquarium & Atlanta Zoo, sales tax exemptions	($0.5)	($0.4)	($0.2)	$0.0	$0.0	($1.1)	$0.0
HB 439	"New Markets" & Invest Georgia tax credits	$0.0	$0.0	($11.0)	($22.0)	($22.0)	($55.0)	($55.0)
	Total Non-Transportation Tax Bills	**($28)**	**($11)**	**($33)**	**($44)**	**($60)**	**($176)**	**($95)**

Sources: GBPI analysis of bill text and, when available, offical fiscal notes as presented by the Department of Audits and Accounts and prepared by the Georgia State University Fiscal Research Center.

Two Big Business Tax Breaks Carry the Largest Cost

A pair of new tax breaks for certain Georgia businesses are the most expensive drains on the state's potential revenue.

House Bill 308 would allow up to $25 million in income tax credits a year to real estate developers that renovate large-scale historic structures. The massive Ponce City Market project in Atlanta and the renovation of a former power plant in Savannah into a luxury hotel are examples of projects that could qualify for the tax credit. Eligible projects are limited to $10 million each, and developers are allowed to sell their leftover credits to investors. The credits will cost up to $125 million in lost revenue over the life of program, spread across the 2017 to 2022 budget years.

A 2013 analysis by the Georgia Tech Research Institute says for every tax dollar Georgia invests in commercial rehabilitation projects, it receives about $3.50 in return. But that estimate assumes eligible projects will create enough new jobs and economic activity to generate new revenues, which often fails to occur with other types of income tax credits. Business tax breaks have a spotty track record in other states and often fall short of expectations. If the governor approves the bill, legislators should closely monitor the program to ensure Georgia gets an acceptable return on investment.

House Bill 439 is the second most expensive tax break passed by the 2015 Legislature. It would devote $110 million over the next eight budget years to a pair of initiatives designed to generate private investment in Georgia companies. Half of the credits are for a new effort called the Georgia "New Markets" program. The other half are for a 2013 legislative initiative called "Invest Georgia." Although the final version of the bill is slightly improved from earlier versions, the New Markets portion still raises serious questions. It resembles a flawed program model from other states that benefits insurance companies and a handful of out-of-state financial firms for the most part, without creating many jobs. The Invest Georgia half of the bill likely has a better chance to succeed.

Complex Investor Tax Break Carries Long-Term Costs

Estimated state revenue effect of House Bill 439, in millions

	2016	2017	2018	2019	2020	2021	2022	2023	Eight-Year Total (2016-2023)
"New Markets" portion	$0	$0	($5.5)	($11)	($11)	($11)	($11)	($5.5)	($55)
"Invest Georgia" portion	$0	$0	($5.5)	($11)	($11)	($11)	($11)	($5.5)	($55)
Total Revenue Change	$0	$0	($11)	($22)	($22)	($22)	($22)	($11)	($110)

Source: GBPI analysis of HB 439 as passed by House and Senate

Remaining Measures Less Costly and Aimed at Variety of Goals

The other eight tax bills serve a diverse range of policy goals, briefly described below.

House Bill 63 reworks a dormant income tax credit for companies that pay the costs of General Equivalency Diploma tests for employees. It expires after 2019 and costs $4 million over four years.

House Bill 200 expands and sets a sunset for an income tax credit for companies that provide electric vehicle charging stations on-site. It costs about $3.8 million over five years and expires after 2020.

House Bill 202 grants two unrelated tax breaks, one for the planned new Mercedes headquarters in Sandy Springs and the other for new construction projects at private colleges. The two measures could cost around $2.8 million combined over the next five years.

House Bill 237 extends Georgia's angel investor tax credit for another three years at a total cost of $15 million in lost revenue. The credit aims to attract private investment to Georgia startup companies.

House Bill 292 is the 2015 edition of Georgia's Internal Revenue Code update, a bill lawmakers pass each year to reconcile changes in federal tax law with state law. It will mean a modest increase in state revenues over the next few years. The governor signed this bill into law in March.

House Bill 339 extends Georgia's income tax credit for video game companies for three years at $12.5 million a year. The credit is part of Georgia's broader tax break program for film and video companies.

House Bill 426 renews expired sales tax exemptions for Georgia's food banks and nonprofit health clinics. In-state food banks distribute 130 million pounds of food to Georgia families annually, and nonprofit health clinics serve an estimated 339,000 patients per year. State experts project the combined revenue loss could be up to $6 million a year, but the true cost is probably less. The $6 million estimate assumes retailers that donate perishable ingredients to food banks pay sales and use tax on those donations as current law requires. Most companies probably don't pay the tax today because they are unaware of the requirement.

House Bill 428 creates two new sales tax exemptions designed to help the Georgia Aquarium and Zoo Atlanta afford expansion projects. The tax breaks could cost a total of about $1 million.