

The Projected Economic and Fiscal Impacts of Improvements to Georgia's Historic Rehabilitation Investment Incentive

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EXECUTIVE SUMMARY

- In 2002, the Georgia state income tax credit program for rehabilitated historic property was signed into law (O.C.G.A. Section 48-7-29.8) to encourage private capital investment for the rehabilitation of historic structures throughout the state. The Georgia Historic Tax Credit (GHTC) program is administered by the Georgia Department of Natural Resources' Historic Preservation Division (DNR-HPD) and the Georgia Department of Revenue. The program offers a 25% tax credit for the qualified and certified rehabilitation of eligible historic properties.
- Currently, 31 states have laws providing tax credits for historic rehabilitation. Georgia joined that list in 2002.
- Georgia's program offers a 25% credit for qualified rehabilitation expenditures, with the cap at \$300,000 for income-producing properties. Georgia House Bill 308, "The Georgia Prosperity Through Preservation Act", sponsored by Representative Allen Peake, seeks to strengthen and expand the state's historic rehabilitation investment incentive for income-producing properties by raising the investment incentive to encourage more impactful rehabilitations of buildings and by facilitating private capital investment in rehabilitations, as is done effectively in other states with historic rehabilitation investment incentives.
- The purpose of this report is to estimate the economic and fiscal impact of improvements to Georgia's historic rehabilitation investment incentive utilizing a per-project cap for income producing properties of \$5 million. The approach in this report looks at the benefits of the program in terms of spending (construction and operations), jobs created, and tax revenue created, as well as the costs of the program in tax revenues foregone from use of the credit.
- Inputs from a study of the economic and fiscal impacts of Louisiana's program were used to quantify the impact of the proposed changes to Georgia's program. The Louisiana study measured the economic impact of 117 projects that stimulated \$668.07¹ million in new investment in the rehabilitation of historic properties, most of which would have continued to deteriorate without the incentive. If the per-project cap for income-producing properties is increased to \$5 million, the cost to the state for this investment will be \$89.65 million in tax credits.

¹ Construction investment is shown in 2013 dollars. The Louisiana study shows construction spending of \$651.13 million in 2011 dollars.

KEY FINDINGS:

- ✓ The projects supported by the Georgia Historic Tax Credit (GHTC) program generating \$668.07 million in historic restoration construction will cost \$89.65 million in tax credits if the per-project cap for income-producing properties is increased to \$5 million.
- ✓ The projects supported by the GHTC program will create 10,911 jobs as result of construction activities and 4,990 permanent jobs in the state.
- ✓ In total, the construction and operations of the projects supported by the GHTC will create a total of \$313.07 million in new tax revenue for the state of Georgia. Additionally and importantly, projects supported by the GHTC will generate substantial local tax revenue through property taxes, retail and hotel operations.
- ✓ **For every dollar that the state will invest in the program, it will collect \$3.49 in new tax collections, measured in 2013 dollars.**

CONSTRUCTION PHASE:

- ✓ The projects supported by GHTC program will generate \$668.07 million in direct spending, and \$705.59 million in secondary spending, for a total impact on the Georgia economy of \$1.37 billion.
- ✓ The spending associated with the construction phase of these projects will support, either wholly or in part, a total of 10,911 jobs in the state. The construction phase of these projects will also create \$541.66 million in income for the residents of Georgia.
- ✓ The construction projects made possible by the “The Georgia Prosperity Through Preservation Act”, will create a total of \$54.37 million in tax revenue for the state of Georgia and an additional amount of local tax revenue.

OPERATIONS PHASE:

- ✓ The projects undertaken with the help of the historic rehabilitation investment incentive will support a total of \$308.46 million in direct spending annually in the state’s economy. The direct spending will create an additional \$307.75 million in secondary spending for a total increase in the economy of \$616.21 million - over a half a billion dollars in new spending in the state’s economy. This will be new

annual spending and, thus, will continue to impact the state's economy for the entire economic life of the projects.

- ✓ On an annual basis, the projects will create \$196.20 million annually in income for the state's residents and support a total of 4,990 permanent jobs in Georgia. This income and these jobs will be a permanent part of the economy in the areas affected.

BENEFIT/COST ANALYSIS

- ✓ In analyzing the present value of the entire life of all projects, the return to the state of Georgia is remarkable. The \$89.65 million invested by the state will produce a total state tax revenue increase of \$449.80 million over the entire life of the program. After adjusting for present value to make the projection conservative, the state's investment will produce \$313.08 million in new tax collections, measured in 2013 dollars. **For every dollar the state invests in the historic rehabilitation investment incentive, it will collect \$3.49 in new tax collections, measured in 2013 dollars.**

INTRODUCTION

In 2002, the Georgia state income tax credit program for rehabilitated historic properties was signed into law (O.C.G.A. Section 48-7-29.8) to encourage the rehabilitation of historic structures. The Georgia Historic Tax Credit Program is administered by the Georgia Department of Natural Resources' Historic Preservation Division (DNR-HPD) and the Georgia Department of Revenue. The program offers a 25% tax credit for the qualified rehabilitation of eligible historic properties. Rules governing the 25% tax credit for income-producing properties include the following:

1. The property must be individually listed in the Georgia Register of Historic Places or certified by the Department of Natural Resources as contributing to the historic significance of a Georgia Register Historic District.
2. The property must be used for an income-producing purpose.
3. The credit is 25% of qualified, certified rehabilitation expenditures, with the cap at \$300,000.
4. The Department of Natural Resources' Historic Preservation Division reviews all projects to certify the projects meet the standards according to DNR Rules 391-5-14.
5. Projects must meet the substantial rehabilitation test, and the applicant must certify to the Department of Natural Resources that this test has been met. The substantial rehabilitation test is met when the qualified rehabilitation expenses exceed the greater of \$5,000 or the adjusted basis of the building. Acquisition costs and costs associated with new construction are not qualified rehabilitation expense.
6. Unused credits may be carried forward for no more than ten years.

The incentive was created to encourage the protection of landmarks by bringing historic properties back into commerce and revitalizing the surrounding communities. Georgia House Bill 308, "The Georgia Prosperity Through Preservation Act", sponsored by Representative Allen Peake, seeks to strengthen and expand the state's historic rehabilitation investment incentive for income-producing properties by raising the investment incentive to encourage more impactful rehabilitations of buildings throughout the state and by facilitating private capital investment in rehabilitations, as is done effectively in other states with historic rehabilitation investment incentives. House Bill 308 proposes to raise Georgia's tax credit per-project cap for income-producing properties to \$5 million.

The purpose of this report is to estimate the economic and fiscal impacts of improvements to Georgia's historic rehabilitation investment incentive by quantifying the impact of raising the investment incentive to encourage more impactful

rehabilitations of buildings throughout the state. The economic impact includes the estimation of the following variables: direct spending, secondary (indirect and induced spending), total spending, total income, employment, and state tax revenues. Further, the report will compare the tax revenues to be expended by the state as a result of the tax credit program to the new tax revenues generated by the economic investments made as a result of the program.

The report is divided into three sections. The first section estimates the economic impact of the construction phase of the projects. The second section identifies the economic impact of the on-going, annual operations of the projects made possible by the tax credit program. The final section provides a benefit/cost analysis of the program.

BACKGROUND

In 1981, during President Reagan's administration, as part of the Kemp-Roth Economic Recovery Tax Act (ERTA), the federal government passed an incentive that provided a tax credit for the rehabilitation of historic commercial properties that is now 20%. This federal program has stimulated a great deal of economic activity in the area of historic preservation and economic development.

The federal legislation has prompted 31 states to create their own historic rehabilitation investment incentives. Georgia joined that list in 2002. Georgia House Bill 308, "The Georgia Prosperity Through Preservation Act", sponsored by Representative Allen Peake, will make the Georgia Historic Tax Credit more attractive to investors, thus generating new investment capital for historic rehabilitation.

This study is based on data used in the study of the Louisiana's historic rehabilitation investment incentive that quantified the economic and fiscal impact of 117 historic rehabilitations. This study estimates the economic and fiscal impacts of the 117 historic rehabilitations if they had been located in Georgia instead of Louisiana.

THE CONSTRUCTION PHASE

The first part of estimating the economic impact of improvements to Georgia's Historic Rehabilitation Investment Incentive is to estimate the construction impact of the projects themselves. Construction spending creates significant economic activity in any community where the project is located. Construction activities employ local workers, generate local spending on supplies and construction materials, create a ripple effect as workers purchase goods and services in the local economy, and create new tax revenues for state and local governments.

The direct spending is the spending that drives the entire economic impact. Direct spending is defined as the total dollar cost of the construction projects supported by the program including engineering and architecture spending (referred to as “soft costs”), the actual construction spending itself, and land purchase and related acquisition costs (referred to as “non-qualified” costs under the program).

The direct spending described above produces additional spending in the economy, which is referred to as indirect and induced spending. Indirect spending includes the spending of local firms that provide supplies to the firms involved in the direct spending -- such as the firm that sells the materials to the companies doing the fabrication and installation work. Induced spending is the spending by individuals who are directly employed by the companies. This individuals spend part of their income in the local economy, which then, produces income for other local residents.

The indirect and induced spending are added together to produce secondary spending, which is sometimes referred to as the "ripple" or multiplier effect. The multiplier effects are calculated with IMPLAN², an economic model customized to reflect Georgia’s economy.

Table 1 presents the direct spending, indirect and induced spending, and total spending resulting from the construction phase of the projects made possible by the program.

Table 1. Direct, Indirect and Induced and Total Impact Generated by the Construction Activities	
Category	Construction Impact
Direct Impact	\$668,075,930
Indirect and Induced Impact	\$705,589,761
Total Impact	\$1,373,665,691

Source: IMPLAN economic model

Based on construction spending of \$668.07 million, the projects supported will generate \$705.58 million in indirect and induced spending for a total impact on the state’s economy of \$1,373.66 million or **\$1.37 billion**.

All of the spending identified above employs people. In addition to the direct jobs at the construction firms, other jobs in the economy are supported by the construction activities. These jobs include support jobs as well as "spin-off" jobs. Company or employee spending in the local area supports the employment of various people in the

² Minnesota IMPLAN Group Inc.

area, such as doctors, lawyers, and checkers and bag boys at grocery stores. Subsequently, the doctors and lawyers spend their income to pay their rent or the like, which, in turn, supports the employment of maintenance employees at an apartment complex, for example. This is an on-going process.

Multipliers provided by the IMPLAN model, allow us to estimate the total number of jobs and the income that are attributable to the economic activity generated by the capital phase of the project. The employment multipliers are estimated on the basis of the dollar spending in each category. Table 2 presents the total employment and total income that is generated by the spending associated with the construction phase of the projects. Note that, while many are new, not all of the jobs identified in Table 2 are new jobs that will be created by the construction and other activities. The spending by the direct employees will support, either wholly or in part, other employment in the local area. In addition, employment created during the construction phase is a one-time employment that will last through the construction process.

The spending associated with the construction phase of these projects supports, either wholly or in part, a total of 10,911 jobs in the state. The construction phase of the project will also create \$541.66 million in income for residents of Georgia.

Table 2. Employment and Income Generated by the Construction Activities		
Category	Employment	Income
Direct Impact	5,747	\$285,631,743
Indirect and Induced Impact	5,164	\$256,029,686
Total Impact	10,911	\$541,661,429

Source: IMPLAN economic model

The final component of the calculation of the economic impact of the construction phase of the projects is the estimation of state taxes generated by the projects. State taxes that are generated by economic activity such as construction are taxes paid on the income generated by those operations and sales taxes paid directly on the sale of construction materials. Out of that income, the recipient pays his state income taxes; in addition, he buys goods and services and pays the taxes that apply to those goods and services. The retail sales tax applies to the purchase of some of those goods and services.

The projected state tax revenue generated from the construction phase of these projects was calculated using a proprietary fiscal model for the State of Georgia that was developed by Georgia Tech - one that has been used for many years in our analyses of projects around the state. The model is based on more than 40 years of data on the State of Georgia budget, as well as state and national level demographic and economic data. It uses statistical modeling to simulate the population and household formation related to employment, and then again uses statistical equations to estimate the various categories of both revenues and expenditures.

The construction phase of projects incentivized by the GHTC will generate a total of \$54.37 million in tax revenue for the state of Georgia.

Table 3. State Tax Revenue Generated by the Construction Activities	
Category	Amount
Income, Sales, Excise, Business, etc.	\$54,373,166

Source: Georgia Tech Fiscal Model

Unlike the state fiscal impact which is primarily driven by employment and income, the local tax impact is driven primarily by local property tax, and other excise taxes such as sales tax, hotel/motel tax, etc. The Georgia Tech fiscal model does not capture local tax revenues, however, given the magnitude of investment, projects incentivized by the GHTC will generate substantial local tax revenue through property taxes, retail and hotel operations.

ON-GOING IMPACT

This section estimates the economic impact of the on-going operations of the businesses made possible by the construction incentivized by the tax credit program. The type of businesses operating in the rehabilitated buildings is critical in determining how much spending will be generated by the property on an on-going basis. A hotel property has different impacts than a retail property or a restaurant, which has different impact from a residential or office property.

The Louisiana study showed that the largest single use of the renovated historical buildings in Louisiana was for residential properties, followed by mixed-use that are a

combination of residential and some other use. The third largest number of uses of the Louisiana Historic Tax Credit program was for commercial office space. In terms of the dollar volume of renovations, the largest was for hotel properties, next is purely residential projects, and the third was mixed use that combined residential projects with a variety of other uses - with hotels, retail, office space and food and beverage establishments being the most common.

The impact of the on-going spending is based on calculated average annual operations of these projects operating in Louisiana. The calculation of the annual ongoing spending included multiple steps. First an economic bridge was built between the construction and the operations of the building after construction is complete. For each use, an estimate was made of the size of the resulting business enterprise. In order to derive the estimate for the dollar volume of spending that results from the restoration projects, the size of the finished project was determined from the construction spending. That estimate is based on national norms for construction costs per square foot for various types of projects - hotel, restaurants, retail establishments and so on. Once the square footage of the project was determined, the national norms for sales per square foot were used to estimate the ongoing direct spending that will be generated in the local economy by that project. This study assumes that the same operating budget figures would apply to similar projects in Georgia.

Table 4 presents the total direct, indirect and induced, and total spending created annually by the projects whose construction will be possible by the tax credit program.

Table 4. Direct, Indirect and Induced and Total Impact Generated by the Projects' Annual Operations

Category	On-Going Impact
Direct Impact	\$308,460,359
Indirect and Induced Impact	\$307,752,864
Total Impact	\$616,213,223

Source: IMPLAN economic model

The projects supported by the historic tax credit program will inject a total of \$308.46 million in direct spending annually in the state's economy. The direct spending creates an additional \$307.75 million in indirect and induced spending for a total increase in the economy of \$616.21 million. This new spending will annual spending and thus, will impact the state's economy for the entire economic life of the projects.

This estimate is very conservative. It assumes that the new spending generated by housing, office development, healthcare, and other facilities is zero. That is not to imply that these uses are not important benefits of the program and to the community. The assumption made in this section merely makes it clear that they do not generate new spending, rather they tend to redistribute existing spending.

Table 5 presents the annual income and employment impacts of the projects. On an annual basis, the projects will create \$196.20 million annually in income for Georgia residents and support a total of 4,990 permanent jobs in the economy. This income and these jobs will be a permanent part of the economy in the areas affected.

Table 5. Employment and Income Generated by the Construction Activities

Category	Employment	Income
Direct Impact	2,702	\$82,321,420
Indirect and Induced Impact	2,288	\$113,883,587
Total Impact	4,990	\$196,205,007

Source: IMPLAN economic model

Table 6 presents the annual state tax revenues created by the projects. On an annual basis, the projects are estimated to generate \$19.77 million in recurring state tax revenue.

Table 6. State Tax Revenue Generated from the Operations Phase

Category	Amount
Income, Sales, Excise, Business, etc.	\$19,771,345

Source: Georgia Tech Fiscal Model

BENEFIT/COST ANALYSIS

In analyzing investment incentive programs, the bottom line is often considered to be whether or not they pay for themselves. States forego tax revenue to incentivize private capital investment and to make rehabilitation projects financially feasible. The projects in turn create new business activity in the state and, most importantly, support jobs. **If the Georgia Tax Credit program was to support projects that will generate a total of**

\$668.13 million of historic renovation, its economic impact will be substantial. The construction spending will support a total of 10,911 construction jobs and 4,990 new permanent jobs in the state. This is clearly a significant and important return for the \$89.65 million in tax credits that would be foregone by the state under HB 380. The question of the “payback” or the benefit/cost calculation however is still relevant.

The benefit/cost analysis for the Historic Tax Credit program is calculated by using present value analysis to compare the projected outlay by the state in the form of tax credits to the present value of all future tax returns over the life of the projects supported. The analysis includes the taxes generated by the construction activities and by the on-going operations of the projects. It presents construction spending in 2013 dollars. It does not provide a timeline of project completion, and it does not provide a projection of local tax revenue generated, which will be significant.

Table 7 presents the benefit/cost analysis of the entire 20-year life for all of the projects.

Table 7. Benefit/Cost Analysis of the Historic Tax Credit			
Year	State tax Generated	State Tax Credits	Difference
Construction	\$54,373,166	\$89,659,031	
2013 (Operations)	\$19,771,345	-	
2014 (Operations)	\$19,771,345	-	
2015 (Operations)	\$19,771,345	-	
2016 (Operations)	\$19,771,345	-	
2017 (Operations)	\$19,771,345	-	
2018 (Operations)	\$19,771,345	-	
2019 (Operations)	\$19,771,345	-	
2020 (Operations)	\$19,771,345	-	
2021 (Operations)	\$19,771,345	-	
2022 (Operations)	\$19,771,345	-	
2023 (Operations)	\$19,771,345	-	
2024 (Operations)	\$19,771,345	-	
2025 (Operations)	\$19,771,345	-	
2026 (Operations)	\$19,771,345	-	
2027 (Operations)	\$19,771,345	-	
2028 (Operations)	\$19,771,345	-	
2029 (Operations)	\$19,771,345	-	
2030 (Operations)	\$19,771,345	-	
2031 (Operations)	\$19,771,345	-	
2032 (Operations)	\$19,771,345	-	
Total	\$449,800,062	\$89,659,031	\$360,141,031

Table 8 presents that same data set using the present value method. Conservatively, all construction and future operating expenditures are converted to 2013 dollars for the analysis. The assumptions for this method are: 1) the lives of the individual projects are 20 years, and 2) the discount rate is 5%.

Table 8. Benefit/Cost Analysis of the Historic Tax Credit (Discounted to Present value at 5%)

Year	State tax Generated	State Tax Credits	Difference
Construction	\$54,373,166	\$89,659,031	
2013 (Operations)	\$19,771,345	-	
2014 (Operations)	\$18,829,852	-	
2015 (Operations)	\$17,933,193	-	
2016 (Operations)	\$17,079,231	-	
2017 (Operations)	\$16,265,934	-	
2018 (Operations)	\$15,491,366	-	
2019 (Operations)	\$14,753,682	-	
2020 (Operations)	\$14,051,126	-	
2021 (Operations)	\$13,382,024	-	
2022 (Operations)	\$12,744,785	-	
2023 (Operations)	\$12,137,891	-	
2024 (Operations)	\$11,559,896	-	
2025 (Operations)	\$11,009,425	-	
2026 (Operations)	\$10,485,166	-	
2027 (Operations)	\$9,985,873	-	
2028 (Operations)	\$9,510,355	-	
2029 (Operations)	\$9,057,481	-	
2030 (Operations)	\$8,626,172	-	
2031 (Operations)	\$8,215,402	-	
2032 (Operations)	\$7,824,192	-	
Total	\$313,087,556	\$89,659,031	\$223,428,525

In analyzing the present value of the entire life of all projects studied, the return to the state of Georgia is remarkable. The \$89.65 million invested by the state would produce a total state tax revenue increase of \$449.80 million over the entire life of the program. After adjusting for present value to be conservative, the state’s investment will produce \$313.08 million in new tax collections.

Comparing the present value of the final stream of the projected new state tax revenues created by the program against the stream of dollars to be foregone through tax credits, the net return to the state is \$223.42 million in 2013 dollars. **For every dollar the state has invests in the incentive it will collect \$3.49 in new state tax collections, measured in 2013 dollars. New local tax revenues collected will be substantial.**