

A Review of the Georgia Historic Rehabilitation Tax Credit

Prepared for the Senate Study Committee on Special Tax Exemption

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By the Fiscal Research Center, Georgia State University

Summary of Policy

Enacted in 2002 and modified in 2015, Georgia's historic rehabilitation tax credit provides a tax credit for qualified expenses related to the rehabilitation of certain historic buildings and homes (O.C.G.A. §48-7-29.8). To qualify, historic buildings must be located within a national historic district, listed on the National Register of Historic Places, listed on the Georgia Register of Historic Places, or certified by the Georgia Department of Natural Resources (DNR) as contributing to the historical significance of a Georgia Register historic district.

Findings

Our research found that the program is widely used and that many historic rehabilitation projects have been associated with the credit program.

Evaluation Criteria

Measure	Score
Justification	+
Effectiveness	+
Efficiency	+
Equity	+
Return on Investment	+
Credit Structure and Administration	-
Budgetary Risk	-
Local Government Impact	-
Opportunity Costs	-

Suggested Policy Recommendations

- The program should consider modifying the award process in a manner that encourages the geographic diversity of the projects between urban and rural areas and across the state.
- The state should consider eliminating the subsidy for non-income producing properties as these are private homes and are likely to provide less of a public benefit.
- In awarding the projects, the program officials should consider the effect on existing businesses and the expected rate of return of proposed businesses.
- The \$300,000 threshold and the \$25 million annual cap should be annually indexed for inflation.
- The state should consider implementing annual caps for those projects earning less than \$300,000 and making the \$25 million annual cap on credits permanent.

Introduction

The purpose of this report is to review the Georgia historic rehabilitation tax credit (HRTC) as part of the work of the 2017 Senate Study Committee on Special Tax Exemption, chaired by Senator John Albers. The committee met several times during the summer and fall of 2017 to discuss the process of evaluating tax incentives. This is one of five reviews produced by the Fiscal Research Center in support of this committee.

Although not explicitly stated, this review assumes that the purpose of the tax incentive is to stimulate rehabilitation of historic structures and homes. The credit reduces the cost of the rehabilitation project by subsidizing the activity and reducing the risk to the developer. It is typically expected that successful rehabilitation projects serve to generate additional economic and social benefits to an area. Because of these positive spillover effects associated with the rehabilitation efforts, there may be an underinvestment in these projects in the absence of government intervention. Therefore, providing the credit serves to address this underinvestment.

There are many measures by which a tax incentive may be evaluated, but perhaps the most common is the return on investment. That is, an incentive is deemed successful if it provides a positive net return on investment or, stated differently, if the tax dollars generated from the activity exceed the cost of the tax incentive. While this is an important consideration, it may not be the only measure by which incentives should be judged. For instance, incentives that seek to alter behavior may not result in the generation of additional tax revenues but may still be considered worthwhile. Because administration and concerns of state budgeting are also important factors, the program is measured against several criteria. The criteria used in this evaluation were originally developed by Murray and Bruce (2017) and adapted for use by the committee.

The report continues as follows: Section 1 describes the Georgia rehabilitation credit and discusses the use of other incentives that are typically used in combination with the state tax credit. Section 2 presents information on the number and location of rehabilitation projects and the relevant usage statistics of the Georgia credit. Section 3 provides several examples of Georgia projects that have utilized the credit. Section 4 discusses several previous analyses of the program that focus specifically on economic and fiscal impact of the credit program. Section 5 concludes with the set of criteria by which the credit is measured, followed by recommendations for improvement and continuation of the program.

Section 1. About the Georgia HRTC

Credit Structure

Georgia's historic rehabilitation tax credit (HRTC) provides a credit for qualified expenditures related to the substantial rehabilitation of certified historic buildings and homes. To qualify, the structure must be located within a national historic district, listed on the National Register of Historic Places, listed on the Georgia Register of Historic Places, or certified by the Georgia Department of Natural Resources (DNR) as contributing to the historical significance of a Georgia Register historic district.

The value of the credit allowed under this provision is equal to 25 percent of qualified expenditures, with an additional five percent credit allowed for historic homes located in low-income housing areas as designated by the U.S. Department of Housing and Urban Development (HUD).

Qualifying rehabilitation expenditures include any amount properly chargeable to a capital account expended in the rehabilitation, but not costs of acquisition of the property, or costs attributable to expanding the property, site preparation, or any personal property. To qualify for the incentive, rehabilitation expenses must exceed a minimum threshold. In the case of a historic home, the minimum expense is the lesser of \$25,000 or 50 percent of the adjusted basis of the property value, unless the historic home is in a HUD-designated low-income housing area, in which case the minimum threshold is \$5,000. For any other certified structure, the minimum threshold is equal to the greater of \$5,000 or the adjusted basis of the value of the property.

The credit for a historic home cannot exceed \$100,000 in any 120-month period. The maximum credit for any other certified structure is \$5 million for any taxable year until December 31, 2021, after which the maximum becomes \$300,000 in any 120-month period.

However, for projects completed on or after January 1, 2017 and no later than December 31, 2021, and which create 200 or more full-time jobs or \$5 million in annual payroll within two years of being placed in service, the maximum credit for an individual certified structure is \$10 million. No more than one such project for any given certified structure may be approved in any 120-month period.

Credits issued for projects earning more than \$300,000 in credits may not exceed \$25 million in total per calendar year through December 31, 2021, after which no aggregate cap applies. Credits may be used against the individual or corporate income tax. In the case of historic homes, unused credits may be carried forward for up to ten years if the taxpayer has a tax liability less than the value of the credits generated. Unused credits may also be transferred or sold once to other Georgia taxpayers.

Credit Administration

The credit is jointly administered by the Georgia Department of Revenue (DOR) and the DNR Historic Preservation Division. To qualify for the credit, taxpayers must complete a preliminary certification application. This form and the technical specifications for each project are reviewed and certified by the staff of the Historic Preservation Division. It is advised, but not required, that preliminary certification is granted before rehabilitation works begins. Once the project is completed, a final certification form is submitted and reviewed by DNR staff. Although credits for historic structures are allocated after preliminary certification, credits are awarded and claimed after the final certification forms have been approved.

Credits are awarded on a first come, first served basis; applications submitted after the calendar year cap is reached are given priority for the following year. In the event credits allocated to an approved project exceed the amount of credits that are eventually earned by the project, the credits are not added back to the pool of available credits and cannot be used for other projects. The statute specifies credit recapture rules in the case of historic homes but does not include such conditions for other historic structures.

Additional Public Incentives

The state HRTC is one of three economic incentives that are used in combination to support the rehabilitation of historic structures. In addition to the HRTC, the state also offers a preferential property tax assessment program for rehabilitation property, which supports rehabilitation efforts by freezing the property tax assessment of rehabilitation property for 8 ½ years. This program applies to both historic homes and buildings, and follows several of the same rules and regulations as the HRTC. It is administered by DNR and the county tax commissioner where the property is located. The third incentive is the federal historic tax credit, which is administered by the National Park Service and the IRS; it provides a 20 percent credit for eligible expenses.¹ Unlike the state credit, though, the federal credit does not apply to the rehabilitation of non-income generating properties.

In addition, it is common for historic rehabilitation projects to qualify for tax credits under federal and state low-income housing tax credits and the federal New Markets tax credit. In some instances, projects have also been eligible for federal solar tax credits. There are also examples of financial institutions using historic rehabilitation projects to meet the conditions of the Community Reinvestment Act.

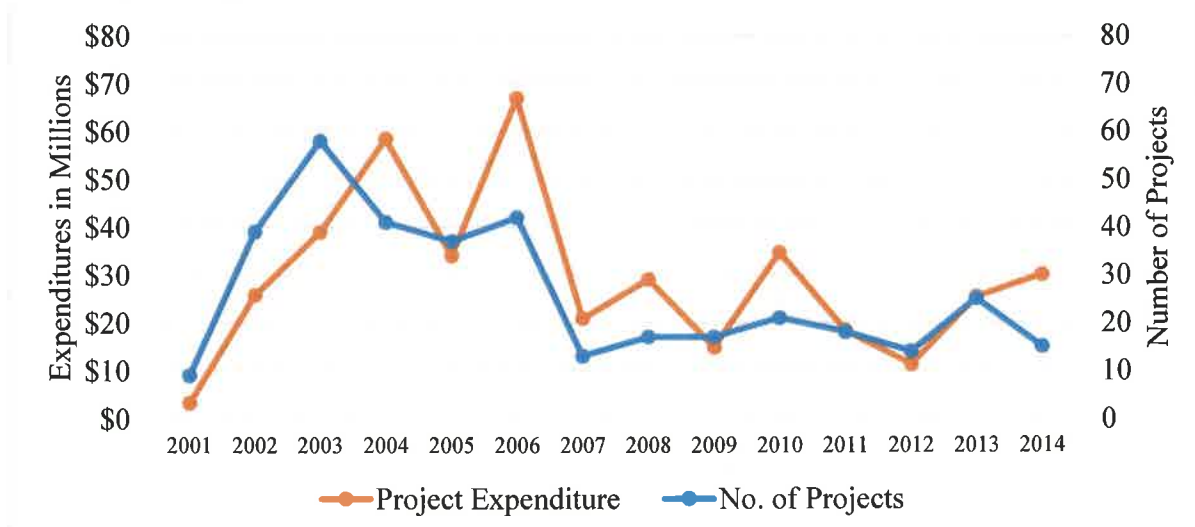
¹ The National Park Service works in coordination with the state Historic Preservation offices to certify local governments. Currently, 95 local governments in Georgia are recognized as Certified Local Governments and, as such, are eligible for federal funding and technical assistance from the state Historic Preservation office.

Section 2. Use of the Tax Credit

As of 2017, 35 states provide a state rehabilitation credit. The typical state credit varies from 20 to 25 percent and most apply to the rehabilitation of both buildings and homes. States typically impose some sort of cap, either in the form of a per-project cap or an aggregate state cap. Some states apply both. Most states allow the credits to be transferred and in some cases, the credits are refundable.

Based on statistics available from the National Park Service, between 2002 and 2016, 410 projects have been completed or are in the process of completion in the state. The total value of these projects over the 2002-2016 period equaled \$491 million, with an average cost of \$1.2 million per project.² As seen from Figure 1, the trend in use of the federal program peaked between 2002 and 2006, averaging 43 projects and about \$45 million per year, and has since declined to a range of 13 to 25 projects per year with expenditures averaging about \$23 million annually. By value, 38 percent of the total amount spent on rehabilitation projects were spent on housing and 57 percent was spent on commercial, office, or multi-use structures. By number of projects, 47 percent were classified as housing projects and 46 percent were commercial, office, or multi-use.

Figure 1. Number and total expenditure of Georgia rehabilitation projects qualifying for the federal credit, CY 2002-2016.



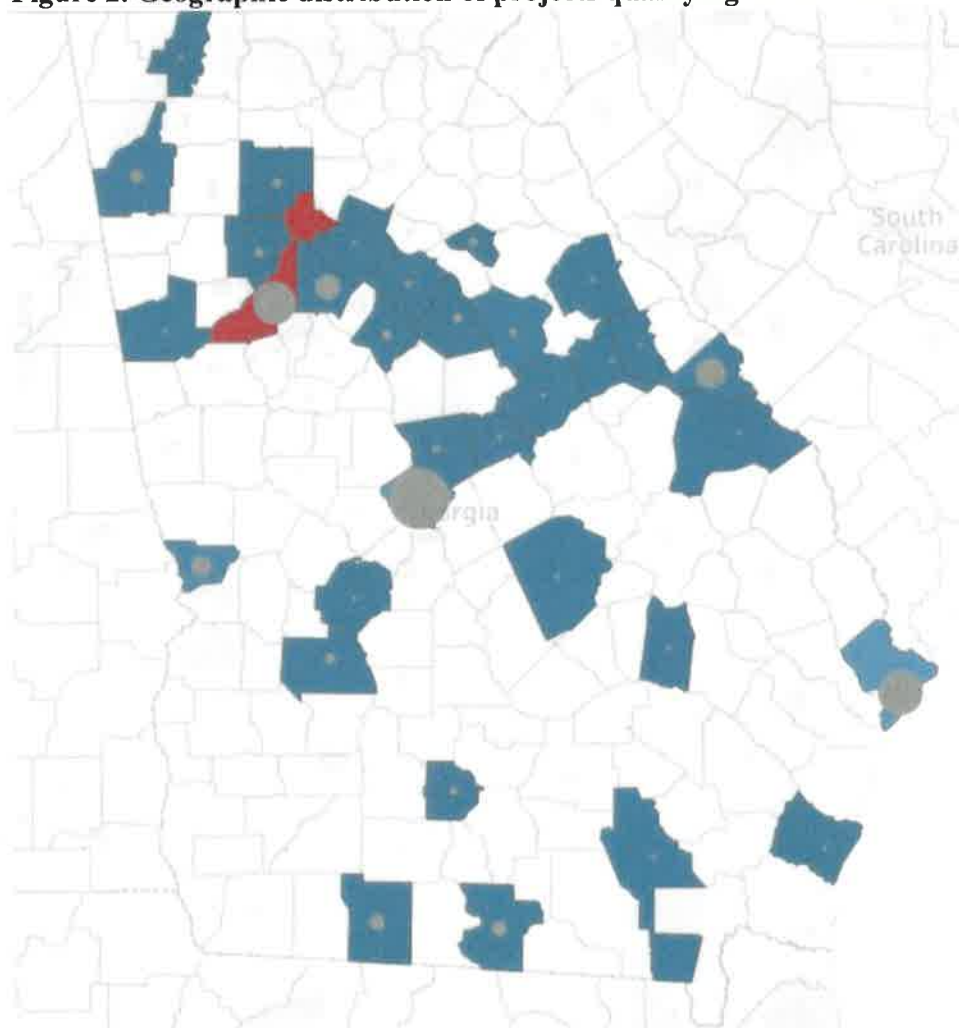
Source: National Park Service. Includes completed projects only.

Data are available from the Georgia State Historic Preservation Office for projects undertaken in the state between 2008 and 2017. All of these projects qualified for the state HRTC, but not all received the federal credit. Over this time-frame, there were 341 projects that used the state credit, with total certified expenditures of \$686 million. Figure 2 provides the geographic

² The data contain 44 projects that have not received final approval as of December 2016.

distribution of these projects. Of the 341 projects, 51 percent also qualified for the federal tax credit. Fifty-five percent of the projects and 94 percent of total rehabilitation expenditures were projects involving income-producing properties and 45 percent were personal residence rehabilitations. The average expenditure for an income-producing project was \$3.4 million, while the average expenditure for a personal residence rehabilitation project was \$246 thousand. Table 1 provides the number of projects by type and the total rehabilitation expenditures for the ten most active counties in the state during the 2008-2017 period. The projects in these counties represent 95 percent of the total rehabilitation expenditures and 86 percent of all projects across the state. Figure 2 provides the geographic distribution of projects throughout the state. Fulton County (shown in red) has the most projects in terms of expenditures. The size of the bubbles in each county serves as an indication of the number of projects that have been undertaken.

Figure 2. Geographic distribution of projects qualifying for the state tax credit, 2008-2017



Source: Data compiled by Fiscal Research Center. Data obtained from Georgia DNR.

Table 1. Top 10 counties by level of rehabilitation activity, 2008-2017

County	No. of Projects	Rehabilitation Costs	Personal residence projects	Income-producing projects
Fulton*	54	450,485,466	28	26
Chatham	58	58,417,302	17	41
Bibb	107	50,712,206	62	46
Muscogee	12	30,140,275	2	10
Floyd	5	16,464,591	1	4
Greene	2	14,955,063	-	2
Richmond	27	14,056,456	9	18
Ware	1	7,065,585	-	1
DeKalb	19	6,675,734	15	4
Lowndes	7	5,513,269	-	7
TOTAL	292	654,485,947	134	159
Percentage of all GHRTC projects	86%	95%	87%	85%

*Includes \$360 million for the rehabilitation expenses of Ponce City Market. Based on data from the Georgia State Historic Preservation Office. Data compiled by the Fiscal Research Center.

Based on DOR data for tax year 2014, 168 individuals claimed the credit.³ The average amount claimed equaled about \$2,800 and \$4.7 million was claimed in total.⁴ Of those claimed by Georgia residents, the five counties of Bibb, DeKalb, Fulton, Muscogee, and Richmond comprised over 65 percent of all credit claims. Table 2 provides a breakdown of taxpayers claiming the credit by income group.

Table 2. Income Category by Georgia AGI (GAGI), 2014

Income category	No. of returns	Mean	Total
GAGI <= \$25,000	14	\$18,227	5.4%
\$25,000<GAGI<=\$50,000	10	\$6,448	1.4%
\$50,000<GAGI<=\$75,000	18	\$16,933	6.5%
\$75,000<GAGI<=\$100,000	11	\$33,111	7.7%
\$100,000<GAGI<=\$250,000	45	\$30,628	29.3%
GAGI > \$250,000	70	\$33,422	49.7%
Total	168		

Source: DOR data compiled by the Fiscal Research Center.

Between tax years 2011 and 2014, taxpayers claimed a total of \$8.5 million in historic rehabilitation credits as shown in Table 3.

³ Claims from corporate returns is not available. The amount claimed by individuals represents 79 percent of the total amount claimed for tax year 2014.

⁴ Other information provided by DOR indicates that \$3.3 million was utilized against tax liabilities in tax year 2014.

Table 3. Tax Credits utilized

Tax Years (\$ in millions)			
2011	2012	2013	2014
\$1.5	\$2.0	\$1.7	\$3.3

*Data provided by DOR, based on returns processed as of 7-2017.

Based on the analysis of the modifications to the credit from HB 308 in 2015, it is estimated that total credits utilized over the 2016-2018 period will equal \$64 million as shown in Table 4.

Table 4. Estimates of future tax credit liabilities

Fiscal Years (\$ in Millions)		
2016	2017	2018
\$5	\$31	\$28

*Source: Georgia Tax Expenditure Report for FY2018.

Section 3. Examples of Georgia Historic Rehabilitation Projects

Ponce City Market, Atlanta, Georgia: The development company, Jamestown, rehabilitated City Hall East, which was once the retail store and distribution center of Sears, Roebuck & Co., into Ponce City Market in 2011. The project received \$48 million in federal historic tax credits and \$300,000 in state historic tax credits (PlaceEconomics, 2014). The project also received a \$2 million grant from the Beltline Affordable Housing Trust Fund as an incentive to designate 52 apartment units as affordable housing units. Additionally, the area was designated by the Georgia Department of Community Affairs as an Opportunity Zone, which allows the tenant businesses to qualify for state income tax credits at a reduced employment threshold through the Jobs Tax Credit program.⁵ Today, more than 80 businesses (retail, food services, offices, etc.) lease space within Ponce City Market, and contribute to economic and social development of the area.



Source: poncecitymarket.com

⁵ Qualifying establishments must create at least two jobs. The credit per job is \$3,500 and is available to the firm annually for five years if the employment remains.

Flatiron Building, Atlanta, Georgia: In 2016, Lucror Resources completed a \$13 million rehabilitation of the Flatiron Building, Atlanta’s oldest standing skyscraper. The building was designed by Bradford Lee Gilbert, a prolific railroad architect who also designed New York City’s first skyscraper, in 1889 (“Tower Building”). The Flatiron building project received state and federal historic tax credits, as well as an \$11.2 million New Markets tax credit allocation (InvestAtlanta, 2017). The project also received a \$1.5 million investment from the Westside tax allocation district. The Flatiron Building is now rebranded as “FlatironCity” and serves as an entrepreneurial hub with a Microsoft Innovation Center (Atlanta Business Chronicle, 2016).



Source: Green, J. (2016). Atlanta's Reinvented Flatiron Building in 18 Photos. *Curbed Atlanta*

The Grey Restaurant in Savannah, Georgia: The Grey Restaurant was formerly the Greyhound bus depot. The original structure was constructed between 1937 and 1939. Based on figures from Georgia DNR, \$2.5 million of private equity was used to rehabilitate the facility, earning approximately \$500,000 and \$300,000 in federal and state historic rehabilitation tax credits, respectively.



Source: Savannahnow.com

The Daniel Ashley Hotel/Ashley House, Valdosta, Georgia: Originally built in 1925, \$6.3 million was spent to rehabilitate the building into low-income senior housing. Georgia DNR reports that the project qualified for \$1.2 million in federal credits, \$300,000 state tax credits, and approximately \$500,000 in federal low-income housing tax credits as well as a HUD loan. The property is also subject to a property tax assessment freeze under the state Preferential Property Tax Assessment program. Upon completion, the project received the 'outstanding achievement' award from the City of Valdosta for going above and beyond the regulations set forth by the city of Valdosta to protect and preserve buildings in the local historic district (ValdostaToday, 2015).



Source: ValdostaToday

Section 4. Review of Previous Studies

Over the years, numerous studies of the economic and fiscal impact of the state and federal credit have been conducted. These studies typically generate the direct, indirect, and induced effects of increased investment in these types of projects. In general, these studies find large impacts on the state and local economy.

Several characteristics of this credit contribute to a relatively large economic impact from these projects. First, the incentivized redevelopment activity in most cases employs local workers and the structure remains after the credits have been exhausted. Second, because the state credit works in combination with the federal credit and often other federal credits, the state gains a disproportionate benefit while bearing relatively little of the incentive cost.

Several features of these studies are important to note. First, the impacts of these projects occur as two distinct phases, i.e. the construction phase and the post-construction operations phase. The construction or rehabilitation activity can provide significant economic impacts in the economy,

but only during the rehabilitation phase of the project. By comparison, the operations phase of the project, after the rehabilitation is completed and the facility is in use, may generate a smaller annual economic effect, but over a much longer period of time. Thus, it is important to consider the economic impacts discounted over a number of years. Often, studies provide an analysis of the number of years it takes to recoup the state investment of the tax credits; the state may eventually recoup its initial investment, but the question is how many years does it take. This payback period is typically shorter in the case of income-generating projects relative to non-income generating projects. In addition, some studies will compute the number of jobs and increase in personal income associated with the rehabilitation activity.

A study produced for Alabama (Novogradac, 2016) provides such an analysis based on the projects completed and in-progress over the 2014-2017 period. The report states that the total return on investment in terms of tax revenue to the state and local governments would be \$3.90 for each dollar of expenditure. In addition, this analysis determines that the state and local governments will recoup its initial investment of \$60 million in tax credits by 2019. A similar analysis performed for Wisconsin (Baker & Tilly, 2017), determined that the state recoups its investment after about 4 years.

Another important feature of these studies is that they attribute all the activity to the presence of the credit. That is, the studies assume that no activity would have existed in the absence of the credit. On the other hand, it is critical to understand that the state credit is used in combination with other state and federal incentives. Therefore, when evaluating the impact of the credit, it is vital to assess the true contribution of the credit relative to the other incentives that are used.

A related concern is that the analyses assume that all the income generated from the rehabilitation project is attributable to the rehabilitation efforts. In fact, though, this economic activity may still have occurred, in some cases, without the credit. Furthermore, the analyses should also consider that current activity associated with a rehabilitated structure may be at the expense of other non-rehabilitated facilities.

Section 5. Evaluation of the Georgia HRTC

Justification

It is generally accepted that historic structures have the potential to generate positive spillovers for the surrounding businesses and revitalize otherwise distressed areas. Examples include renovated theaters which then spur the development of local restaurants. Because not all the benefits received from the project are received by the building owners, there is often an under investment in this type of activity from the perspective of society. By providing a subsidy, the tax credit reduces the price of this activity and increases the number of projects that are undertaken.

What is less well understood is the size of the subsidy that is required and whether it should be provided through the tax system or through means of a direct grant system. And in fact, the state provides funds to local governments and nonprofits through the Georgia Heritage Grant program and the Historic Preservation Fund program, also administered by DNR.⁶ Neither of these questions are addressed in the current literature or in reviews performed for other states.

Effectiveness

The existing legislation does not contain a stated goal of this program. It is assumed that the goal is to preserve and repair historic structures. Based on the amount of activity reported by the state preservation office, the program is fulfilling this goal.

Typical analyses of this program assume that all activity is a result of the state credit. Because the state credit is very often bundled with other incentives, this is very difficult to determine. For instance, the development of the Ponce City Market involved the use of \$300,000 in state tax credits and \$48 million in federal credits while costing an estimated \$360 million. It is unlikely that an incentive of 0.001 percent⁷ was instrumental in the decision to undertake that project.

Unfortunately, our research found no study determining the effect of the different incentives on the level of rehabilitation activity. It is likely that the state incentive has some effect on the level of activity but without further research it is not possible to determine the amount of activity that can be properly attributed separately to the federal credit, the state credit, and the local property tax assessment freeze.

If the goal of the program is to serve as an economic development tool for the development of downtowns or central business districts, it is less clear that the program is set up to most effectively achieve that goal. There are many cases of rehabilitation projects acting as a catalyst for additional development in an area as illustrated by the Beall Hill revitalization effort in Macon, Georgia. But because the projects are not selected on the basis of return on investment or degree of likely success in encouraging additional development, there are likely many projects that are undertaken that are not targeted to meet this goal. Although there is an incentive for historic homes renovated in specific low-income areas, there is no provision applying to the renovation of historic structures.

Efficiency

There are several ways to consider the issue of efficiency. Because there is a subsidy for rehabilitation of historical structures, these structures receive some preferential treatment over new construction projects. In addition, the presence of additional restaurants and character-filled buildings may serve to revitalize an area, but subsidies may also lead to an oversupply of space or services in an area. The result may be more people patronizing an area or simply a shift of

⁶ The annual appropriation for the grant program to local governments is significantly smaller in scale than the tax credit program. It is typically in the range of \$90,000 to \$140,000.

⁷ $\$300,000/\$360,000,000 = 0.001\%$.

consumers from one business to another, putting the state in the position of supporting some business ventures over others.

Equity

Based on the data provided by DOR (see Table 2), the tax credits are most often utilized by higher-income individuals. As a result, the program reduces the progressivity of the state income tax system and does so in a manner that is not transparent. The horizontal equity (otherwise similarly situated taxpayers bearing similar tax burdens) of the system is also reduced. The benefits of the restoration of the historic structure could be argued to extend to all, but measuring the intrinsic value of these properties is beyond the scope of this review.

While by law all areas of the state have the potential to benefit from the program, some areas have greater opportunities to benefit than others based on the stock of buildings on the Georgia/National register. Indeed, between 2008 and 2017, 86 percent of the projects and 95 percent of the expenditures are concentrated in only 10 counties.

Return on Investment

Based on our review of the existing studies, multiple economic impact studies find a significant return on investment from these types of projects. This is not surprising because there is a one-time upfront cost followed by many years in which the property typically generates income.

Because these projects typically use local services and labor, this serves to greatly increase the return on investment of these projects. The more that local architecture firms, contractors, and labor is used, the higher the rate of return to the state. Furthermore, by combining federal incentives with the state and local incentives, the state can receive the full benefit of the rehabilitated property and its corresponding economic activity for a relatively small investment.

There are several issues to note, though. First, the state tax credit is commonly used in partnership with the federal historic rehabilitation tax credit and often other tax credits, such as the federal new markets tax credit and the state and federal low-income housing tax credit. In addition, all properties qualifying for the state historic rehabilitation tax credit also qualify for a local government property tax assessment freeze. The economic impact studies typically assume that the project would not have been undertaken in the absence of the credit. No study that we found separately identified the effect the state credit independent of the state property tax freeze or other state or federal credits. Therefore, it is not clear the value of the actual impact of state tax incentive separate from the other incentives. Second, there is no standard number of years in which a project should begin to generate a positive return on investment. Therefore, by extending the analysis period, any project can be made to yield a positive return. Lastly, although a small part of the program, rehabilitation of private residences is unlikely to produce a measurable positive return on investment because these are non-income producing properties and any benefits are, at best, difficult to measure.

Credit Structure and Administration

The state imposes a \$25 million cap on projects earning more than \$300,000 in credits. Because the credits are awarded on a first-come first-served basis, some projects may be crowded out of the process by more expensive projects. In addition, projects completed in the Atlanta metro area are likely to be more expensive than projects in rural or less urban areas. Therefore, the cap applies unevenly to urban and rural projects.

In addition, the state cap only applies to projects earning more than \$300,000 in credits. Projects earning less than \$300,000 in credits are not subject to a state aggregate annual cap.

Budgetary Risk

Because much of the amount awarded is subject to an annual cap, the risk to the budget is fairly contained and can be more easily managed. Some risk is introduced from the credits that earn less than the \$300,000 per project cap because these are not subject to the overall state cap. In addition, the ability to carry forward the unused credits to future years increases the complexity of the credit administration and results in an increase in the level of budgetary uncertainty.

Local Government Impact

There are two main impacts on local governments. First, properties that qualify for the state tax credit typically qualify for the preferential property tax assessment for rehabilitated historic property.⁸ This special assessment program freezes the property tax assessment for 8 ½ years. Under this program, the local government continues to collect property tax on the pre-rehabilitation value of the property, but is delayed from assessing on the new value for the period of the freeze. Although, properties undergoing rehabilitation may not have substantial property tax liabilities prior to rehabilitation, it is important to note that local governments are not involved in this decision that has implications to their tax base.

Second, the rehabilitation of the property may serve to increase property values in the immediate area. A study by Cyrenne, Fenton, and Warbanski (2006) found that for each dollar of rehabilitation expense, assessed value of the property increased by 33 percent. Alternatively, a 2015 analysis by Indiana Department of Legislative Services of a limited number of properties found that not all properties experienced a benefit in terms of higher property values after receiving the credit.

Opportunity Costs

We could identify no analysis which considered the impact on existing businesses. In some areas, businesses located in rehabilitated facilities may detract from businesses located in non-rehabilitated facilities if the rehabilitated facilities may have a cost advantage over other facilities

⁸ A separate qualifying test is required for the local property tax assessment freeze. Qualifying properties must have rehabilitation costs that result in an increase in the fair market value of 50 percent for residential property, 75 percent for mixed use property, and 100 percent for income-producing property.

in the same market due to the subsidy. In other cases, newly rehabilitated facilities may act to attract more economic activity to an area and, as a result, benefit existing businesses in the area as well.

Lastly, the loss of tax revenue represents a reduction in government spending or results in higher tax rates. When considering the value of this, or any other tax incentive program, it is important for policy makers to weigh the cost of providing the incentive against the loss in government spending on other programs or the increase in taxes necessary to offset that additional spending.

Suggested Policy Recommendations

- The program should consider modification to the award process that encourages the geographic diversity of the projects between urban and rural areas and across the state.
- The state should consider eliminating the subsidy for non-income producing properties as these are private homes and as such may provide less of a public benefit.
- In awarding the projects, the program officials should consider the effect on existing businesses and the expected rate of return of proposed businesses.
- The state should consider implementing annual caps for those projects earning less than \$300,000 and making the \$25 million annual cap on credits permanent.
- The \$300,000 threshold and the \$25 million annual cap should be annually indexed for inflation.

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