



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 20, 2019

Honorable Brett Harrell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 105 (LC 43 1111)

Dear Chairman Harrell:

The bill would provide a state income tax exemption for aid provided to farmers through disaster relief or assistance programs administered by the U.S. Department of Agriculture in connection with Hurricane Michael. The exemption would be applicable for tax years beginning on or after January 1, 2019 and ending on or before December 31, 2021.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) provided an estimate of the state revenue reduction that would result from the bill. However, the estimates are *highly uncertain* due to the following factors:

- uncertainty in damage estimates;
- a lack of estimates from federal or state agriculture officials (or others) of expected benefits under USDA programs not subject to annual appropriation;
- uncertainty about the appropriation of USDA supplemental disaster relief funds;
- timing of payment of any approved claims; and
- effective tax rates and loss carryforwards of farm businesses receiving payments.

Based on the analysis described in the attached appendix, and contingent on federal appropriations and other factors detailed therein, the proposed exemption is estimated to reduce state revenues by between \$39 and \$58 million over FY 2020-21. If assistance from only permanently authorized programs is provided, the reduction is likely to be \$19 million to \$46 million. The attached appendix details the analysis.

Impact on State Expenditures

The Department of Revenue estimated that the bill would result in annual costs of \$64,000 for one full-time, entry-level fraud analyst position. One-time expenditures estimated at \$1,400 would be

needed for training, updated forms, and website changes.

As an alternative to the salaried position, estimated costs for a contracted position at \$40,000 per year for three years would total \$120,000.

Sincerely,

/s/ Greg S. Griffin

Greg S. Griffin
State Auditor

/s/ Kelly Farr

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/st

Analysis by the Fiscal Research Center

University of Georgia Extension Services estimates damage done by Hurricane Michael to agricultural producers in the state by major output category as shown in Table 1. These figures are estimated direct losses, including to crops, trees, livestock, and structures (e.g. greenhouses, chicken houses, etc.) and do not include losses of agriculture support sector businesses.

Table 1. Estimated Direct Losses by Major Sector
(*\$ millions*)

Cotton	\$550 - \$600
Green Industry*	\$13
Peanuts	\$10 - \$20
Pecans	\$360
Poultry	\$28
Soybeans	\$10
Timber	\$763
Vegetables	\$480
Total	\$2,214 - \$2,274

* Nursery, greenhouse and turf

Hurricanes Florence and Michael also impacted most of Georgia's neighboring states, specifically Alabama, Florida, Georgia, North Carolina, and South Carolina. Based on reports from agricultural extension services and other sources in these states, total estimated losses by state for the two storms are as follows in Table 2.

Table 2. Ag Loss Estimates, Hurricanes Florence and Michael

(<i>\$ millions</i>)	Florence	Michael	Total	Share
Alabama		\$204	\$204	5.1%
Florida		\$158	\$158	3.9%
Georgia*		\$2,244	\$2,244	56.0%
North Carolina	\$1,100	\$100	\$1,200	30.0%
South Carolina	\$125	\$75	\$200	5.0%
Total	\$1,225	\$2,781	\$4,006	

* Midpoint of Table 1 estimates

The USDA has several disaster assistance programs to help agricultural producers after natural disasters or similar unexpected losses. Major USDA disaster relief or assistance programs through which Georgia producers may receive payments eligible for the proposed exemption include:

- Tree Assistance Program (TAP), for crop producing trees, bushes, or vines
- Livestock Indemnity Program (LIP), for livestock deaths above normal levels
- Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP)
- Noninsured Crop Disaster Assistance Program (NAP), for crops not eligible for the Federal Crop Insurance (FCI) program
- Wildfires and Hurricanes Indemnity Program (WHIP)

FCI is delivered to producers through private insurance companies and, thus, is assumed not to be eligible for the proposed exemption.

Funding for TAP, LIP, ELAP, and NAP is not subject to annual appropriations as the programs were permanently authorized by the 2014 U.S. Farm Bill and losses are paid from the Commodity Credit Corporation (CCC) Fund. WHIP was last authorized in April 2018 for payments to producers with losses from hurricanes and wildfires in 2017.

Table 3 shows reported outlays for these four programs for the last five years, pieced together from USDA budget summaries and, for FY 2018, from USASpending.gov.

Table 3. USDA Disaster Program Outlays, FY 2014-18

(\$ millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Permanently Authorized Programs:					
TAP	\$0.04	\$11.15	\$12.56	\$6.91	\$61.82
LIP	54.78	52.02	41.32	25.07	92.43
ELAP	0.05	48.59	23.67	18.22	93.33
NAP	165.26	124.66	137.38	157.16	509.77
Subtotal	\$220.14	\$236.41	\$214.92	\$207.36	\$757.35
Supplemental and ad hoc disaster assistance					
	4,725.72	1,800.62	657.55	679.46	1,564.84
Total	\$4,945.85	\$2,037.03	\$872.47	\$886.82	\$2,322.19

No information is available to associate these spending figures with specific disasters, but major hurricanes likely impacting the totals are as follows:

- FY 2014-15 – Isaac and Sandy (Fall 2012)
- FY 2018 – Matthew (Fall 2016); Irma, Maria and Harvey (Fall 2017)

Given the FY 2018 rise in outlays under the permanently authorized programs from prior year levels over relatively stable totals the prior four years, a similar or larger spending increase is assumed for the 2018 storms. A range of \$400-900 million is assumed, but the outlay may fall over multiple periods.

A supplemental disaster appropriation for USDA (\$1.1 billion for 2018 wildfires and hurricanes) was included in proposed versions of the recently signed FY 2019 Consolidated Appropriations Act, but this funding was dropped in the conference version that was enacted, H.J.Res. 31. It is assumed, first, that these supplemental funds are appropriated over the coming months at the proposed level. It is assumed further that substantially all of the supplemental funds are utilized for relief from Hurricanes Florence and Michael.

Together, the outlays related to hurricanes Florence and Michael from all these permanent and supplemental programs are assumed to fall between about \$1.5 and \$2 billion, spread primarily over federal FYs 2019-20.

Dividing these amounts across the states impacted by Florence and Michael (Alabama, Florida, Georgia, North Carolina, and South Carolina), roughly in proportion to their estimated agricultural losses, a range of potential payments to Georgia producers can be estimated.

Using the 56 percent share of losses estimated in Table 2, the \$1.5-2.0 billion range of potential outlays suggests that Georgia producers could be expected to receive \$840-\$1,120 million in eligible USDA disaster relief payments. Under current law, these payments would be taxable in the year received. Assuming the payments are received in late CY 2019 or early in CY 2020, exempting the payments from tax would likely impact state FYs 2020 and 2021. However, because of uncertainty around the timing of any payments, the estimated revenue impact is provided in total only, not split across fiscal years.

Assuming average effective tax rates of between 4.70 percent and 5.15 percent, based on microsimulation results under current law, the impact on state revenues from exemption of these payments would be between \$39 million and \$58 million.

Note, however, that the appropriation of supplemental USDA disaster funding is uncertain. If such funds are not appropriated, the estimated impact from only the permanently authorized programs would likely be in the range of \$19-\$46 million.

In addition, it is possible, if not likely, that farm businesses experiencing significant losses from Hurricane Michael and receiving USDA disaster relief payments would have operating losses for the tax year of the storm. If that is the case and these losses are carried forward to reduce taxable income in subsequent years, the taxpayers' effective tax rates and thus the revenue impact could be significantly lower, or the impact could simply be delayed as operating losses are carried forward longer.