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ACCOUNTABILITY FOR ECONOMIC DEVELOPMENT INCENTIVES IN GEORGIA

In Georgia, as in most states, we continuously struggle to identify and utilize the most effective and successful economic development incentives. We do this because we believe that new, well-paying jobs and investments in companies that have many induced effects will continue to improve not only the economic health of our communities but also the economic vitality of the state. More and better jobs and investment will allow us to broaden individual and family prosperity, to sustain a strong revenue base for financing public services such as education, transportation, public safety, et cetera, and thus to improve our quality of life. Tax incentives and other types of public financial support are offered to prospective firms with the hope that they will select a Georgia community to bring in new jobs and investment. Many of these same programs are offered to existing industries that are expanding in Georgia.

Georgia offers various types of economic development incentives at the both the state and local levels. These are modified regularly for perceived competitive improvements. In addition to tax and financial support, there are numerous state agencies programs and services that can be justifiably defined as important for community and economic development. Some state efforts assist and support communities in building and improving facilities

and infrastructure in their towns and rural areas. Other programs focus specifically on business and industry needs.

While any list of such programs will likely be incomplete, nonetheless, we have focused on the best-known initiatives and programs.¹ The primary set of tax incentives is called "BEST" for the Business Expansion Support Act of 1994.² BEST includes the tax credits for the following: new jobs, new investment, retraining, provision of child care, research and development, small business rapid growth, port traffic and headquarters' location. In addition there are major state investments in the Georgia Research Alliance, a public-private partnership that attracts innovative university research in order to build a technology-rich economy. Specialized training and education are available through the Quick Start program at Department of Technical and Adult Education and the Intellectual Capital Partnership Program (ICAPP) in the University System. Georgia Tech provides a network of technical and business services through its regional offices. The One Georgia Authority makes tobacco settlement monies available through its EDGE and Equity Funds on behalf of rural

economic development. The Department of Community Affairs offers an array of financing and loan programs, some of which are state funded. These programs and services provide support for building communities that are attractive to outside investment as well as for expanding local business and industry. And, significantly, there are local economic incentives in the form of tax abatements and other forms of financial assistance or improved infrastructure to attract new firms.

This wide array of programs is provided by multiple entities within state government in addition to the investments of local governments and numerous private sector partners throughout the state. Yet, an integrated evaluation of all of these state investments does not exist. So we look to other states to identify ways in which they assess their economic development programs. Many states are in this process but we chose to focus on Minnesota, Maine and North Carolina.

Our three selected states followed similar paths as they increased their attention to accountability for economic development programs and incentives. Minnesota began with a requirement for a net increase in jobs within two years and a clawback provision for companies that failed to do so. In addition they required an annual reporting procedure regarding the state's subsidies. After several evaluations, the legislature enhanced its requirements to include stricter job and wage requirements, and expanded the accountability and enforcement mechanisms to ensure that specific public purposes were accomplished. In Maine there was attention to documenting the public purpose being served by incentives exceeding \$10,000 a year. Several state agencies were involved in collecting information and reporting. The analysis of this information yielded disappointing results and the report urged stricter wage requirements for new jobs as well as compliance to the environmental, occupational health and safety and labor law on the part of companies receiving state benefits. In North Carolina there seems to have been more churning of changes and additions to the original William S. Lee Act as well as numerous studies, attention from the press, and conflict within and between the two political parties in the legislature. The required reporting focused on equity, effectiveness and itemized reporting of the number of jobs and investments. Yet, one study stated that most of these investments would have occurred without state subsidies. Another report suggested that any incentive analysis should include an evaluation of the alternative use of the same amount of state funds.

These sample states, and numerous others are using four methodologies to increase their knowledge and understanding of the workings of their incentives and to assess the effectiveness of these state investments. They are (1) setting standards for extending tax credits to prospects; (2) using performance audits to determine the effectiveness of public spending; (3) developing a tax expenditure report to identify the amount of revenues forgone annually because of tax credits; and/or (4) the use of a "unified development budget" to pull together data on the wide variety of publicly-funded programs for assessment.

It is time in Georgia to provide accountability for the wide array of state investments in the name of economic development. There is much exemplary work being conducted to attract and expand new business in the state. Nonetheless, an integrated assessment of state economic development expenditures will result in greater value for Georgia's economic development investments.

NOTES:

1. Several websites describe Georgia's incentives: www.georgia.org; www.dca.state.ga.us; www.gatax.org; www.dtae.org; and www.edi.gatech.edu.
2. Ga Code § 48-7-40 to 48-7-42

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