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Assessing Georgia's Non-Tax Economic Development Incentives: A Comparison of Georgia to Neighboring States

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Introduction

The primary goal for state and local economic development policy in the United States is to support business retention and recruitment. Economic development incentives are the principal tool employed for this purpose. The typical economic development incentive package is comprised of both tax and non-tax incentives, with the non-tax portion often forming the largest share of public resources devoted to the project (Patrick 2014a). Incentive offers reflect local economic conditions, offers by competing localities, as well as the "rules of the game" dictated by federal and state constitutions. State constitutional provisions that limit and structure officials' freedom to use public credit, money, and property for the benefit of private enterprises govern the ability of state and local governments to offer non-tax incentives (Pinsky 1963; Green 1990; Schaefer 1996). State constitutions may restrict the ability of governments to provide competitive incentives – potentially hampering economic growth – or allow governments to credibly argue that they cannot offer certain types of incentives – reducing the possibility of overleveraging jurisdictions or of risky incentive offers.

State and local government inducements have increased steadily over the last 50 years, prompting constitutional amendments and revisions to increase the available non-tax incentives in many states. For example, many state constitutions prohibit public issuance of general obligation bonds whose proceeds benefit private organizations. Three states amended their constitutions in 2010 to allow public entities to use general obligation bonds to finance economic development incentives (Dinan 2011; Patrick 2014b, 2014c). Voters are not always supportive of increasing available non-tax incentives, however. For example, Texas voters rejected a proposed amendment to expand county government issuance of general obligation bonds for economic development in 2011 (Dinan 2012; Patrick 2014b, 2014c).

This report assesses Georgia's non-tax economic development incentives compared to neighboring states with which Georgia often competes for businesses: Alabama, North Carolina, South Carolina, and Tennessee. The next section summarizes the general debate on economic development incentives. Constitutional restrictions on aid to private companies are considered in the subsequent section, followed by a discussion of available programs.

The Debate on Economic Development Incentives

Although the use of economic development incentives is on the rise, the practice is hotly debated among policymakers and scholars. Despite decades of research, there is no clear consensus on the effects of jurisdictions competing with economic development incentives (see Bartik 1991, Glaeser 2001, Thomas 2011, and Patrick 2014a, 2014d for similar literature survey conclusions). Non-tax incentives (cash and near-cash grants, low-interest financing, free land and buildings, etc.) feature prominently in the public debate because of the significant public resources devoted to this type of incentive and because it most closely resembles legalized bribery of companies (Bartik 2005; Patrick 2014a).

Proponents of non-tax economic development incentives argue limitations on their usage place affected state and local governments at a competitive disadvantage by restricting policy options that support private businesses and thereby local job creation. Some advocates also suggest that failing to match incentive offers from other jurisdictions sends a negative signal about the local business climate or puts the jurisdiction at a comparative disadvantage (Ellis and Rogers 2000; Anderson and Wassmer 2000; Patrick 2014d). As noted above, this point of view has dominated the economic development policy landscape in the United States over the last 50 years, resulting in a general trend of easing constitutional restrictions.

Critics of incentives, on the other hand, suggest these do not affect firm location choices and redirect public resources in potentially harmful ways. Recent studies indicate non-tax incentives do not support local job growth and possibly lead to job losses (Goetz et al. 2011; Patrick 2014a). Negative effects may be caused by displacement of existing businesses, capital-labor substitution, and deteriorating government fiscal health resulting from overuse, poor ex ante evaluation, and copy-cat behavior among local jurisdictions (Thomas 2000; Rodriguez-Pose and Arbix 2001; Wassmer 2009; Kenyon et al. 2012; Patrick 2014d). In this view, constitutional restrictions on aid to private enterprise may provide useful bounds on the use of incentives by state and local governments.

Constitutional Provisions on Non-Tax Economic Development Incentives

State constitutional provisions on state and local government aid to private entities originate from mid- and late-19th century fiscal crises caused by participation in risky economic development projects (such as railroads, canals, ferries, etc.) (Roy 1969; Rubin 1993; Tarr 1998). The fiscal consequences of public investment in ultimately unsuccessful private ventures included long-term debt obligations, default, and bankruptcy.[1] The resulting collapse of 1837, when nine states defaulted on their debts, led states throughout the United States to enact constitutional reforms that curtailed legislative promotion of economic development and created barriers to prevent abuses (Tarr 1998; Patrick 2014b).

Patrick (2014a) develops a measure of state constitutional provisions that govern non-tax economic development incentives. The Incentives Environment Index (IEI) is the sum of the state and local scores for three constitutional clauses governing public aid to private enterprises – typically referred to as the credit, current appropriations, and stock clauses. State constitutions contain provisions that dictate allowable activities for both state governmental and local governmental entities under each clause. Each is scored based on sub-categories that capture variation in the type of activity covered, the scope or entities restricted, explicit exemptions, and the approval process. The sub-category scores are then

[1] State and local governments in states with few restrictions on non-tax incentives still face the risk of similar fiscal consequences (Patrick 2014b, 2014c). For example, Rhode Island outbid Massachusetts for Curt Schilling's now defunct Studio 38 video game company with a rich incentive package that included $75 million in state guaranteed financing. The state's obligation to repay debt incurred on behalf of the failed venture continues and has led to significant public debate on incentive practices in the state (Bray 2012; Corbin 2012). Rhode Island's constitution is one of the least restrictive in the United States.

summed. Additional detail on the clauses and scoring may be found in the web appendix to Patrick (2014a). A higher score means greater freedom to use incentives governed by that clause.

Table 1 details the score for each component of the IEI as well as the summary score. The Georgia IEI score is low compared to neighboring states, reflecting much stronger constitutional restrictions on public aid to private enterprises.[2] Georgia's lower than average score is largely driven by restrictions on the use of state current appropriations, local government credit, and local government current appropriations.

Table 1: State Constitutional Incentive Environment Index Scores

	ALABAMA	GEORGIA	NORTH CAROLINA	SOUTH CAROLINA	TENNESSEE
State Credit	20	12	13	19	13
State Current Appropriations	15	14	23	23	23
State Stock	5	8	17	8	9
Local Credit	22	11	22	21	20
Local Current Appropriations	24	0	25	25	25
Local Stock	19	20	20	6	19
Incentives Environment Index	105	50	120	102	109

Current appropriations provisions of state constitutions govern donations as well as loans financed through general fund revenue. The state current appropriations component scores for North Carolina, South Carolina, and Tennessee indicate these state governments may use current appropriations to provide monies or property directly to private enterprises as economic development incentives. For example, these state constitutions allow the state legislature to budget general revenue for cash inducements paid directly to a new or expanding company. The Georgia State Constitution, however, prohibits such gifts and budgetary allocations. The Georgia General Assembly must instead direct economic development incentives financed through current appropriations to another public entity or in the form of loans. The prohibition on gifts is well known in Georgia and is often referred to as the "gratuities" clause. According to Hill (1993), the restrictions in the gratuities clause are the principal reason for many of Georgia's constitutional amendments, ". . . since any exception to this gratuities prohibition requires specific constitutional authorization. For example, the people of Georgia were asked in 1980 to approve an amendment to this paragraph to allow the state to purchase band uniforms with state monies, on the grounds that some might construe such purchases as 'gratuity.'"

The Georgia state and local current appropriations clause scores reflect similar constraints on other public entities, such as authorities and local governments. Unlike many other states, Georgia cannot appropriate funds to a state agency, authority, or local government that can provide gifts of property or cash. The

[2] Although not covered in this report, it is worth noting that Georgia scores higher than neighboring state Florida.

Georgia State Constitution ". . . shall not authorize any county, municipality or other political subdivision of this state, through taxation, contribution, or otherwise to appropriate money. . . to any person or to any nonpublic corporation or association except for purely charitable purposes" (Georgia Constitution, Article IX §2). Thus, while Alabama local governments may gift property and cash to prospective companies, Georgia local governments are strictly prohibited from such activities.

Georgia also scores lower than neighboring states for state and local credit clauses, with substantially stronger restrictions on the lending of local credit to aid private companies. Constitutional credit clauses govern incentive programs financed through credit obligations and the lending of public credit for private purposes. Typical economic development incentives covered by the credit clause include Industrial Revenue Bonds (IRBs), bond financed grant programs, borrowing financed industrial park land, loans financed without general revenue, etc. Some programs will invoke both the current appropriations and credit clauses.

Like all of Georgia's neighbors, state and local governments may issue revenue-secured bonds as an economic development incentive. The most common of these are Industrial Revenue Bonds (IRBs). IRBs provide tax-exempt bond financing for projects, typically at lower rates than taxable bonds, by vesting the title of the assets with the public entity issuing the bonds. Bond payments rely upon the project revenue stream, not the taxing power of the issuer. Unlike revenue-secured bonds, general obligations bonds pledge the full faith and credit of the issuer and are backed by the taxing power of the governmental entity. The Georgia State Constitution prohibits state and local governments from aiding private companies by issuing general obligation bonds. Alabama and South Carolina are the only neighboring state governments empowered to use their taxing authority for bond-financed economic development incentives. Georgia, however, is the only state that prohibits local governments from using general obligation debt for economic development.

Equity incentives, such as public-private partnerships and public venture capital funds, imbue the public with a form of ownership in private companies. Georgia's constitutional restrictions on the financial relationship between public and private entities are similar to most of the surrounding states, with language prohibiting stock ownership and direct equity investments. Yet, indirect equity investments, such participation in a non-profit venture capital fund, are permitted. The way in which such as an investment is financed may invoke one of the other constitutional clauses. For example, although the Georgia stock clause permits indirect equity investment through a non-profit, a 1988 amendment to the current appropriations clause was required to permit the Georgia General Assembly to appropriate funds to the Advanced Technology Development Center for its Seed–Capital Fund (see Georgia Constitution Article III §9 paragraph 6(g)). North Carolina is the only neighboring state that permits direct equity investment by the state.

As discussed above, constitutional prohibitions on sources and uses of public money and credit do not operate in isolation from one another. The constitutional provisions govern both the source and use of funds for economic development incentives; the IEI therefore reflects both. In other words, the IEI distinguishes both the way in which the program is financed as well as the program type. Comparing the types of programs available in a particular state reveals some variation in source and use of funds; however, it does not capture all the variation in the IEI.

State Non-Tax Economic Development Incentive Programs

Table 2 provides a summary of the available types of non-tax economic development incentive programs operated by state governments in Georgia and neighboring states. The appendix contains a detailed inventory of the programs summarized in Table 2.

The effect of constitutional variations on available economic development program types can be readily gleaned from Table 2. As noted above, the Georgia State Constitution prohibits gifts or donations to private enterprises, and Table 2 indicates that Georgia does not operate any direct grant or donation economic development incentive programs. Such inducements are permitted by the North Carolina, South Carolina, and Tennessee constitutions: Table 2 reveals that all three states operate direct grant programs.

Table 2: State Economic Development Incentive Program Types(i)

STATE ECONOMIC DEVELOPMENT INCENTIVE PROGRAM TYPE	ALABAMA	GEORGIA	NORTH CAROLINA	SOUTH CAROLINA	TENNESSEE
Grants or donations to private entities			X	X	X
Grants or donations to public and quasi-public entities	X	X	X	X	X
Loans to private	X		X	X	X
Loans to public and quasi-public		X	X		X
Private loan guarantees and participation	X				
Private loan guarantees and participation through public or quasi-public conduit		X	X	X	
Other preferential rate financing through public or quasi-public conduit	X	X	X	X	X
Private equity			X		
Private equity via public or quasi-public conduit	X			X	X

(i) The classification of economic development incentive type presented here does not distinguish the funding source for the program. Programs financed through public debt and current appropriations are grouped together. The Incentive Environment Index further distinguishes between program types by considering both the source and the use of funds. In other words, the IEI distinguishes both the way in which the program is financed as well as the program type. The inventory also does not include local programs nor does it distinguish between programs by sub-recipient end-use. Program inventory excludes federal funds programs such as CDBG, Appalachian Regional Commission programs, Tennessee Valley Authority, U.S. State Small Business Credit Initiative (SSBCI) program, Small Business Administration program, etc. The inventory also excludes customized worker training programs administered through public institutions, such as Georgia QuickStart and North Carolina’s Customized Training Program.

Georgia and all its neighbors operate grant or donation programs for public and quasi-public entities, although there is substantial variation in the way sub-recipients may use the grant funds (not reflected in Table 2). The Georgia grant programs include the Regional Assistance Program (RAP), Regional Economic Business Assistance (REBA) Program,[3] the Equity Fund, and the EDGE (Economic Development, Growth, and Expansion) Fund.[4] The latter two operate through the OneGeorgia Authority, initially capitalized through tobacco settlement funds. The Georgia State Constitution prohibits gifts and donations by other public and quasi-public entities; thus, the Georgia programs fund economic development aid in which the title remains vested with the public entity. For example, Georgia programs may be used to purchase and improve the site for a new facility by a public or quasi-public entity that then leases it to a private company. Sub-recipients in neighboring states may choose the lease option as well but also have the option of making gifts or improvements on private property. For example, the state of Alabama financed improvements on the Tuscaloosa County site ultimately deeded to Mercedes-Benz in 1996.

Georgia programs may also be used to provide public infrastructure to economic development projects. All neighboring states operate similar public infrastructure and site programs – again, with variation in sub-recipient end-use. Table 2 does not distinguish between the funding sources for these programs like the IEI. Public infrastructure and site development programs receive legislative budget appropriations and funding from dedicated revenue sources and revenue-secured bonds through the region. South Carolina and Alabama, however, also issue general obligation bonds to provide infrastructure and site assistance to economic development projects – a practice prohibited in other states. The Alabama program required a constitutional amendment in 2000. Amendment 666 was later amended to increase the permissible dollar amount of outstanding debt. Alabama is currently authorized to issue up to $750 million in general obligation bonds for economic development and industrial recruitment (Alabama Constitution Amendment 666 and Alabama Appleseed 2010). As of FY 2010-2011, South Carolina had issued over $660 million in general obligation bonds for significant economic development projects that require over $48 million in annual debt service payments by the state (Rainwater, et al. 2013).[5] Both general obligation bond programs provide a discretionary source of public infrastructure and site assistance for economic development projects through a source of revenue unavailable in Georgia.

The loan programs in Georgia also reflect more stringent constitutional prohibitions on aid to private entities. Georgia does not provide direct loans to private companies like its neighbors (except Florida). Economic development incentive loan programs in Georgia require a public or quasi-public recipient. Most surrounding states also operate economic development loan programs for public or quasi-public entities. The end-use of these funds varies substantially between Georgia and neighboring states. For example, both the OneGeorgia EDGE Fund and Tennessee FastTrack Economic Development Fund provide loans (as well as grants) to local governments and development authorities to finance the

[3] REBA also includes loan and loan participation options.

[4] The EDGE fund additionally includes loan and loan participation options.

[5] These totals exclude the general obligation bonds issued under General Obligations Bonds for Economic Development whose proceeds fund economic development activities through public research universities.

purchase of equipment in aid of a private company. The recipient must retain ownership of the OneGeorgia financed equipment and lease it to the company. On the other hand, the FastTrack recipient may either reimburse the company for its purchase of the equipment or donate the equipment to the firm.

Georgia is similar to most neighboring states with respect to offering loan guarantee or participation programs through a public or quasi-public conduit. A public or quasi-public entity lends its credit to guarantee private loans or uses its funds to participate in a private loan – effectively making credit available to companies that might otherwise be unable to obtain private financing at market or below-market rates. Alabama is the only state that operates private loan guarantee or participation programs without a public or quasi-public conduit. It should be noted, however, that other states have several private loan guarantee or participation programs available through federal programs (e.g., State Small Business Credit Initiatives, USDA, Tennessee Valley Authority, and Appalachian Regional Commission programs).

States may also lend credit to private companies through other preferential rate financing mechanisms, most notably issuing bonds. Georgia operates a Private Activity Bond Allocation program, which includes IRB allocations, like all other states. South Carolina is unique in also offering a Taxable Variable Rate Bond Program. The taxable variable rate bond program provides preferential financing through a quasi-public conduit: the Jobs and Economic Development Authority (JEDA). JEDA taxable variable rate bonds rely upon the revenue stream of the financed project – not JEDA revenue or taxing powers. Unlike IRBs, however, title to project assets does not appear vested in JEDA.

Equity investments represent the final type of state economic development incentive in Table 2. As discussed above, Georgia contributes to non-profit venture or seed capital funds. South Carolina also provides equity funding through quasi-public and non-profit organizations – the South Carolina Venture Capital Authority and InvestSC, Inc. North Carolina is the only neighboring state in which direct equity investment is constitutionally authorized; it is also the only state with a direct private equity fund. The Department of the State Treasurer operates the North Carolina Innovation Fund, which provides public capital to companies deemed to enhance North Carolina economic development.

Conclusion

The Georgia State Constitution contains more restrictions on public aid to private enterprises, and therefore on non-tax economic development incentives, than most of the surrounding states. The types of available economic development incentives programs, as well as the methods for financing these programs directly reflect these constraints. Georgia constitutional constraints require non-tax incentives that benefit private companies vest title with or otherwise use a public or quasi-public conduit. Georgia governments may not offer direct donations or pledge their full faith and credit for the benefit private firms. Although it varies by state, Georgia's neighboring governments do offer such incentives.

Proponents of incentives argue that today's competitive environment calls for relaxing these constraints: constitutional restrictions may harm growth by limiting policy responses. Critics of incentives, on the other hand, suggest these constitutional limitations prevent unnecessary public risk and overleveraging of state resources. These constraints allow policymakers to credibly argue that they cannot provide certain types of incentives and focus incentive policies on public infrastructure and workforce investments instead. Patrick (2014a) analyzes county job growth associated with relaxing constitutional constraints from 1970-2000 and finds no positive employment effects in the medium-term, which suggests such limitations do not appear to harm employment levels or growth. Table 3 reports an index of state wage and salary employment for Georgia and neighboring states. The index relates the level of employment in 2013 to the base level in 2000, and measures changes between these years. Despite offering fewer types of non-tax incentives, Georgia has outperformed Alabama, South Carolina, and Tennessee in wage and salary employment.

Table 3: Bureau of Economic Analysis Wage and Salary Employment Index

STATE	2000	2013
Alabama	100	98.7
Georgia	100	101.6
North Carolina	100	104.5
South Carolina	100	101.3
Tennessee	100	101.0

Georgia's constitutional restrictions also do not appear to negatively impact the overall perception of the state as a location for business, as it was ranked first in the 2014 *Site Selection* magazine's annual best business climate rankings for the second year in a row (Arend 2014).[6] That being said, Georgia policymakers cannot match all types of economic development incentives available in neighboring states without state constitutional changes. The question is do they need to?

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[6] Georgia ranked first in *Site Selection* magazine's Competitiveness Rankings in 2014, but fell to tenth in the 2015 rankings announced in May. Business Climate Rankings are generally released in November. The Competitiveness Ranking is predominantly based on previous year announcements of new and expanding businesses. The Competitiveness Index is one of eight factors used to compute the Business Climate Ranking. Fifty percent of the Business Climate Ranking is based on survey responses of corporate site selectors who are asked to rank the states based upon their experience. Other factors include per capita new plant metrics, mature and new firm tax burden metrics, and an analysis of site selection location criteria.

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Appendix Table: Inventory of State Non-Tax Economic Development Incentive Programs

STATE ECONOMIC DEVELOPMENT INCENTIVE PROGRAM TYPE	ALABAMA	GEORGIA	NORTH CAROLINA	SOUTH CAROLINA	TENNESSEE
Grants or donations to private entities			• One North Carolina Fund • Job Development Investment Grants (JDIG) • Incumbent Worker Training Program • Job Maintenance and Capital Development Fund (JMAC) Grants • Recycling Business Development Grants • SBIR/STTR Small Business Technology Fund • Expanded Gas Products Service To Agriculture Fund • Industrial Rail Access Program	• The Closing Fund	• Green Island Corridor Grant Program • FastTrack Job Training Assistance Program (FJTAP) • Tennessee Film/ TV Incentive
Grants or donations to public and quasi-public entities	• Industrial Development Grant Program (Site Preparation) • Industrial Access Road and Bridge Program • Alabama Infrastructure Grant Program • Alabama Capital Improvement Trust Fund	• Regional Assistance Program (RAP) • Regional Economic Business Assistance (REBA) Program[a] • The Equity Fund • The EDGE (Economic Development, Growth, and Expansion) Fund[a]	• Building Reuse and Restoration Grant • Industrial Development Fund[d] • Open Grants Program • Economic Infrastructure Program • Industrial Road Access Program • North Carolina BioTechnology Center[e]	• Economic Development Set-Aside Program • Rural Infrastructure Fund • General Obligation Economic Development Bond Act	• State Industrial Access Program • FastTrack Economic Development Fund[f] • FastTrack Infrastructure Development Program (FIDP)
Loans to private entities	• AlabamaSAVES (Sustainable and Verifiable Energy Savings) Loan Program • Economic Development Revolving Loan Fund[b]		• North Carolina Microenterprise Loan Program (NCMLP)	• JEDA Taxable Bond and other loan programs	• Small Business Energy Loan Program • Rural Small Business and Entrepreneurship Loan Fund

STATE ECONOMIC DEVELOPMENT INCENTIVE PROGRAM TYPE	ALABAMA	GEORGIA	NORTH CAROLINA	SOUTH CAROLINA	TENNESSEE
Loans to public and quasi-public entities		• Downtown Development Revolving Loan Fund • Environmental Emergency Loan • Life Science Facility Fund • Employment Incentive Program			
Private loan guarantees and participation	• Linked Deposits Program[c] • Alabama Loan Guarantee Program				
Private loan guarantees and participation through conduit		• One Georgia Authority Entrepreneurial and Small Business Loan Guarantee program	• North Carolina Rural Center Loan Participation Program	• JEDA loan guarantee program • South Carolina Capital Investment Corporation	
Other preferential rate financing via public or quasi-public conduit	• Private Activity Bond Allocation Program, including Industrial Revenue Bonds	• Private Activity Bond Allocation Program, including Industrial Revenue Bonds	• Private Activity Bond Allocation Program, including Industrial Revenue Bonds	• JEDA Taxable Variable Rate Bond Program • JEDA Industrial Revenue Bond Program	• Private Activity Bond Program, including Industrial Revenue Bond Program
Private equity			• North Carolina Private Equity Investment Program, including the Innovation Fund (Department of State Treasurer)		
Private equity via conduit entity				• South Carolina Venture Capital Authority • InvestSC, Inc.	

Notes: The classification of economic development incentive type presented here does not distinguish the funding source for the program. Programs financed through public debt and current appropriations are grouped together. The Incentive Environment Index further distinguishes between program types by considering both the source and the use of funds. In other words, the IEI distinguishes both the way in which the program is financed as well as the program type. The inventory also does not include local programs nor does it distinguish between programs by sub-recipient end-use. Program inventory excludes Federal funds programs such as CDBG, Appalachian Regional Commission programs, Tennessee Valley Authority U.S. State Small Business Credit Initiative (SSBCI) program, Small Business Administration program, etc. The inventory also excludes customized worker training programs administered through public institutions, such as Georgia QuickStart and North Carolina's Customized Training Program.

a. Program also includes loan and loan participation options

b. Program loans made available through the twelve regional development councils

c. Disaster relief program

d. Program also includes a loan/loan participation component

e. Program also includes a loan component and is operated through a private, non-profit which receives funding from the state legislature

f. In addition to grants, the Fast Track Economic Development Program may loan funds to local governments, their economic development organizations, or other political subdivisions to the state. Recipients may use grant and loan funds to assist eligible businesses with direct purchases and reimbursements as well as donations

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