

# Fiscal Research Program

## THE APPLICATION OF LOCAL ECONOMIC DEVELOPMENT INCENTIVES IN GEORGIA

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## I. Background

Incentives have been part of economic development since the 1930's when Mississippi initiated a strategic plan (Balance Agriculture with Industry Program) to lure and entice businesses external to the state to relocate to Mississippi (Anderson and Wassmer 2000.) The goal behind incentives was to offer businesses in the North cheap and abundant non-union labor, low priced land, minimal taxes, and state sponsored tax-exempt industrial revenue bonds leading them to relocate (Buss, 2001; Anderson and Wassmer, 2000; Gibeau, 1999). Over the last twenty years, state and local governments have adopted incentives, in some form or other, as their primary vehicle for job creation and economic development. Today, total state economic development agency spending in the U.S. approximates \$1.3 billion annually (Oden and Mueller, 1999) although the total level of spending on economic development incentives is uncertain.

In what kind of context can we place incentives to better understand what role they serve and how they may best be utilized? The economic development community in Georgia has expressed interest in this issue. In a Georgia Economic Developers Association (GEDA) membership poll in 2000, members were asked "Is it important to document and review local incentives in order to identify and evaluate their effectiveness?" The vast majority (85 percent) of respondents, or 210 individuals who were equally represented by members in both rural and urban counties, said "yes."

A fundamental gap in our information regarding Georgia's economic development efforts is a lack of knowledge regarding local government (county and municipal) economic development incentives. Without this information, it is difficult for state policy makers to determine the most appropriate state level incentives. This report addresses the types and level of economic development incentives being offered at the local level in Georgia. In this report, we approach "incentives" broadly, from traditional development bonds and tax incentives, to more creative examples of financial incentives.

## II. What Do We Mean By the Term “Incentives”?

Given the changing nature of economic development strategy and the various incentives used to achieve the strategy, how do we define “economic development incentives?” The Corporation for Enterprise Development (CED), one of the organizations focusing on analysis of incentives defines the term as, “inducements state and local

# The Application of Local Economic Development Incentives in Georgia

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**TABLE 1. CATEGORIES OF LOCAL ECONOMIC DEVELOPMENT TECHNIQUES**

### III. Background: Offering Incentives as Economic Development

Since the 1930's, economic development planning and incentives have evolved through what has been described as three phases or "waves" (Bradshaw and Blakely 1999; Eisinger 1995; Ross and Friedman 1990). The first wave was epitomized by what is known as "smokestack chasing" – al development bonds, subsidized loans, direct payments to firms for relocating, tax reductions, and subsidies for plant facilities or utilities to entice firms to relocate.

Later, in the 1980's, a second wave emerged in which the goal of economic development strategy shifted from attracting external firms to retaining and expanding existing firms by revolv Tj loans funds, below-market loans, enterprise zones, and tax increment financ Tj. investment returns (Anderson and Wassmer 1999; Fisher and Peters 1999; Bartik 1992).

However, as noted in a study of local economic development incentives published by the Upjohn Institute (Anderson and Wassmer 2000), while local economic development incentives continue to take a number of traditional forms, such as tax incremental financ Tj,

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## **The Application of Local Economic Development Incentives in Georgia**

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include most or many local communities. Most studies focus on state economic development agencies and their budget, activities, goals, purposes, resources, and so forth. Although each wave of incentives overlaps the other, categorization by wave provides a strategic place for the different types of incentives and it highlights and clarifies the role of the state versus the local community.

## IV. Evaluating Incentives

There is often a gap between the incentives communities offer to companies and the benefits they receive in return. One reason this occurs is because many state and local governments do a poor job of evaluating the value and impact of incentives packages both prior to and subsequent to th

## **The Application of Local Economic Development Incentives in Georgia**

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Commerce has developed a comprehensive report on evaluation and how to measure and assess impact (Poole 1999). Economists Glen and Burton Weisbrod (1997) also explain the fundamental options and tradeoffs involved in selecting the right kind of techniques for assessing economic impacts.

Different software packages have been developed to make financial (benefit- Tw essmf 0 4 0.07

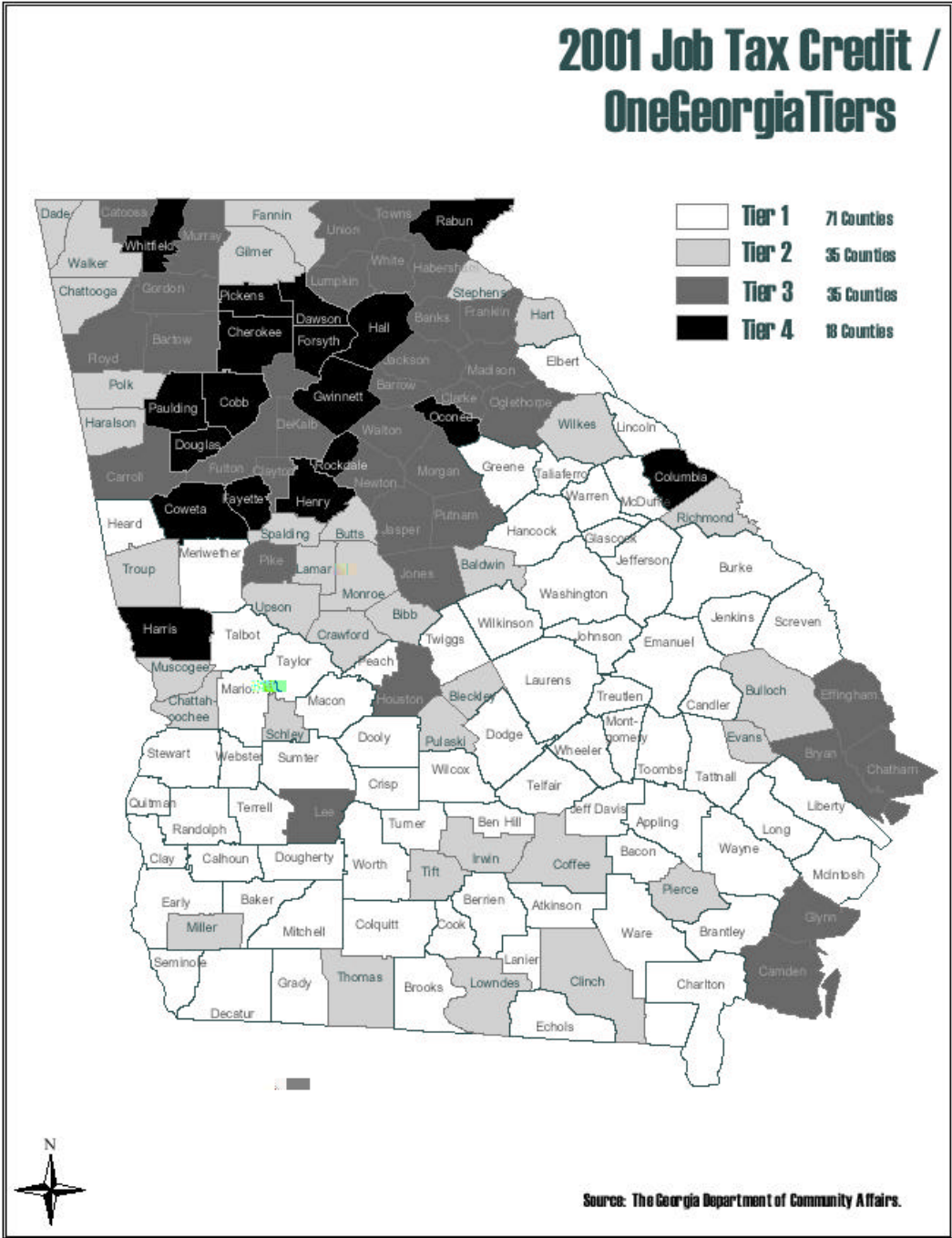


## V. Understanding the Needs of Georgia Counties

In exploring the issue of incentive use in Georgia, we expected to find some differences across the state in terms of actual incentives used, as well as economic development challenges and issues. The Rural Development Council together with the Georgia Institute for Technology published an “Economic Vitality Index,” as part of

# The Application of Local Economic Development Incentives in Georgia

FIGURE 1. TIER DESIGNATION SYSTEM



## **VI. Scope and Purpose of the Study**

The purpose of this study was to assess the extent to which economic development incentives are being offered at the local level in Georgia and to understand factors surrounding their use in these communities. Specifically, the study addressed the following questions:

?? What types of incentives are being offered?

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## **VII. Methodology**

This study used a combination of qualitative and quantitative approaches and statistically valid survey techniques. These are described in detail in this section.

### **A. Expert Interviews**

First, a series of interviews were conducted with several key individuals

## **The Application of Local Economic Development Incentives in Georgia**

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offering economic development incentives than the Tier 1, 2, and 3 communities. Communities where site visits were conducted were promised confidentiality, therefore the qualitative data obtained in those visits are integrated with the survey findings (described below). The qualitative information is important for providing detailed examples and rich inf

around the state. Respondents were promised confidentiality in the reporting of data they provided as well as their remarks. Therefore, no community is identified directly in the findings of this report.

### **C. Mail Survey**

Finally, a mail survey was designed to address the study questions outlined above.

## **The Application of Local Economic Development Incentives in Georgia**

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Overall, the survey yielded a total of 148 variables. Most questions were close-ended, although a small number of open-ended questions were included.<sup>2</sup> The mail survey was designed to address the core study questions noted earlier. Specifically, the survey included

## **The Application of Local Economic Development Incentives in Georgia**

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as well as email reminders for those individuals for whom we had email addresses. Respondents were urged to complete only one version of the survey (mail or on-line) and cross checking of the surveys was done to assure that this was the case. Overall, 33 percent of respondents completed the survey on-line.



# The Application of Local Economic Development Incentives in Georgia

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**TABLE 2. SURVEY RECIPIENTS AND RESPONDENTS BY COUNTY TIER DESIGNATIONS**

<b>County Tier Desi</b>	<b>Survey Recipients</b>	<b>Survey Respondents</b>
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## **VIII. Organization of Study Findings**

The remainder of this report is organized as follows. First, an overview of the survey respondents and the site visit communities is presented. Comparisons are made in a number of categories throughout the report and any distinctions between these groups are provided in

## **The Application of Local Economic Development Incentives in Georgia**

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Using information primarily from the site visits, we also highlight aspects of successful economic development deals in which incentives appeared to have made a difference.

Finally, we offer conclusions about the state of economic development incentive use in Georgia, and recommendations on what local communities and state economic developers can do to strengthen the economic development activities around the state.

**IX. Economic Development in Georgia: Findings**

**A. Communities Participating in the Study**

As noted above, 148 surveys were received, representing a response rate of 31 percent. Respondents hailed from 105 counties across the state, with a distribution across county tier

## The Application of Local Economic Development Incentives in Georgia

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In order to understand how communities perceive business prospects and the steps that they take to reach those prospects, we asked respondents about their perceptions of business location decisions and their marketing approaches. When asked to identify the *single most important factor*

## The Application of Local Economic Development Incentives in Georgia

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proximity to suppliers or customers ranked much lower in importance, which may in part be explained by the exportability of products and the role of technology in reaching customers. Contrary to findings from some economic development studies of business location decisions (e.g. Rondinelli 2001), quality of life is not perceived as important. As one respondent noted, “Quality of life is at best a tie breaker.” Overall, it is clear from the findings that while incentives are not unimportant, they are less important than the resources offered by the community, in particular labor resources. However, as one respondent noted, labor was the primary factor, but “incentives tip the balance between communities if trainable labor and transportation access are available.” Comparing respondents across groups, however, did reveal some important findings. Respondents from Tier 1 or 2 counties, rural, border and non-ESPCAF counties tended to place more emphasis

### C. Marketing Communities

How do communities make prospective businesses aware of their offering? In terms of marketing themselves, changing technologies have enabled rural communities to reach audiences that they would not have been able to afford in the past. Most (76 percent) of respondents indicated that they marketed their community through a community web site. The

**TABLE 4. PERCENT OF RESPONDENTS IDENTIFYING FACTORS AS “SIGNIFICANT” OR  
“S**



## The Application of Local Economic Development Incentives in Georgia

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the more distressed Tier 1 and 2 counties. Respondents also identified political power struggles and the lack of support (financially, planning, and educationally) from government elected and appointed officials. For example, one respondent noted “enormous strides have been accomplished through donations from a private foundation. However, we have an

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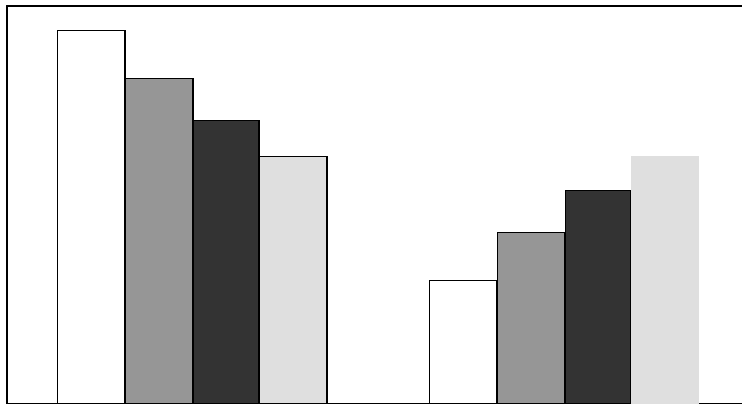
## The Application of Local Economic Development Incentives in Georgia

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development. In particular, South Carolina and Alabama were mentioned in regard to the incentives offered in those states. One individual noted, “other states’ incentive policies...are more aggressive with incentives. Sometimes, they [give out more incentives] than the project is worth.”

# The Application of Local Economic Development Incentives in Georgia

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## The Application of Local Economic Development Incentives in Georgia

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Specifically, what types of incentives are being offered by local entities in Georgia? As shown in Table 5, industrial development bonds, tax incentives and Quick Start are the most reported incentives offered. On the other hand, few communities reported waiving regulations or providing utilities at little or no cost.

### **TABLE 5.**

## The Application of Local Economic Development Incentives in Georgia

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we will probably not change the way we do business.” Another respondent who offered incentives was also cautious, “Incentives are important but should be “closing” aids and should not “drive” project. Incentives granted must be commensurate and balanced and equally available to new industry and existing industry expansions.” Finally, closer to the other end of the spectrum is the belief that, “Many people do 4 pr Tju the m [ncentives ]but s Tj T\* -0.2164

## The Application of Local Economic Development Incentives in Georgia

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company has to pay increases incrementally after the third year, the lease is up and the company can opt to buy the building or chose to negotiate another lease.

One Tier 1 interviewee committed that sometimes incentives are not the key factor in a company deciding to come into a community. This person believes that “quality of life” factors, or even the particulard 20ferences of key personnel in the company deciding on a new location may determine the site. When incentive packages are comparable, factors other than incentives become key considerations. This same community had a new internet company that requested a \$35 million up front cash incentive to locate in the community. The company said it had a potential for creating 350 jobs. The community passed on this opportunity for good reasons, both economic and legal.

Another example of a Tier 1 incentive program was the package provided to a new 180 employee incoming call center. The most important characteristic of the incentive strategy was tax exemptions. Property tax cost reductions were made and job tax credits (BEST legislation) were offered. The company required (and received) fiber optic cable wiring. The company has become a good community citizen.

As another example, one Tier 2 community put together an incentive package that had both state and local components. This example

## **The Application of Local Economic Development Incentives in Georgia**

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To better understand the needs of Georgia communities in regard to incentives, we asked “What incentive are you currently not able to offer, but wish that you could?” While not all survey respondents replied to this question, their responses are useful in identifying incentives perceived as useful and important in closing economic deal in communities in Georgia. In order of most frequent to le

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- ?? tax free bonds,
- ?? sales tax abatements and
- ?? general tax incentives.

As one respondent described their community's interest in tax incentives: "Until recently, tax incentives had not been utilized. They still are infrequently used but will be more inr4.5i rlluT higher profile targeted situations." Related to this issue of tax incentives were respondent comments regarding cash and other financial incentives, which several respondents wi red to be able to offer. These comments tended to come from Tier 1 respondents. They did express some concern about the constitutionality of this approach, as one explained: "Our attorney currently belie ves this [cash incentives per job created] would violate the Georgia Constitution and is probably correct, but some communities against which we compete do offer them."

In a related area, many respondents identified financial incentives. Again, the desire luT these came in differe rlluTms and mostly from rural areas and mostly from Tier 1 communities. Most referred to a local revolving loan fund, however, others mentioned low interest loans through the development authority, special purpose revenues, locally backed bond financing, and low interest improvement loans. Some just used the words financial incentives.

Another area that respondents wi red to be able to offer as an incentive dealt with infrastructure. This issue was inr4.5i rlto both rural a nd urban with no significirdiffere ce between the two. However, it seems more inr4.5i rlto economically developed areas (Tiers 3 and 4) than less economically developed areas. While some just used the words "infrastructure incentives," others mentioned specifically sewer/water, curb and gutter infrastructure. Also mentioned several times were technology oT high technology infrastructure.

Finally, quite a few mentioned wi ring to be able to offer more or more effective incentives. All of these responses referred to competition with other states. One person mentioned instituting a payroll tax credit similar to that offered by South Carolina and another referred to as a "credit luT state income tax applied to salaries like South Carolina." One person sinrly said, "additional state incentives to compete with other southern states."



## **The Application of Local Economic Development Incentives in Georgia**

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Another person went much further. “If the State of Georgia is going to compete with our neighbors...we must get off this fake “corporate income tax credit” and offer real dollar incentives such as the programs offered by South Carolina and Alabama.” All of these respondents were rural and all except for one were either on or close to the state borders.

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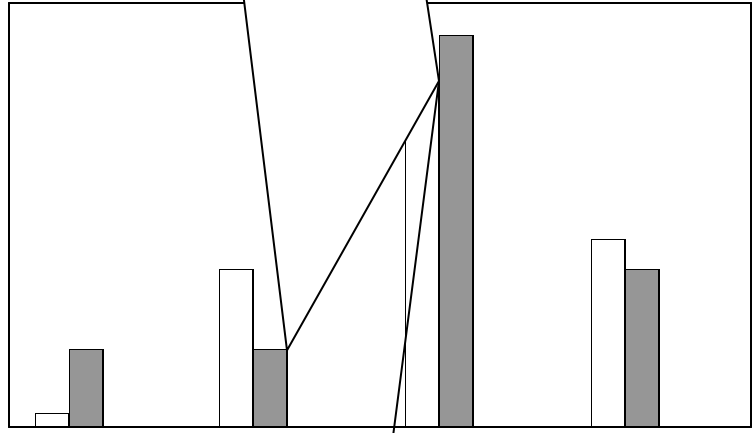
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locations (in-state, other states or foreign locations), whereas respondents from Tiers 1, 2 and 3 were relatively consistent in their responses regarding competition.

From the economic development practitioner's view, and evidenced by these survey results, the issue of competition with other communities, regardless of location, is a reality.

# The Application of Local Economic Development Incentives in Georgia

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## The Application of Local Economic Development Incentives in Georgia

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looking at them broadly. When asked to indicate how useful *particular incentives* were in finalizing economic development deals, there was *very little* variation in what communities have found to be useful in practice. On the scale where 1 equaled “Not useful at all,” 2

### **G. Successful Economic Development Deals**

When asked “what have been the most important factors that have resulted in closing economic development deals in your community?” respondents stated that unified community cooperation and a pro-business attitude were the most important. This issue was raised

## **The Application of Local Economic Development Incentives in Georgia**

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varies from project to project. The main factors have been – location, incentives, available buildings and infrastructure.”

A number of interesting examples emerged from the site visits as well. We asked “What was your best success story regarding attracting new industry or expansion of existing

## **The Application of Local Economic Development Incentives in Georgia**

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Another case is of a Tier 1 county that attracted a new business to its industrial park. The company is projected to employ 150 people and have an annual payroll of approximately \$3 million. The community, both town and county, had to commit resources to help attract the business with the main component of costs being “operating costs”. The costs to benefit ratio

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REBA grant of \$500,000. Since no LOCI analysis was done the present value of the benefits stream has not been estimated, although the community is very happy with the outcome thus far.

When asked about the most important characteristics in their development strategy, one interviewee responded with two features “using a public <sup>Wh283 Tw (Th9757369 -0goithnves stwouldtiktantre</sup> 39



## The Application of Local Economic Development Incentives in Georgia

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Figure 4. However, local communities are split in terms of whether they are comfortable in sharing information about actual incentives offering with the state. When asked to indicate the extent to which they agreed with the statement “local communities should report their use of economic development incentives to the state,” respondents were split almost equally in terms of whether they agreed or disagreed with this sentiment. Overall, respondents from counties



## The Application of Local Economic Development Incentives in Georgia

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- ?? firm relocations (28 percent);
- ?? return on investment to local community (28 percent) and
- ?? tax revenues from assisted businesses (26 percent).

2 negotiator may desire as a positive result. These would appear to be the most important outcomes organizations involved in

## **Conclusions and Recommendations**

Incentives have become a controversial topic since studies of site location decisions indicate that incentives are not a priority criteria of relocating businesses (Rondinelli 2000; Friar 1999; CED 1999; McKay 1994; Wolman 1988; Blair and Premus 1987). If the intent of economic d

## The Application of Local Economic Development Incentives in Georgia

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incentives, such as public-private partnerships and efforts to reduce red tape in the development process are in evidence, although are not identified as such as readily as incentives by respondents.

There were certain commonalities in regard to the use and perception of incentives among respondents. For example, communities overlapped on the issue of red tape. The following table shows the results of the survey.

## The Application of Local Economic Development Incentives in Georgia

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One interviewee summarized the responses of many of the economic development professionals when he stated:

I believe that incentives must be tailored to each individual situation. When the development authority structures deals, they do it keeping both the company and the community in mind. The incentives must be meaningful. Don't think that incentives must

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publication and distribution of information on legal guidelines regarding  
incentive offerings. From the responses, it seems that many practitioners are not aware  
of where to look for legal guidelines, although this information is already published and  
accessible.

## The Application of Local Economic Development Incentives in Georgia

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**Allocate Funds** . There should be legislative support for the allocation of funds for economic development in local communities. Since not all communities can or do finance economic development authorities, some areas of the state do not have professionals working to attract businesses to their areas. Other communities have limited or uncertain funding for economic development.



## The Application of Local Economic Development Incentives in Georgia

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assistance would help level the competitive field across rich and poor areas and hopefully spread development more evenly across the State of Georgia.

**Conduct Regional Comparisons Regarding Incentives.** A compare and contrast study should be done to see how well Georgia incentives, both state and local, compare to those of surrounding states.

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, 10: -

**Appendix A. Site Visit Contact List**

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Susan Hart

John Ellis

Jim Finch

Paul Radford

Bobby Stevens

Brian Williamson

Georgia Association of Economic Developers (GEDA)

**Appendix B. Semi-Structured Site Visit Survey Instrument.**

**Local Economic Development Incentives Study**  
**Semi- Structured Interview Instrument:**  
*Final Version*

## The Application of Local Economic Development Incentives in Georgia

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What were the most important characteristics of the incentive strategy?

How was the particular strategy designed? How did you choose the incentives you offer(ed)?

Who were the principle players?

In retrospect do you really think the incentives were necessary to get the deal?

Do you think you gave away too much?



**Appendix C. Mail Survey Instrument**



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