ATLANTA JOURNAL-CONSTITUTION

Date: Friday, August 05, 2011
Location: ATLANTA, GA
Circulation (DMA): 181,504 (9)
Type (Frequency): Newspaper (D)
Page: A1,A10
Keyword: Georgia Budget & Policy Institute

Jobs carry high price tag

With double-digit unemployment and an economy in the doldrums, the Atlanta region must invest all the energy and resources it can in creating jobs – for the businesses already here and for new ones the state can attract. Georgia offers extensive incentives and tax breaks for business growth. But do they work?

By **Dan Chapman**
dchapman@ajc.com

Georgia companies have received more than a half-billion dollars in tax breaks and other financial incentives during the past decade in return for promises to create tens of thousands of jobs.

But an Atlanta Journal-Constitution analysis shows that the recipients of these tax breaks didn't create as many jobs as initially planned; some of the companies receiving other state incentives are no longer in business or have significantly scaled back their plans; and it's difficult to tell whether these programs actually work.

These findings come during a prolonged economic slump in which leaders are desperately trying to attract business and create jobs. Historically, Georgia had been among the most aggressive states in offering incentives to businesses to locate here, and to entice those al-

Incentives continued on A10

ready here to stay and grow.

But metro Atlanta's competitors – Dallas, Austin and Charlotte in particular – have begun beating Georgia at its own game. For example, Georgia can ante up $11.4 million in "deal-closing funds," a pile of cash the state can hand out to seal a company's relocation. Texas' deal-closing fund has paid out $435 million since 2003.

Many argue that these incentives and tax breaks are bad public policy, that public dollars shouldn't pad the bottom lines of private companies. Business recruiters counter, though, that they have no choice but to offer lucrative packages to compete with other states.

Gov. Nathan Deal later this year will unveil his Georgia Competitiveness Initiative, which will likely include more, and better-targeted, incentives and tax breaks.

The report's timing is apt. Legislators will take up the recommendations in 2012 – a year already critical to metro Atlanta's fortunes, as era-defining decisions on roads, water, schools and jobs all come to the fore.

Deal well understands how inextricably linked bad schools and roads are to economic development and job creation.

"The governor has said it over and over again: 'Nothing is off the table for these business leaders,'" said Chris Cummiskey, commissioner of the Georgia Department of Economic Development. "When we have a major project coming through the door, the most important thing we can do as a state is to put the most aggressive offer on the table that's also fiscally responsible."

'A necessary evil'

In Georgia, however, it is hard to tell whether incentives really seal the deal.

Between the 2003 and 2009 fiscal years, the state doled out $296 million in job-creating tax breaks to companies. Taxpayers chipped in an additional $173 million in grants and loans to entice businesses to come to or remain in Georgia, according to state files made public under open-records requests filed by the AJC.

The companies did create thousands of jobs. But taxpayers can't gauge how effectively all the money has been spent, or whether the expenditures were even necessary.

Were the companies planning to add workers anyway? Did the incentives keep Company XYZ from leaving Georgia for, say, Alabama?

Georgia, like most states, can't answer those questions definitively. But North Carolina can. Last year, University of North Carolina researchers determined that 57 percent of companies receiving tax breaks added jobs. Forty-one percent of the companies actually cut jobs.

The story's the same in Texas, whose governor touts the nearly half-billion dollar deal-closing fund. Texans for Public Justice, a nonpartisan government watchdog, reported last year that two-thirds of the companies receiving the enterprise funds failed to deliver the jobs originally promised.

"Obviously, we don't know


The Atlanta Journal-Constitution
Markets crumble

whether these programs are effective or not," said Sarah Beth Gehl, deputy director of the nonpartisan Georgia Budget and Policy Institute. "There are valid purposes for certain incentives. But with any program we need to have transparency and accountability to make sure we're getting our money's worth."

As competition for business gets more cutthroat, though, Georgia isn't likely to curtail the tens of millions of dollars it spends each year in pursuit of economic development.

"In a perfect world I would love it if we didn't have to offer incentives," Cummiskey said. "But they're a necessary evil. We cannot not have them."

CEOs have advantage

Decades ago Georgia, like other Southern states, didn't really need to work hard to attract business. Nonunion labor and a low cost of living proved sufficient to attract northern and foreign manufacturers. Still, Georgia and its neighbors sweetened the recruitment pie in the 1960s with the establishment of various cash grants, tax abatements and worker training programs.

"Now all the northern and Rust Belt states, in order to retain industry, have mirrored the same incentives folks in the southlands engineered," said John Boyd, a site selection consultant in New Jersey. "Your competition has a full arsenal of incentives, so it behooves you do that, too."

Jonathan Sangster, a site relocation expert with CBRE Consulting in Atlanta, said the recession prompted many states to ramp up their recruitment game.

"At least 15 to 20 states tweaked or improved their incentives programs during their past legislative sessions," he said. "We continue to lag programs that are available in other states."

Never before have states been as aggressive about poaching out-of-state businesses. CEOs know they're in the catbird seat.

Bulldozer maker Caterpillar, upset with an uptick in the state's personal income tax, threatened last March to move its headquarters and thousands of employees from Illinois. Forty states, including Georgia and Texas, have contacted Caterpillar.

Boyd said Texas is the "gold standard" for business recruitment. Texas has no corporate (or personal) income tax; Georgia's rate is 6 percent. Texas' deal-closing fund is unmatched; Georgia's deal-closing fund is $11.4 million, up $5 million from last year.

Kia: $195,000 per job

2006 was a good year for business recruitment in Georgia, as well as for the companies that moved to or expanded in the state. It was the year before the recession officially began, and companies large and small were taking advantage of the state's incentives.

AirTran announced 2,500 new jobs, most in metro Atlanta. Gulfstream said it would expand plane-building operations in Savannah and hire another 1,100 employees. Hewlett-Packard promised two new data centers, in Alpharetta and Suwanee, and 280 jobs.

No recruit was as impressive – or expensive – as Kia and its choice of West Point for a $1.2 billion car factory employing, ultimately, 3,000 people.

Georgia gave the Koreans $258 million in land, buildings and tax breaks – $66 million alone in tax credits for the jobs created, according to the Department of Economic Development.

Each job, once local and federal incentives were factored in, cost $195,417 – and one-fourth of them went to Alabama residents.

Some firms go under

Georgia companies, for all of 2006, filed $62.2 million worth of jobs tax credits – the most ever. Taxpayers doled out millions more in cash grants.

The state's Department of Community Affairs, a grant-making agency, put up $6.8 million that year for 16 companies that promised 1,866 jobs. The companies created 1,839 jobs within a few years, the agency said.

But four of them, including an RV maker in Fitzgerald and a metal casting company in LaGrange, have since shut down or greatly curtailed operations, putting 211 people out of work, according to a Department of Community Affairs memo.

In addition, two other companies that announced in 2006 and received incentives – a door maker in Bainbridge and a battery company in Sandersville that, combined, promised 450 jobs – have also closed their doors.

'Clawback' provisions

"We went through the longest recession this country has ever seen and, no matter how well-intentioned, companies go out of business," said Economic Development's Cummiskey. "And if a company [promised] 400 jobs, but only 200 were realized, we would go and claw back that money."

Incentives deals include "clawback" provisions, which require a company to reimburse the state if initial projections of investments or jobs fall short. In 2005, the Department of Community Affairs ruled that as long as a company hit at least 70 percent of its investment and job estimates, it would not be asked to return any money.

But companies are rarely penalized. Of the four now-closed firms recommended by Community Affairs in 2006, for example, none paid back its grants or loans, said Brian Williamson, an assistant DCA commissioner.

"My guess is that there were no assets to recapture," he said, noting that one company closed because of an explosion.

Of the $174 million granted between 2003 and 2009, the state clawed back $5.2 million.

Do giveaways work?

Monitoring tax breaks is more science than art: Companies either do or do not create the jobs they promised. Annual corporate tax filings list credits taken against jobs created.

Although the state Revenue Department monitors whether companies hold up their end of the deal, the department won't release that information to the public.

A statement provided to the AJC said DOR "does not disclose audit criteria nor any specific numbers concerning businesses audited annually."

Last year, the General Assembly beefed up the public's ability to monitor tax breaks by requiring an annual report listing all credits, estimated costs and budgetary impact.

But the Legislature didn't include measures to evaluate the effectiveness of the incentives. Brent Lane says the costs far outweigh the benefits. Lane is director of UNC's Center for Competitive Economies, which did the study of North Carolina corporate tax returns between 1996 and 2006. He found that about four out of 10 companies receiving the tax credit actually reported fewer workers.

"The most damning thing we found was that the executives we talked to who got tax credits were generally unaware that they had them," Lane said. "They took them when they were offered, but they didn't influence their location decisions."

Attracting business

Several of the measures the AJC used to compare business climate among 10 metros are controversial. Two examples: Some believe state incentives for business are improper. But incentives do play a role in attracting companies. Many also believe that unions are a positive force, but a low percentage of union workers is often key in relocations.

» Denver's on a transit roll. **A11**
» Ohio incentives lure Wendy's. **A15**

99
Atlanta

Georgia is an aggressive business recruiter, offering a rich deal-closing fund (although it's dwarfed by Texas') and a low cost of doing business.

» See how Atlanta compares with all 10 metros we studied. **A11**

» On ajc.com: Interactive feature lets you see where your company would end up if you were relocating. **ajc.com/go/atlanta-forward**

How incentives game works

Georgia offers two kinds of incentives, statutory and discretionary, and companies may use both.

Statutory incentives

These are tax breaks applied to a company's income tax liability. The company self-reports at tax time how many jobs it has created and how many tax credits it's applying for.

- **To be eligible** for the jobs tax credits, companies must create at least five full-time jobs. The value of the credit depends on a business' location. A widget maker who hires 50 people in Stewart County, for example, could be eligible for $1 million in tax credits over five years.
- **$1.1 billion** in tax breaks went to more than 3,300 companies between 2003 and 2008, according to the Georgia Department of Revenue. The largest chunk, $296 million, went for tax breaks to create jobs.

Discretionary incentives

Grants and some loans go to counties and towns competing against out-of-state communities for a particular project. These sums buy property and build factories, add rail spurs or improve water systems.

- **$173.4 million** in taxpayer grants went to 178 companies across the state between the 2003 and 2009 fiscal years.

Incentives favor rural areas

Georgia's inducements to companies to create jobs are mostly aimed at boosting rural Georgia's economic development, not metro Atlanta's. And they're of less help for the industries — high-tech, bioscience — on which Atlanta hopes to build its next economy.

Companies get larger tax credits — up to $5,000 per job — if they build a factory in Screven County than in Fulton County.

Georgia offers a corporate headquarters tax credit and has recently increased grants for companies considering "opportunity zones" in urban locations, both beneficial to metro Atlanta. Legislators also doubled, to $11 million annually, the amount of grant money available for more urban projects.

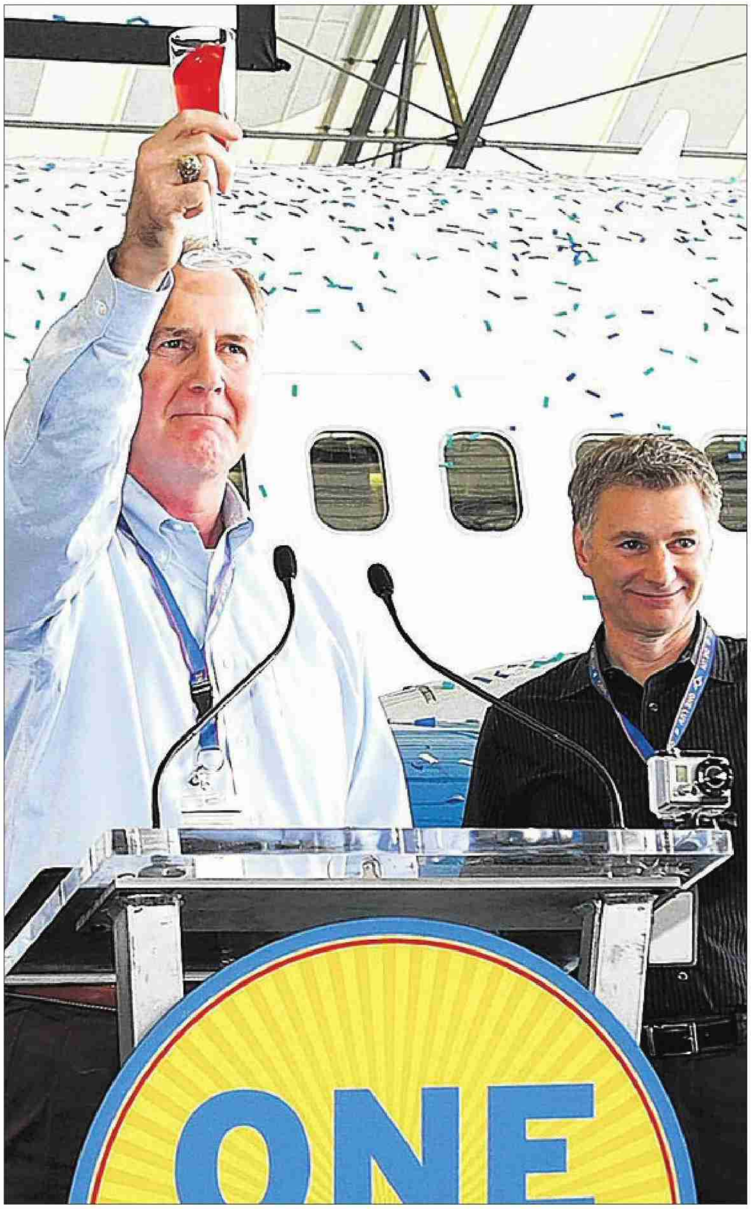
As the region builds its next economy, though, the state's incentives are limited. Job-creation tax breaks and infrastructure grants do little for high-tech startups with only a few employees and fewer profits.

"There's a role for incentives but we have to be careful and not just throw money around," said Tino Mantella, president of the Technology Association of Georgia. "We feel that most of the growth comes from organic growth and supporting companies here is just as important as bringing in a big company from somewhere else."

ATLANTA JOURNAL-CONSTITUTION

Date: Friday, August 05, 2011
Location: ATLANTA, GA
Circulation (DMA): 181,504 (9)
Type (Frequency): Newspaper (D)
Page: A1,A10
Keyword: Georgia Budget & Policy Institute

2011 Kia Sorentos travel along an assembly line at Kia's manufacturing facility in West Point. When local and federal incentives are figured in, each job at the plant carries a $195,417 price tag. At full employment, the Georgia facility has 3,000 workers. Kia Motors



AirTran Airways CEO Bob Fornaro toasts the acquisition of his airline by Southwest Airlines in May. Five years earlier, AirTran announced about 2,500 new jobs for the area. **Phil Skinner** pskinner@ajc.com