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Policy Report

Overview of Georgia's Fiscal 2014 Economic Development

State Raises Commitment to Economic Development, Shifts Money Around

By Wesley Tharpe, Policy Analyst

The governor's proposals for the remainder of the current budget year and for fiscal 2014 maintain the status quo for economic development spending in many areas, while slightly shifting the state's priorities in others.

Most notably, proposed spending for the next 18 months includes an increased commitment to attracting businesses to Georgia through "deal-closing," or subsidy programs – once the redirection of some previously-promised one-time money is taken into account. This increase comes despite Georgia's lack of review process that could confirm these efforts actually help create jobs or grow the state's economy.

Plans also call for a slightly larger investment in Georgia's technological research area, though there is a cut in economically-related cancer research. Beyond those shifts, the governor is requesting that most of Georgia's economic development programs stay mostly the same, including tourism, film and business recruitment.

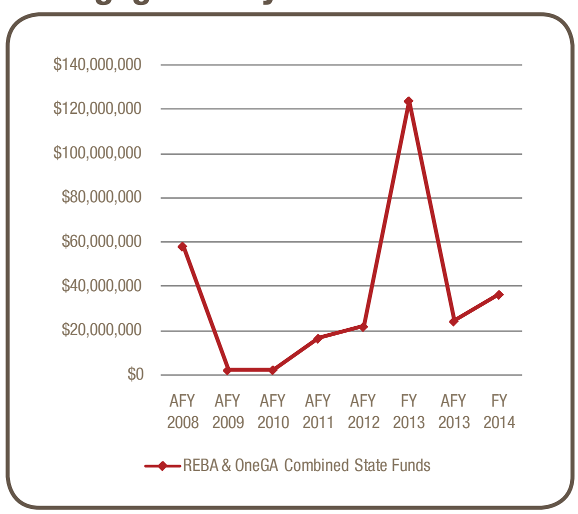
Amended 2013 Fiscal Year Budget

The governor's recommendations for the remainder of the 2013 fiscal year include the following changes in economic development spending:

Department of Community Affairs (DCA)

- The governor's 2013 amended budget calls for $99.4 million in one-time funds to be redirected from two business assistance programs – Regional Economic Business Assistance Grants (REBA) and the OneGeorgia Authority – to other areas of the budget, such as Medicaid. These special funds stem from Georgia's participation in last year's National Mortgage Settlement, which was an agreement between the nation's largest banks and 49 states to compensate for fraudulent mortgage practices. In the original 2013 budget, legislators allocated these one-time mortgage settlement funds to REBA and OneGeorgia to encourage economic growth in Georgia. But due to ongoing challenges such as the shortfall in Medicaid, the recently amended 2013 spending plan calls for the money to be redirected to fill holes elsewhere in the budget.

Figure 1 Governor's Shift of Special Mortgage Money Returns to Norm



Source: Governor's Budget Report FY 2014, HB 742 FY 2013 Enacted Budget, Budget in Briefs

- The specific changes proposed as part of the redirection of mortgage settlement money include:
  - $63.8 million removed from REBA, which serves as the state's main "deal-closing fund" for attracting large companies to Georgia.
  - $35.6 million removed from OneGeorgia, which also helps close deals but funds other rural development investments as well.

- Because the scheduled influx of settlement money swelled these programs well above recent historical norms, it is best to view the reduction as a promise of one-time funding being pulled away, rather than a full-fledged cut to REBA or OneGeorgia's basic functions (Figure 1). However, because some of the promised funds are already spent, the shift will eat into the programs' reserves. If the governor's budget is accepted, REBA's reserves will drop to $3.7million from $73.9 million in August, while OneGeorgia's will drop to $8.6 million from $31.2 million that month.[1]

Department of Economic Development

- The budget proposal for the remainder of 2013 calls for $1.1 million in program and administrative cuts to the Georgia Research Alliance and the state's cancer research programs, most notable funds for Georgia-based cancer researchers.
- The amended budget also includes about a quarter-million in cuts to marketing funds used to attract new companies, tourists and film projects to Georgia.

Georgia's 2014 Economic Development Budget Set for Modest Increase

Although the elimination of special mortgage funds described above is also reflected in the governor's 2014 budget, the drop does not represent a new cut on top of the revised plan for 2013. The money is from a unique source and would show up as a year-to-year reduction anyway. Once that maneuver in the amended plan for 2013 is taken into account, the governor is proposing about $13 million in new economic development spending for next year above what would likely have been allocated this year before the temporary influx of settlement money (Table 1). In a sense, the governor proposes to take $99 million in special settlement money away from economic development with one hand, and then give back $13 million in general funding with the other.

Table 1 **Governor Proposing to Eliminate One-Time Funds and Later Increases General Funding**

State Funds	FY 2013 Original Budget	FY 2013 Original Budget *(w/o one-time $)*	FY 2014 Governor's Budget	FY 2013 - FY 2014 Change ($)	FY 2013 - FY 2014 Change (%) *(w/o one-time $)*
Department of Community Affairs	$90,775,596	$27,010,906	$32,653,685	($58,121,911)	$5,642,779
OneGeorgia Authority	$44,806,042	$9,215,902	$15,000,000	($29,806,042)	$5,784,098
Department of Economic Development	$27,799,944	$27,799,944	$27,385,093	($414,851)	($414,851)
Georgia Research Alliance and Georgia Cancer Coalition	$20,684,895	$20,684,895	$23,023,671	$2,338,776	$2,338,776
Total Economic Development	$184,066,477	$84,711,647	$98,062,449	($86,004,028)	$13,350,802

Sources: Governor's Budget Report FY 2014, HB 742 FY 2013 Enacted Budget, Georgia Research Alliance
Notes: (1) Department of Community Affair's funding excludes the Georgia Environmental Finance Authority (GEFA) and Georgia Regional Transportation Authority (GRTA), which are non-economic-development attached agencies; (2) Department of Economic Development excludes all attached agencies, as well as the Georgia Research Alliance and Georgia Cancer Coalition; and (3) Georgia Research Alliance and Georgia Cancer Coalition includes $1.5 million that the governor is proposing to transfer to the Department of Public Health in FY 2014.

Department of Community Affairs

Deal-Closing Funds Likely to Keep Growing, Other Programs Likely to Keep Shrinking

Once the $99 million in settlement money is excluded from the original 2013 budget, the governor proposes an increase of $11.4 million in state funds for DCA and the OneGeorgia Authority in the 2014 budget year. This increase does not include two attached agencies unrelated to economic development – the Georgia Environmental Finance Authority (GEFA) and Georgia Regional Transportation Authority (GRTA) – whose combined funding would rise $7.8 million under the governor's proposal.

This heightened funding is due to a post-mortgage-settlement-money increase to Georgia's two "deal-closing" programs: REBA and OneGeorgia. The 2014 budget proposes more than $6.3 million in new general funds for the REBA program, as well as another $5.8 million for the OneGeorgia Authority. Setting aside DCA's other two attached agencies, the governor is also proposing $600,000 in cuts from 2013 spread across the other functions of DCA, including items such as housing assistance and community development programs.

Table 2 Excluding Mortgage Settlement, REBA and OneGeorgia Funding Spikes from 2013

	FY 2009 Original Budget	FY 2013 Original Budget *(w/o one-time $)*	FY 2014 Governor's Budget	FY 2013 - FY 2014 Change ($)	FY 2013- FY 2014 Change (%)	FY 2009 - FY 2014 Change ($)	FY 2009 - FY 2014 Change (%)
DCA Economic Functions							
State Economic Development Program (REBA)	$8,939,055	$14,832,141	$21,083,407	$6,251,266	42.1%	$12,144,352	135.9%
OneGeorgia Authority	$47,123,333	$9,215,902	$15,000,000	$5,784,098	62.8%	($32,123,333)	-68.2%
Other	$21,905,175	$12,178,765	$11,570,278	$(608,487)	-5.0%	($10,334,897)	-47.2%
Other Attached Agencies	$16,582,314	$3,339,973	$11,165,822	$7,825,849	234.3%	($5,416,492)	-32.7%
Total State Funds	$94,549,877	$39,566,781	$58,819,507	$19,252,726	48.7%	($35,730,370)	-37.8%

Notes: (1) The original FY 2013 has been altered to reflect the scheduled elimination of $99.4m in one-time mortgage settlement funds; (2) 'Other' includes: Building Construction, Coordinated Planning, Administration, Federal Community & Economic Development Programs, Homeownership, Rental Housing, Regional Services, Research & Surveys, Special Housing Initiatives, and State Community Development Programs; (3) 'Other Attached Agencies' includes the Georgia Environmental Finance Agency (GEFA) Georgia Regional Transportation Authority (GRTA); and (4) Local Assistance Grants are excluded from the FY 2009 budget since that is the last year they were funded.

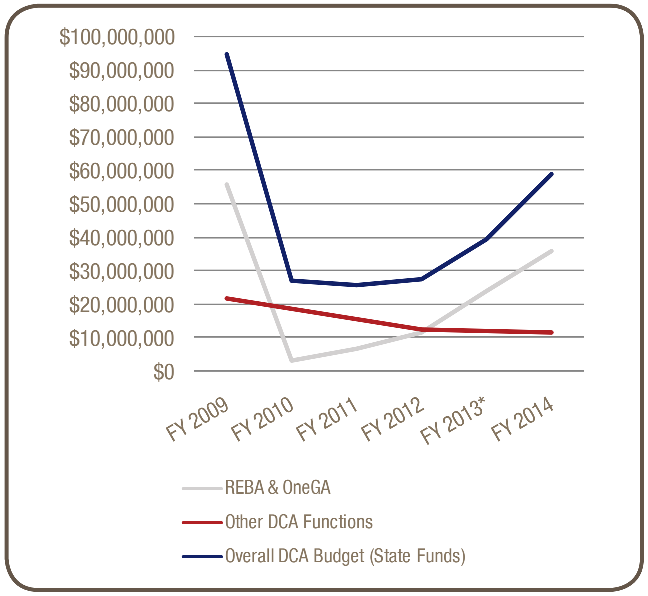
REBA and OneGeorgia Drive DCA's Post-Recession Rebound

The programs affected by the shift of mortgage settlement funds, REBA and OneGeorgia, are two of the larger initiatives in DCA's overall state budget. In the 2009 fiscal year, for example, the programs accounted for roughly 60 percent of the department's total state funds. When the Great Recession caused state revenues to plummet in 2010, lawmakers drastically reduced funding for REBA and OneGeorgia, while also cutting back on DCA's other core functions.

The department's budget gradually rebounded in the last couple years and increased funding for REBA and OneGeorgia is driving that trend. At the same time, DCA's other core functions, such as housing programs and planning assistance to local governments, continue to see state funding decline (Figure 2). For example, between the 2009 fiscal year and the original 2013 budget, funding to help revitalize local downtowns was cut by $1.5 million. Meanwhile technical assistance to local and regional officials was cut by $2.2 million. Some of these programs – such as low-income rental assistance – receive considerable federal funding, while others – such as regional planning – do not.

The governor's proposal for the 2014 fiscal year continues this trajectory. Setting aside the one-time reduction mortgage settlement money, the new budget would increase REBA and OneGeorgia's funding by $12 million. At the same time, it would make several small cuts spread across DCA's other core functions. Taken together with prior cuts during the recession, these smaller programs have had budgets cut nearly in half since 2009 – the last budget before the economic downturn.

Figure 2 REBA and OneGeorgia Rebound From Recession While Other DCA Functions Slide



Sources: Governor's FY 2014 Budget Report, HB 742 Enacted FY 2013 Budget, Governor's Budget in Briefs FYs 2009-FY 2012

Deal-Closing Funds Likely to Keep Growing, Other Programs Likely to Keep Shrinking

The governor and top economic development officials have clearly identified REBA and OneGeorgia as leading strategies to encourage growth and jobs in Georgia. State lawmakers gradually increased funding over recent years, and although the governor is now proposing to redirect the mortgage settlement, the original allocation of it sends a powerful signal about those programs' future path.

Despite claims that these programs attract businesses and jobs, it is unclear whether REBA and OneGeorgia are actually effective. The experiences of other states suggest that business subsidies often reward companies for activities that would have happened anyway. In several states, including Georgia, companies shutdown or relocated without delivering on their original promises. Moreover, Georgia does not independently analyze the total effect of these efforts, meaning lawmakers lack the tools they need to know if taxpayers are getting a good return on their investment. Before expanding these deal-closing programs further, lawmakers should take a closer look at whether they truly work – as Texas recently did with its programs.

Beyond REBA and OneGeorgia, DCA's state funding will likely stay flat in the near future. With the state facing a structural deficit, economic growth still mediocre and new revenue options apparently off the table, most reduced spending on DCA programs is unlikely to return to pre-recession levels anytime soon. This means that vital services like assisting local governments, encouraging homeownership and helping communities redevelop will continue to be underfunded or reliant on federal funds.

Department of Economic Development

Department Stays Steady Short-term but is Way Down from Before Recession

The governor's 2014 budget proposes for the Department of Economic Development to largely maintain its status quo, especially once two subunits of the department, the Georgia Research Alliance and Georgia Cancer Coalition, are considered separately.[2] Looking solely at the department's historical core functions, the proposed budget includes a reduction of less than $500,000, for a 1.5 percent drop from the 2013 fiscal year.[3]

The most noteworthy changes in the department's budget take place within the research alliance and the cancer coalition, which were moved into the agency in the 2012 budget year as part of an effort to align Georgia's science and technology assets, such as university research, with economic development goals. Next year's budget includes three important changes:

- A $4.5 million increase for the research alliance over the 2013 fiscal year due to a larger bond package for purchasing new research equipment and infrastructure. This would increase the alliance's annual appropriation, including capital outlays, to nearly $18.4 million in the 2014 budget from $13.9 million in 2013.

- Cuts of $2.1 million to cancer-related research funded through tobacco settlement money, most of it due to a $2 million reduction for the Distinguished Cancer Clinicians and Scientists program – which funds Georgia-based researchers working to fight cancer.

- A transfer of $1.5 million in additional cancer funding, such as the state's Regional Cancer Coalitions charged with minimizing cancer-related deaths, out of economic development and into the Department of Public Health.

Funding for Several Core Programs Down Sharply from 2009

The department's budget has been decimated by the crash in state revenues brought on by the Great Recession. Looking at the agency's core functions – including tourism, business recruitment and film – the governor's proposed budget is $18.1 million, or nearly 40 percent, lower than the last budget enacted before the recession.[4] Funding for the research alliance and cancer coalition experienced even sharper percentage declines since before the recession (Table 3).

Table 3 Department of Economic Development Funding Way Down from Before Recession

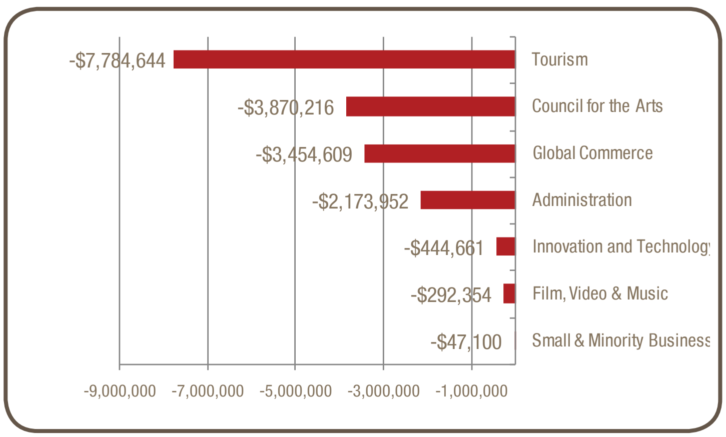
	FY 2009 Original Budget	FY 2013 Original Budget	FY 2014 Governor's Budget	FY 2013 - FY 2014 Change ($)	FY 2013 - FY 2014 Change (%)	FY 2009 - FY 2014 Change ($)	FY 2009 - FY 2014 Change (%)
DEcD Core Functions	$45,452,629	$27,799,944	$27,385,093	($414,851)	-1.5%	($18,067,536)	-39.8%
Georgia Research Alliance	$32,757,326	$13,847,451	$18,350,000	$4,502,549	32.5%	($14,407,326)	-44.0%
Georgia Cancer Coalition	$10,455,466	$6,837,444	$4,676,671	($2,163,773)	-31.6%	($5,781,795)	-55.3%

Notes: (1) Nearly $1.5 million is slated to be transferred from DEcD to DPH in FY2014, but those funds are still included here to maintain parity with prior years; (2) "Core functions" excludes all of DEcD's attached agencies, such as the Civil War Commission and Georgia Medical Center Authority, as well as GRA and GCC. The specific agency components included are: Administration; Film, Video and Music; Georgia Council for the Arts; Global Commerce; Innovation and Technology; Small and Minority Business Development; and Tourism

The largest cuts to the department since the recession were to the agency's tourism, arts and global commerce areas, which together account for 84 percent of its state funding cuts since the 2009 fiscal year. During that time, those three initiatives have also experienced the largest percentage decline in funding: Georgia Council for the Arts, 87 percent; Tourism, 46 percent; and Global Commerce, 25 percent.

It is unclear whether these decreases have measurable impact on the agency's core functions or effectiveness. For example, the department's performance measures show it initiated 46 more business projects in

Figure 3 Tourism, Arts, and Business Recruitment See Largest Cuts, 2009-2014



Sources: Governor's Budget Report FY 2014 and FY 2009 Budget in Brief.
Note: "Innovation and Technology" does not include GRA or GCC.

the 2012 fiscal year than in 2009, despite a nearly $4 million drop in the budget for recruiting and retaining businesses through Global Commerce. On the other hand, the number of grants awarded by the Georgia Council for the Arts dropped from 833 to 110 during those years, as the state cut funding for the programs to $600,000 from $4.4 million. The arts program provides a fairly clear example that budget cuts have an impact.

Though Department Funding is Down, Economic Development Spending Continues

State funding for the agency core programs, the Georgia Research Alliance and Georgia Cancer Coalition are still well below their pre-recession levels and slow revenue growth means that sizable changes are unlikely.

At the same time, it is important to remember that much of Georgia's economic development spending does not actually flow through the department actually named "economic development," but is rather carried out through other strategies, including the Department of Community Affairs and corporate tax credits for job creation. Some of these programs received noteworthy funding increases in recent years. And tax-side spending has risen as well, as explained in the Georgia Budget and Policy Institute's analysis of this year's Tax Expenditure report. Once the state's myriad of corporate tax credits are taken into account, Georgia is set to spend an additional $289 million on economic development in the 2014 fiscal year beyond what it is itemized in the governor's budget.

Endnotes

[1]Department of Community Affairs, by email. 8/15/2012 and 1/28/2013.

[2]The Georgia Research Alliance (GRA) and Georgia Cancer Coalition (GCC) are quasi-independent entities that receive contract funds through DEcD's budget. They were moved into the agency for the first time in FY 2012, which complicates the historical comparison. Also, given their somewhat unique status and role from DEcD's other core functions, it is clearer to view their funding history separately.

[3]Figures exclude the Georgia Research Alliance, Georgia Cancer Coalition, and all attached agencies. "Core functions" refers to: Departmental Administration; Film, Video and Music; Georgia Council for the Arts; Global Commerce; Innovation and Technology (minus GRA and GCC); Small and Minority Business Development; and Tourism.

[4]Funding for Georgia Council for the Arts has been manually added to DEcD's total for FY 2009, since it was under the Governor's office until FY 2013.

Contact: Wesley Tharpe, wtharpe@gbpi.org, 404.420.1324 ext.110