FISCAL RESEARCH CENTER

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SUBJECT: Economic Development Best Practices

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In 1999, the Fiscal Research Center undertook a major review of the BEST credits. As part of that analysis we did an extensive review of incentive programs in all of the Southeastern states. A copy of that report is attached.

Updating that review would take about two months of someone's time. BNA (Bureau of National Affairs, Inc.) maintains web-based products, including one that provides a detailed summary of the credit and incentive programs in all states. Thus, it would not be necessary to go through the legislation for each state to determine the features of their incentive programs. But without doing an update, we know pretty well what other states are doing. If nothing else, firms that are seeking credits or special considerations will likely tell the Department of Economic Development what incentives other states are providing.

But a review is not an analysis of best practices. The fact that a state has adopted a new incentive does not make it a best practice, although in some people's view best practice means any incentive program or special feature that Georgia does not have. To determine best practice it is necessary to know what a particular incentive would accomplish. So we need to know two things: what we want to accomplish and does a specific incentive or feature help in an important way to accomplish it.

If the objective is to get firms to locate in Georgia, then in simplest of terms what matters is the present value of the incentives offered to the firm. Job tax credits, investment tax credits, free land, etc, are simply the way that the state gets the money to the firm. (This takes as given other factors such as the quality of the work force, the highway system, etc. Its possible that if the incentive funds were instead spent on these infrastructure factors, there might be a larger effect on the number of firms that locate in Georgia.) The research on the effect of fiscal conditions such as tax levels on

state economic conditions generally find that inter-state tax differences have little to no effect.

But each of these incentives provides more value to certain types of firms. For example, a firm that will hire a large labor force but use an existing building will get more benefit from a job tax credit than an investment tax credit. On the other hand, a firm that will build a very expensive facility, but that will be largely automated, will see little benefit from the job tax credit. The large number of credit programs seems to suggest that everything is a priority. And, as we provide credits to more and more businesses, at some point it would be easier to just reduce taxes on businesses in general.

We recommend that the State decide on a few specific economic development objectives. Examples might be: to increase the number of jobs paying more than $15.00 per hour; increase the number of jobs in Tier 4 counties; increase the number of new, small businesses; increase the number of firms or employment in a certain industry. Once these objectives are clearly stated, then it is possible to design incentive programs that are consistent with these objectives.

While not a best practice in terms of incentive programs, some states are asking in a formal way, what they are getting for their incentive programs. This is the subject of a recent Fiscal Research Center report, which is attached to the companion memo on evaluation of incentives.