

**GEORGIA STATE UNIVERSITY  
ANDREW YOUNG SCHOOL OF POLICY STUDIES  
FISCAL RESEARCH PROGRAM  
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**SUBJECT:** Review of Georgia's Economic Development Programs

**Analysis Prepared by David L. Sjoquist**

In 1999, the Fiscal Research Center undertook a major review of the BEST credits. Copies of the reports that were prepared are attached.

Because data necessary for any analysis on most of the BEST credits did not exist, the review focused on job tax credit. At the time the job tax credit was the most significant credit in terms of the effect on state tax revenue. The evaluation took several months and involved six researchers.

There were several important findings. First, about half of the credits were taken by firms in Tier 3 counties (the best off counties). A review of more recent data suggests that the same pattern holds. In addition, the recent data also suggests that investment tax credits are taken for investments in the better off counties.

The second finding was that probably less than 28 percent of the jobs for which a credit was received were created as a result of the job tax credit. In other words, at least 72 out of every 100 jobs that received a credit would have been created in the absence of the job tax credit program.

Third, a fiscal analysis suggested that under reasonable assumptions, the increase in tax revenue from new jobs was slightly larger than the tax cost of the credit.

Research on the State's development program is hampered by a serious lack of data. Information on credits taken is collected by the Department of Revenue. However, the data is collected for audit purposes. To make the data suitable for evaluation research requires substantial work. For example, last year the Department prepared a table showing the total dollar amount of credits taken for each BEST program for each year. (A copy of that table is attached.) However, without a substantial amount of work, the Department is

unable to provide an updated version of the table. Even if the data were made available, there is not much that can be done with it. For example, the only data for the job tax credit is the number of jobs for which a credit is taken and county in which the jobs were created. There is no information on type of job, whether the job went to a current Georgia resident or someone who transferred to the state, what the job pays, etc.

A further data issue is that the agency that processes the application forms differ by credit program. In addition, it appears that the application information is in hard copy, so it would be necessary to go through the applications by hand to gather any information. For example, for the training credit program a firm goes to a tech school to get approval to use the proposed training program as the basis for the tax credit. It is our understanding that the application forms are held by each school, and thus it appears necessary to go to every tech school to go through applications. The application form contains information on the nature of the training program. To do an evaluation it would be important to have that information as well as the characteristics of the workers being trained (residential location, age, education level, job tenure, etc.), their wage before and after the training, and whether productivity improved. It is our understanding that such information is not available.

There are many economic development programs in the state besides BEST. We know nothing about what local governments and development authorities do. Getting information on these activities has proven difficult. The Fiscal Research Center prepared a report that focused on local economic development programs. A copy of that report is attached.

Because of the desire to determine what states get from their expenditures on economic development program, some states have institutionalized a formal evaluation process. The specifics of the evaluation programs differ across states. The Fiscal Research Center has just published a report that lists the various economic development programs in Georgia, describes the institutionalized evaluation program in three states (Maine, Minnesota, and North Carolina), and outlines how Georgia might go about developing a formal evaluation program. A copy of that report is attached.

We agree that an evaluation of the State's economic development programs is in order. But such a study would be a very large undertaking, particularly given the current lack of available data. It would be desirable to approach the evaluation in a more systematic way, with the view that evaluation should be done on a continuing basis, not just one time.

The first step in evaluating economic development programs should be to go through a process that determines what the evaluation process should consist of, including what questions should be addressed and what data/information should be required and collected. Other states have found this to be a political issue that requires participation by various agencies. For example, requiring firms to provide more

information reduces the value of the incentives, and that has to be weighted against the benefit of a better look at what the incentives are accomplishing.

We recommend that a Task Force be appointed by the Governor. This Task Force would be charged with:

- determining what programs should be subject to economic development review;
- determining what standards should be adopted for evaluating economic development review;
- determining what information must be provided or collected;
- determining what reports will be prepared, how frequently they will be prepared and who will be responsible for preparing them;
- preparing appropriate legislation.