ATLANTA BUSINESS CHRONICLE

To compete with other states, Georgia broadened tax breaks for big projects. But it won't offer cash.

Electric vehicle startup Rivian received $1.5 billion in tax breaks from Georgia, an example of how the state's tax breaks have expanded.

ABC Illustration; Rivian

By Savannah Sicurella – Reporter, Atlanta Business Chronicle - Aug 9, 2022

This story is a preview of Atlanta Business Chronicle's upcoming Defining Atlanta event featuring economic development officials and their insights about the growth of electric vehicle manufacturing and the supply chain. The event will be held Aug. 11.

In the summer of last year, Georgia removed the cap on its megaproject tax credit.

Employers were no longer limited to receiving tax credits on a maximum of 4,500 jobs. Under the changes, it could receive $5,250 per job, per year for the first five years of each net new job position.

Georgia's decision to lift the cap was made in part to level itself with competing states, which did not have a maximum eligible under their tax credit programs, said Andrew Cappuzzuto, chief administrative officer and general counsel for the Georgia Department of Economic Development. Plus in years past, manufacturers' job counts often didn't go beyond the 4,500 cap.

Fundamental differences still linger between the states' incentive packages, including the types of incentives offered and the process and timeline for incentive approvals.

Major projects followed tax credit change

Five months after removing the jobs cap, Georgia landed its then-largest economic development deal in history. The 7,500 job count promised by the manufacturer — electric vehicle startup Rivian Automotive Inc. — was much higher than the previous maximum eligible under the program.

Another five months later, this record was shattered again. Hyundai Motor Group promised 8,100 jobs.

The Rivian and Hyundai commitments were two major wins for Georgia, which spent the last few years gunning after and losing out on major electric vehicle projects to competing states.

Texas won a 20,000-person plant from Tesla Inc., an electric vehicle manufacturer that considered Georgia for the expansion. North Carolina landed manufacturing facilities for Toyota Motor Corp.and VietnamesecarmakerVinFast. Tennessee scoredFord Motor Co. and SK Innovation's electric truck and battery assembly plants.

Georgia's approach to tax breaks

Georgia focuses on incentives that provide value upfront.

"One of the things that Georgia does differently from other states is that we don't just cut a $100 million check to the company and say, 'Go do what you will with it,'" said Andrew Cappuzzuto, chief administrative officer and general counsel for the Georgia Department of Economic Development. "Our approach is more focused on fixing problems specific to the site."

Georgia invests into sites on the front end, which can entail making improvements to water, sewer and power, grading a site and building or reinforcing roads. This is a way to increase speed-to-market, which is a critical aspect of the decision-making process in the EV space.

“We’re trying to protect the taxpayer dollars,” Cappuzzuto said.

If Georgia were to provide a manufacturer one big check, it wouldn't have control over how the money is spent. If the project goes south, the state will never see that money back.

“If something were to happen, we would have a site that we own or that a local development authority could own. Worst case scenario, we would be able to remarket it to another prospect,” Cappuzzuto said.

Georgia can award grants to companies, however. Both Rivian and Hyundai received Regional Economic Business Assistance grants of $21.3 million each for site development and construction. REBA grants are used to "close the deal" for major economic projects and started in 1994.

Companies bringing a smaller footprint to Georgia, like Cisco Systems or Visa, could also be awarded the grants, which were earmarked for furniture and equipment. Despite Georgia's tax incentive packages and grants, Georgia routinely gets beat on cash incentive offers, Cappuzzuto said.

North Carolina, Tennessee and Texas are states that typically provide larger cash grants, said site selection expert John Boyd with The Boyd Co. They're based on the company's investment, the number of jobs and wages of employees. In some cases, they're awarded to specialty industries, like the aerospace industry in Alabama. In 2019, Alabama awarded Aircraft manufacturer Airbus an upfront $8 million payout for the construction of an assembly plant in Mobile.

Other factors in economic development deals

Companies do not always default to the state offering the largest incentive package, said site selection consultant Kim Williams Davis with Quest Site Solutions. Sometimes states with incentive programs in place that allow for approvals to occur quickly can have a competitive advantage, Davis said.

Speed to market is one of the top priorities for company expansions, Georgia Economic Development Commissioner Pat Wilson said in February.

“Incentives are a short term solution,” Cappuzzuto said. “The idea is to help offset some of those initial startup costs, get a business operating, running smoothly and profitable. Then the incentives go away, and then the state and the communities recover the investment that they made into the project through the tax revenues that are generated from that business operating.”