



The General Assembly Atlanta, Georgia

FINAL REPORT OF THE HOUSE AND SENATE STUDY COMMITTEES ON THE FUTURE OF MANUFACTURING IN GEORGIA

The Honorable Allen Peake
Chair
Representative, District 137

The Honorable Chip Rogers
Co-Chair
Senator, District 21

The Honorable Stacey Abrams
Representative, District 84

The Honorable Tim Golden
Co-Chair
Senator, District 8

The Honorable Bill Hembree
Representative, District 67

The Honorable Chip Pearson
Senator, District 51

The Honorable Sean Jerguson
Representative, District 22

The Honorable Jeff Mullis
Senator, District 53

The Honorable Greg A. Morris
Representative, District 155

The Honorable Doug Stoner
Senator, District 6

The Honorable William Quincy Murphy
Representative, District 120

The Honorable Ed Tarver
Senator, District 22

Executive Summary

Georgia is the 10th largest state for manufacturing output. However, as the nation's manufacturing employment has declined, so has Georgia's. In the past year alone, Georgia has lost over 20,000 manufacturing jobs. As the Committee heard during each of its four meetings, globalization is not the only reason. We are losing investment and jobs to our neighboring states that are more competitive in several areas, especially when it comes to energy costs.

Georgia's Purchasing Managers Index (PMI), which is a reading of economic activity in the state's manufacturing sector, showed a decline of 5.9 points from November to December of 2008. The reading was consistent with the last recession in 2001; and at 26.8, it is at its lowest level since the monthly survey began in 1990. A PMI reading above 50 indicates that manufacturing activity is expanding. A reading below 50 indicates the manufacturing industry is contracting. The PMI, compiled from a monthly survey of manufacturers, is the earliest indicator of market conditions in the manufacturing sector. Because manufacturing is sensitive to changes in the economy, and it accounts for 13 percent of GDP, the PMI reading on the manufacturing sector can reveal macroeconomic trends.

Additionally, manufacturing employment in Georgia dropped by 18.2 points to 20.5 points, its lowest level since 1990. Production, which shrank by 9.1 points to 18.2, also reached its lowest level. New orders were up by 2.3 points, to 22.7. However, 63.6 percent of survey participants reported lower new orders and only 9.1 percent reported higher new orders. Low levels of new orders strain revenue and profits, causing layoffs.¹

Many issues are affecting our manufacturing industry's ability to sustain and grow: energy costs; employment cost drivers, such as health care costs; regulation and environmental issues; workforce preparedness; and, tax policy. Many of these issues can be assuaged if we aggressively look for ways to enhance our manufacturers' ability to remain competitive.

Based on testimony and the issues facing our manufacturing industry, the Committee agreed upon several recommendations including to: support legislation eliminating the sales tax on energy used in the manufacturing process; support eliminating the sales tax on coal used in the generation of electricity; realign our tax credit policy for innovation; and amend the state superfund program law, the Hazardous Site Response Act (HSRA), to allow property owners to voluntarily clean up listed properties through the use of registered professional engineers.

¹Testimony by Mr. Govind Hariharan, Chair, Econ-Fin-Quant. Analysis, Econometric Center at Kennesaw State University's Michael J. Coles College of Business.

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I. Introduction

During the 2008 Legislative Session of the General Assembly, the House of Representatives and the Senate passed resolutions creating study committees on the Future of Manufacturing in Georgia. Senate Resolution 1097 and House Resolution 1364, created the study committees with virtually identical language. Although the resolutions did not specifically create a joint study committee, the study committees' chairmen agreed to proceed with combined efforts and meeting schedules. Both resolutions delineated that the purpose of the study committees is to evaluate the state's policies to determine what changes may be necessary to enhance the appeal of Georgia for investment and job creation and retention by the manufacturing industry.

Senator Chip Rogers, Senator Tim Golden and Representative Allen Peake served as Chairmen of the Committee. Additional Senate members appointed were: Senators Chip Pearson; Jeff Mullis; Doug Stoner; and Ed Tarver. Additional Representatives appointed were: Representatives Bill Hembree; Stacey Abrams; Greg Morris; Quincy Murphy, and Sean Jerguson. Staff included Jill Fike, Senate Research Office, and Jena Davis, House Research Office.

The Committee held four meetings in different locations around the state. Many people with different interests in Georgia's manufacturing industry addressed the Committee, and their time and contributions were greatly appreciated.

October 7, 2008 – Greensboro

The Committee held its first meeting October 7th at Lake Oconee in Greensboro, and heard testimony from: Dr. Roger Tutterow, Professor of Economics, Mercer University; Mr. Bob Grygotis, VP, Mill Manager, Weuerjaeiser Port Wentworth; Mr. Bob Samford, Temple-Inland, Inc.; Mr. Bill Barron, Shaw Industries Group; Mr. Tom Putnam, Langdale Industries, Inc.; Mr. Howell Newton, Trio Manufacturing Company; Mr. David Beard, Milken & Company; Mr. Dave Clark, TenCate Geosynthetics; Mr. Randy Quintrell, Georgia Paper and Forest Products Association; Mr. David Carmon, Packaging Corporation of America; Mr. Charles Estes, Director, Georgia Traditional Industries Program, Georgia Institute of Technology; Mr. Keith Brooks, BASF; Mr. Paul Hall, C-E Minerals; and Mr. Richard Kopelman, Habif, Arogeti & Wynne LLP.

October 16, 2008 - Augusta

The Committee held its second meeting October 16th in Augusta, and heard testimony from: Mr. Steve Allen, Georgia Power; Mr. Jeremy Pearson, International Paper; Ms. Kathy Searle, CEO, and Mr. John Collins, Director of Strategic Sourcing, E-Z-GO; and Mr. Jay Backus, Mill Manager, Augusta News Print Company.

November 12, 2008 – Georgia Institute of Technology

The Committee held its third meeting November 12th at the Georgia Institute of Technology (Georgia Tech), and heard testimony from: Mr. Greg Roberts, Georgia Power; and several presenters from Georgia Tech, Dr. Gary Shuster, Interim President; Dr. Steve Danyluk, Director, Manufacturing Research Center; Dr. Suman Das,

Mechanical Engineering; Dr. Leon McGinnis, Industrial and Systems Engineering; Dr. Chip White, Industrial and Systems Engineering; Dr. Bert Bras, Mechanical Engineering; Dr. Shreyes Melkote, Mechanical Engineering; Dr. Bill Singhose, Mechanical Engineering; Dr. Ned Ellington, Enterprise Innovation Institute; Dr. Jan Youtie, Enterprise Innovation Institute; Mr. Chris Downing, Enterprise Innovation Institute; Mr. Craig Wyvill, Research Institute; Mr. Bill Meffert, Enterprise Innovation Institute; and Dr. Joel Sokol, Industrial and Systems Engineering.

December 4, 2008 – Kennesaw State University

The Committee held its fourth meeting December 4th at Kennesaw State University and heard testimony from: Dr. Daniel S. Papp, President, Kennesaw State University; Mr. Ken Stewart, Commissioner, Georgia Department of Economic Development; Ms. Jackie Rohosky, Assistant Commissioner, Quick Start, Technical Colleges; Dr. Govind Hariharan, Coles College of Business, Kennesaw State University; Ms. Lydia Jones, Director of Small Business Centers, Kennesaw State University; Mr. John Gornall, Attorney, Arnall Golden & Gregory LLP; and Dr. Donald Sabbarese, Coles College of Business, Kennesaw State University.

II. Background

Georgia is the 10th largest state in the nation for manufacturing output. However, just as the nation's share of non-agricultural manufacturing employment has been trending downward for more than the past decade, Georgia's has as well. Specifically, Georgia's has fallen from around 17.8 percent to 10.2 percent over the past 18 years while the nation's has fallen from 16.3 percent to approximately 10 percent.

In 2006, the manufacturing sector in Georgia accounted for 12.9 percent of Georgia's Gross Domestic Product. Significantly, the manufacturing industry pays higher than average compensation by roughly 10 percent compared to other non-manufacturing employment. It provides wealth to Georgia's communities and, importantly, the economies of Georgia's smaller, rural areas.²

In the past year, Georgia has lost more than 20,000 manufacturing jobs, second only to Michigan. As we proceed through this current recession, more jobs are very likely to be lost. The most distressing aspect of these job losses, however, is the loss of jobs to neighboring states due to lower costs of production and investment. This can be addressed by changes in public policy.³

During the four meetings held around the state by the House and Senate Study Committees on the Future of Manufacturing in Georgia, representatives from our manufacturing community spoke about the issues working against their ability to succeed – and against their ability to maintain and/or place new investment in Georgia. Energy costs and regulation issues were at the forefront of each meeting's discussion.

Georgia's Assets and Resources

Georgia's workforce training, fiscal policy, comparatively low cost of living and corporate tax structure are among many reasons why Georgia remains competitive. In addition, the state is recognized as having a pro-business General Assembly. Georgia was recently ranked as one of the top business-friendly environments by Forbes Magazine. Our assets and resources are many: logistically, Georgia's Hartsfield-Jackson Atlanta International Airport and the Georgia Ports are tremendous assets. Hartsfield-Jackson is the world's leading air cargo center, handling more than 900,000 tons of cargo each year, and Delta's recent merger with Northwest Airlines will likely increase traffic at the world's busiest passenger airport. Georgia Ports in Savannah and Brunswick remain the fifth largest in the country and operate as the south Atlantic's leading auto-processing facility. The Georgia Ports is the second fastest growing port on the Eastern seaboard. Additionally, Georgia has over 130,000 miles of public roads and interstates and a

² 2008 *Why Manufacturing Matters to Georgia: A Discussion Paper*. Michael Curley, Ph.D., Professor Emeritus of Economics, Kennesaw State University, Roger Tutterow, Ph.D., Professor of Economics, Mercer University, Mark Yanochik, Ph.D., Associate Professor of Economics, Georgia Southern University.

³ Letter to the Chairmen of the Future of Manufacturing in Georgia Study Committees. Mr. Roy Bowen, President, Georgia's Traditional Manufacturing Association.

4,700-mile rail network. Our position with these assets allows us to be in any location in the majority of the U.S. within a two-hour flight or a two-day drive.

Georgia's colleges are nationally recognized. The Georgia Tech's Enterprise Innovation Institute helps companies, entrepreneurs, economic developers and communities improve their competitiveness through the application of science, technology and innovation. It is one of the most comprehensive university-based programs of business and industry assistance, technology commercialization and economic development in the nation.⁴

Kennesaw State University's (KSU) Coles College of Business was noted as one of the six best business schools in the U.S., in family business research and education by Fortune Small Business Magazine in its September 2007 issue of "America's Best Colleges for Entrepreneurs." KSU is the third largest member of the 35-unit University System of Georgia. It has a growing student population of more than 20,000 representing 132 countries. Coles College of Business, through its Small Business Development Centers (SBDC), assists small businesses in achieving their goals. Professional business consultants at the SBDC offer free, confidential services to companies seeking management, marketing, and financial advice in various areas.⁵

Georgia's Quick Start program is nationally recognized for its successes. For 41 years, Quick Start has provided customized workforce training free-of-charge to qualified businesses in Georgia. Today, the program is one of the state's key assets for supporting new and expanding industries. Quick Start delivers training in classrooms, mobile labs or directly on the plant floor, wherever it works best for a company. Twenty-nine percent of Georgia's Quick Start projects last year were for international companies located here in Georgia.

The Georgia Department of Economic Development (GDEcD), along with the many professional economic development organizations across the state, works constantly to bring jobs to our citizens. The state has implemented several initiatives to step up its sales and marketing efforts, including a focus on existing industries with multiple locations in the U.S. and around the world, targeted outreach to company CEOs, meetings with key strategic industry players in aerospace and agriculture, and familiarization tours for international companies and journalists.

The GDEcD worked on approximately 313 business location and expansion projects in 2008, which are in various states of progress from completed to newly active. Companies such as NCR Corporation, Newell Rubbermaid, Toyo Tire, PETCO, Wendy's/Arby's Group, and Telfair Forest Products are adding jobs and corporate infrastructure throughout the state. In addition, the Kia manufacturing facility is on track to begin production in 2009, bringing with it numerous supplier companies and ultimately projected to be responsible for 6,000 jobs.

⁴ Georgia Tech, Enterprise Innovation Institute home page: <http://innovate.gatech.edu/Default.aspx?tabid=1549>.

⁵ Kennesaw State University, Coles College of Business home page: <http://coles.kennesaw.edu/KSUColes>

III. TESTIMONY

A. Energy Costs

Repeatedly during the four meetings of the House and Senate Study Committees on the Future of Manufacturing in Georgia, energy costs surfaced as one of the main issues for Georgia's manufacturing community. Georgia's sales tax on energy used in the manufacturing process adds significant operating costs to our manufacturers; a cost that is nonexistent in our neighboring states. It leaves our manufacturers at a competitive disadvantage, even within their own companies. As explained by Mr. David Carmon of Packaging Corporation of America (PCA), his Valdosta mill competes within their own company for capital investment dollars against other PCA mills located in states that do not impose a sales tax on energy.

As several representatives from our manufacturing industry communicated during each of the four meetings of the Committee, the high and increasing costs of energy are presenting major barriers to investment and job retention in Georgia for our state's manufacturers. Energy costs are usually the second highest cost of conversion behind labor, and in some cases they exceed labor costs. While some of the issues related to energy costs are beyond the control of the General Assembly, there are things that can be done, such as:

► Eliminating the sales tax on energy used in the manufacturing process. Georgia remains one of a handful of states who maintain such a tax, and in the Southeast, Georgia is the least competitive state in this regard. The General Assembly in 2008 passed House Bill 272, which placed a cap on the prices of certain energy fuels on which the sales tax can be imposed. While this measure is considered very beneficial, especially during the recent commodity spikes experienced by all energy users, the ultimate goal must be to completely remove this anti-competitive tax. While the current budgetary issues may make elimination of the sales tax on energy infeasible in the short term, it is an issue that must be addressed for our manufacturing community. The fact that our neighboring states do not impose a sales tax on energy used in the manufacturing process is a major competitive disadvantage for Georgia's manufacturers as they strive to remain viable and create and retain jobs.

► Eliminating the tax on coal. Georgia is one of only a few states in the Southeast that does not completely exempt electricity manufacturers from taxes on fuels used to make electricity. The providers pay taxes to the State of Georgia and the counties in which generating units are located. The state tax on coal is four percent, up to \$57.90 per ton and exempt above that level. The local tax rate is generally three percent. Natural gas is exempt from state tax only, and oil is taxed using the same percentage as coal up to \$2.48 per gallon.

Fuel cost including taxes, are recovered by the electricity manufacturer through a Fuel Cost Recovery rider (FCR) approved by the Public Service Commission. Taxes paid for fuel are part of the fuel price that the customer sees through the FCR. Then, the

customer pays a sales tax on the FCR. Eliminating the coal tax will produce significant savings for ALL classes of energy consumers - residential, commercial and industrial users.

B. Utilities

Georgia is the fourth fastest growing state in the nation, and will increase in population an estimated 4.8 million by 2030. Georgia's electrical growth is ranging between 800 to 1000 Mega Watts (MWs) per year – the equivalent of one large base load power plant per year. Georgia Power's electrical growth rate is around 400 to 500 MWs per year. Nationally, costs are increasing for all energy providers – the upward trending cost for fuel to make power, such as natural gas, oil and coal, coupled with the cost of compliance with regulatory and environmental controls require tougher and tighter decisions by our energy producers.

Georgia Power's competitive position

As presented to the Committee, Georgia Power's pricing and rates are competitive nationally and regionally for all consumer classes. Through June of 2008, Georgia Power's total retail price is approximately 13 percent below the national average. Over the last 20 years, Georgia Power's national standing has ranged from 25 percent below the national average to 5 percent below the national average. Georgia Power is also competitive in the Southeast. Industrial rates in the Southeast through June of 2008 range from a high of over 10 cents to a low of 4.5 cents. Georgia Power's industrial price was a little over 6 cents through June, 2008.

Mr. Greg Roberts, Director of Pricing and Rates for Georgia Power, explained that each provider uses a mix of fuel to produce power: nuclear, coal, gas and hydro. Georgia Power generally uses a generation mix consisting of about 70 percent coal, 20 percent nuclear and 10 percent gas and hydro. Duke Power, one of the lowest per kWh providers in the Southeast, uses a generation mix of around 50 percent coal, 40 percent nuclear and 10 percent hydro and gas. This higher use of nuclear generation keeps Duke's fuel costs low compared to Georgia Power and others.

Regulatory environment in Georgia

Georgia and Georgia Power benefit from a healthy regulatory environment in the state. This environment has led to a reliable electric system with adequate capacity margins and a diverse fuel mix. It has also helped to keep Georgia Power's rates competitive regionally and nationally. Georgia Power's spending and construction plans, its requests for recovery of its capital and O&M spending and its recovery of fuel expenses are all approved through public hearings before the Georgia Public Service Commission (PSC). These hearings are open to the public and presided over by the PSC commissioners. Any party that wishes to register as an intervener in any of these proceedings may do so. Interveners have access to all documentation filed in these proceedings and may question company witnesses and present witnesses of their own.

Fuel Sales Tax exemptions

Additionally, Georgia is one of the few states in the southeast that does not completely exempt manufacturers from taxes on fuel used to make electricity. Although Georgia Power can not profit from its fuel expenses, it is allowed to fully recover prudently incurred fuel expenses from its customers. Georgia Power makes regular requests to the PSC to raise or lower its customer fuel charge which is known as the Fuel Cost Recovery rider.⁶

C. Regulation and Environmental Issues

Title V of the federal 1990 Clean Air Act Amendments requires all major sources and some minor sources of air pollution to obtain an operating permit. A major source has actual or potential emissions that exceed the major threshold for its location. The major threshold for any air pollutant is 100 tons per year. However, lower thresholds apply in non-attainment areas. Major thresholds for hazardous air pollutants are 10 tons per year. Other sources required to obtain a Title V permit include: solid waste incineration units; non-major sources such as Portland cement manufacturers, chemical manufacturers, glass manufacturers; and municipal solid waste landfills.

A Title V permit grants a source permission to operate. The permit includes all air pollution requirements that apply to the source, including emissions limits and monitoring, record keeping, and reporting requirements. Georgia's permitting authority, the Environmental Protection Division, collects fees from sources required to obtain a Title V permit. States may use a "presumptive minimum fee" or any other fee approved by their program. The presumptive minimum fee is adjusted each year for inflation and is currently set at approximately \$43 per ton of emissions per year.

Several presenters stressed the need to address a significant inequity in the recovery of Title V air fees in Georgia. The burden of paying Title V air fees for this purpose falls on manufacturers and industry, despite the fact that mobile sources, such as cars, are the cause of more emissions than stationary sources, such as factories and manufacturing plants. Even a very small fee added to car tag or emission testing fees could remedy this severe inequity and remove an unfair subsidy that Georgia's manufacturers are currently required to pay.

The Hazardous Site Response Act (HSRA), implemented to protect human health and the environment and improve our state's ecology, is considered complex, confusing and expensive. There are ways to amend this act, to allow voluntary cleanup of hazardous sites that would be cost-efficient and effective that have been adopted by other states. Communities would enjoy expedited clean-up of listed properties and property owners could then put sites back into productive and tax-producing operation. Through the use of registered professional engineers, sites could be cleaned and presented to the state

⁶ Testimony presented by Mr. Greg Roberts, Director of Pricing and Rates, Georgia Power; November 12th, 2008.

for approval, freeing the state's resources to address orphan sites where state personnel and resources must be used to assure remediation.

D. Woody Biomass

The Georgia Paper and Forest Products Association expressed the concerns of many traditional lumber manufacturers over the impact of the emerging woody biomass industry. Government incentives and subsidies geared toward woody biomass and raw materials appear to be premature until the actual supply of such raw materials can be determined. Woody biomass raw materials include: pulping by-products; trees and limbs unlikely to be used for lumber; stumps; and other debris found on the forest floor. It is costly to gather enough such debris and transport it to a production facility. There are nine such processing facilities in Georgia, most creating electricity. If supply, and/or the cost of collecting and transporting such woody biomass supply prove inefficient, then there is a real concern of over-forestry. In turn, over-forestry will drive up the costs for those pre-existing industries that depend on a steady and reasonably priced source of wood fiber.

E. Workforce Preparedness – Quick Start

When companies plan to invest millions of dollars to create jobs in a state, they want commitments. The international reputation of a state rests on its ability to deliver what is promised. For more than 10 years, Georgia has been ranked by site selection professionals as number 1 in the country for workforce training, thanks to the quality of the services promised – and delivered – by Quick Start to new and existing companies.

Currently, Quick Start is committed to delivering an unprecedented level of comprehensive workforce solutions for Kia Motors Manufacturing Georgia, Inc., and more than 12 supplier companies that are building facilities and creating jobs in Georgia. These suppliers have already announced 4,255 jobs that are in addition to Kia's 2,500, with additional suppliers still to come.

Training for all of these projects must take place simultaneously to enable Kia's successful startup in November 2009. In addition, the quality of the training at the supplier companies must be at the same high level as that at Kia, since the quality of Kia's products depends on the highest quality of products provided by its suppliers. This is all driven by the quality of their workforce, and the quality of Quick Start's workforce training.

This unprecedented scope of training must also take place while Quick Start continues to develop and deliver training for other Georgia companies with whom it already has contractual commitments, and for companies that have been offered Quick Start's services as part of Georgia's overall economic development program.

Quick Start's activities for Fiscal Year 2008

- ▶ Last year, Quick Start provided 260 customized workforce training projects that helped to create or save 17,601 jobs in Georgia. Those jobs contributed \$493,532,040 in payroll revenue (*Source: U.S. Bureau of Labor Statistics, 2007*).
- ▶ Eighty-eight percent of Quick Start's 260 projects last year (FY2008) supported Georgia's manufacturers, many of them in important sectors like automotive, aerospace, and biotechnology. Also, most of these were with small and medium-sized manufacturers throughout the state.
- ▶ Sixty-six percent of all projects were outside Metro Atlanta, showing that Quick Start supports business and industry across all of Georgia.
- ▶ Seventy-five of the 260 projects (29 percent) involved international relocations from 18 different countries.

Quick Start is one of Georgia's best assets for attracting job creation to Georgia. It is also the most effective in the nation for its quality, effectiveness and efficiency at supporting startups, expansions and new technology investments at existing companies.

F. Innovation

In a 2004 report, *Manufacturing: Pennsylvania's Future*, the authors state, "...innovation to either create differentiated products that do not need to directly compete with cheaper competition or to improve efficiency to maintain profit margins is becoming an increasingly important strategy for manufacturers to maintain competitiveness."

Although manufacturing employment has declined globally over the last decade, total goods produced globally have been increasing. So, the question is not *will goods be produced?* It is *where will goods be produced?* Georgia must develop comprehensive and aggressive strategies to remain a significant player in the manufacturing game. Experts agree that innovation is the key to successful manufacturing strategies, productivity growth and leadership in global markets.⁷

In a 2005 survey of Georgia Manufacturers conducted by Georgia Tech's Enterprise Innovation Institute, companies that based their competitive strategies on innovative products or processes enjoyed higher returns, paid better wages and had less to fear from outsourcing than did manufacturers relying on other competitive strategies.

Innovation typically refers to the creation of new products or services, the use of new production techniques and technologies and the implementation of new ways to organize work and business processes. Georgia has a tremendous asset in its state-funded program, the Traditional Industries Program (TIP), administered by Georgia Tech's Enterprise Innovation Institute staff. It was established in 1994 by the Governor's Office and the General Assembly and was designed to improve the competitiveness of Georgia's food-processing, forest products, and carpet/fiber/fabric

⁷ Testimony presented by Mr. Charles Estes, Director, Georgia Traditional Industries Program, Georgia Tech; *Supporting Manufacturing Transition in Georgia*, October 7th 2008.

industries, which account for 40 percent of Georgia's manufacturing employment. TIP brings together Georgia's academia and private industry to focus on manufacturing issues. It provides a formal structure for harnessing the research and technical capabilities of the University System to address industry-wide competitiveness needs and challenges facing these important sectors. In 2008, TIP funded 45 research projects, and assisted approximately 180 companies and/or organizations through the TIP program.

G. Employment Cost Drivers

Employment cost drivers are also of significant concern to manufacturing employers. Manufacturers would like the state to allow them to purchase insurance policies free of state mandates. For example, a current mandate on pregnancy coverage may not be necessary for a plant employing mostly males or females ages 45 and older. Manufacturers would like to negotiate policies with commercial insurers to meet their exact needs. Georgia currently has 39 state mandates that must be covered by insurance policies.

H. Tax Policy – Credits and Exemptions

According to the Georgia Department of Revenue, there is no blanket prohibition against Georgia businesses utilizing as many credits and exemptions for which they may qualify; however, many of the individual credits and exemptions may prohibit the use of another credit or exemption once that specific one is utilized. For example, the research and development tax credit may only be taken after all other applicable credits have been exhausted. Additionally, most credits and exemptions may be carried forward year to year which may create an instance where a Georgia business would like to take their carried-forward credit, yet it may be prevented from taking that credit in that future year if in that same year it desired to take a credit which must be used alone.

The Committee heard testimony from representatives of the accounting and legal communities that many manufacturing companies, as well as other types of businesses, find our credit programs very complicated and difficult to translate into an incentive for investment. Additionally, most credits expire before they can actually be used.

Credits

1. Job Tax Credit Program

Job tax credits are available to a business or to its headquarters engaged in the business of manufacturing, warehousing and distribution, processing, telecommunications, tourism or the research and development industries. If other specified requirements are met, other business engagements may qualify. Typically, job tax credits range from \$750 to \$3,500 per job created, depending on the ranking of the county in which the jobs are located. Credits are allowed to offset 100 percent of the taxpayer's liability for jobs created in Tier 1 and Tier 2 counties, and 50 percent of a taxpayer's liability in Tier 3 and Tier 4 counties. In Tier 1 counties, and certain

qualifying census tracts only, credits may be taken against the taxpayer’s withholding tax. Credits claimed, but not used, may be carried forward for 10 years. In some instances, the job tax credit may be increased by a \$500 bonus for a business locating within the jurisdiction of a joint authority established by two or more contiguous counties.

Example: Taxpayer creates 50 jobs in a Tier 1 county offering a \$3,500 credit; receives \$1 million in tax credits over five years to reduce or eliminate Georgia income tax [50 jobs x \$3,500 x 5 years = \$875,000]. Job tax credits in a Tier 1 or Tier 2 county can be used against 100 percent of income tax liability. The excess over 100 percent is credited to Georgia withholding tax (with a limitation of \$3,500 per job) in Tier 1 counties only. Tier 3 and 4 counties are limited to 50 percent of tax liability in a given year. Unused job tax credits may be carried forward 10 years. For each of the county classifications, there are a certain minimum number of jobs required to claim the job tax credit. The chart below lists benefits and requirements for each tier.

Example: Taxpayer creating a minimum of five jobs in a Tier 1 county would qualify for a \$4,000 or \$3,500 per job tax credit. Taxpayer in Tier 4 would need to create 25 or more jobs to receive a \$1,250 or \$750 credit.

Tier	Job Credits	Tax	Jobs	Use of Credits	Forward
1	\$4,000*	\$3,500	5	100% of tax liability - excess to withholding tax (up to \$3,500 per job)	10 years
2	\$3,000*	\$2,500	10	100% of tax liability	10 years
3	\$1,750*	\$1,250	15	50% of tax liability	10 years
4	\$1,250*	\$750	25	50% of tax liability	10 years

**includes \$500 bonus for Joint Development Authority*

2. Investment Tax Credit

The Investment Tax Credit (ITC) is based upon the same tiers as the Job Tax Credit program. It allows a taxpayer that has operated an existing manufacturing or telecommunications facility, or their support facilities, for the previous three years to obtain a credit against income tax liability.



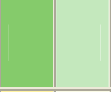
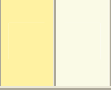
► Companies expanding in Tier 1 counties must invest \$50,000 to receive a 5 percent credit, which may increase to 8 percent for recycling, pollution control and defense conversion activities.

► Companies expanding in Tier 2 counties must invest \$50,000 to receive a 3 percent credit, which may increase to 5 percent for recycling, pollution control and defense conversion activities.

► Companies expanding in Tier 3 or 4 counties must invest \$50,000 to receive a 1 percent credit, which may increase to 3 percent for recycling, pollution control, and defense conversion activities.

Generally, a taxpayer may not take both the job tax credit and the investment tax credit for the same project. Investment tax credits can be used against 50 percent of income tax liability in a given year. Unused credits may be carried forward 10 years.

Example: Taxpayer in a Tier 1 county invests \$100 million in a manufacturing plant plus \$25 million in recycling equipment. Taxpayer is eligible for a \$7 million tax credit to reduce or eliminate Georgia income tax. $[\$100 \text{ million} \times 5 \text{ percent}] + [\$25 \text{ million} \times 8 \text{ percent}] = \7 million .

Tier		Investment	Credits	Limits of Credits	Forward	Minimum Investment
1		5%	8%*	50% of tax liability	10 years	\$50,000
2		3%	5%*	50% of tax liability	10 years	\$50,000
3		1%	3%*	50% of tax liability	10 years	\$50,000
4		1%	3%*	50% of tax liability	10 years	\$50,000

**Recycle, Defense Conversion, Pollution Control*

3. Optional Investment Tax Credit

Taxpayers qualifying for the investment tax credit may choose an optional investment tax credit: a minimal investment of \$5 million in a Tier 1 county would receive a 10 percent tax credit; a minimal investment of \$10 million in a Tier 2 county would receive an 8 percent tax credit; and a minimal investment of \$20 million in a Tier 3 or Tier 4 county would receive a 6 percent tax credit. The credit may be claimed for 10 years, provided the qualifying property remains in service throughout the period. Taxpayers must choose between the regular or optional investment tax credit, and once chosen, it is irrevocable.

The optional investment tax credit is calculated based upon a three-year tax liability average. The annual credits are then determined using the base year average. The credit available to the taxpayer in any given year is the lesser of the following:

- ▶ Ninety percent of the increase in tax liability in the current taxable year over that in the base year, or
- ▶ The excess of the aggregate amount of the credit allowed over the sum of the amounts of credit already used in the years following the base year.

4. Ports Activity Job Tax and Investment Tax Credits

Businesses which meet the eligibility requirements for the job tax credit or the investment tax credit, and that have increased their port traffic tonnage through Georgia ports during the previous 12-month period by more than 10 percent over their 1997 base year port traffic, or by more than 10 percent over 75 net tons, five containers or 10 20-foot equivalent units (TEU's) during the previous 12-month period, qualify for increased job tax credits or investment tax credits. NOTE: Base year port traffic must be at least 75 net tons, five containers, or 10 TEU's. If not, the percentage increase in port traffic will be calculated using 75 net tons, five containers, or 10 TEU's as the base. Companies must meet Business Expansion and Support Act (BEST) criteria for the county in which they are located.

The job tax and investment tax credits are as follows:

	Job Tax Credit	Investment Tax Credit	Optional Investment Tax Credit
Tier 1	Additional \$1,250	5%	10%
Tier 2	Additional \$1,250	5%	10%
Tier 3	Additional \$1,250	5%	10%
Tier 4	Additional \$1,250	5%	10%

The job tax credit amount shown above is in addition to the credit allowed under the Job Tax Credit program. The amounts shown above for the Investment Tax Credits are in lieu of the amounts allowed under Investment Tax Credit and the Optional Investments Tax Credit programs.

The additional job tax credit is limited to 50 percent of the taxpayer's Georgia net income tax liability in the current year regardless of the tier in which the jobs are located. The investment tax credit taken under the port traffic provision is limited to 50 percent of the taxpayer's net income tax liability. Any unused job or investment tax credit may be carried forward for 10 years from the close of the taxable year in which the qualified jobs were established or the qualified property was placed in service. The optional investment tax credit taken under the port traffic provision shall be claimed for

up to 10 taxable years, provided the qualifying property remains in service throughout that period.

Companies that create 400 or more new jobs, invest \$20 million or more in new and expanded facilities, and increase their port traffic by more than 20 percent above their base-year port traffic may take both job tax credits and investment tax credits.

5. Headquarters Tax Credit

Companies establishing or relocating their headquarters to Georgia may be entitled to a tax credit equal to \$2,500 annually per new full-time job, or \$5,000 if the average wage for the new full-time job is 200 percent or more of the average wage of the county in which the jobs are located. Basic criteria that must be met include:

(i) The term Headquarters is defined as the principal central administrative offices of a company;

(ii) New jobs created are full-time and pay at least the average wage for Tier 1 counties, 105 percent of the average wage in Tier 2 counties; 110 percent of the average wage in Tier 3 counties; and at least 115 percent of the average wage in Tier 4 counties;

(iii) Within one year, the company's investment equals or exceeds \$1 million and creates 50 jobs at a new headquarters facility; and

(iv) The company does not elect to take the job or investment tax credit. The credits apply for five years beginning with the year jobs are placed in service. The credit may be taken against Georgia income tax liability with any excess credit applied against withholding taxes. Credits may be carried forward for 10 years.

Example 1: Taxpayer locates headquarters in a Georgia county, creates 160 corporate headquarter jobs paying 200 percent of the county average wage, and receives a tax credit of \$4 million to reduce or eliminate Georgia income tax and withholdings liability: $[160 \times \$5,000 \times 5 \text{ years}] = \4 million .

Example 2: Taxpayer locates headquarters in a Tier 1 community, creates 160 corporate headquarter jobs paying a wage rate that is greater than the county average; and receives a tax credit of \$2 million to reduce or eliminate Georgia income tax and withholdings liability: $[160 \times \$2,500 \times 5 \text{ years}] = \2 million .

6. Research and Development Tax Credit

A tax credit is allowed for research expenses for research conducted within Georgia for any business or headquarters of any business engaged in manufacturing, warehousing and distribution, processing, telecommunications, tourism, or research and development industries. The credit is calculated at 10 percent of the additional research expense over the "base amount," provided that the business enterprise for the same taxable year

claims and is allowed a research credit under Section 41 of the Internal Revenue Code of 1986. The credit may be carried forward 10 years, but may not exceed 50 percent of the business's remaining Georgia net income tax liability after all other credits have been applied for the current year. (Note that the base amount must contain positive Georgia taxable net income for all years.)

Example: Taxpayer has base of \$192,000. Current year's R&D expense is \$5,192,000. Taxpayer is eligible to receive an income tax credit of \$500,000 to reduce or eliminate Georgia income tax liability: $[\$5,192,000 - \$192,000] \times 10\% = \$500,000$.

7. Retraining Tax Credit

The retraining tax credit is one-half the employer's approved direct retraining cost up to \$500 per employee. The credit is available to all business categories. Before a taxpayer applies for the credits, the taxpayer's retraining program must be approved by the Georgia Department of Technical and Adult Education. The retraining program must be for new equipment, a new technology, or a new operating system. The retraining tax credit can be used against 50 percent of taxpayer's income tax liability in a given year to reduce or eliminate Georgia income tax liability. Unused credits can be carried forward 10 years.

Exemptions

1. Manufacturing Machinery

An exemption is provided from the sales and use tax for:

- ▶ Machinery used directly in the manufacture of tangible personal property when the machinery is bought to replace or upgrade machinery in an existing manufacturing plant presently operating within the state and machinery components which are purchased to upgrade machinery used directly in the manufacture of tangible personal property in a manufacturing plant;
- ▶ Machinery used directly in the manufacture of tangible personal property when the machinery is incorporated for the first time into a new manufacturing plant located in this state;
- ▶ Machinery used directly in the manufacture of tangible personal property when the machinery is incorporated as additional machinery for the first time into an existing manufacturing plant in this state;
- ▶ Machinery used directly in the remanufacture of aircraft engines, parts, and components on a factory basis;
- ▶ The sale or use of repair or replacement parts, machinery clothing or replacement machinery clothing, molds or replacement molds, dies or replacement dies, and tooling

or replacement tooling for machinery used directly in the manufacture of tangible personal property in a manufacturing plant presently existing in this state. This exemption was phased in over a five-year period beginning on January 2001 at 20 percent of the purchase price per year with a limitation of \$150,000 per part;

► Overhead materials consumed in the performance of certain contracts between the Department of Defense or NASA and a contractor engaged in manufacturing. This exemption was phased in at a 25 percent increment rate each year from January 1, 1997 to January 1, 2004; and

► The sale of machinery, equipment, and materials incorporated into and used in the construction or operation of a clean room of Class 100 or less in Georgia, provided that such clean room is used directly in the manufacture of tangible personal property.

2. Computer Equipment

The sale or lease of computer equipment to be used at a facility or facilities in this state to any high-technology company classified under certain NAICS Codes where such sale of computer equipment exceeds \$15 million for any calendar year, or, where in the event of a lease of such computer equipment, the fair market value of such leased computer equipment exceeds \$15 million for any calendar year.

3. Primary Materials Handling

Purchases of primary material handling equipment and racking systems which are used directly for the storage, handling, and moving of tangible personal property in a new or expanding warehouse or distribution facility, when such new facility or expansion is valued at \$5 million or more and does not have greater than 15 percent retail sales, are exempt from sales and use taxes.

4. Electricity

Electricity purchased that interacts directly with a product being manufactured is exempt from sales taxes when the total cost of the electricity exceeds 50 percent of the cost of all materials used, including electricity, in making the product. This exemption requires a utility study to document the conditions of the exemption.⁸

5. House Bill 237

House Bill 237 passed during the 2008 Legislative Session provided a sales and use tax exemption for equipment, in addition to machinery, necessary and integral to the manufacturing of tangible personal property. It repealed the \$150,000 limitation on the price of the equipment and machinery.

⁸ Tax credit programs and sales tax exemptions information taken from the Department of Community Affairs website: <http://www.dca.state.ga.us/economic/TaxCredits/programs/taxcredit.asp>.

IV. RECOMMENDATIONS MADE TO THE COMMITTEE

Energy Policies

As several manufacturers communicated during meetings of the study committees, the high and increasing costs of energy are presenting major barriers to investment and job retention in Georgia for our state's manufacturers.

▶ Eliminate the sales tax on energy used in the manufacturing process. Georgia is one of less than 10 states that impose this tax, and the only state in the Southeast. Being competitive in the manufacturing industry equates to investment, new jobs, and job retention.

▶ Eliminate the sales tax on coal used in the generation of electricity. Georgia is one of only a few states that taxes the fuels used to generate electricity. This tax is passed on to the consumer through a Fuel Cost Recovery Rider approved by the Public Service Commission. Eliminating this tax would benefit all classes of users - residential, commercial and industrial.

Tax Credit Programs

While Georgia has adopted many pro-business measures, there are several areas in our tax credit programs that are too complicated and seemingly unfair.

▶ Allow manufacturing tax credits to be taken against a company's income tax withholding, not just against the company's state income tax liability. Currently, companies that qualify for job tax credits in Tier 1 counties and qualifying census tracts are allowed to use the earned credits against their withholding taxes. Additionally, other incentive programs allow credits to be used against withholding, such as the film and low-income housing industry.

▶ Allow manufacturing tax credits to be sold to third parties. There has been a significant market built around trading credits. However, this suggestion would require the state to license brokers of credits to avoid fraudulent activity.

▶ Allow capital equipment expenses for innovative technologies used in the manufacturing process to qualify for the investment tax credit and/or the optional tax credit programs. Georgia's current tax policies regarding incentives and credits are geared toward job creation as opposed to job retention. Bringing one new company in while two Georgia companies leave for China does not make sense when it comes to economic development strategy.

▶ Modernize the Research and Development credit. Currently, the R&D credits cannot be claimed if a business had a loss in any of the past three years. R&D credits do not promote products of start-up companies or situations where the company has turned around its productivity. If Georgia companies are to compete in the global market, they cannot do so based on price, they must compete on innovation. In a recent survey completed through a partnership with Georgia Tech's Innovation Institute, only 10

percent of companies said they competed through innovation. The R&D credits need to be more attainable.

- ▶ Expand the definition of “retraining” for purposes of the retraining tax credit to include retaining employees during slow periods to help streamline and improve manufacturing operations.

- ▶ During difficult economic periods, reduce the required number of jobs that must be created to qualify for the job tax credit.

- ▶ During difficult economic periods, provide a job retention credit for manufacturers to use as an incentive to maintain jobs.

Employment Cost Drivers

Employment cost drivers factor heavily when manufactures are making decisions regarding additional investments and job retention. Two suggestions were made that would help Georgia’s manufacturers with their burden of labor costs.

- ▶ Allow manufacturers to purchase insurance policies free of state mandates. There are 39 state-mandated health insurance coverages. Not all of these are applicable or appropriate to every manufacturing employer. Easing this unnecessary financial burden, by allowing manufacturers to negotiate policies with commercial insurers that meet the specific needs of their particular workforce, would allow Georgia’s manufacturers to be more competitive.

- ▶ Continue to monitor and approve changes in the law recommended by the Advisory Council to the State Board of Workers Compensation. Georgia has one of the best and lowest-cost workers compensation systems because the General Assembly has continued to show support for the recommendations of the Advisory Council.

Regulation and the Environment

- ▶ Allow owners of listed hazardous sites/properties to voluntarily clean up listed properties through the use of registered professional engineers and then present the results to the state for approval. Communities would enjoy expedited clean up of listed properties and property owners will put sites back into productive (tax-producing) operation more quickly. Such voluntary clean-up would free up state resources to address orphan sites where state personnel and resources must be used to assure remediation.

V. COMMITTEE RECOMMENDATIONS

The Committee heard testimony that covered many areas in which our manufacturers need help. Unfortunately, Georgia's current economic environment does not allow for the Committee's recommendations to include immediate action in the elimination of the sales tax imposed on the energy used in the manufacturing process. However, the Committee does recommend:

Tax Policy

- ▶ Supporting legislation that eliminates the sales tax on energy used in the manufacturing process phased in over a five-year period beginning in 2011.
- ▶ Supporting efforts to eliminate the sales tax on coal used in the generation of electricity. Eliminating this tax, which is passed on to the consumer through a Fuel Cost Recovery Rider, would benefit all classes of consumers.
- ▶ Allowing companies to sell tax credits that cannot be used to third parties, thereby enhancing this economic development strategy.
- ▶ Allowing capitol equipment expenses for innovation technologies used in the manufacturing process to qualify for the investment tax credit or the optional tax credit.
- ▶ Removing the requirement that companies have a positive net income for the previous three years in order to qualify for the Research and Development tax credit.

Workforce Development

- ▶ Supporting the current budget recommendations for Quick Start, subsequently allowing Quick Start the flexibility to spend resources where they are most needed.

Voluntary Remediation Program

- ▶ Adopting a Voluntary Remediation Program (VRP) to complement the existing Hazardous Site Response Act program that would allow property owners to voluntarily clean up listed sites using professional engineers.