

APPENDIX B-16: GEORGIA



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Overview

Forbes recently listed Georgia as the 15th best state for business. However, other major indexes rank Georgia even higher. Below are the comprehensive rankings that factored into *Forbes*' overall listing:

Georgia's <i>Forbes</i> Rankings	
Overall Rank	15
2006 Rank	10
Business Costs Rank	23
Labor Rank	25
Regulatory Environment Rank	4
Economic Climate Rank	34
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While ranking near or just below average in some tax categories and other areas, Georgia's general standings in business openness and friendliness are quite high. The 2007 Small Business Survival (SBS) index recently ranked the state 12th in overall friendliness to entrepreneurship on a scale of 1-50, (with one being the best), a huge jump from 25th in 2006.¹ This is due mostly to openness of international business, conservative fiscal policy, and strong business incubation characteristics.

Education is somewhat weak in Georgia, but is expected to improve for reasons discussed in the *Education* section of this report. The improvements in education also mean a more intelligent workforce and increases in technology, research and development (R&D), and overall innovation.

Georgia is a fairly open state with many positive indicators in terms of innovation, market entry costs, governmental environment, and tax policy, giving evidence that it is one of the best states in the country in which to do business.

¹ Raymond J. Keating, Small Business Survival Index 2006: Ranking the Policy Environment for Entrepreneurship Across the Nation 12th Annual Edition. 2. Small Business & Entrepreneurial Council, Washington, DC, 2007. http://www.sbcs.org/Media/pdf/SBSI_2006.pdf

Public Policy

Georgia's strongest policies are in the realm of government spending. The 2007 Beacon Hill State Competitiveness Report (SCR) ranked the state 7th overall its Government and Fiscal Policy sub-index.² Two subcategories worth noting here are Workers' compensation premium rates (11th among states), and Bond rating: Composite, for which the state is ranked first.³

The 2007 State Business Survival (SBS) Index ranked Georgia highly in terms of spending as well. It ranked the state 7th in state and local government spending trends (from 1998-'99 to 2003-'04), which is a leap from 14th place in 2006.⁴ Also, the index ranks Georgia 6th in per capita state and local government expenditures, an improvement from ranking 12th in 2006.⁵

In a recent Associated Press article, Georgia's House Speaker Glenn Richardson (R) spoke highly of the government's financial situation stating: "Obviously the state's economy is thriving and we are flush with cash. I think we need to sit down and decide the best way to return money to the taxpayers of Georgia."⁶ Although Georgia Governor Sonny Perdue (R) disagrees with Richardson on where the surplus money needs to go, his spokesman recently said in a press release, "We are certainly pleased the economy seems to have rebounded."⁷ The article also notes that of the \$600 million in surplus for 2006, \$188 million will go toward funding of educational adjustments. This policy has the potential to increase the quality of Georgia's workforce.

The SCR index ranked Georgia 32nd in environmental policy.⁸ This could lead to economic hindrances as the trend to "go green" increases throughout the nation. For example, if federal regulations are passed which restrict emissions output for power plants, states which already have cleaner standards will have a competitive advantage. Thus, Georgia might have to spend a significant amount of energy and money trying to catch up.

Regulatory Affairs

² David Tureck, Jonathan Haughton, Frank Conte, and Christopher Doyon. State Competitiveness Report 2007. Boston: Beacon Hill Institute for Public Policy Research at Suffolk University, December, 2007. 25. <http://www.beaconhill.org/Compete07/Compete2007State.pdf>

³ Tureck.

⁴ Raymond J. Keating. Small Business Survival Index 2007: Ranking the Policy Environment for Entrepreneurship Across the Nation 12th Annual Edition. Small Business & Entrepreneurial Council, Washington, DC, November, 2007. 41. http://sbecouncil.org/Media/pdf/SBSI_2007.pdf?CFID=514256&CFTOKEN=91743709

⁵ Keating, 42.

⁶ Shannon McCaffrey. "Georgia Reserves Reach Record High, Spurring GOP Tension." STATE AND REGIONAL July, 2007. The Associated Press State and Local Wire. Lexis-Nexis Universe. Online. Atlanta, GA 27 Nov. 2007.

⁷ McCaffrey

⁸ Tureck, et al, 25.

Georgia ranks in *Forbes* as one of the best regulatory environments in the nation. The state is ranked 24th out of 50 states.⁹ Moreover the *Forbes* study also awards Georgia the 3rd best regulatory rating in the South, with only Virginia at 1st and North Carolina at 2nd placing above it. However, other studies have a different view of Georgia's regulations.

According to the SCR, Georgia is fairly weak in the area of regulatory affairs, but the state appears to be improving. It is currently ranked 28th in the SCR index for number of health insurance mandates (tied with Illinois, Missouri and Montana) but was ranked 30th in the same category a year before.¹⁰

Georgia is particularly weak in its security, being ranked 39th overall in the SCR index.¹¹ More specifically, the state is ranked 40th in the crime index and 36th in the murder index.

Tax Policy

Georgia's taxes are ranked fairly average in many categories, but are somewhat weak in a few areas. The State Business Tax Climate (SBTC) is a tool for lawmakers and the media to compare the state's tax policies (with a ranking of one being best). In this index Georgia placed 20th out of 50.¹² Meanwhile, the SBS index rates a state's public policies according to how friendly a state is toward entrepreneurial activity. In that study the state also placed well with a ranking of 12th out of all states and the District of Columbia.¹³

The SBS index ranked Georgia's tax policies very similar to those of Kentucky, being tied for rank in the categories of personal income tax at 29th, top personal capital gains at 32nd, corporate income tax at 16th, and corporate capital gains 18th.¹⁴ The tax rate in Georgia for all of these categories is 6%. Judging by the results of these categories, Georgia is a somewhat unfavorable state for individuals, but more favorable for businesses and corporations.

The state and local property tax rate is just above average at 23rd. However, this is a controversial issue in Georgia.¹⁵ Many Republican lawmakers for the state are trying to pass legislation to eliminate property tax altogether.¹⁶ The plans to eliminate these taxes also called for a flat rate on sales and income tax to counter the loss from the property tax elimination. While Governor Perdue vetoed specific bills on the matter, the initiative

⁹ Kurt Badenhausen. "Special Report: The Best States for Business." *Forbes Magazine*. July, 2007. http://www.forbes.com/business/2007/07/10/washington-virginia-utah-biz-cz_kb_0711bizstates.html

¹⁰ Keating, 35.

¹¹ Beacon, 29.

¹² Chris Atkins and Curtis S. Dubay. *Background Paper: 2008 State Business Tax Climate Index*. October, 2007, Number 52. The Tax Foundation. 10. <http://www.taxfoundation.org/files/bp57.pdf>

¹³ Keating, 2.

¹⁴ Keating, 28-31.

¹⁵ Keating, 32.

¹⁶ Greg Bluestein. "House GOP Leaders Introduce Flat Tax Plan." *STATE AND REGIONAL* April, 2007. The Associated Press State and Local Wire. *Lexis-Nexis Universe*. Online. Atlanta, GA. 27 Nov. 2007.

at least sets a precedent to lower property tax rates. If the property taxes in Georgia are significantly reduced or eliminated, the appeal of locating a business in the state will be much greater.

The Adjusted Unemployment Tax rate is also quite favorable in Georgia, ranking 7th which is up from 14th in 2006.¹⁷ It is also worth noting that Georgia has no Individual or Corporate Alternative Minimum Tax.

Innovation

Georgia's record for innovation is somewhat average. The 2007 State New Economy (NE) Index ranks Georgia 18th overall for new business.¹⁸ Particular strengths in this realm are building on existing businesses (13th in Job Churning and 6th in Fastest Growing Firms).¹⁹ Job Churning counts the number of new start-ups and business failures, combined, as a share of the total firms in each state.²⁰ While the element of business failure in this category makes it sound negative, this is actually an indicator of strong business growth, given the context. In the same way that start-ups signal innovation and growth, so too do the number of business failures because it signifies a trend toward change and innovation. Older businesses fail because they cannot compete in new and emerging business environments; therefore, while it is bad for the particular business that is failing, it is positive for the economy as a whole.

Fastest Growing Firms counts the number of firms in a state that have seen growth of over 200% in the past four years.²¹ This is obviously a good indicator of a friendly business environment because it signifies innovation and successful business strategies. These gazelle firms, while being created out of smart innovation and job growth, also facilitate these two as more capital is reinvested into R&D.

Georgia's success is also noted by its high rank in foreign affairs at 16th in both Export Focus of Manufacturing and Services and Foreign Direct Investment (FDI).²² The Export Focus of Manufacturing is an important indicator of success because technology has enabled world markets to "shrink." It is as if the distance between nations, at least in terms of geography and trade restrictions, has become smaller, and as industries become more specialized, it is more cost effective to seek foreign markets to buy or sell a product. Georgia scores relatively well, which is not only good for the present time, but will be an increasingly important factor as international business becomes more prolific. FDI is another indicator of the propensity for international business, as it is the measure of investment in foreign industries. This is an especially lucrative method of investment because a firm need not buy supplies and staff and send them over to a foreign country. The only investment is monetary, whereby a firm can buy out or invest in a preexisting company abroad. Therefore, adapting to a new culture and infrastructure will be easier

¹⁷ Keating, 34.

¹⁸ Robert D. Atkinson and Daniel K. Correa. The 2007 State New Economy Index. Ewing Marion Kauffman Foundation Kansas, 2007. http://www.kauffman.org/pdf/2007_State_Index.pdf. 13.

¹⁹ Atkinson, 14.

²⁰ Atkinson, 33.

²¹ Atkinson and Correa, 34.

²² Atkinson and Correa, 14.

as the workforce and business practices are already in tune with those of a particular nation.

On the opposite end of international business, Georgia has proven itself as one of the most open states to foreign firms creating business in-state. A recent Associated Press article discusses the most recent of a number of Chinese firms to set up North American headquarters in Georgia.²³ Governor Perdue is very open to relations with China, and has expressed interest in FDI in China and an office for relations in Beijing. Critics worry about the danger and low quality of Chinese goods, but Georgia officials counter this concern, arguing that as China grows, and especially as its firms build headquarters in the US, it will increasingly have to adhere to ethical and accountable business practices. In a similar trend, the article notes, Kia Motor Corp. of South Korea is planning to set up a manufacturing plant in Georgia along the Alabama border, where Ford recently shut down a plant. Critics would argue that this is not in American interest, as it appears to quite obviously be stealing the automotive market from US firms. However, the jobs created in the US will go to American citizens; thus, much of the financial gain will be seen by Americans.

In a recent interview, Governor Perdue stated, “Globalization will take place. We hear all the time about outsourcing. My goal is to replace every job that goes with two jobs coming in”.²⁴ This is an ingenious plan by Governor Perdue, because it acknowledges the trend toward international business, while keeping the local workforce and unions happy by insisting on bringing jobs into the state. As was mentioned in the previous paragraph, investment from abroad can benefit the domestic environment by creating jobs and producing a potentially more profitable or cost-effective product.

Despite the international-savvy approach to business, Georgia’s innovation is somewhat inhibited by below-average technology. The SCR ranked the State 33rd overall in technology; however, the index ranked Georgia 19th in scientists and engineers as percent of workforce and 14th in high-technology share of all business establishments.²⁵ The 2007 SNE index gave Georgia’s immigration of knowledge workers a rank of 32nd. This rank measures the average education level of workers from other countries. This could hurt Georgia’s innovation rank in the future, as specialized jobs become increasingly more important in new businesses. However, as will be discussed, the influx of more highly educated immigrants will most likely increase due to the trend of Chinese business interest in the state.

Other areas in which Georgia ranked poorly were inventor patents at 44th, online population at 37th and industry investment in R&D at 35th.²⁶ However, Georgia ranks first in broadband telecommunications and 13th in digital economy,²⁷ so the negative figures of technology in the state are again not representative of all aspects of Georgia’s technology. Also, the high scores in the two technology-focused categories will help bring up the other, lower scores in the future. This is because businesses will

²³ Shannon McCaffrey. “Chinese Company Chooses Georgia for N. American Base.” BUSINESS NEWS September, 2007. Associated Press Financial Wire. [Lexis-Nexis Universe](#). Online. 30 Nov. 2007.

²⁴ McCaffrey.

²⁵ Tureck, et al, 25.

²⁶ Atkinson and Correa, 15.

²⁷ Atkinson, 15.

increasingly become more technologically savvy to keep up with competitors, both domestically and abroad. This is especially true in the category of online population, which will continue to grow with such a strong broadband infrastructure.

Georgia is extremely strong when it comes to business incubation with an overall rank of 8th according to the SCR.²⁸ The state is ranked 10th in venture capital investment dollars per worker, 3rd in percentage of labor force that is represented by unions, and 1st in minimum wage. SNEI ranks Georgia 12th in Entrepreneurial Activity and 17th in Economic Dynamism.²⁹

Infrastructure as an element of innovation needs some improvement in the state of Georgia. Overall, Georgia is ranked 35th in terms of infrastructure by the SCR.³⁰ Factors of this overall ranking are air passengers per capita at 5th, high speed lines per 1,000 citizens at 16th, travel time to work at 46th, and average rent of a two-bedroom apartment at 32nd. However, to counter the poor overall infrastructure ranking, it should be noted that the state ranks 1st in broadband telecommunications, which will have increasing importance in infrastructure as regular phone lines become a technology of the past. Another factor in this ranking worth noting is the sub-category measuring percentage of households with installed phones, which ranked 46th. This measure will presumably become less important as mobile communications begin to outpace land lines.

Travel time to work scored poorly, but other indicators may help improve this category. As of 2005, Georgia was ranked 5th in highway cost-effectiveness. If this trend continues, traffic congestion will be mitigated more efficiently. Also, a recent Associated Press article discussed plans to create more efficiency in the southwest region of Georgia.³¹ The addition to State Route 185 would alleviate traffic congestion on I-75 and create many jobs in the rural section of the state, the article explains. The route would more efficiently flow travelers to Florida from the north. Therefore, revenue from new business would come significantly from out of state dollars, leaving this area of Georgia relatively wealthier.

The number of “gazelle jobs” is an important indicator for a state’s innovation. This term refers to jobs in firms with annual sales revenue that has grown 20% or more for four straight years as a share of total employment for a state taken from the SNE Index.³² The number of “gazelle jobs” helps indicate how quickly or how much a state’s businesses are growing. Georgia is ranked 18th in this category, which follows the trend of excellent business incubation.

Workforce

Overall, the workforce in Georgia has a mixed record. It fairs poorly in the SCR, however the NE index ranks the state high in specific areas. The SCR, primarily ranks Georgia’s workforce in its “Human Resources” category. In this specific area, the SCR

²⁸ Tureck, et al, 25.

²⁹ Atkinson and Correa, 15.

³⁰ Tureck, et al.

³¹ “Leaders Launch Campaign for New Southwest Interstate”. STATE AND LOCAL November, 2006. The Albany Herald, Lexis-Nexis Universe. Online. Albany, GA. 28 Nov. 2007.

³² Atkinson and Correa, 32.

ranked the state 45th out of 50 states. In particular the SCR gave Georgia dismal rankings in the categories of adults in the workforce at 37th, those with a high school degree at 38th and those in degree granting institutions ranking 46th.³³

As mentioned, the NE index gave the state a better ranking. The state is ranked 12th in IT professionals, 15th in high-wage traded services, and 13th in job churning.³⁴ However, Georgia is ranked 35th in percentage of adults who are in the labor force.³⁵ This poor ranking should be somewhat mitigated in the years to come due to increases in technology and an increasingly stronger education system. Since there are many trends of innovation advances and foreign interest in Georgia, the workforce will most likely grow stronger.

Georgia's workforce is most appealing to businesses with regard to labor costs. The state is ranked 1st in minimum wage and 3rd in percent of labor force that is represented by Unions.³⁶ Also, the state is ranked 12th in Workers' Compensation Benefits per \$100 of covered wages where it is tied with Connecticut and South Dakota.³⁷ However, the state is ranked 34th in unemployment rate.³⁸ This figure will hopefully improve with a stronger education system in the future. The unemployment rate should inevitably improve due to the influx of businesses locating from China. The sheer number of jobs created from these firms should greatly reduce unemployment, and the more-employed workforce will in turn have more money to spend, creating a stronger service-sector job force.

Education

Georgia is ranked average to minimally below average in areas of education. The state does most poorly in percentage of adults aged 25+ with a high school diploma ranking 37th.³⁹ It is also ranked 24th in workforce education, 25th in technology in schools and 36th in scientists and engineers.⁴⁰ However, as was discussed in the *Public Policy* section of this report, a significant amount of the state's budget surplus is to go to funding of education adjustments. The added funding should improve the standings in all of the categories of education. Also, the number of scientists and engineers along with various types of R&D should improve if some of this funding goes to improve the relatively weak state university system.

As Georgia is ranked first in broadband telecommunications, its ranking for technology in schools should improve in the future, which in turn should improve the workforce education and adults-with-diplomas rate.

The US Chamber of Commerce, with affiliate Institute for a Competitive Workforce, recently published a report entitled *Leaders and Laggards: A State by State Report Card*

³³ Tureck, et al, 25.

³⁴ Atkinson and Correa, 15.

³⁵ Tureck, et al.

³⁶ Tureck, et al.

³⁷ Keating, 37.

³⁸ Tureck, et al.

³⁹ Beacon, 29.

⁴⁰ Atkinson and Correa, 14.

on *Educational Effectiveness*.⁴¹ This report graded each state in nine specific categories. In the first category, “Academic Achievement”, Georgia earned a “D”. This was due to below average scores that fourth and eighth graders achieved in math proficiency tests in the state. The state also earned a “D” in the academic achievement of low-income and minority students, because only 9% of eighth graders in this category scored at or above the proficient level on the National Assessment of Educational Progress (NAEP) math exam. The national average for this category of students is 13%. Georgia earned a “C” in “Return on Investment”, because the student achievement relative to state spending is average. In “Truth in Advertising about Student Proficiency”, the state received another “D”, because, while the state identified significant percentages of its students as proficient on 2005 state reading and math exams, much smaller percentages posted proficient scores on the NAEP in 2005. A much better grade of “B” was awarded in the category of “Rigor of Standards.” This is because the math, reading and science programs are all above average in terms of rigor, and the state has enacted a rigorous exit exam that students must pass to graduate. Georgia earned another “D”, for “Postsecondary and Workforce Readiness”, because only 56% of its ninth grade students receive a diploma within four years compared with the national average of 70%. The state’s 21st Century Teaching Force is excellent, because it tests incoming teachers on their basic skills, requires high school teachers to pass subject knowledge tests, and requires alternative route participants to demonstrate subject matter expertise. For this, Georgia received an “A”. The state also fared well in Flexibility in Management and Policy, earning a “B” for establishing a virtual school and for 94% of its principals reporting a major degree of influence over new teacher hiring. Finally, Georgia earned another excellent mark for its Data Quality. The State earned an “A” because “Unlike most other states, Georgia collects student-level college readiness test scores and transcript information, and it has a teacher-identifier system with the ability to match teachers to students to gauge teacher effectiveness.”⁴² Georgia’s “GPA” for this report was 2.22, ranking the state mildly below average overall in its education program.

A recent report in *The Atlanta Journal-Constitution* stated that, while Georgia students still perform worse than the national average in reading and math standardized tests, the scores of Georgia students has risen in recent years.⁴³ Again, as technology increases in education, the scores of these tests will most likely increase.

As was mentioned in the *Innovation* section, Georgia has built strong economic relations with China. As a result, schools in Georgia have increasingly incorporated some levels of Chinese into their language programs.⁴⁴ This will be a very useful tool in proliferating

⁴¹ The Institute for a Competitive Workforce. Leaders and Laggards: A State By State Report Card on Educational Effectiveness. US Chamber of Commerce, 2007. 21.
<http://www.uschamber.com/NR/rdonlyres/e6vj565iidmycznvk4ikm3mryxo5nslm7iq2uyrta5vrqdxsagjvkvxfz6r3buzapo4uxv4o4ep4nvhmc3ppc7drjd/USChamberLeadersandLaggards.pdf>

⁴² Institute, 21

⁴³ Laura Diamond. “State Students’ Scores Rise, but Trail U.S. Average; High Expectations: Georgia Must Work ‘Faster to Catch Up With Other States,’ Says a Leading Proponent.” GWINNETT NEWS 26 Sept. 2007: 5J. The Atlanta Journal-Constitution. Lexis-Nexis Universe. Online. Atlanta, GA. 28 Nov. 2007.

⁴⁴ “More Georgia Public Schools Teaching Chinese.” STATE AND REGIONAL 2 Sept. 2007. The Associated Press State and Local Wire. Lexis-Nexis Universe. Online. Atlanta, GA. 28 Nov. 2007.

relations between China and the state in two primary ways. First, the obvious language barrier will be softened and more of Georgia's workforce will be able to perform more efficiently in new Chinese businesses. A positive side effect of learning Chinese is the appreciation and understanding of Chinese culture. This will further improve relations between China and the US.

Cost of Market Entry

The Milken Institute releases an annual study in which it ranks the states with the highest cost of doing business on a scale of 1-50 (with a ranking of 50 being best for business).⁴⁵ In this study, Georgia was given a below average rating with the 32nd highest cost of doing business.

The SBS index cost of market entry ranking for Georgia is modestly above average. Electric utility costs ranked at 28th have become comparatively worse than the ranking of 26th in 2006.⁴⁶ The state gas tax is slightly below average ranked 32nd in the nation.⁴⁷ The state and local property tax rate is ranked 23rd, a little better than the national average.⁴⁸ However, this ranking is likely to improve as property tax reform is in Georgia's future. If it eventually is completely removed, Georgia's market entry costs will be extremely low. Even if this is not achieved, the rates will drop significantly.

Georgia has kept an AAA bond rating, and Standard and Poor (S&P) made the following statement about the state's plans to keep this rating: "The state's rating reflects the full faith, credit, and taxing powers of the state." S&P also cited:

- The state's diverse economic base...which has lead to strong economic growth despite increased vulnerability during business cycles
- The state's history of making difficult decisions to restore fiscal balance enhanced by strong financial monitoring and oversight
- Revenue growth recovery by the end of fiscal 2004 and a reasonably balance(sic) 2005 budget, offsetting weakened financial operations and reserve levels
- A low debt burden

In affirming the AAA rating, Fitch Ratings said, "Georgia's superior credit standing results from excellent debt policies, past growth and potential for future development."⁴⁹

⁴⁵ "2007 Cost of Doing Business Index." Milken Institute. December, 2006.
<http://www.milkeninstitute.org/pdf/2007CostofDoingBusiness.pdf>

⁴⁶ Keating, 36.

⁴⁷ Keating, 40.

⁴⁸ Keating, 32.

⁴⁹ Sonny Perdue. "Georgia Climbs to Number Two in U.S. Business Climate Ranking." Office of the Governor, State of Georgia. November, 2007. www.gov.state.ga.us/press/2007/press1589.shtm

These strong credit ratings ensure new businesses will be able to borrow more easily and successfully. The large budget surplus also supports the assurance in successful borrowing for business owners.

The low tax rates discussed above are perhaps the most important aspects a new business considers with regard to the cost of market entry. With low rates particularly in corporate taxes, investors and venture capitalists will see a relatively strong opportunity for return in Georgia. The low cost of business, combined with the state's innovative and international tendencies, make it an ideal location for emerging, world-focused businesses.