Quick Takes- Incentives that matter: “Would you like Freeport with that?”
Date: February 17, 2004

This series of *Quick Takes* is concerned with identifying incentives that really make a difference. We are looking this time at “Freeport.” Freeport is Georgia’s local option exemption for *ad valorem* property taxes on inventory.

Freeport is a good incentive, but it could be better. One particular enhancement has been suggested that might make a difference First, let’s take a look at how Freeport works now.

A community that has Freeport helps its existing and new industries by exempting their inventory of raw materials, work in progress and finished goods from *ad valorem* property tax. Warehoused goods also benefit from Freeport. (There are requirements and limitations, and a retailer’s stock in trade at the retailer’s sales location does not benefit from Freeport. A Freeport summary is located at the foot of this article.)

A distribution center usually will have more inventory than a manufacturing plant, but sometimes manufacturers will have substantial inventories (think- “large automotive industry plant”). Any prospect whose project has a lot of inventory usually will not seriously consider locating or expanding a project in a community where Freeport is not available.

In that case in order to get the project, the community might have to approve Freeport (which takes a referendum) or implement it or increase its level (which takes a vote of the board of commissioners and/or mayor and council). If the project is significant, you can also expect the prospect to be expecting other incentives as well, such as property tax abatement for its fixed assets (land, building and equipment).

In other words, Freeport for inventory complements property tax abatement for fixed assets. The community may not volunteer to adopt or increase Freeport. Can you visualize the community leaders saying, “Do you want Freeport with that?” But the community that does not have Freeport should not expect to be able to successfully duck the issue.

At the same time, the community has to weigh the benefits to it from the project (net property tax revenues, sales and use tax revenues, home purchases, employment opportunities for its citizens, etc.), against the costs to the community from the project (services required, cash and in-kind incentives it has to provide, etc.).

In solving this cost-benefit equation, the community needs to take into account (in a way that the prospect might not) a Freeport feature that is sometimes overlooked. This same feature also offers an opportunity to enhance Freeport on a local option basis. This feature is particularly important with distribution center projects.

Here’s the feature that can help a community justify granting an aggressive property tax abatement program for fixed assets, while still obtaining a positive net benefit from the project--the Freeport exemption for warehoused goods depends on where the goods are going to be shipped! The feature stems from the wording of the exemption, which applies to: “Inventory of finished goods which, on January 1, are stored in a warehouse, dock, or wharf, whether public or private, and which are destined for shipment to a final destination outside this state and inventory of finished goods which are shipped into this state from outside this state and stored for transshipment to a final destination outside this state."

In a number of projects that I have been involved in, it turned out that a large portion of the prospect's inventory was not exempt from Freeport, because that portion's final destination was within Georgia. With those projects, the in-state portion of inventory alone generated enough property tax revenues to yield a positive overall net benefit for these communities, even <u>after</u> the effects of aggressive fixed asset property tax abatement schedules!

So here's the first "take away" from this issue of *Quick Takes* -- don't overlook the hidden revenues from property taxes that will exist <u>even when a community has Freeport</u>!

But here's the second "take away" -- if you're the prospect, these inventory property taxes are a cost! A statewide economic developer recently brought to my attention that Georgia lost a large distribution center to South Carolina for just this reason.

So, should Georgia allow communities to extend Freeport to goods that will be shipped in-state? It's interesting that this question comes up just as controversy has arisen about Freeport's impact on the state's system of funding education (see "Perdue's Budget Plan Tougher Than It Looks", the Atlanta-Journal Constitution, January 30, 2004, p. D6). Basically, the school funding system overstates a community's own resources by ignoring the impact of Freeport on the tax digest.

Maybe the solution is to amend the state's Freeport law to allow a community to have the further option to exempt in-state inventory. Thus, Freeport, which is local option anyway, would have one more option to offer. Keep in mind, though, that the well advised prospect would be just as demanding, to get this Freeport option, as prospects are now to get the other Freeport advantages.

If you have opinions about the pro's and con's of adding this option to Freeport, please let me know.

Meanwhile, the next issue of *Quick Takes* will address an incentive that is badly needed but that doesn't cost anything- prospect confidentiality! Our state badly needs changes to its open meetings and open records laws that would allow Georgia and its communities to recruit prospects while at the same time honoring the prospect's legitimate needs for confidentiality. In the next *Quick Takes*, we will take a look at the existing exemptions and discuss what else is needed.

February 17, 2004 interest rates on IDBs (variable rate demand bonds; AMT; 7 day general markets; rates are market extracted and approximations):

Interest Rates:
tax-exempt 1.13%
taxable 1.19%

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General note: This issue of *Quick Takes* is a quick-reference guide for economic developers, participants in the real estate and financial industries, company executives and managers, and their advisors. The information in this issue is general in nature. Various points that could be important in a particular case have been condensed or omitted in the interest of readability. Specific professional advice should be obtained before this information is applied to any particular case.

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Freeport Summary:

A. A county or municipality may, subject to passage of a referendum, exempt from *ad valorem* taxation, including school taxes and state taxes, certain types of tangible personal property, as provided by law, as follows:

(1) Inventory of goods in the process of manufacture or production which shall include all partly finished goods and raw materials held for direct use or consumption in the ordinary course of the taxpayer's manufacturing or production business in this state. The exemption provided for in this paragraph shall apply only to tangible personal property which is substantially modified, altered, or changed in the ordinary course of the taxpayer's manufacturing, processing, or production operations in this state….; or

(2) Inventory of finished goods manufactured or produced within this state in the ordinary course of the taxpayer's manufacturing or production business when held by the original manufacturer or producer of such finished goods. The exemption provided for in this paragraph shall be for a period not exceeding 12 months from the date such property is produced or manufactured; or

(3) Inventory of finished goods which, on January 1, are stored in a warehouse, dock, or wharf, whether public or private, and which are destined for shipment to a final destination outside this state and inventory of finished goods which are shipped into this state from outside this state and stored for transshipment to a final destination outside this state. The exemption provided for in this paragraph shall be for a period not exceeding 12 months from the date such property is stored in this state….

B. After a referendum has passed, the county or municipality may exempt from taxation 20%, 40%, 60%, 80% or all of the value of such tangible personal property.

C. Once an exemption has been granted, no reduction in the percent of the value of such property to be exempted may be made until and unless such exemption is revoked or repealed. An increase in the percent of the value of the property to be exempted may be accomplished by appropriate resolution of the governing authority of such county or municipality. Such increase shall be in increments of 20%, 40%, 60%, or 80% of the value of such tangible personal property as determined by such governing authority.

Exemptions may only be revoked by another referendum. Such referendum may not be called within five years from the date such exemptions were first granted. If the revocation referendum passes, then such revocation shall be effective only at the end of a five-year period from the date of such revocation referendum.

Note. The above summary contains paraphrases or quotations from the Freeport statute, but is not complete. In addition, a taxpayer who wants the benefit of the Freeport exemption must annually file a proper application for it. Before taking any action with respect to Freeport, the complete Freeport statute should be reviewed, and professional advice obtained. If you would like to have a copy of the complete statute (no charge), please email me a request.