Audit: Job incentives lack oversight

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By Greg Bluestein and J. Scott Trubey - The Atlanta Journal-Constitution

A new state audit raises questions about government oversight of the vast web of local economic development authorities across Georgia that have financed or awarded tens of billions in job recruitment incentives.

Auditors found that the authorities, created by cities and counties**,** often fail to adhere to state sunshine laws that aim for more transparency in government. Some authorities, the audit concluded, don't have basic ethics bylaws or conflict-of-interest policies guarding against members pushing deals to benefit themselves.

- Does Georgia get bang for its economic development bucks?
- Incentives for companies in Georgia sometimes don't deliver promised jobs
- 'No. 1' for business, but state lags in economic measures
- Comparing state, national economic indicators

The review, released this week in advance of the legislative session that starts Jan. 13, recommends that lawmakers strengthen the training of authority board members and suggests a host of other changes designed to increase accountability.

It underscores the tension between the push to create jobs while also remaining transparent. The Department of Community Affairs, which keeps tabs on the authorities, said in a response that it must balance the public's right to know while ensuring the authorities "have the ability to be as efficient and effective as possible."

The 487 development authorities sprinkled across the state in often-overlapping networks have long been a sore spot for watchdog groups. Critics say that although the audit examined only 11 authorities in six counties, the findings raise pressing concerns.

Neill Herring, a Sierra Club lobbyist, said environmental advocates are particularly worried about the authorities because they sometimes back "dubious" projects such as landfills and waste facilities.

"They are largely unregulated. They have appointed memberships and many of them appoint their own members," Herring said. "And they hand out tax breaks and are allowed to do self-dealing in all financial transactions between members and the authorities."

Development authorities date to the 1950s and have proliferated, as have their missions. Today they drive the development of industrial parks, act as local liaisons to recruit major prospects and steer redevelopment of boarded-up downtowns and vacant tracts.

- Georgia long way from top as tax-friendly state

They get partial credit for some of the decade’s biggest job deals, including the recent enticement of a new pharmaceutical plant for Baxter International in Social Circle and Caterpillar’s manufacturing hub outside Athens.

Between 2003 to 2012, the authorities issued more than $34 billion in bonds to help lure companies to Georgia or entice those here to expand. The authorities also manage state grants and loans that total more than $320 million.

In many cases the companies — not taxpayers — are on the hook for the billions in bonds that the agencies issue.

But some authorities also issue taxpayer-backed debt, as happened when a Gwinnett County authority approved $33 million in public-backed bonds to build a new minor league baseball stadium. Other public money is at stake through state grants and loans awarded for the benefit of companies through local development authorities.

Auditors reviewed the program at the request of House lawmakers wary of the high debt load by some authorities.

They took a close look at 14 economic development projects that received state grants in the last five years and found that state officials had only conducted formal reviews of four. In other instances, development boards failed to get up-to-date property appraisals on land they were purchasing and their project spending reports lacked essential information.

An analysis by The Atlanta Journal-Constitution earlier this year of two of those “deal-closing” grant programs, REBA and EDGE, found that nearly half of the companies that received awards through the programs failed to create the total number of jobs promised by their contractual deadline, but that state officials rarely recouped money.

The review also raised transparency concerns. Several authorities failed to publicly disclose votes that took place behind closed doors in executive session. And of the 11 authorities reviewed, only two had a formal conflict of interest policy and only one required members to formally agree to the rules.

Auditors warned that could clash with a state law that bans members of the authorities from taking action on an issue where they have a financial interest. The audit included the example of an unnamed authority which used local funds to acquire land from a charitable foundation whose president was also a board member. The authority didn’t record how the board members voted on the issue - or even that they voted at all.

Among the potential fixes auditors suggested were tighter financial controls, a new requirement that all authorities include a formal conflict of interest policy, and a recommendation that members of boards pursuing state grants file personal financial disclosures to ward off unseemly deals.

Department of Community Affairs officials didn’t reject that counsel, but noted state law doesn’t give it regulatory powers over these authorities “and therefore can only be a partner with them and other relevant state agencies in any improvement process.”

A House spokesman said Thursday it’s too early to know if lawmakers will turn the audit’s findings into legislative proposals. But Herring, the Sierra Club critic, said the report is a sign that change is needed.

“Only a miracle on the order of finding a house cat that could diagram sentences would preclude corruption in such an environment,” he said.

Payouts to development authorities

Taxpayer money flows to local development authorities in the form of state grants and loans designed to encourage economic development. In the past 10 years the Georgia Department of Community Affairs has awarded 504 grants and loans totaling $323.4 million. The top programs were:

OneGA-Edge Fund — $ 142.6 million. For rural Georgia communities who are competing for business with a community outside the state.

OneGA-Equity Fund — $51.4 million. To assist rural communities with building infrastructure for economic development.

Regional Economic Business Assistance — $81.7 million. To help Georgia lure companies who are considering moving or expanding their business.

Source: Georgia Department of Audits and Accounts, Georgia Department of Community Affairs, OneGeorgia Authority.

CONTINUING COVERAGE

A review by The Atlanta Journal-Constitution this year found that nearly half of the firms that received awards through two “deal-closing” grant programs failed to create the promised number of jobs, but that state officials rarely recouped the money. Today’s story focuses on an audit of the vast network of development authorities that help channel those funds, and concerns about their transparency and accountability.