Special Report
Arkansas Legislative Audit

Cost-Benefit Analysis of Selected Economic Incentive Projects

For the Period July 1, 2003 through December 31, 2015

INTRODUCTION

The Consolidated Incentive Act of 2003 (CIA), codified at Ark. Code Ann. §§ 15-4-2701 – 15-4-2714, combined existing economic development tax incentives primarily into four statutory and five discretionary economic incentive programs that are described on **pages 2 and 3**. Ark. Code Ann. § 15-4-220 requires Arkansas Legislative Audit (ALA) to prepare a cost-benefit analysis of the economic incentive projects annually. ALA staff selected 46 projects for review in this report. Additional projects, including incentives not created by CIA, may be examined in future reports.

OBJECTIVES

The objectives of this report were as follows:

- Evaluate controls over the awarding and issuance of CIA incentives by the Arkansas Economic Development Commission (AEDC) and the Arkansas Department of Finance and Administration (DFA).
- Determine the effectiveness of selected CIA projects.

SCOPE AND METHODOLOGY

This review was conducted for the period July 1, 2003 through December 31, 2015. ALA staff interviewed representatives from AEDC and DFA and reviewed application, payment, and evaluation documents relating to the selected projects. Additionally, ALA staff utilized IMPLAN®, a widely-used economic software model, to estimate local economic impacts of specified incentive projects. ALA staff also reviewed Arkansas Code and rules and regulations applicable to the CIA.

The methodology used in preparing this report was developed uniquely to address the stated objectives; therefore, this report is more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

ARKANSAS LEGISLATIVE AUDIT
500 Woodlane Street, Suite 172, Little Rock, AR 72201
Phone: 501-683-8600 • Fax: 501-683-8605
www.arklegaudit.gov

Report ID: SPSA00515 Report Date: September 28, 2016

BACKGROUND

The General Assembly determined that job creation and capital investment depend on remaining competitive with other states for business locations and expansions. Enacted by the General Assembly in 2003, CIA consists of incentive programs divided into statutory and discretionary groups. Statutory incentives are available to any qualifying business applying for funds, and discretionary incentives are awarded at the discretion of AEDC's Director in competitive situations. Companies may receive multiple incentives. Primary programs are listed below and summarized in **Exhibit I on page 3**.

Statutory Incentives

TaxBack (Sales and Use Tax Refund): Refund of sales and use taxes for purchases of building materials and taxable machinery and equipment. All project costs must be incurred within four years and must exceed $100,000.

InvestArk (Sales and Use Tax Credit): Sales and use tax credit for existing businesses investing at least $5 million in plant or equipment for new construction, expansion, or modernization within a four-year period. The credit is equal to 1/2% above the state sales and use tax rate. Additionally, any incentives earned can only be used to offset up to 50% of the company's sales and use tax liability in a given year. Any unused credits may be carried forward for a period of up to five years.

Advantage Arkansas (Income Tax Credit): Income tax credits for job creation based on the payroll of new full-time, permanent employees. The credits may be earned for five years, range from 1% to 4%, and require minimum new payroll of $50,000 to $125,000, depending on the tier ranking of the county. Credits can be used to offset up to 50% of the company's income tax liability in a given year. Unused credits may be carried forward for nine years beyond the year in which the credit was first earned.

In-House Research and Development: Income tax credits based on qualified research and development expenditures within a five-year period. Credits may be used to offset 100% of the business' income tax liability in a given year. The incentive is equal to 20% of eligible research expenditures. Unused credits may be carried forward for nine years beyond the year in which the credit was first earned.

Discretionary Incentives

Create Rebate (Payroll Rebate): Annual cash payments based on the annual payroll for new full-time, permanent employees. To receive this credit, the company must create a minimum of $2 million in new payroll. The incentive period, determined at the time of the agreement, may last up to 10 years. The rebate is equal to 3.9% to 5% of new, eligible payroll, depending on the tier ranking of the county.

ArkPlus (Investment Income Tax Credit): Income tax credits equal to 10% of the total investment in a new location or expansion project. To receive this credit, the business must invest $2 million to $5 million and have new payroll of $800,000 to $2 million, depending on the tier ranking of the county. Credits can be used to offset up to 50% of the company's income tax liability in a given year. Unused credits may be carried forward for nine years beyond the year in which the credit was first earned.

Sales and Use Tax Refund – Targeted Business: Refund of sales and use taxes paid on the purchases of building materials and taxable machinery and equipment for businesses in targeted sectors. All project costs must be incurred within four years and must exceed $100,000.

Exhibit I

Consolidated Incentive Act Incentives

Incentive	Sales and Use Tax Refund or Credit	Income Tax Credit	Cash Payment	DFA Audit Required
Statutory Incentives				
TaxBack	✓			✓
InvestArk	✓			✓ **(Note 1)**
Advantage Arkansas		✓		✓
In-House Research and Development		✓		**(Note 2)**
Discretionary Incentives				
Create Rebate			✓	✓
ArkPlus		✓		✓
Sales and Use Tax Refund – Targeted Business	✓			✓
Payroll Tax Credit – Targeted Business		✓		✓
In-House Research and Development – Targeted Business		✓		**(Note 2)**

DFA = Department of Finance and Administration

Note 1: InvestArk audits are performed by DFA after incentives are issued.
Note 2: Research and Development expenditures are reviewed by the Arkansas Economic Development Commission Division of Science and Technology prior to payment.

Source: *Consolidated Incentive Act of 2003, codified at Ark. Code Ann. §§ 15-4-2701 – 15-4-2714*

<u>Payroll Tax Credit – Targeted Business</u>: Income tax credits equal to 10% of payroll to assist with the start-up of businesses in targeted sectors that pay significantly more than the state or county average wage. The business must have payroll between $100,000 and $1 million to earn the credit. The incentive may be offered for a period not to exceed five years. Unused credits may be carried forward for nine years beyond the year in which the credit was first earned.

<u>In-House Research and Development – Targeted Business</u>: Income tax credits based on qualified research and development expenditures in targeted sectors within a five-year period. Credits may be used to offset 100% of the business' income tax liability in a given year. The incentive is equal to 33% of eligible research expenditures. Unused credits may be carried forward for nine years beyond the year in which the credit was first earned.

County Tier System

With the exception of the InvestArk, Payroll Tax Credit – Targeted Business, and In-House Research and Development incentives, benefits provided by the CIA are determined in relation to the tier ranking of the county in which the project is located. As shown in **Exhibit II on page 4**, the State's 75 counties are divided into four tiers, with Tier 1 representing the most prosperous counties and Tier 4 representing the counties with the greatest need of economic development. AEDC determines the tiers annually by ranking each county using four variables:

- Poverty rate.
- Population growth.
- Per capita income.
- Unemployment rate.

AWARDING AND ISSUANCE OF CIA FUNDS

From the inception of the CIA program in 2003 through the end of calendar year 2015, CIA incentives awarded and issued totaled $634.6 million. This amount is expected to rise for this period because a lag exists between when the incentive requirement is met and when the recipient may file a claim to receive funding for the incentive. Through 2015, the amount of incentives used by companies totaled $431.5 million.

Exhibit II shows the awarding and issuance of CIA funds through 2015 based on 2015-2016 county tier ratings. **Exhibit III on pages 6 and 7** breaks down the CIA awarding and issuance of funds by program, region, industry, and calendar year.

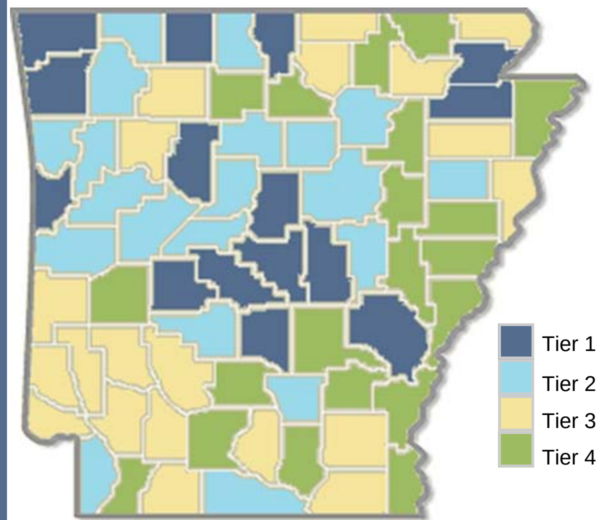
Arkansas Economic Development Commission

AEDC is responsible for awarding CIA incentives and first determines if companies are eligible as a non-retail business engaged in commerce for profit, as defined by Ark. Code Ann. § 15-4-2703(10). Once eligibility is determined, AEDC ensures data submitted on the application meet the requirements and thresholds of the incentive requested. Requirements include average hourly wages, investment totals, and new payroll created. ALA staff reviewed the application process, illustrated in **Appendix A**, and found it to be reasonable.

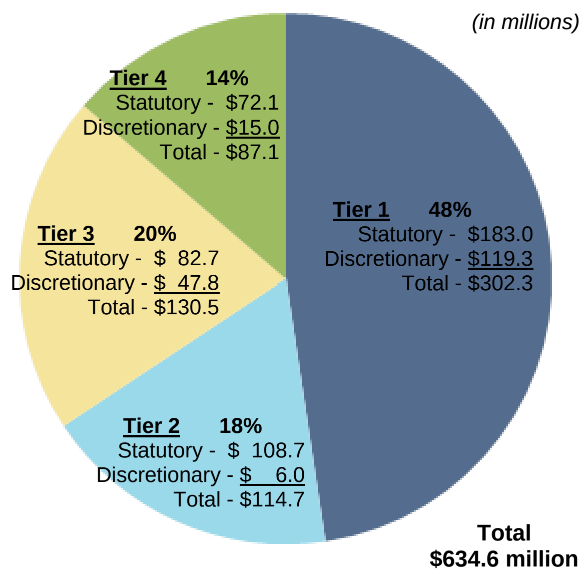
During the application process, AEDC conducts a cost-benefit analysis for each proposed project using IMPLAN®, a software program that analyzes economic impact, and an internally-developed cost-benefit spreadsheet. IMPLAN® calculates regional multipliers for Arkansas based on industry category. AEDC uses those multipliers to estimate potential direct, indirect, and induced tax benefits to the State. This

Exhibit II

Consolidated Incentive Act (CIA) County Tier Map 2015-2016



CIA Funds Awarded 2003-2015 Based on 2015-2016 County Tier Ratings



Note: County tiers are reassigned each year. The county tiers shown here were in effect for projects approved during the period July 1, 2015 through June 30, 2016. Tier 1 represents the most prosperous counties, and Tier 4 represents the counties with the greatest need of economic development.

Source: *Arkansas Economic Development Commission (unaudited by Arkansas Legislative Audit)* process does not account for any potential local tax benefits (e.g., new property tax, local sales tax, or business license fees). AEDC analyzes each potential project over a 10-year period (or a 20-year period for large projects), regardless of the length of incentives offered, for comparison purposes among projects. ALA staff reviewed the cost-benefit analysis process and assumptions used by AEDC and determined them to be reasonable.

Statutory incentives must be approved, regardless of the outcome of the cost-benefit analysis, if other eligibility requirements are met. Statutory incentives accounted for 70.3% of all incentives issued. With the exception of In-House Research and Development – Targeted Business incentives, discretionary incentives are approved only if they have a positive cost-benefit ratio and meet other criteria. Discretionary incentives accounted for 29.7% of all incentives issued. ALA staff noted all non-Research and Development cost-benefit analysis reports for projects containing discretionary incentives were favorable.

Department of Finance and Administration

DFA verifies that incentive requirements have been met and issues the payments/rebates, with the exception of Create Rebate and In-House Research and Development incentives, which are issued by AEDC and the AEDC Division of Science and Technology,[1] respectively. AEDC issues Create Rebate payments based on authorizations provided by DFA. The AEDC Division of Science and Technology determines the eligibility of research expenditures for In-House Research and Development projects prior to authorizing income tax credits.

For a company to receive an incentive, it must annually certify that requirements to receive the incentive have been met. To monitor the performance-based incentives, DFA's Office of Field Audit conducts annual audits of the data that companies submit to ensure accuracy and eligibility of incentives claimed. Errors noted by DFA auditors are communicated to the company, which makes appropriate adjustments. ALA staff noted all audits related to projects reviewed had been completed prior to an incentive being issued, excluding InvestArk projects. To be more efficient, DFA incorporates InvestArk audits into its regularly-scheduled sales and use tax audits of direct-pay taxpayers, which occur every three years. The DFA verification process is illustrated in **Appendix A**.

REVIEW OF SELECTED PROJECTS

A number of factors are considered when determining whether economic incentives resulted in a net positive benefit to the State. For example, the primary reason to offer a business an incentive is to elicit economic activity that would otherwise not occur. However, there is no definitive way to determine the action a business would have taken if an incentive had not been offered. If a business would have created jobs or invested in a new location without receiving incentives, then any incentives offered would have a negative effect on the State. Likewise, if an incentive causes a business to create jobs or invest in a new location that it would not have otherwise, the impact from the incentive could be considered positive.

Statutory incentives are awarded and issued if the company applies and meets the requirements for the incentives. Essentially, any company with knowledge of incentives available will know upfront what it is allowed to claim and will incorporate this knowledge into the decision to create jobs or build a new facility. It is likely, then, that the existence of statutory incentives will cause some companies to claim incentives for projects they would have pursued in the absence of incentives. However, for the purposes of this report, incentives were analyzed under the assumption that, without the incentive, the corresponding economic activity would not have occurred.

[1]The Arkansas Science and Technology Authority (ASTA) was transferred to AEDC by Act 8 of the First Extraordinary Session of 2015 and became the AEDC Division of Science and Technology.

ALA staff reviewed 46 CIA projects with eligible project investments of $700.4 million that were awarded incentives totaling $57.3 million in tax credits, refunds, and rebates. Projects reviewed received six different incentives (Advantage Arkansas, InvestArk, TaxBack, Create Rebate, In-House Research and Development – Targeted Business, and Targeted Business – Payroll Tax Credit). These incentives were offered for tax years 2004 through 2013, and the projects were distributed among tier rankings as follows:

- 22 projects in Tier 1 counties.
- 6 projects in Tier 2 counties.
- 12 projects in Tier 3 counties.
- 6 projects in Tier 4 counties.

To estimate the effectiveness of the projects, ALA staff compared estimated project costs from application data obtained from AEDC to actual DFA audited costs. The ALA analysis is divided between InvestArk and Non-InvestArk incentives. Each is discussed below.

InvestArk Incentives

InvestArk is primarily a retention incentive available to existing businesses that have been in the State for at least two years and invest $5 million in new construction and equipment. Of the 46 projects reviewed in this report, 22 received only InvestArk incentives, and 4 projects received a combination of InvestArk and other incentives. ALA staff did not calculate a cost-benefit ratio on InvestArk projects or the InvestArk portion of projects because, due to the nature of the incentive, there is no job creation required for InvestArk projects. As a result, the cost-benefit calculation is not as accurately measured by IMPLAN® software, which relies heavily on job creation in its calculations.

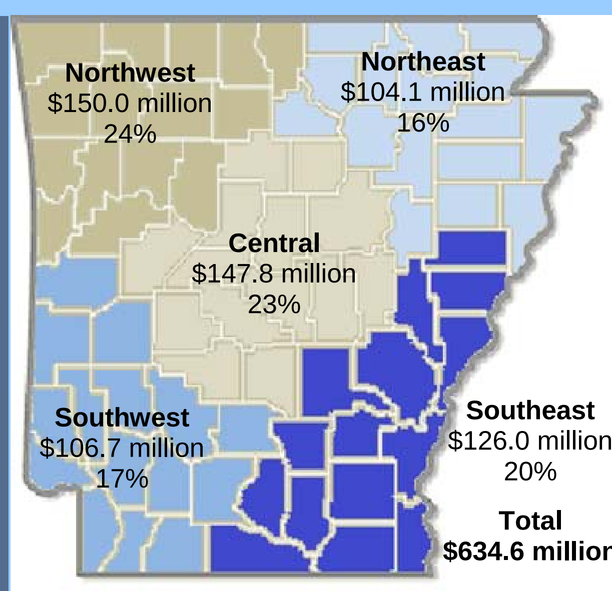
Exhibit III

Consolidated Incentive Act (CIA) Funds Awarded
July 1, 2003 - December 31, 2015

CIA Funds Awarded by Incentive Program

Incentive	Amount	Percent
Statutory		
InvestArk	$ 380,251,983	59.9%
Advantage Arkansas	27,205,404	4.2%
Tax Back	26,729,093	4.3%
In-House Research and Development	12,289,794	1.9%
Total Statutory	446,476,274	70.3%
Discretionary		
ArkPlus	86,615,121	13.7%
Create Rebate	82,647,916	13.0%
In-House Research and Develoment – Targeted Business	17,266,019	2.7%
Payroll Tax Credit – Targeted Business	1,584,445	0.3%
Tax Back – Targeted Business	24,711	0.0%
Total Discretionary	188,138,211	29.7%
Total Incentives	**$ 634,614,486**	100.0%

CIA Funds Awarded by Region

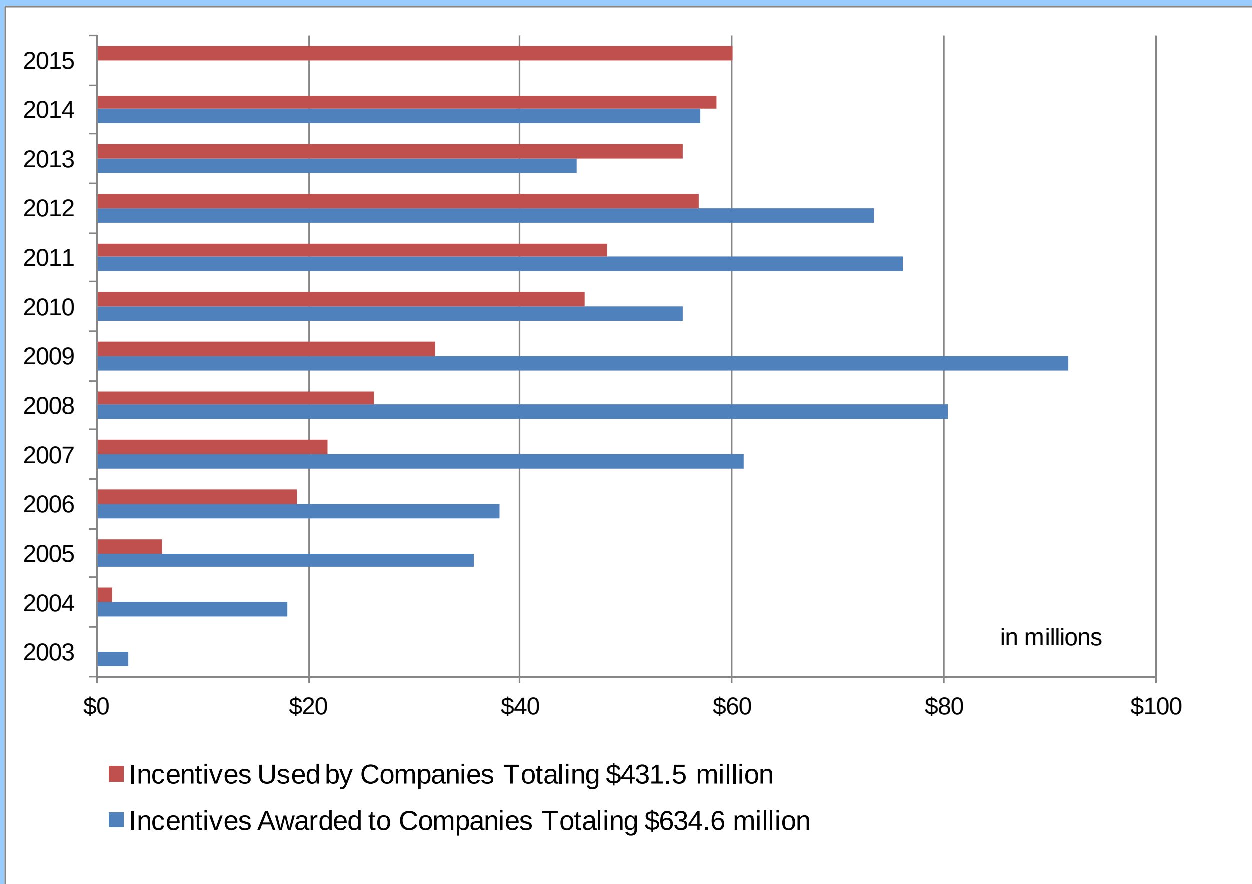


***Source**: Arkansas Department of Finance and Administration and Arkansas Economic Development Commission (unaudited by Arkansas Legislative Audit)*

Exhibit III (continued)

Consolidated Incentive Act (CIA) Funds Awarded
July 1, 2003 - December 31, 2015

CIA Funds Awarded and Used by Year



CIA Funds Awarded by Industry

Industry Category*	Amount	Percentage
Mining, Extraction, Utilities, and Construction	$ 5,419,586	0.85%
Food and Textile Manufacturing	96,760,353	15.25%
Wood, Paper, Petroleum, Coal, and Chemical Manufacturing	283,922,113	44.74%
Metal, Machinery, Electronic, and Miscellaneous Manufacturing	154,033,236	24.27%
Wholesale, Transportation, and Warehousing	4,854,464	0.76%
Professional Services (e.g., Finance, Real Estate, Scientific) and Other	89,624,733	14.12%
Total CIA Funds by Industry	**$ 634,614,485**	**100.00%**

*** United States Department of Commerce, North American Industry Classification System***

***Source**: Arkansas Department of Finance and Administration and Arkansas Economic Development Commission (unaudited by Arkansas Legislative Audit)*

However, InvestArk projects may or may not result in a positive net tax benefit to the State. The intended result of an InvestArk project is to retain businesses that may otherwise chose to leave the State by incentivizing new development within the State. InvestArk projects result in new or updated facilities or equipment, which could lead to increased jobs and productivity or could lead to decreased jobs if the improvements reduce the workforce. A schedule of InvestArk expenditures is included at **Schedule 1 on page 11.**

Non-InvestArk Incentives

For the 24 projects with Non-InvestArk incentives, ALA staff calculated a new cost-benefit ratio following AEDC procedures and using IMPLAN® software, substituting actual jobs, wages, and project investment data where available. Additionally, ALA staff chose to only estimate benefits occurring during the life of the project instead of the standard 10-year time period that AEDC uses for comparability between potential projects in order to draw a conclusion based on what actually occurred rather than on what is projected to occur.

Of the 24 non-InvestArk projects reviewed, 2 had unfavorable cost-benefit ratios calculated by ALA staff, and both received the In-House Research and Development – Targeted Business incentive. These projects returned unfavorable cost-benefit ratios primarily due to the significant amount of the incentive. As these projects receive a 33% income tax credit on eligible expenditures, it is unlikely they would ever return a favorable cost-benefit ratio. One of the two projects also received the Payroll Tax Credit incentive – Targeted Business, which returns 10% of the business' payroll as income tax credits, another significant incentive. However, it appears the primary purpose of these incentives is to encourage growth of targeted businesses in the State and to encourage research and development. Any lasting, long-term effects of this growth would not be considered in ALA staff's analysis

All 22 remaining projects reviewed had a favorable cost-benefit ratio. All of these projects received a payroll incentive (Create Rebate or Advantage Arkansas), and some also received TaxBack (sales and use tax refund). The design of these payroll incentives helps to ensure projects return positive tax benefits to the State. Advantage Arkansas allows a maximum of a 4% income tax credit for new, taxable payroll, and Create Rebate allows a maximum of a 5% rebate on new, taxable payroll. Additionally, companies are no longer allowed to receive both incentives under current law. Advantage Arkansas requires a minimum hourly wage exceeding the lowest county average hourly wage in Arkansas, and Create Rebate requires a minimum of $2 million in new wages. Companies applying for the TaxBack incentive are also required to apply for a payroll incentive. These safeguards in incentive design help to ensure that new jobs created will at least pay enough individual sales and use tax and income tax to recover a significant portion of incentive cost. When combined with other potentially positive aspects of the projects, such as corporate sales and use tax and income tax, as well as any indirect and induced job and tax benefits due to increased economic activity, these incentives will mostly result in a net positive gain to the State.

For the 24 non-InvestArk projects reviewed, the State invested an average of $10,165 for each of the 1,402 new, full-time permanent jobs created, assuming all credits are used. The 1,402 new employees received payroll totaling $66.3 million in the final year of their respective projects. **Exhibit IV on page 10** provides a summary of the 24 non-InvestArk projects, and **Schedule 2 on pages 12 through 15** provides detailed data on projects reviewed.

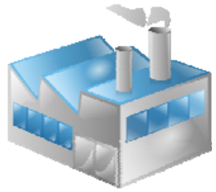
CONCLUSION

Based on methods used, data available, and the assumption that all project costs and jobs created would not have occurred without the corresponding incentive, ALA staff concluded that the economic incentive projects resulted in a positive net tax benefit to the State, with the exception of In-House Research and Development – Targeted Business projects. In-House Research and Development – Targeted Business projects do not return positive cost-benefit ratios due to the significant amount of the incentive. If the primary purpose of the In-House Research and Development – Targeted Business incentive is to encourage research and assist in the growth of certain business sectors in the State, the short-term impact may be less valuable to the State than the potential long-term gains.

Exhibit IV

Cost-Benefit Analysis of Non-InvestArk Incentives Reviewed
Summary of Data from Schedule 2

Green: Cost-Benefit Ratio ≥ 1: 2.00 | Yellow: Cost-Benefit Ratio between 1: 1.00 to 1: 1.99 | Red: Cost-Benefit Ratio < 1: 1.00



	Economic Incentive Project Time Period	Arkansas Companies – Eligible Expenses that were Claimed: Actual Project Costs	Arkansas Companies – Eligible Expenses that were Claimed: New Full-Time, Permanent Employees in Final Year of the Project	Arkansas Companies – Eligible Expenses that were Claimed: New Actual Annual Wages in Final Year of the Project	Arkansas Companies – Eligible Expenses that were Claimed: Actual Average Hourly Rate in Final Year of the Project	State of Arkansas – Project Costs: Total Incentives Paid	State of Arkansas – Project Revenues: Estimated Direct, Indirect, and Induced Income and Sales and Use Tax as a Result of Incentives over the Life of the Project	State of Arkansas – Cost-Benefit Ratio: Calculated by ALA Using IMPLAN® Software	
1	2004-2013	$ 5,563,363	139	$ 7,462,668	$ 21.30	$ 3,101,024	$ 10,166,486	1: 3.24	Green
2	2007-2013	12,810,532	157	7,269,691	23.69	4,419,668	13,189,552	1: 2.94	Green
3	2008-2013	3,482,857	17	667,763	19.91	243,284	361,488	1: 1.37	Yellow
4	2008-2012	1,351	20	503,022	18.27	27,785	1,620,573	1: 57.93	Green
5	2009-2013	33,664	13	643,749	23.69	77,568	860,397	1: 11.15	Green
6	2008-2013	676,786	42	1,466,403	16.03	250,262	893,164	1: 3.45	Green
7	2008-2013	468,918	13	535,264	22.67	53,776	746,448	1: 12.77	Green
8	2009-2012	1,075,331	39	1,639,831	20.87	107,029	538,016	1: 4.93	Green
9	2009-2013	0	291	6,928,415	12.41	283,360	11,631,557	1: 40.96	Green
10	2010	0	N/A	2,375,975	N/A	23,760	767,272	1: 32.29	Green
11	2009-2013	79,282	12	1,660,282	36.05	1,230,810	535,806	1: 0.43	Red
12	2009-2013	350,523	65	2,017,957	14.67	83,323	715,041	1: 8.25	Green
13	2009-2013	1,114,068	9	531,803	30.15	84,214	196,255	1: 2.28	Green
14	2010-2012	5,177,499	315	21,662,865	34.48	3,111,567	5,979,144	1: 1.91	Yellow
15	2010-2013	0	66	2,162,781	15.20	222,480	2,343,244	1: 10.59	Green
16	2012-2013	114,786	7	218,058	N/A	158,816	67,492	1: 0.43	Red
17	2010-2012	703,383	13	335,034	13.14	67,397	119,001	1: 1.67	Yellow
18	2011-2012	684,022	39	1,319,821	19.05	83,072	894,935	1: 10.49	Green
19	2011-2012	0	36	576,983	11.15	14,788	183,132	1: 12.33	Green
20	2011-2012	0	43	3,910,351	28.20	168,211	909,285	1: 5.43	Green
21	2012	0	5	175,985	18.42	5,280	35,575	1: 6.74	Green
22	2011-2012	5,795,986	37	1,498,304	18.93	406,774	573,041	1: 1.43	Yellow
23	2012	103,514	7	255,484	24.05	10,069	45,574	1: 4.53	Green
24	2011-2012	0	17	487,220	13.89	17,328	108,348	1: 6.27	Green
Totals		$ 38,235,865	1,402	$ 66,305,709	$ 17.95	$ 14,251,645	$ 53,480,826		

N/A - Not Available
Note: Additional detail is provided in **Schedule 2 on pages 12-15**.

Source: *Arkansas Department of Finance and Administration and Arkansas Economic Development Commission (unaudited by Arkansas Legislative Audit)*

InvestArk Projects Selected for Review

Company		Years Incentives Awarded	Tier	InvestArk Incentives Awarded	Actual Eligible Project Costs (Note 1)	Met Minimum Requirements for Incentive	DFA Audits Completed
1		2008-2012	2	$ 7,138,255	$ 109,819,321	Yes	Yes
2		2009-2013	3	1,738,166	26,741,002	Yes	(Note 3)
3		2009-2013	1	621,069	9,554,917	Yes	(Note 3)
4		2012-2013	2	321,598	4,947,667	(Note 2)	(Note 3)
5		2010-2013	1	3,692,983	56,815,135	Yes	(Note 3)
6		2010-2013	3	943,467	14,514,857	Yes	(Note 3)
7		2010-2013	3	1,908,874	29,367,287	Yes	(Note 3)
8		2011-2013	1	350,739	5,395,990	Yes	(Note 3)
9		2010-2013	1	1,818,469	27,968,796	Yes	Yes
10		2010-2013	2	1,246,827	19,181,955	Yes	(Note 3)
11		2011-2013	4	634,441	9,760,624	Yes	Yes
12		2011-2013	4	992,744	15,272,975	Yes	(Note 3)
13		2011-2013	1	919,982	14,153,571	Yes	Yes
14		2011-2013	1	325,000	5,000,001	Yes	(Note 3)
15		2012-2013	1	2,448,618	37,671,047	Yes	(Note 3)
16		2011-2013	3	922,802	14,196,938	Yes	(Note 3)
17		2011-2013	3	677,604	10,424,675	Yes	(Note 3)
18		2011-2013	2	2,570,239	39,542,145	Yes	(Note 3)
19		2011-2013	4	3,249,987	50,000,000	Yes	(Note 3)
20		2011-2013	2	379,924	5,844,994	Yes	(Note 3)
21	(Note 4)	2008-2010	1	753,837	11,597,491	Yes	Yes
22	(Note 4)	2010-2013	1	1,664,830	25,612,780	Yes	(Note 3)
23	(Note 4)	2011-2012	3	4,561,397	70,175,342	Yes	Yes
24		2012-2013	3	557,136	8,571,331	Yes	(Note 3)
25	(Note 4)	2010	4	448,697	6,903,026	Yes	Yes
26		2009-2013	1	2,154,735	33,149,756	Yes	(Note 3)
Total				$43,042,420	$ 662,183,623		

CIA = Consolidated Incentive Act of 2003

Note 1: For the life of the project.
Note 2: Total costs claimed by the company are below minimum of $5 million due to a 2012 InvestArk audit adjustment. After the 2013 audit is completed, if no additional eligible costs are found, the incentives will be required to be repaid.
Note 3: DFA audit of InvestArk projects will be completed during the company's next scheduled sales tax audit.
Note 4: Project received additional non-InvestArk incentives that are evaluated in **Schedule 2 on pages 12-15**.

Source: *Arkansas Department of Finance and Administration (DFA) and Arkansas Economic Development Commission (unaudited by Arkansas Legislative Audit)*

Schedule 2

Non-InvestArk Projects Selected for Review

Company	1	2	3	4	5	6	7
Years Incentives Awarded	2004-2013	2007-2013	2008-2013	2008-2012	2009-2013	2008-2013	2008-2013
Tier	1	1	1	1	4	3	1
CIA Incentives Awarded: (Note 1)							
Statutory Incentives:							
AA - Advantage Arkansas	$305,645		$12,381	$27,711	$75,561	$197,525	$23,359
TB - Tax Back	$305,201	$763,444	$230,903	$74	$2,007	$52,737	$30,417
Discretionary Incentives:							
CR - Create Rebate	$2,490,178	$3,656,224					
IHR-TB - In-House Research - Targeted Business							
PTC-TB - Payroll Tax Credit - Targeted Business							
Total	$3,101,024	$4,419,668	$243,284	$27,785	$77,568	$250,262	$53,776
Estimated Direct, Indirect, and Induced State Tax Benefits (Note 1)	$10,166,486	$13,189,552	$361,488	$1,620,573	$860,397	$893,164	$746,448
Actual Eligible Project Costs: (Notes 1 and 2)	$5,563,363	$12,810,532	$3,482,857	$1,351	$33,664	$676,786	$ 468,918
New Full-Time, Permanent Employees (positions):							
Projected	135	1100	120	12	22	45	12
Actual (average of years available)	156	243	7	17	9	46	12
Actual (final year total)	139	157	17	20	13	42	13
New Annual Wages (years receiving payroll incentive):							
Projected	$4,352,400	$39,559,520	$7,800,000	$600,000	$900,000	$1,310,400	$400,000
Actual (average over life of project)	$7,029,696	$11,249,915	$265,298	$554,242	$377,806	$1,316,836	$467,184
Actual (final year total)	$7,462,668	$7,269,691	$667,763	$503,022	$643,749	$1,466,403	$535,264
Average Hourly Rate:							
Projected	$15.50	$17.29	$31.25	$24.00	$19.67	$14.00	$16.03
Actual (average over years data available)	$21.03	$21.74	$22.04	$16.55	$20.66	$16.68	$22.00
Actual (final year total)	$21.30	$23.69	$19.91	$18.27	$23.69	$16.03	$22.67
Initial AEDC Cost-Benefit Ratio Calculation Outcome	positive	positive	positive	positive	positive	positive	positive
ALA Cost-Benefit Ratio	1: 3.24	1: 2.94	1: 1.37	1: 57.93	1: 11.15	1: 3.45	1: 12.77
Met Minimum Requirements for Incentive	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DFA Audits Completed	Yes	Yes (Note 3)	Yes	Yes	Yes	Yes	Yes

Schedule 2 (continued)

Non-InvestArk Projects Selected for Review

Company	8	9	10	11	12	13	14
Years Incentives Awarded	2009-2012	2009-2013	2010	2009-2013	2009-2013	2009-2013	2010-2012
Tier	1	1	1	1	1	1	1
CIA Incentives Awarded: (Note 1)							
Statutory Incentives:							
AA - Advantage Arkansas	$33,452	$283,360	$23,760		$63,314	$11,786	
TB - Tax Back	$73,577			$3,597	$20,009	$72,428	$335,132
Discretionary Incentives:							
CR - Create Rebate							$2,776,435
IHR-TB - In-House Research - Targeted Business				$971,960			
PTC-TB - Payroll Tax Credit - Targeted Business				$255,253			
Total	$107,029	$283,360	$23,760	$1,230,810	$83,323	$84,214	$3,111,567
Estimated Direct, Indirect, and Induced State Tax Benefits (Note 1)	$538,016	$11,631,557	$767,272	$535,806	$715,041	$196,255	$5,979,144
Actual Eligible Project Costs: (Notes 1 and 2)	$1,075,331	$0	$0	$79,282	$350,523	$1,114,068	$5,177,499
New Full-Time, Permanent Employees (positions):							
Projected	89	337	38	N/A	80	4	200
Actual (average of years available)	19	270	N/A	12	50	5	211
Actual (final year total)	39	291	N/A	12	65	9	315
New Annual Wages (years receiving payroll incentive):							
Projected	$2,759,000	$6,000,000	$1,146,080	$900,000	$2,365,452	$200,000	$19,000,000
Actual (average over life of project)	$757,392	$5,667,193	N/A	$1,084,470	$1,356,652	$266,838	$16,660,277
Actual (final year total)	$1,639,831	$6,928,415	$2,375,975	$1,660,282	$2,017,957	$531,803	$21,662,865
Average Hourly Rate:							
Projected	$14.91	$8.55	$14.50	N/A	$14.22	$24.04	$45.00
Actual (average over years data available)	$20.04	$12.26	N/A	$36.16	$13.25	$32.14	$38.82
Actual (final year total)	$20.87	$12.41	N/A	$36.05	$14.67	$30.15	$34.48
Initial AEDC Cost-Benefit Ratio Calculation Outcome	positive	positive	positive	N/A	positive	positive	positive
ALA Cost-Benefit Ratio	1: 4.93	1:40.96	1: 32.29	1: 0.43	1: 8.25	1: 2.28	1: 1.91
Met Minimum Requirements for Incentive	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DFA Audits Completed	Yes	Yes (Note 4)	Yes (Note 4)	(Note 5)	Yes	Yes	Yes

Schedule 2 (continued)

Non-InvestArk Projects Selected for Review

Company	15	16	17	18	19	20	21
Years Incentives Awarded	2010-2013	2012-2013	2010-2012	2011-2012	2011-2012	2011-2012	2012
Tier	4	1	4	3	2	3	3
CIA Incentives Awarded: (Note 1)							
Statutory Incentives:							
AA - Advantage Arkansas	$222,480		$13,401	$40,910	$14,788	$168,211	$5,280
TB - Tax Back			$53,996	$42,162			
Discretionary Incentives:							
CR - Create Rebate							
IHR-TB - In-House Research - Targeted Business		$158,816					
PTC-TB - Payroll Tax Credit - Targeted Business							
Total	$222,480	$158,816	$67,397	$83,072	$14,788	$168,211	$5,280
Estimated Direct, Indirect, and Induced State Tax Benefits (Note 1)	$2,343,244	$67,492	$119,001	$894,935	$183,132	$909,285	$35,575
Actual Eligible Project Costs: (Notes 1 and 2)	$0	$114,786	$703,383	$684,022	$0	$0	$0
New Full-Time, Permanent Employees (positions):							
Projected	50	N/A	12	109	30	40	6
Actual (average of years available)	50	3	7	17	16	40	3
Actual (final year total)	66	7	13	39	36	43	5
New Annual Wages (years receiving payroll incentive):							
Projected	$1,187,680	$85,538	$258,336	$4,041,000	$655,000	$2,000,000	$260,000
Actual (average over life of project)	$1,516,770	$75,341	$167,517	$584,512	$286,248	$2,803,507	$117,323
Actual (final year total)	$2,162,781	$218,058	$335,034	$1,319,821	$576,983	$3,910,351	$175,985
Average Hourly Rate:							
Projected	$11.42	N/A	$10.35	$16.70	$10.50	$24.00	$17.00
Actual (average over years data available)	$14.41	N/A	N/A	$23.53	$12.51	$27.69	N/A
Actual (final year total)	$15.20	N/A	$13.14	$19.05	$11.15	$28.20	$18.42
Initial AEDC Cost-Benefit Ratio Calculation Outcome	positive	N/A	positive	positive	positive	positive	positive
ALA Cost-Benefit Ratio	1: 10.59	1: 0.43	1: 1.67	1: 10.49	1: 12.33	1: 5.43	1: 6.74
Met Minimum Requirements for Incentive	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DFA Audits Completed	Yes (Note 4)	(Note 5)	Yes	Yes	Yes	Yes (Note 4)	Yes

Non-InvestArk Projects Selected for Review

Company	22	23	24	Total Non-InvestArk Projects Reviewed
Years Incentives Awarded	2011-2012	2012	2011-2012	
Tier	3	1	3	
CIA Incentives Awarded: (Note 1)				
Statutory Incentives:				
AA - Advantage Arkansas	$44,949	$2,555	$17,328	$1,587,756
TB - Tax Back	$361,825	$7,514		$2,355,023
Discretionary Incentives:				
CR - Create Rebate				$8,922,837
IHR-TB - In-House Research - Targeted Business				$1,130,776
PTC-TB - Payroll Tax Credit - Targeted Business				$255,253
Total	$406,774	$10,069	$17,328	$14,251,645
Estimated Direct, Indirect, and Induced State Tax Benefits (Note 1)	$573,041	$45,574	$108,348	$53,480,826
Actual Eligible Project Costs: (Notes 1 and 2)	$5,795,986	$103,514	$0	$38,235,865
New Full-Time, Permanent Employees (positions):				
Projected	35	35	13	2524
Actual (average of years available)	25	N/A	12	
Actual (final year total)	37	7	17	1402
New Annual Wages (years receiving payroll incentive):				
Projected	$1,700,000	$1,116,000	$362,336	$98,958,742
Actual (average over life of project)	$998,869	N/A	$315,113	
Actual (final year total)	$1,498,304	$255,484	$487,220	$66,305,709
Average Hourly Rate:				
Projected	$23.00	$15.00	$13.40	
Actual (average over years data available)	N/A	N/A	$13.45	
Actual (final year total)	$18.93	$24.05	$13.89	
Initial AEDC Cost-Benefit Ratio Calculation Outcome	positive	positive	positive	
ALA Cost-Benefit Ratio	1: 1.43	1: 4.53	1: 6.27	
Met Minimum Requirements for Incentive	Yes	Yes	Yes	
DFA Audits Completed	Yes	Yes	Yes	

AA - Advantage Arkansas (statutory) - income tax credits for job creation of new, full-time permanent employees.

CR - Create Rebate (discretionary) - cash payments for job creation of new, full-time permanent employees.

TB - TaxBack (statutory) - refund of sales and use taxes for building materials and taxable equipment.

IHR-TB - In-House Research - Targeted Business (discretionary) - income tax credits of 33% of research and development expenditures in targeted sectors.

PTC-TB - Payroll Tax Credit - Targeted Business (discretionary) - income tax credits of 10% of payroll for new businesses in targeted sectors.

Note 1: For the life of the project.

Note 2: A company may incur non-taxable expenditures that count toward the minimum threshold for TaxBack; however, ALA staff chose to only include verified taxable expenditures in project costs.

Note 3: Project received additional incentives not covered under the Consolidated Incentive Act of 2003 that were included in the initial AEDC cost-benefit analysis but were not included in the ALA cost-benefit analysis.

Note 4: Project also received InvestArk incentives.

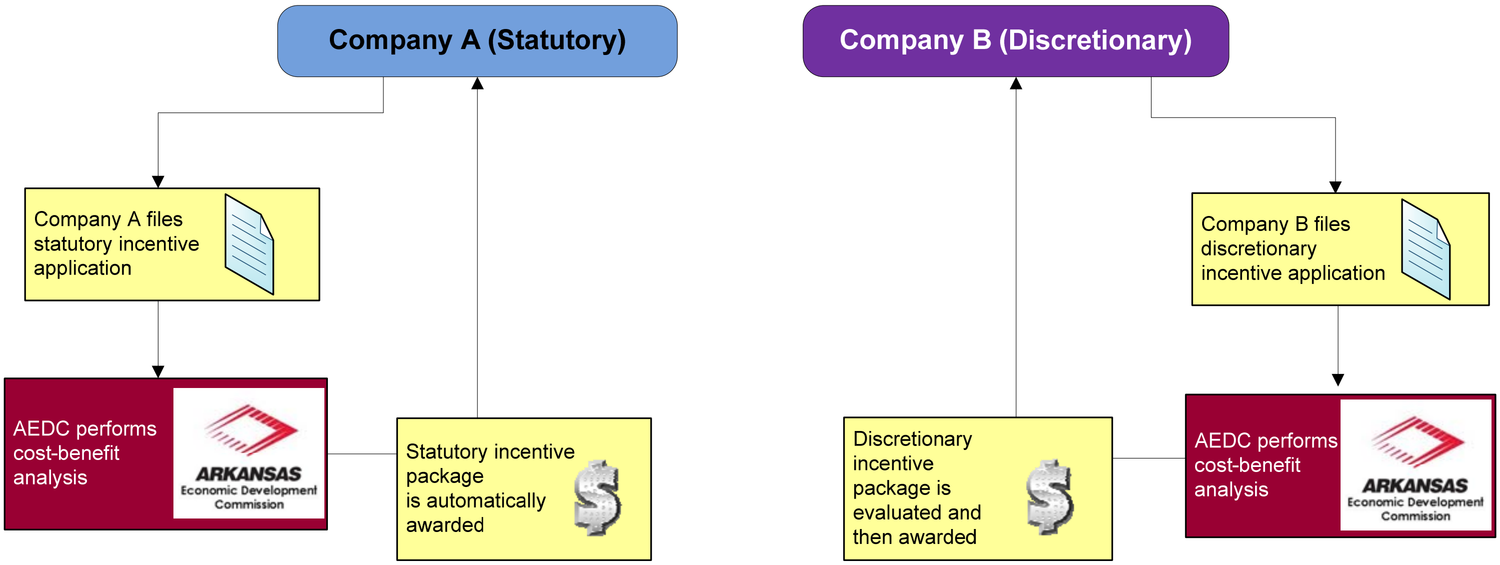
Note 5: Research and Development expenditures are reviewed by the AEDC Division of Science and Technology prior to payment.

Source: *Arkansas Department of Finance and Administration (DFA) and Arkansas Economic Development Commission (unaudited by Arkansas Legislative Audit)*

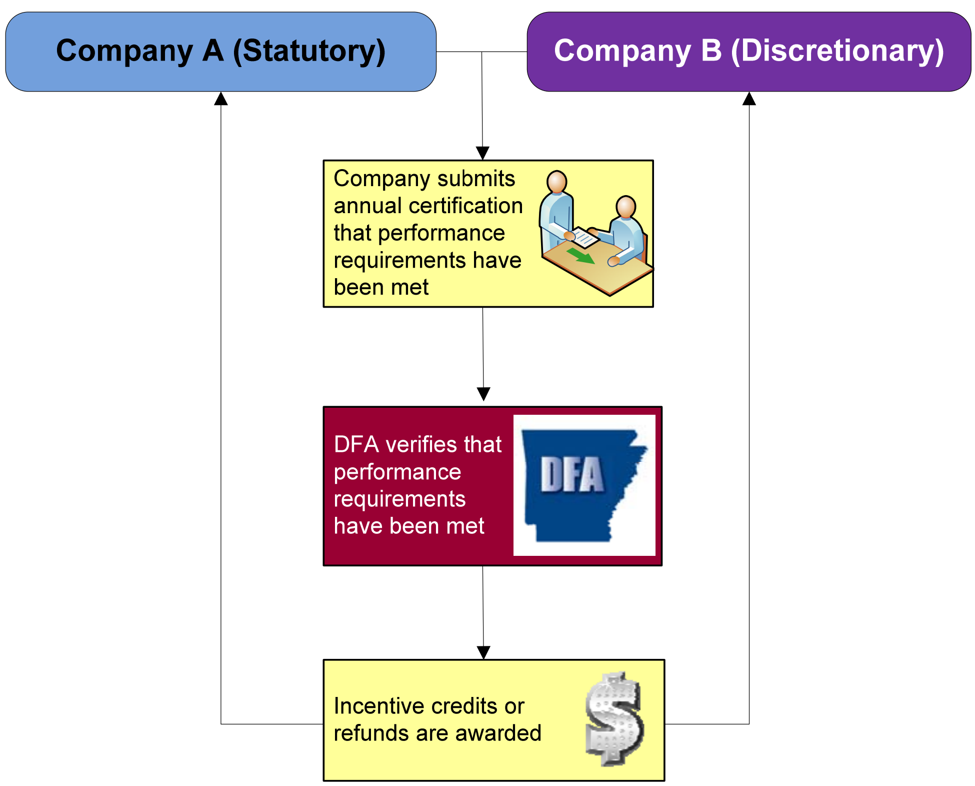
APPENDIX A

Consolidated Incentive Act (CIA) Incentives
Application and Verification Processes

Application Process for Statutory and Discretionary Incentives



Verification Process for Statutory and Discretionary Incentives



***Source**: Consolidated Incentive Act of 2003, codified at Ark. Code Ann. §§ 15-4-2701 – 15-4-2714*

LEGISLATIVE AUDIT

ARKANSAS