Special Report
Arkansas Legislative Audit

Cost-Benefit Analysis of Selected Economic Incentive Projects
For the Period January 1, 2012 through December 31, 2021

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 in **Appendix A**. 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 80 projects for review in this report. In addition to reviewing selected projects, ALA staff determined the overall effectiveness of the CIA programs using accumulated data from past project reviews.

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 Department of Finance and Administration (DFA).
- Determine the overall effectiveness of the CIA programs as well as the effectiveness of selected CIA projects.

REPORT HIGHLIGHTS

- For the 10-year period reviewed (calendar years 2012 through 2021):
  - ⇒ CIA **incentives awarded and issued by the State totaled $705.6 million**.
  - ⇒ CIA **incentives used by companies totaled $636.5 million**.
  - ⇒ **Statutory incentives accounted for 79.4% of all incentives awarded and issued**, while discretionary incentives accounted for the remaining 20.6%.
- ALA conclusions about the cost effectiveness of CIA programs are shown in **Exhibit VI on page 7**.
- For the 27 non-InvestArk/non-Research and Development projects reviewed for this report, the State invested an average of $4,777 for each of 1,630 new full-time, permanent jobs created. **Exhibit IX on page 11** provides a summary of these projects.

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SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2012 through December 31, 2021. 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.

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, the 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 and summarized in **Appendix A**.

AWARDING AND ISSUANCE OF CIA FUNDS

For the 10-year period beginning in 2012 and going through the end of calendar year 2021, CIA incentives awarded and issued by the State totaled $705.6 million. This amount is expected to rise for this period because a delay exists between when the incentive requirement is met and when the recipient may file a claim to receive the incentive. For 2012 through 2021, the amount of incentives used by companies totaled $636.5 million.

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 I on page 3**, the State's 75 counties are divided into four tiers, with Tier 1 representing the most prosperous counties, with the least need for economic development, 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.

Exhibit I also shows CIA funds awarded and issued from 2012 through 2021 based on 2021-2022 county tier ratings. **Exhibit II on page 3** illustrates CIA funds awarded and issued by region, and **Exhibits III and IV on page 4** and **Exhibit V on page 5** show CIA funds awarded and issued by calendar year, industry, and incentive program, respectively.

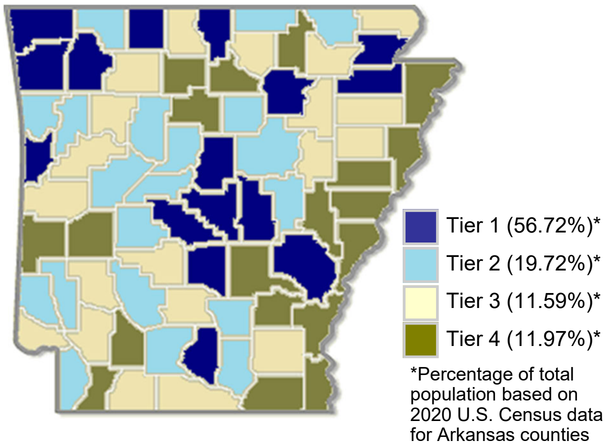
Arkansas Economic Development Commission

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 B**, and found it to be reasonable.

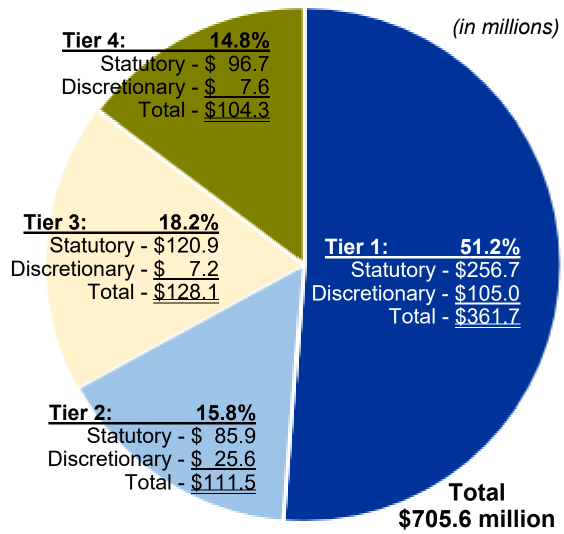
Exhibit I

Consolidated Incentive Act (CIA) Funds

County Tier Map 2021-2022



CIA Funds Awarded 2012-2021
Based on 2021-2022 County Tier Ratings

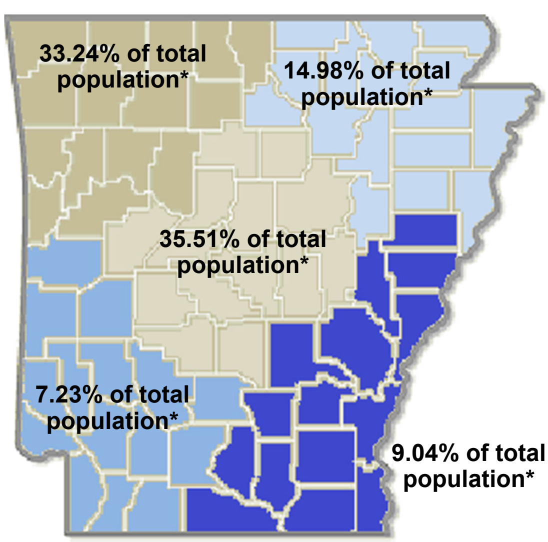


Note: County tiers are reassigned each year. The county tiers shown here were in effect for projects approved during the period July 1, 2021 through June 30, 2022. Tier 1 represents the most prosperous counties, with the least need for economic development, and Tier 4 represents the counties with the greatest need for economic development.

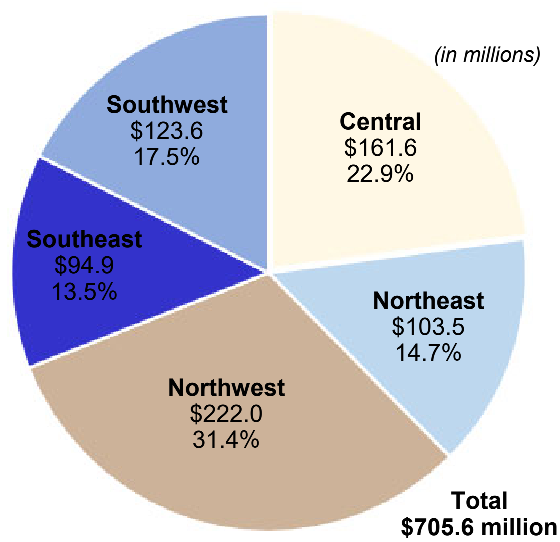
Sources: *Department of Finance and Administration, Arkansas Economic Development Commission, and Arkansas Economic Development Institute (unaudited by Arkansas Legislative Audit)*

Exhibit II

Consolidated Incentive Act (CIA) Funds Awarded by Region
January 1, 2012 - December 31, 2021



*Based on 2020 U.S. Census data for Arkansas counties



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

Exhibit III

Consolidated Incentive Act (CIA) Funds Awarded and Used by Calendar Year
January 1, 2012 - December 31, 2021

Note: The amount of incentives awarded and issued for 2021 is expected to rise because a delay exists between when the incentive requirement is met and when the recipient may file a claim to receive the incentive.

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

Exhibit IV

Consolidated Incentive Act (CIA) Funds Awarded and Used by Industry
January 1, 2012 - December 31, 2021

Industry Category*	Amount	Percentage
Mining, Extraction, Utilities, and Construction	$ 7,899,502	1%
Food and Textile Manufacturing	116,324,924	17%
Wood, Paper, Petroleum, Coal, and Chemical Manufacturing	235,415,678	33%
Metal, Machinery, Electronic, and Miscellaneous Manufacturing	165,025,441	23%
Wholesale, Transportation, and Warehousing	11,966,277	2%
Professional Services (e.g., Finance, Real Estate, Scientific) and Other	168,998,319	24%
Total CIA Funds by Industry	**$ 705,630,141**	**100%**

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

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

Exhibit V

Consolidated Incentive Act (CIA) Funds Awarded by Incentive Program
January 1, 2012 - December 31, 2021

Incentive	Amount	Percent
Statutory		
InvestArk	$ 436,554,568	61.9%
Advantage Arkansas	20,786,827	2.9%
Tax Back	21,099,198	3.0%
In-House Research and Development	81,788,231	11.6%
Total Statutory	560,228,824	79.4%
Discretionary		
ArkPlus	$ 24,634,208	3.5%
Create Rebate	107,164,509	15.2%
In-House Research and Development - Targeted Business	13,336,692	1.9%
Payroll Tax Credit - Targeted Business	265,907	0.0%
Total Discretionary	145,401,316	20.6%
Total Incentives	**$ 705,630,140**	**100.0%**

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

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 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 by AEDC, regardless of the outcome of the cost-benefit analysis, if other eligibility requirements are met. Over the prior 10-year period, statutory incentives accounted for 79.4% of all incentives awarded and 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 20.6% of all incentives awarded and issued in the past 10 years.

Department of Finance and Administration

DFA verifies that incentive requirements have been met and issues the payments/rebates, with two exceptions: the Create Rebate and In-House Research and Development incentives.

Create Rebate payments are issued by AEDC based on authorizations provided by DFA, and AEDC 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 it has met certain requirements. 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 companies, which make appropriate adjustments.

ALA staff noted that 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 B**.

REVIEW OF CIA PROGRAMS

ALA conclusions about the cost effectiveness of entire CIA programs are shown in **Exhibit VI on page 7**. Conclusions for all of the CIA programs were derived from ALA evaluations in calendar years 2013 through 2021, with the exception of the InvestArk program. Because of its uniqueness as a "retention" incentive program, InvestArk was evaluated based on 2016 through 2022 data.

A number of factors are considered when determining whether economic incentives result 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 could be considered unnecessary. Likewise, if an incentive caused 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 availability of statutory incentives will cause some companies to claim incentives for projects they would have pursued even without the 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.

Statutory Incentives

Among statutory incentives, as shown in **Exhibit VI on page 7**, ALA staff concluded that the TaxBack and Advantage Arkansas incentive programs resulted in a net positive benefit to the State, based on review of individual projects selected from calendar years 2013 through 2021.

Act 327 of the 2019 changed the 20% Research and Development incentive from statutory to discretionary and limited eligible expenditures to wages and benefits. The Act also requires credits to be based on the incremental amount spent that exceeds the baseline established from previous year spending. The 20% Research and Development projects reviewed by ALA to date were statutory incentives, and as shown in **Exhibit VI**, 34.6% of the 26 projects reviewed returned positive cost-benefit ratios.

Exhibit VI

Effectiveness of Consolidated Incentive Act (CIA) Incentive Programs

Incentive	Number of Projects Reviewed (2013 – 2021)*	Percentage of Projects Reviewed with Positive Cost Effectiveness	ALA Conclusion about Overall Effectiveness of the Program
Statutory Incentives			
TaxBack	122	86.9%	**Positive**
InvestArk **(Note 1)**	203	86.7%	**Positive**
Advantage Arkansas	177	93.8%	**Positive**
(Pre-Act 327 of 2019) In-House Research and Development **(Note 2)**	26	34.6%	**Negative**
Discretionary Incentives			
Create Rebate	46	93.5%	**Positive**
ArkPlus **(Note 3)**	6	**(Note 3)**	**Inconclusive**
Sales and Use Tax Refund – Targeted Business **(Note 3)**	0	**(Note 3)**	**Inconclusive**
Payroll Tax Credit – Targeted Business **(Note 3)**	6	**(Note 3)**	**Inconclusive**
(Pre-Act 327 of 2019) In-House Research and Development – Targeted Business **(Note 2)**	19	0.0%	**Negative**
(Post-Act 327 of 2019) In-House Research and Development **(Note 2)**	0	**(Note 3)**	**(Note 2)**
(Post-Act 327 of 2019) In-House Research and Development – Targeted Business **(Note 2)**	0	**(Note 3)**	**(Note 2)**

ALA = Arkansas Legislative Audit

*Conclusions for all of the CIA programs were derived from ALA evaluations in calendar years 2013 through 2021, with the exception of the InvestArk program, which was evaluated based on 2016 through 2022 data.

Note 1: The methodology used to reach a conclusion about the cost effectiveness of the InvestArk program involved determining whether the companies that received InvestArk funds in 2011 through 2017 were continuing to operate five years later (in 2016 through 2022, respectively). If the companies were still operating, then the job retention incentive investment was considered effective.

Note 2: Act 327 of 2019 changed the 20% Research and Development incentive from statutory to discretionary and limited eligible expenditures to wages and benefits. The Act also requires credits to be based on the incremental amount spent that exceeds the baseline established from previous year spending.

Note 3: More projects from these programs will have to be reviewed before conclusions can be drawn.

Sources: *Arkansas Economic Development Commission and Department of Finance and Administration*

Exhibit VI shows that the cost effectiveness of the InvestArk incentive program is also positive; however, it should be noted that the effectiveness of this program is difficult to capture because it attempts to *retain* rather than *increase* economic activity. To reach a conclusion about the cost effectiveness of the program, ALA staff determined whether the companies that received InvestArk funds in 2011 through 2017 and were evaluated by ALA staff were continuing to operate five years later in 2016 through 2022. If the companies were still operating, then the incentive investment was considered effective. Of the 203 InvestArk projects previously reviewed by ALA staff, 176 of the companies (86.7%) remained in operation five years after the incentive was awarded. The 27 companies (13.3%) no longer in operation five years after the incentive was awarded received $24.9 million (8.6%) of the $290.1 million in InvestArk funds distributed.

Discretionary Incentives

Based on review of individual projects selected from calendar years 2013 through 2021, as shown in **Exhibit VI on page 7**, ALA staff concluded that one of the five discretionary incentives awarded, Create Rebate, returned a net positive benefit to the State. Based on the data evaluated, ALA staff could not reach a definitive conclusion regarding the overall effectiveness of ArkPlus, Sales and Use Tax Refund – Targeted Business, and Payroll Tax Credit – Targeted Business. More related projects will have to be reviewed from these programs before conclusions can be drawn.

In-House Research and Development – Targeted Business projects resulted in a negative impact on the State. These projects have a high incentive cost of 33%, causing them to return negative cost-benefit ratios. However, if the primary purpose of the In-House Research and Development – Targeted Business incentives 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. ALA staff encourage AEDC to monitor these projects and ensure that these long-term goals are being met.

REVIEW OF SELECTED CIA PROJECTS

In addition to drawing conclusions regarding the overall effectiveness of CIA incentive programs, ALA staff reviewed 80 individual CIA projects with eligible project investments of approximately $1 billion that were awarded incentives totaling $92.7 million in tax credits, refunds, and rebates. Projects reviewed received seven of the different available incentives. These incentives were offered for tax years 2013 through 2020, and the projects were distributed among tier rankings as follows:

- 38 projects in Tier 1 counties.
- 13 projects in Tier 2 counties.
- 13 projects in Tier 3 counties.
- 16 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, and each is discussed in the sections that follow.

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 80 projects reviewed in this report, 41 received only InvestArk incentives, and 1 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, job creation is not required. As a result, the cost-benefit calculation is not as accurately measured by the IMPLAN® software, which relies heavily on job creation in its calculations.

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 choose 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 (e.g., through enhanced automation). **Schedule 1 on page 12** provides a list of InvestArk expenditures.

Act 362 of 2017 began the process of phasing out the InvestArk program. As of July 1, 2017, no new InvestArk projects have been approved. Using the savings from the phase-out of InvestArk, an increased amount of sales tax refund for partial replacement and repair of certain machinery and equipment allowed under Ark. Code Ann. § 26-52-447(b) is being phased-in.

Non-InvestArk Incentives

For the 27 non-InvestArk/non-Research and Development projects reviewed, the State invested an average of $4,777 for each of the 1,630 new full-time, permanent jobs created, assuming all credits are used. The 1,630 new employees received payroll totaling $83.2 million in the final year of their respective projects. **Exhibit IX on page 11** provides a summary of the 39 Research and Development and other non-InvestArk projects, and **Schedule 2 on pages 13 through 16** provides detailed data on projects reviewed.

Of the 39 non-InvestArk projects reviewed, 13 had unfavorable cost-benefit ratios calculated by ALA, as described below and reflected in **Schedule 2**:

- **In-House Research and Development – Targeted Business:** Seven companies (Companies #27-31, #34, and #36) received the In-House Research and Development incentive and two companies (Companies #35 and #37) received the In-House Research and Development – Targeted Business incentive. IMPLAN calculated an unfavorable cost-benefit ratio for these projects, primarily because of the significant amount of the incentive being awarded up front compared to the anticipated future economic effect of the projects' activities. The primary purpose of this incentive is to encourage growth of the targeted businesses and research and development. Therefore, it may take years before the State receives the economic benefit, if any, from these incentive projects. These projects predate the changes made with Act 327 of 2019, so the large amount of supply expenses allowed under the previous guidelines contributed to some of the low benefit ratios returned.
- **TaxBack/Advantage Arkansas:** Four companies (Companies #5, #15, #17, and #18) received a combination of TaxBack and Advantage Arkansas incentives. TaxBack/Advantage Arkansas projects typically return positive cost-benefit ratios; however, in these four instances the investment amounts were more significant than the number of employees added, causing the TaxBack incentive size to outweigh the benefits of the jobs created as a result of the Advantage Arkansas incentive.

All 26 remaining projects reviewed had a favorable cost-benefit ratio. Three of these projects received the In-House Research and Development incentive; however, only one of the three had supply expenditures that predated Act 327 of 2019 and caused the incentives awarded to be much higher. This one project with supply expenses had a favorable cost-benefit ratio due to the large number of employees that worked on the project.

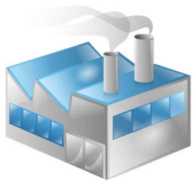
The remaining 23 projects received a payroll incentive (Create Rebate or Advantage Arkansas), and some also received a sales and use tax refund (TaxBack). The design of payroll incentives helps to ensure projects return positive tax benefits to the State. For new, taxable payroll, Advantage Arkansas allows a maximum 4% income tax credit, and Create Rebate allows a maximum 5% rebate. Advantage Arkansas requires a minimum hourly wage exceeding the lowest county average hourly wage in Arkansas, and Create Rebate requires a minimum amount of new wages depending on the tier in which the business locates. Companies applying for the TaxBack incentive are required to also 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 potential positive aspects of the projects (e.g., 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 mostly result in a net positive gain to the State.

CONCLUSION

Based on analysis of CIA projects, ALA staff concluded that the TaxBack, Advantage Arkansas, Create Rebate, and InvestArk programs have an overall positive cost effectiveness, while the In-House Research and Development and In-House Research and Development – Targeted Business programs have a negative cost effectiveness.

ALA staff have not yet evaluated sufficient data, due to the low number of projects completed, to reach a conclusion regarding the effectiveness of the ArkPlus, Sales and Use Tax Refund – Targeted Business, and Payroll Tax Credit – Targeted Business programs.

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



Cost-Benefit Ratio >_1: 2.00 | Cost-Benefit Ratio between 1: 1.00 to 1: 1.99 | Cost-Benefit Ratio < 1: 1.00

		Arkansas Companies				State of Arkansas		
		Eligible Expenses that were Claimed				Project Costs	Project Revenues	Cost-Benefit Ratio
	Economic Incentive Project Time Period	Actual Project Costs	New Full-Time, Permanent Employees in Final Year of the Project	New Actual Annual Wages in Final Year of the Project	Actual Average Hourly Rate in Final Year of the Project	Total Incentives Paid	Estimated Direct, Indirect, and Induced Income and Sales and Use Tax as a Result of Incentives over the Life of the Project	Calculated by ALA Using IMPLAN® Software
1	2016-2018	$ 2,875,431	329	$ 8,435,429	$ 11.91	$ 275,305	$ 1,881,582	1:6.76
2	2016	0	46	1,266,126	14.79	37,984	290,272	1:7.64
3	2015-2016	62,120	12	252,386	11.47	7,184	49,228	1:6.92
4	2016	0	115	3,200,643	15.00	128,026	391,695	1:3.06
5	2015-2016	1,559,133	2	105,331	19.32	98,854	62,575	1:0.63
6	2016	0	85	2,475,875	18.68	96,559	566,989	1:5.87
7	2016	0	1	169,579	81.22	1,696	1,806	1:1.06
8	2016-2017	1,995,887	38	2,813,742	36.67	167,914	392,325	1:2.34
9	2017-2018	346,961	2	109,215	16.13	23,215	35,212	1:1.49
10	2016-2018	192,061	19	729,934	14.27	22,248	234,744	1:10.51
11	2017-2018	0	12	402,521	16.23	4,658	96,871	1:20.80
12	2016-2017	1,953,146	20	777,648	19.71	166,938	239,846	1:1.46
13	2017-2018	260,991	18	677,928	23.56	49,046	91,628	1:1.87
14	2018-2019	806,329	8	395,175	30.33	68,313	98,167	1:1.42
15	2016-2020	3,938,645	10	527,010	32.54	339,630	274,903	1:0.81
16	2014-2017	28,614,911	406	43,604,112	41.29	3,775,663	11,374,124	1:2.97
17	2015-2018	6,830,012	23	1,359,389	32.77	527,475	460,970	1:0.88
18	2014-2019	12,978,236	10	510,228	27.26	892,893	461,512	1:0.52
19	2014-2017	557,583	142	5,193,587	12.18	190,791	2,535,879	1:13.13
20	2015-2016	0	89	2,421,077	15.20	27,347	760,821	1:27.82
21	2015-2019	0	123	2,789,784	18.17	528,043	4,430,995	1:8.36
22	2014-2019	302,743	15	522,202	18.67	69,144	545,809	1:7.59
23	2014-2019	646,006	48	1,825,987	22.36	129,384	1,238,383	1:9.29
24	2015-2019	0	22	1,452,326	37.49	75,128	911,173	1:12.11
25	2015-2016	0	15	565,358	16.94	8,545	172,447	1:20.17
26	2015-2017	707,147	14	405,832	14.99	72,780	172,048	1:2.36
27	2014-2017	130,681,225	Note 1	Note 1	Note 1	21,330,091	1,219,553	1:0.06
28	2017-2018	0	Note 1	Note 1	Note 1	890,320	834,448	1:0.94
29	2017	0	Note 1	Note 1	Note 1	910,238	558,192	1:0.61
30	2018	0	Note 1	Note 1	Note 1	418,962	365,305	1:0.87
31	2018	376,161	Note 1	Note 1	Note 1	271,505	194,241	1:0.72
32	2016-2018	975,768	Note 1	Note 1	Note 1	1,922,201	5,109,192	1:2.67
33	2016	0	Note 1	Note 1	Note 1	137,493	170,614	1:1.24
34	2014-2018	1,705,925	Note 1	Note 1	Note 1	1,034,576	866,151	1:0.83
35	2015-2018	228,983	Note 1	Note 1	Note 1	641,298	188,564	1:0.29
36	2015-2018	68,212	Note 1	Note 1	Note 1	71,069	48,777	1:0.68
37	2017-2018	57,065	Note 1	Note 1	Note 1	101,571	43,505	1:0.43
38	2017-2018	0	Note 1	Note 1	Note 1	57,998	67,370	1:1.16
39	2016	0	6	164,292	23.36	1,643	33,600	1:20.45
Totals		$ 198,720,681	1,630	$ 83,152,716		$ 35,573,728	$ 37,471,516	

Note 1: Employment, annual wage, and hourly rate data are not included for Research and Development projects since, in some cases, these are not new full-time, permanent employees.

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

Schedule 1

Consolidated Incentive Act (CIA)
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		2013-2016	4	$ 1,507,074	$ 23,185,761	Yes	Yes
2		2013-2017	2	1,280,867	18,298,098	Yes	Yes
3		2013-2017	2	746,810	10,668,707	Yes	Yes
4		2014-2018	2	561,797	8,025,671	Yes	Yes
5		2015-2019	3	1,244,680	17,781,152	Yes	Yes
6		2015-2018	1	2,028,290	28,975,560	Yes	Yes
7		2015-2018	4	1,461,801	20,882,875	Yes	Yes
8		2015-2017	1	487,660	6,966,572	Yes	Yes
9		2015-2019	4	834,746	11,924,939	Yes	Yes
10		2015-2019	2	1,095,437	15,649,078	Yes	Yes
11		2015-2019	2	1,748,700	24,981,447	Yes	Yes
12		2015-2019	1	2,615,000	37,357,143	Yes	Yes
13		2015-2017	4	1,179,887	16,855,528	Yes	Yes
14		2015-2019	1	1,016,568	14,522,412	Yes	Yes
15		2015-2019	1	384,684	5,495,508	Yes	Yes
16	**(Note 2)**	2016-2017	1	905,297	12,932,816	Yes	Yes
17		2015-2017	1	1,649,282	23,561,170	Yes	Yes
18		2016-2019	4	1,477,831	21,111,876	Yes	Yes
19		2016-2019	2	2,127,723	30,396,053	Yes	Yes
20		2016-2019	4	634,615	9,065,925	Yes	Yes
21		2016-2018	4	1,642,002	23,457,169	Yes	Yes
22		2016-2018	3	423,484	6,049,775	Yes	Yes
23		2016-2018	3	434,153	6,202,194	Yes	Yes
24		2016	3	356,651	5,095,008	Yes	Yes
25		2016-2017	1	486,115	6,944,546	Yes	Yes
26		2016-2019	1	2,430,322	34,718,875	Yes	Yes
27		2017-2018	3	758,443	10,834,905	Yes	Yes
28		2016-2020	4	5,046,568	72,093,820	Yes	Yes
29		2016-2018	1	851,256	12,160,793	Yes	Yes
30		2017-2019	3	2,304,812	32,925,876	Yes	Yes
31		2017-2020	4	1,294,089	18,486,976	Yes	Yes
32		2017-2019	4	1,523,560	21,765,138	Yes	Yes
33		2017-2019	4	2,539,991	36,285,585	Yes	Yes
34		2017-2018	4	965,349	13,790,707	Yes	Yes
35		2017-2018	2	874,999	12,500,000	Yes	Yes
36		2017-2018	3	437,500	6,250,000	Yes	Yes
37		2017-2019	2	4,374,999	62,500,000	Yes	Yes
38		2018-2019	1	472,500	6,750,000	Yes	Yes
39		2018-2020	4	2,611,259	37,303,715	Yes	Yes
40		2018	2	424,321	6,061,723	Yes	Yes
41		2017-2020	2	1,335,815	19,083,060	Yes	Yes
42		2018	1	569,319	8,133,131	Yes	Yes
Total				**$ 57,146,256**	**$ 818,031,287**		

DFA = Department of Finance and Administration

Note 1: For the life of the project.

Note 2: Project received additional non-InvestArk incentives that are evaluated in **Schedule 2 on pages 13 through 16.**

Sources: *DFA and Arkansas Economic Development Commission (unaudited by Arkansas Legislative Audit)*

Schedule 2

Consolidated Incentive Act (CIA)
Non-InvestArk Projects Selected for Review

Company	1	2	3	4	5	6	7	8	9	10	11	12	13
Years Incentives Awarded	2016-2018	2016	2015-2016	2016	2015-2016	2016	2016	2016-2017	2017-2018	2016-2018	2017-2018	2016-2017	2017-2018
Tier	1	3	1	4	3	1	1	1	3	1	1	1	4
CIA Incentives Awarded: *(Note 1)*													
Statutory Incentives:													
AA - Advantage Arkansas	$86,426	$37,984	$2,524	$128,026	$3,160		$1,696	$31,332	$3,276	$8,790	$4,658	$10,865	$27,117
TB - Tax Back	$188,879		$4,660		$95,694			$136,582	$19,939	$13,458		$156,073	$21,929
IHR - In-House Research and Development													
Discretionary Incentives:													
AP - ArkPlus													
CR - Create Rebate						$96,559							
IHR-TB - In-House Research - Targeted Business													
PTC-TB - Payroll Tax Credit - Targeted Business													
Total	$275,305	$37,984	$7,184	$128,026	$98,854	$96,559	$1,696	$167,914	$23,215	$22,248	$4,658	$166,938	$49,046
Estimated Direct, Indirect, and Induced State Tax Benefits *(Note 1)*	$1,881,582	$290,272	$49,228	$391,695	$62,575	$566,989	$1,806	$392,325	$35,212	$234,744	$96,871	$239,846	$91,628
Actual Eligible Project Costs: *(Notes 1 and 2)*	$2,875,431	$0	$62,120	$0	$1,559,133	$0	$0	$1,995,887	$346,961	$192,061	$0	$1,953,146	$260,991
New Full-Time, Permanent Employees (positions):													
Projected	150	53	20	84	28	84	45	4	15	20	15	35	20
Actual (average of years available)	210	N/A	N/A	N/A	N/A	N/A	N/A	24	N/A	11	8	15	N/A
Actual (final year total)	329	46	12	115	2	85	1	38	2	19	12	20	18
New Annual Wages (years receiving payroll incentive):													
Projected	$3,900,000	$1,309,000	$416,000	$2,243,405	$1,600,000	$3,408,720	$3,000,000	$160,000	$450,000	$748,800	$500,000	$1,750,000	$480,000
Actual (average over life of project)	$5,302,226	N/A	N/A	N/A	N/A	N/A	N/A	$1,656,321	N/A	$376,745	$264,528	$543,282	N/A
Actual (final year total)	$8,435,429	$1,266,126	$252,386	$3,200,643	$105,331	$2,475,875	$169,579	$2,813,742	$109,215	$729,934	$402,521	$777,648	$677,928
Average Hourly Rate:													
Projected	$13.00	$11.87	$13.00	$12.84	$20.00	$20.29	$32.00	$19.23	$15.00	$18.00	$15.00	$24.04	$11.53
Actual (average over years data available)	$13.40	N/A	N/A	N/A	N/A	N/A	N/A	$39.38	N/A	$15.79	$21.19	$20.30	N/A
Actual (final year total)	$11.91	$14.79	$11.47	$15.00	$19.32	$18.68	$81.22	$36.67	$16.13	$14.27	$16.23	$19.71	$23.56
Initial AEDC Cost-Benefit Ratio Calculation Outcome	positive	positive	positive	positive	positive	positive	positive	positive	positive	positive	positive	positive	positive
ALA Cost Benefit Ratio	1:6.76	1:7.64	1:6.92	1:3.06	1:0.63	1:5.87	1:1.06	1:2.34	1:1.49	1:10.51	1:20.80	1:1.46	1:1.87
Met Minimum Requirements for Incentive	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DFA Audits Completed	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
						Note 4							

Schedule 2 (continued)

Company	14	15	16	17	18	19	20	21	22	23	24	25	26
Years Incentives Awarded	2018-2019	2016-2020	2014-2017	2015-2018	2014-2019	2014-2017	2015-2016	2015-2019	2014-2019	2014-2019	2015-2019	2015-2016	2015-2017
Tier	1	1	4	1	3	1	1	3	2	1	1	1	2
CIA Incentives Awarded: *(Note 1)*													
Statutory Incentives:													
AA - Advantage Arkansas	$3,952	$24,539	$2,160,727	$20,030	$64,571	$142,002	$27,347	$528,043	$44,757	$84,393	$75,128	$8,545	$14,381
TB - Tax Back	$64,361	$315,091	$1,614,936	$507,445	$828,322	$48,789			$24,387	$44,991			$58,399
IHR - In-House Research and Development													
Discretionary Incentives:													
AP - ArkPlus													
CR - Create Rebate													
IHR-TB - In-House Research - Targeted Business													
PTC-TB - Payroll Tax Credit - Targeted Business													
Total	$68,313	$339,630	$3,775,663	$527,475	$892,893	$190,791	$27,347	$528,043	$69,144	$129,384	$75,128	$8,545	$72,780
Estimated Direct, Indirect, and Induced State Tax Benefits *(Note 1)*	$98,167	$274,903	$11,374,124	$460,970	$461,512	$2,535,879	$760,821	$4,430,995	$545,809	$1,238,383	$911,173	$172,447	$172,048
Actual Eligible Project Costs: *(Notes 1 and 2)*	$806,329	$3,938,645	$28,614,911	$6,830,012	$12,978,236	$557,583	$0	$0	$302,743	$646,006	$0	$0	$707,147
New Full-Time, Permanent Employees (positions):													
Projected	30	4	435	74	15	150	20	30	21	20	21	6	15
Actual (average of years available)	N/A	11	195	17	11	81	42	105	14	42	19	11	10
Actual (final year total)	8	10	406	23	10	142	89	123	15	48	22	15	14
New Annual Wages (years receiving payroll incentive):													
Projected	$1,800,240	$156,000	$17,264,145	$4,440,200	$604,000	$7,800,000	$714,688	$936,000	$719,680	$707,200	$1,649,956	$189,197	$468,000
Actual (average over life of project)	N/A	$504,217	$21,229,859	$962,709	$577,679	$3,550,060	$1,155,476	$3,522,239	$447,819	$1,687,881	$1,502,566	$417,377	$257,825
Actual (final year total)	$395,175	$527,010	$43,604,112	$1,359,389	$510,228	$5,193,587	$2,421,077	$2,789,784	$522,202	$1,825,987	$1,452,326	$565,358	$405,832
Average Hourly Rate:													
Projected	$28.85	$18.75	$30.00	$30.00	$19.35	$25.00	$17.18	$15.00	$14.42	$17.00	$32.34	$15.16	$15.00
Actual (average over years data available)	N/A	$25.51	$48.00	$30.84	$27.87	$17.23	$15.46	$17.65	$15.51	$19.62	$42.66	$18.32	$18.71
Actual (final year total)	$30.33	$32.54	$41.29	$32.77	$27.26	$12.18	$15.20	$18.17	$18.67	$22.36	$37.49	$16.94	$14.99
Initial AEDC Cost-Benefit Ratio Calculation Outcome	positive	positive	negative	positive	positive	positive	positive	positive	positive	positive	positive	positive	positive
ALA Cost Benefit Ratio	1:1.42	1:0.81	1:2.97	1:0.88	1:0.52	1:13.13	1:27.82	1:8.36	1:7.59	1:9.29	1:12.11	1:20.17	1:2.36
Met Minimum Requirements for Incentive	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DFA Audits Completed	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Schedule 2 (continued)

Company	27	28	29	30	31	32	33	34	35	36	37	38
Years Incentives Awarded	2014-2017	2017-2018	2017	2018	2018	2016-2018	2016	2014-2018	2015-2018	2015-2018	2017-2018	2017-2018
Tier	3	1	1	1	1	2	1	1	1	1	1	1
CIA Incentives Awarded: *(Note 1)*												
Statutory Incentives:												
AA - Advantage Arkansas												
TB - Tax Back												
IHR - In-House Research and Development	$21,330,091	$890,320	$910,238	$418,962	$271,505	$1,922,201	$137,493	$1,034,576		$71,069		$57,998
Discretionary Incentives:												
AP - ArkPlus												
CR - Create Rebate												
IHR-TB - In-House Research - Targeted Business									$641,298		$101,571	
PTC-TB - Payroll Tax Credit - Targeted Business												
Total	$21,330,091	$890,320	$910,238	$418,962	$271,505	$1,922,201	$137,493	$1,034,576	$641,298	$71,069	$101,571	$57,998
Estimated Direct, Indirect, and Induced State Tax Benefits *(Note 1)*	$1,219,553	$834,448	$558,192	$365,305	$194,241	$5,109,192	$170,614	$866,151	$188,564	$48,777	$43,505	$67,370
Actual Eligible Project Costs: *(Notes 1 and 2)*	$130,681,225	$0	$0	$0	$376,161	$975,768	$0	$1,705,925	$228,983	$68,212	$57,065	$0
New Full-Time, Permanent Employees (positions):												
Projected	**Note 3**											
Actual (average of years available)												
Actual (final year total)												
New Annual Wages (years receiving payroll incentive):												
Projected												
Actual (average over life of project)												
Actual (final year total)												
Average Hourly Rate:												
Projected												
Actual (average over years data available)												
Actual (final year total)												
Initial AEDC Cost-Benefit Ratio Calculation Outcome	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ALA Cost Benefit Ratio	1:0.06	1:0.94	1:0.61	1:0.87	1:0.72	1:2.67	1:1.24	1:0.83	1:0.29	1:0.68	1:0.43	1:1.16
Met Minimum Requirements for Incentive	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DFA Audits Completed	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*	*Note 5*

Schedule 2 (continued)

Company	39	Total Non-InvestArk Projects Reviewed
Years Incentives Awarded	2016	
Tier	1	
CIA Incentives Awarded: *(Note 1)*		
Statutory Incentives:		
AA - Advantage Arkansas	$1,643	$3,545,912
TB - Tax Back		$4,143,935
IHR - In-House Research and Development		$27,044,453
Discretionary Incentives:		
AP - ArkPlus		$0
CR - Create Rebate		$96,559
IHR-TB - In-House Research - Targeted Business		$742,869
PTC-TB - Payroll Tax Credit - Targeted Business		$0
Total	$1,643	$35,573,728
Estimated Direct, Indirect, and Induced State Tax Benefits *(Note 1)*	$33,600	$37,471,516
Actual Eligible Project Costs: *(Notes 1 and 2)*	$0	$198,720,681
New Full-Time, Permanent Employees (positions):		
Projected	3	1417
Actual (average of years available)	N/A	
Actual (final year total)	6	1630
New Annual Wages (years receiving payroll incentive):		
Projected	$125,050	$57,540,280
Actual (average over life of project)	N/A	
Actual (final year total)	$164,292	$83,152,716
Average Hourly Rate:		
Projected	$20.04	
Actual (average over years data available)	N/A	
Actual (final year total)	$23.36	
Initial AEDC Cost-Benefit Ratio Calculation Outcome	positive	
ALA Cost Benefit Ratio	1:20.45	
Met Minimum Requirements for Incentive	Yes	
DFA Audits Completed	Yes	

Sources: *AEDC and DFA (unaudited by Arkansas Legislatives Audit)*

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

AP - ArkPlus (discretionary) - income tax credits for investment in a new location or expansion project; also requires job creation.

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

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

IHR - In-House Research and Development (statutory) - income tax credits of 20% of research and development expenditures.

IHR-TB - In-House Research and Development -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 Tax Back.

Note 3: Employment, annual wage, and hourly rate data not included for Research and Development projects since, in some cases, these are not new full- time, permanent employees.

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.

N/A = Not Available

AEDC = Arkansas Economic Development Commission

ALA = Arkansas Legislative Audit

DFA = Department of Finance and Administration

Appendix A

Consolidated Incentive Act (CIA)
Statutory and Discretionary Incentives

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 (i.e., an individual working at least 30 hours per week for 26 consecutive weeks). 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. Act 327 of 2019:

- Changed this program from a statutory to a discretionary incentive.
- Changed the amount of the incentive from a flat 20% to a maximum of 20%.
- Limited eligible expenditures to wages and benefits.
- Required credits to be based on the incremental amount spent that exceeds the baseline established from previous year spending.

Projects reviewed in reports to date were prior to this change.

Discretionary Incentives

Create Rebate (Payroll Rebate): Annual cash payments based on the annual payroll for new full-time, permanent employees (i.e., an individual working at least 30 hours per week for 26 consecutive weeks). To receive this credit, the company must create a minimum of $1.25 million to $2 million in new payroll, depending on the tier ranking of the county. 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.

Payroll Tax Credit – Targeted Business: 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.

In-House Research and Development – Targeted Business: 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.

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 (pre-Act 327 of 2019) **(Note 2)**		✓		**(Note 3)**
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 3)**

DFA - Department of Finance and Administration

Note 1: InvestArk audits are performed by DFA after incentives are issued.

Note 2: Act 327 of 2019 changed the 20% Research and Development incentive from statutory to discretionary and limited eligible expenditures to wages and benefits. The Act also requires credits to be based on the incremental amount spent that exceeds the baseline established from previous year spending.

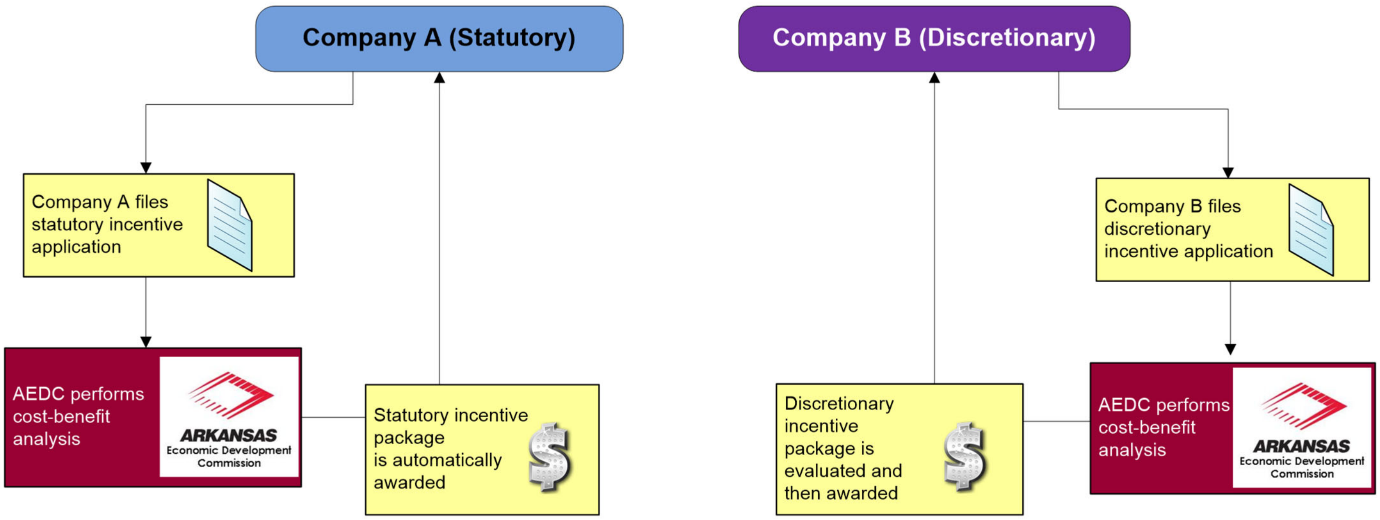
Note 3: Research and Development expenditures are reviewed by the Arkansas Economic Development Commission (AEDC) Division of Science and Technology prior to payment.

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

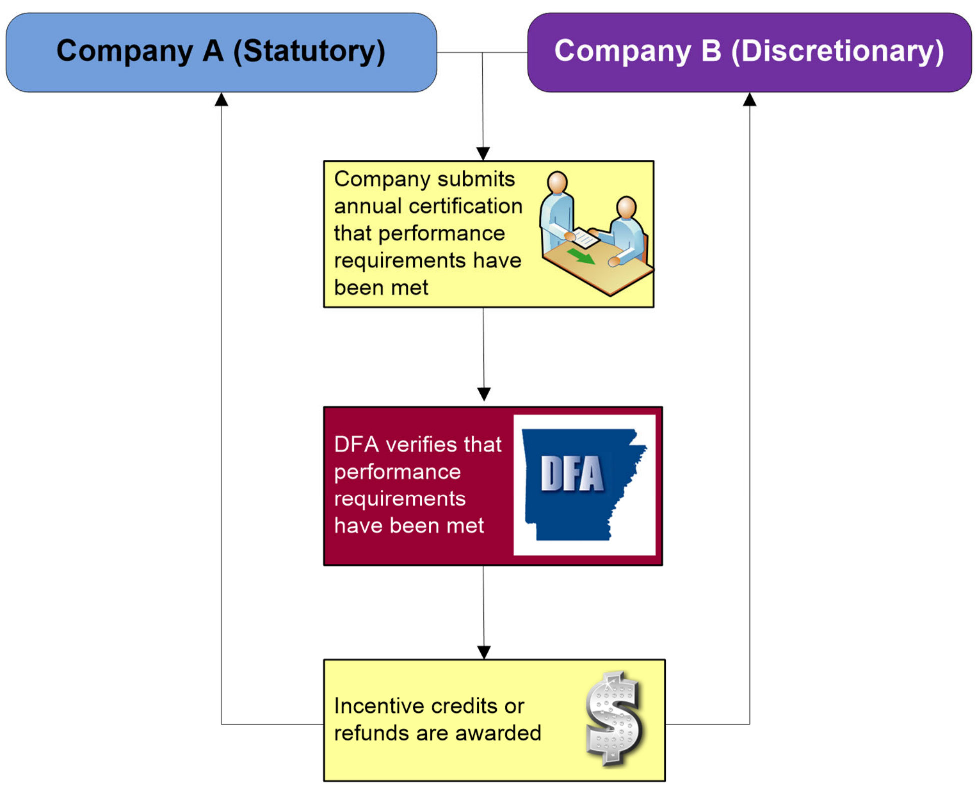
Appendix B

Consolidated Incentive Act (CIA)
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