Special Report

Arkansas Legislative Audit

Cost-Benefit Analysis of Selected Economic Incentive Projects

For the Period January 1, 2014 through December 31, 2023

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 35 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 2014 through 2023):
  - ⇒ CIA incentives awarded and issued by the State totaled $629.8 million.
  - ⇒ CIA incentives used by companies totaled $636.0 million.
  - ⇒ Statutory incentives accounted for 76.0% of all incentives awarded and issued, while discretionary incentives accounted for the remaining 24.0%.
- ALA conclusions about the cost effectiveness of CIA programs are shown in **Exhibit VI on page 7**.
- AEDC employed an inadequate verification process for Research and Development (R&D) program expenses submitted by companies, as discussed on **page 10.** One of the two project reviews performed by AEDC resulted in the disallowance of $3.3 million in expenses submitted by a company, highlighting the importance of these reviews.
- For the 24 non-R&D projects reviewed for this report, the State invested an average of $10,726 for each of the 2,937 new full-time, permanent jobs created (see **Exhibit VII on page 9**).

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SCOPE AND METHODOLOGY

This review was conducted primarily for the period January 1, 2014 through December 31, 2023. 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 2014 and going through the end of calendar year 2023, CIA incentives awarded and issued by the State totaled $629.8 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 2014 through 2023, the amount of incentives used by companies totaled $636.0 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 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 2014 through 2023 based on 2023-2024 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.

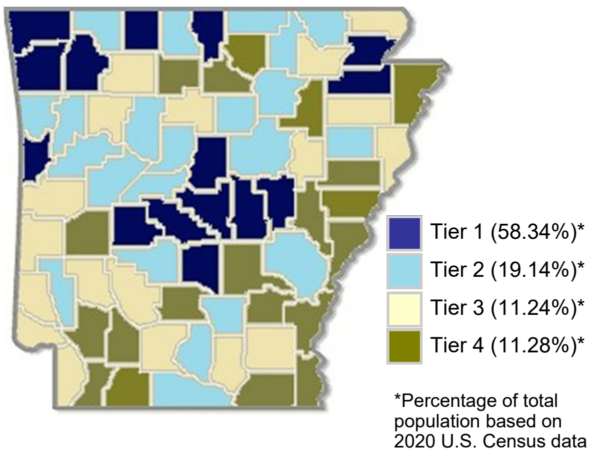
Arkansas Economic Development Commission

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.**

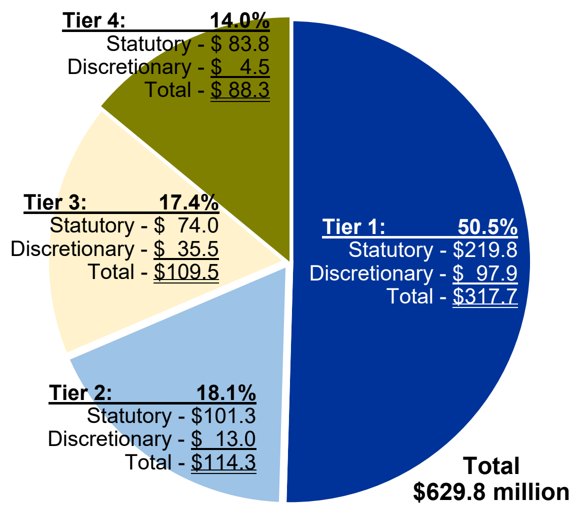
Exhibit I

Consolidated Incentive Act (CIA) Funds

County Tier Map 2023-2024



CIA Funds Awarded 2014-2023 Based on 2023-2024 County Tier Ratings

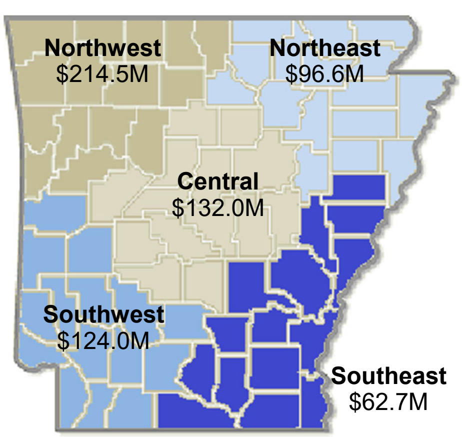


Note: County tiers are reassigned each year. The county tiers shown here were in effect for projects approved during the period July 1, 2023 through June 30, 2024. Tier 1 represents the most prosperous counties, with the least need for economic development, and Tier 4 represents the counties with the greatest need for economic development.

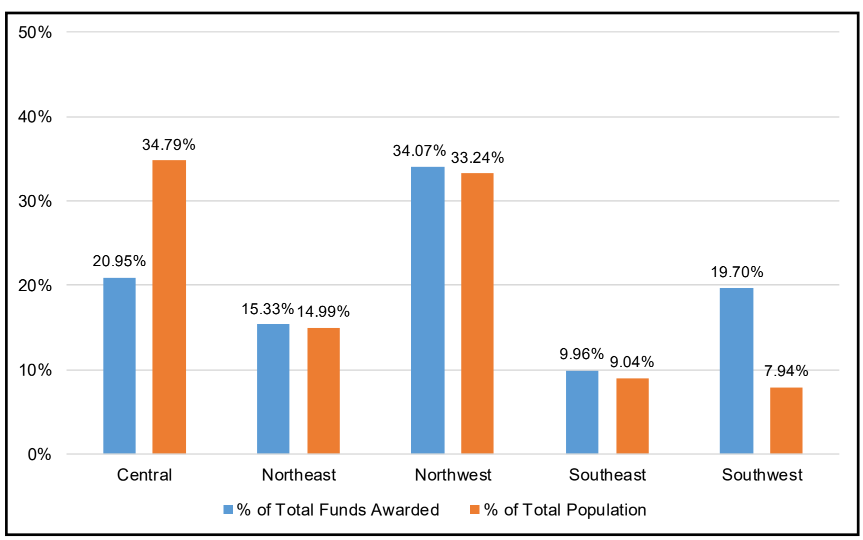
Sources: *Department of Finance and Administration, Arkansas Economic Development Commission, and Arkansas Economic Development Institute (unaudited by Arkansas Legislative Audit)*

Exhibit II

Consolidated Incentive Act (CIA) Funds Awarded by Region
January 1, 2014 through December 31, 2023



Total: $629.8 million

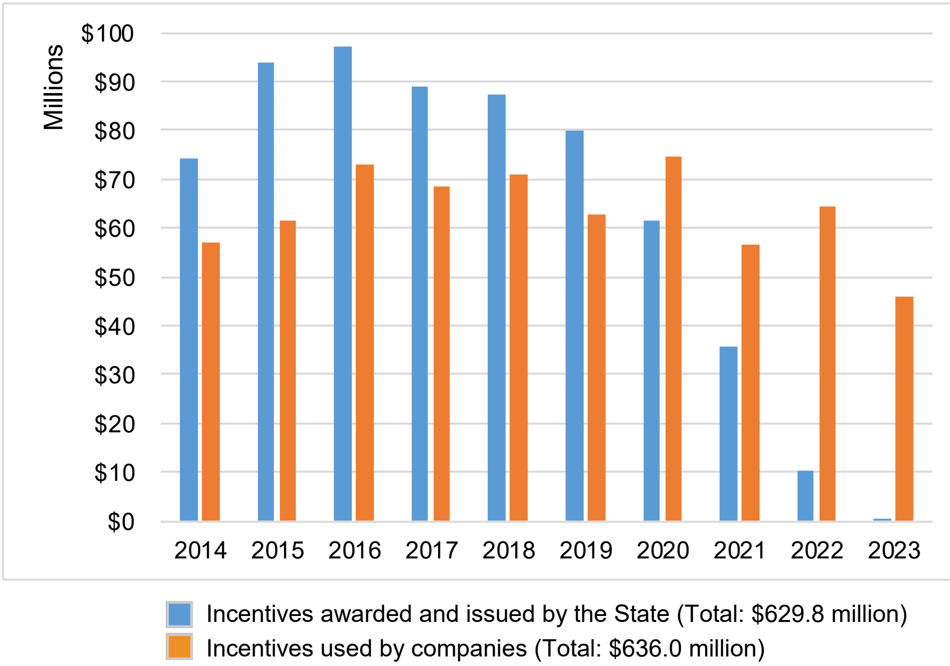


Population is based on 2020 U.S. Census data for Arkansas counties

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, 2014 through December 31, 2023



Note: The amount of incentives awarded and issued for 2023 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 by Industry
January 1, 2014 through December 31, 2023

Industry Category*	Amount	Percentage
Mining, Extraction, Utilities, and Construction	$ 6,219,850	1%
Food and Textile Manufacturing	103,257,409	16%
Wood, Paper, Petroleum, Coal, and Chemical Manufacturing	193,943,437	32%
Metal, Machinery, Electronic, and Miscellaneous Manufacturing	146,356,687	23%
Wholesale, Transportation, and Warehousing	14,795,000	2%
Professional Services (e.g., Finance, Real Estate, Scientific) and Other	165,190,315	26%
Total CIA Funds by Industry	**$ 629,762,698**	**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, 2014 through December 31, 2023

Incentive	Amount	Percent
Statutory		
InvestArk*	$ 353,791,316	56.2%
Advantage Arkansas	17,252,288	2.7%
Tax Back	22,043,083	3.5%
In-House Research and Development	85,852,123	13.6%
Total Statutory	478,938,810	76.0%
Discretionary		
ArkPlus	$ 23,038,855	3.7%
Create Rebate	113,158,729	18.0%
In-House Research and Development - Targeted Business	14,606,304	2.3%
Payroll Tax Credit - Targeted Business	20,000	0.0%
Total Discretionary	150,823,888	24.0%
Total Incentives	**$ 629,762,698**	**100.0%**

*The InvestArk incentive was phased out by Act 465 of 2017. No new InvestArk projects were approved after June 30, 2017.

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.**

Over the prior 10-year period, statutory incentives accounted for 76.0% of all incentives awarded and issued, and discretionary incentives accounted for the remaining 24.0%. Statutory incentives must be approved by AEDC, regardless of the outcome of the cost-benefit analysis, if other eligibility requirements are met. With the exception of In-House Research and Development (R&D) – Targeted Business incentives, discretionary incentives are approved only if they have a positive cost-benefit ratio and meet other criteria. In-House R&D – Targeted Business incentives are designed to encourage research and assist in the growth of certain business sectors; they return negative cost-benefit ratios due to their high incentive cost.

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 (R&D) 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 R&D 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 2014 through 2023.

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 2014 through 2023.

Additionally, the Research and Development (R&D) projects reviewed by ALA to date were statutory incentives equal to 20% of eligible research expenditures. As shown in **Exhibit VI**, 38.5% of the 39 projects reviewed returned positive cost-benefit ratios. It should be noted that Act 327 of 2019 changed the 20% R&D 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.

Discretionary Incentives

Based on the review of individual projects selected from calendar years 2014 through 2023, 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.**

Exhibit VI

Effectiveness of Non-InvestArk* Consolidated Incentive Act (CIA) Incentive Programs

Incentive	Number of Projects Reviewed (2014 – 2023)	Percentage of Projects Reviewed with Positive Cost Effectiveness	ALA Conclusion about Overall Effectiveness of the Program
Statutory Incentives			
TaxBack	124	87.1%	**Positive**
Advantage Arkansas	169	93.5%	**Positive**
(Pre-Act 327 of 2019) In-House Research and Development **(Note 1)**	39	38.5%	**Negative**
Discretionary Incentives			
Create Rebate	51	94.1%	**Positive**
ArkPlus **(Note 2)**	7	**(Note 2)**	**Inconclusive**
Sales and Use Tax Refund – Targeted Business **(Note 2)**	0	**(Note 2)**	**Inconclusive**
Payroll Tax Credit – Targeted Business **(Note 2)**	6	**(Note 2)**	**Inconclusive**
(Pre-Act 327 of 2019) In-House Research and Development – Targeted Business **(Note 1)**	25	0.0%	**Negative**
(Post-Act 327 of 2019) In-House Research and Development **(Note 1)**	0	**(Note 2)**	**(Note 1)**
(Post-Act 327 of 2019) In-House Research and Development – Targeted Business **(Note 1)**	0	**(Note 2)**	**(Note 1)**

ALA = Arkansas Legislative Audit

*Act 465 of 2017 phased out the InvestArk program, with no new InvestArk projects being approved after June 30, 2017.

Note 1: Act 327 of 2019 changed the 20% Research and Development (R&D) incentive (equal to 20% of eligible research expenditures) from statutory to discretionary and limited eligible expenditures to wages and benefits for both the 20% R&D incentive and the In-House R&D - Targeted Business programs, which have a cost of 33% of eligible research expenditures. The Act also requires credits to be based on the incremental amount spent that exceeds the baseline established from previous-year spending for the 20% program.

Note 2: 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 (unaudited by Arkansas Legislative Audit)*

In-House Research and Development (R&D) – Targeted Business projects resulted in a negative impact on the State. These projects have a high incentive cost of 33% of eligible research expenditures, causing them to return negative cost-benefit ratios. However, if the primary purpose of the In-House R&D – 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 encourages AEDC to monitor these projects and ensure that these long-term goals are being met. Act 327 of 2019 also limited eligible expenditures for this program to wages and benefits, no longer allowing supply expense to count towards incentives awarded. **All In-House R&D – Targeted Business projects reviewed by ALA to date are pre-Act 327 of 2019, with none returning a positive cost-benefit ratio.**

REVIEW OF SELECTED CIA PROJECTS

In addition to drawing conclusions regarding the overall effectiveness of CIA incentive programs, ALA staff reviewed 35 individual CIA projects with eligible project investments of approximately $139 million that were awarded incentives totaling $41 million in tax credits, refunds, and rebates. Projects reviewed received six of the different available incentives. These incentives were offered for tax years 2014 through 2023, and the projects were distributed among tier rankings as follows:

- 21 projects in Tier 1 counties.
- 6 projects in Tier 2 counties.
- 3 projects in Tier 3 counties.
- 5 projects in Tier 4 counties.

For the 24 non-Research and Development (R&D) projects reviewed, the State invested an average of $10,726 for each of the 2,937 new full-time, permanent jobs created, assuming all credits are used. The 2,937 new employees received payroll totaling $159 million in the final year of their respective projects. **Exhibit VII on page 9** provides a summary of the 35 projects reviewed, and **Schedule 1 on pages 12 through 14** provides detailed data on projects reviewed.

Of the 35 projects reviewed, 7 had unfavorable cost-benefit ratios calculated by ALA, as described below and reflected in **Schedule 1**:

In-House R&D: Five companies (Companies #21, #23, #27, #28, and #32) received the In-House R&D incentive, and two companies (Companies #31 and #33) received the In-House R&D – 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, as well as 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.

All 28 remaining projects reviewed had a favorable cost-benefit ratio, as noted below:

Four of these projects received the In-House R&D incentives, and while their cost-benefit ratios were positive, none of the four ratios eclipsed 1:1.90 with the lowest being 1:1.08.

The remaining 24 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.

Exhibit VII
Cost-Benefit Analysis of Incentives Reviewed
Summary of Data from Schedule 1

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 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	2015-2020	$ 0	469	$ 17,312,019	$ 18.53	$ 3,743,361	$ 15,701,453	1:4.21
2	2013-2020	17,030,834	307	18,871,622	46.39	9,450,325	38,958,480	1:4.10
3	2016-2019	35,000,000	40	3,692,177	48.99	4,043,331	4,391,880	1:1.06
4	2015-2017	0	207	6,406,136	13.49	342,428	1,146,694	1:3.34
5	2014-2020	1,369,932	236	12,121,070	23.23	2,603,426	13,620,851	1:5.18
6	2015-2021	15,335,860	83	2,590,681	18.88	962,922	1,162,065	1:1.17
7	2015-2020	41,582,806	231	9,810,199	24.04	2,941,804	7,037,435	1:2.29
8	2015-2020	5,307,186	10	482,356	19.19	490,419	565,255	1:1.14
9	2016-2022	5,879,668	81	4,507,913	25.78	1,207,516	5,397,240	1:4.43
10	2016-2017	0	73	2,300,415	15.64	208,550	1,336,419	1:6.42
11	2016-2020	2,788,528	55	2,821,871	21.27	585,775	2,009,810	1:3.46
12	2018	0	8	585,078	37.12	23,403	119,960	1:5.13
13	2016-2020	457,025	26	1,242,888	22.70	140,622	905,152	1:6.41
14	2016-2022	384,045	38	1,716,427	20.52	207,363	2,223,744	1:10.63
15	2017-2020	121,173	5	124,051	14.35	20,994	270,509	1:12.83
16	2017-2020	138,023	7	318,534	24.92	18,360	174,010	1:9.38
17	2017-2022	4,721,583	318	31,719,935	46.52	1,314,394	12,170,771	1:9.13
18	2017-2019	85,985	Note 1	Note 1	Note 1	640,464	692,787	1:1.08
19	2017-2019	3,292,475	50	2,295,052	22.18	484,240	811,789	1:1.67
20	2017-2022	2,059,405	174	8,042,236	21.53	661,525	4,985,870	1:7.44
21	2017-2019	0	Note 1	Note 1	Note 1	531,957	399,167	1:0.75
22	2018-2020	167,201	193	6,295,609	21.26	490,989	2,674,254	1:5.44
23	2017-2019	163,716	Note 1	Note 1	Note 1	161,174	106,949	1:0.66
24	2018-2022	0	61	4,731,831	33.71	477,899	2,385,258	1:5.00
25	2017-2021	426,277	17	928,577	29.42	68,549	568,357	1:8.06
26	2017-2019	0	Note 1	Note 1	Note 1	379,865	442,128	1:1.16
27	2017-2019	0	Note 1	Note 1	Note 1	1,023,834	779,788	1:0.76
28	2017-2019	0	Note 1	Note 1	Note 1	229,578	158,009	1:0.69
29	2017-2019	209,499	Note 1	Note 1	Note 1	464,218	890,475	1:1.90
30	2017-2019	151,348	Note 1	Note 1	Note 1	51,508	64,344	1:1.28
31	2018-2022	0	Note 1	Note 1	Note 1	2,158,255	870,292	1:0.40
32	2018-2019	0	Note 1	Note 1	Note 1	1,839,540	1,167,230	1:0.63
33	2018-2022	1,879,989	Note 1	Note 1	Note 1	2,225,942	777,641	1:0.35
34	2018	0	200	18,908,522	47.37	945,426	1,899,260	1:2.01
35	2017-2019	0	48	1,670,005	17.98	69,327	668,173	1:9.65
Totals		$ 138,552,558	2,937	$ 159,495,204		$ 41,209,283	$ 127,533,499	

ALA = Arkansas Legislative Audit

Note: Additional detail is provided in **Schedule 1 on pages 12-14.**

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)*

ISSUES WITH AEDC'S VERIFICATION PROCESS

Finding: Research and Development (R&D) programs are the two CIA programs for which AEDC is solely responsible for awarding state income tax credits, based on verification of data submitted by participating companies. AEDC should verify the existence, accuracy, and program eligibility of expenses claimed by participating companies. DFA's Office of Field Audit audits the data companies submit for all other CIA programs.

The prior-year report issued by ALA[1] recommended that AEDC reevaluate its process used to award R&D tax credits to ensure expenses are valid, accurate, and allowable. ALA recommended that company expense submissions be substantiated by supporting documents including invoices, organizational charts, Internal Revenue Service (IRS) W-2 Forms, job and project descriptions, and other documentation to establish a direct tie to R&D.

As in the prior year, ALA noted deficiencies in internal controls related to AEDC's verification process of its tax credits awarded. ALA staff tested 11 R&D projects for which incentives totaling $9.7 million were awarded from 2017-2022 and noted the following:

- Nine projects tested contained no documented audit or review summary provided by AEDC explaining how the existence, accuracy, and allowability of R&D expenses claimed by participating companies were determined.
- The two remaining projects contained memos summarizing review steps taken by AEDC for calendar year 2022 only, which did not encompass the entire five-year lives of the projects. Any disallowances noted for 2022, such as the wage expenses of sales staff, were not uniformly disallowed from prior years.

It should be noted that one of the two project reviews performed by AEDC resulted in the disallowance of $3.3 million in expenses originally submitted by the company, highlighting the importance of these reviews.

The lack of appropriate monitoring controls over tax credit awards, which includes a documented review of R&D project expenditures by AEDC, could result in the loss of state funds.

Recommendation: *ALA recommends that AEDC continue to evaluate and improve its internal controls over tax credit awards to ensure that the expenditures supporting these awards are valid, accurate, and allowable. Company expense submissions should be substantiated by supporting documents, including invoices, organizational charts, IRS W-2 Forms, or job/project descriptions, to establish a direct link to R&D. ALA further recommends that AEDC establish clear guidelines and steps for its review process, which would assist in ensuring a consistent evaluation is performed. AEDC should also consider a review of previously issued tax credits and attempt to recover any erroneously awarded credits.*

CONCLUSION

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

[1] Special Report − Cost-Benefit Analysis of Selected Economic Incentive Projects − For the Period January 1, 2013 through December 31, 2022 (SPSA00522) is available on the ALA website at www.arklegaudit.gov.

Due to the low number of projects completed, ALA staff have not yet evaluated sufficient data to reach a conclusion regarding the effectiveness of the ArkPlus, Sales and Use Tax Refund – Targeted Business, and Payroll Tax Credit – Targeted Business, as well as the R&D programs subsequent to Act 327 of 2019.

Additionally, AEDC's review of annual expenses submitted for review and approval for the two R&D programs was inadequate, as discussed on **page 10**. One of the two project reviews performed by AEDC resulted in the disallowance of $3.3 million in expenses submitted by a company, highlighting the importance of these reviews

MANAGEMENT RESPONSE

Management response is provided in its entirety in **Appendix C**.

Schedule 1

Consolidated Incentive Act (CIA)
Projects Selected for Review

Company	1	2	3	4	5	6	7	8	9	10	11	12	13
Years Incentives Awarded	2015-2020	2013-2020	2016-2019	2015-2017	2014-2020	2015-2021	2015-2020	2015-2020	2016-2022	2016-2017	2016-2020	2018	2016-2020
Tier	4	1	2	1	1	1	1	4	1	3	2	4	2
CIA Incentives Awarded: *(Note 1)*													
Statutory Incentives:													
AA - Advantage Arkansas						$61,928	$288,164	$78,696				$23,403	$100,047
TB - Tax Back		$1,328,990			$103,426	$900,994	$2,653,640	$411,723	$362,725		$202,670		$40,575
IHR - In-House Research and Development													
Discretionary Incentives:													
AP - ArkPlus			$3,500,000										
CR - Create Rebate	$3,743,361	$8,121,335	$543,331	$342,428	$2,500,000				$844,791	$208,550	$383,105		
IHR-TB - In-House Research - Targeted Business													
PTC-TB - Payroll Tax Credit - Targeted Business													
Total	$3,743,361	$9,450,325	$4,043,331	$342,428	$2,603,426	$962,922	$2,941,804	$490,419	$1,207,516	$208,550	$585,775	$23,403	$140,622
Estimated Direct, Indirect, and Induced State Tax Benefits *(Note 1)*	$15,701,453	$38,958,480	$4,391,880	$1,146,694	$13,620,851	$1,162,065	$7,037,435	$565,255	$5,397,240	$1,336,419	$2,009,810	$119,960	$905,152
Actual Eligible Project Costs: *(Notes 1 and 2)*	$0	$17,030,834	$35,000,000	$0	$1,369,932	$15,335,860	$41,582,806	$5,307,186	$5,879,668	$0	$2,788,528	$0	$457,025
New Full-Time, Permanent Employees (positions):													
Projected	200	420	44	221	175	11	30	5	83	70	400	30	20
Actual (average of years available)	339	436	42	117	247	37	130	10	73	84	52	N/A	28
Actual (final year total)	469	307	40	207	236	83	231	10	81	73	55	8	26
New Annual Wages (years receiving payroll incentive):													
Projected	$7,072,000	$17,472,000	$2,860,000	$6,000,000	$6,552,000	$510,453	$1,500,000	$208,000	$4,334,000	$2,402,400	$14,500,000	$1,130,000	$400,000
Actual (average over life of project)	$12,763,072	$26,029,916	$4,205,852	$2,929,451	$11,889,996	$1,238,567	$5,766,478	$393,703	$4,334,188	$2,007,694	$1,984,784	N/A	$1,192,610
Actual (final year total)	$17,312,019	$18,871,622	$3,692,177	$6,406,136	$12,121,070	$2,590,681	$9,810,199	$482,356	$4,507,913	$2,300,415	$2,821,871	$585,078	$1,242,888
Average Hourly Rate:													
Projected	$17.00	$20.00	$31.25	$13.00	$18.00	$22.31	$25.00	$20.00	$25.00	$16.50	$17.42	$18.13	$20.00
Actual (average over years data available)	$17.30	$30.05	$44.61	$13.46	$20.54	$17.96	$22.35	$17.09	$26.52	$15.95	$20.28	N/A	$22.42
Actual (final year total)	$18.53	$46.39	$48.99	$13.49	$23.23	$18.88	$24.04	$19.19	$25.78	$15.64	$21.27	$37.12	$22.70
Initial AEDC Cost-Benefit Ratio Calculation Outcome	positive	positive	negative	positive	positive	positive	positive	positive	positive	positive	positive	positive	positive
ALA Cost Benefit Ratio	1:4.21	1:4.10	1:1.06	1:3.34	1:5.18	1:1.17	1:2.29	1:1.14	1:4.43	1:6.42	1:3.46	1:5.13	1:6.41
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 1 (Continued)

Company	14	15	16	17	18	19	20	21	22	23	24	25
Years Incentives Awarded	2016-2022	2017-2020	2017-2020	2017-2022	2017-2019	2017-2019	2017-2022	2017-2019	2018-2020	2017-2019	2018-2022	2017-2021
Tier	4	2	1	1	4	2	2	1	1	1	3	1
CIA Incentives Awarded: *(Note 1)*												
Statutory Incentives:												
AA - Advantage Arkansas	$180,146	$11,625	$7,926	$960,463			$522,159				$477,899	$37,143
TB - Tax Back	$27,217	$9,369	$10,434	$353,931		$304,554	$139,366		$12,152			$31,406
IHR - In-House Research and Development					$640,464			$531,957		$161,174		
Discretionary Incentives:												
AP - ArkPlus												
CR - Create Rebate						$179,686			$478,837			
IHR-TB - In-House Research - Targeted Business												
PTC-TB - Payroll Tax Credit - Targeted Business												
Total	$207,363	$20,994	$18,360	$1,314,394	$640,464	$484,240	$661,525	$531,957	$490,989	$161,174	$477,899	$68,549
Estimated Direct, Indirect, and Induced State Tax Benefits *(Note 1)*	$2,223,744	$270,509	$174,010	$12,170,771	$692,787	$811,789	$4,985,870	$399,167	$2,674,254	$106,949	$2,385,258	$568,357
Actual Eligible Project Costs: *(Notes 1 and 2)*	$384,045	$121,173	$138,023	$4,721,583	$85,985	$3,292,475	$2,059,405	$0	$167,201	$163,716	$0	$426,277
New Full-Time, Permanent Employees (positions):												
Projected	10	10	10	150	**Note 3**	100	145	**Note 3**	100	**Note 3**	45	20
Actual (average of years available)	24	6	8	210		31	139		123		50	14
Actual (final year total)	38	5	7	318		50	174		193		61	17
New Annual Wages (years receiving payroll incentive):												
Projected	$312,000	$272,480	$270,400	$12,000,000		$4,000,000	$5,500,000		$3,609,000		$2,250,000	$1,100,000
Actual (average over life of project)	$900,730	$154,989	$396,337	$19,219,943		$1,636,606	$5,221,593		$4,092,625		$3,187,764	$743,254
Actual (final year total)	$1,716,427	$124,051	$318,534	$31,719,935		$2,295,052	$8,042,236		$6,295,609		$4,731,831	$928,577
Average Hourly Rate:												
Projected	$15.00	$13.10	$13.00	$38.85		$20.00	$17.61		$17.35		$24.00	$26.44
Actual (average over years data available)	$21.33	$14.01	$25.71	$45.31		$21.89	$20.95		$18.69		$30.44	$24.46
Actual (final year total)	$20.52	$14.35	$24.92	$46.52		$22.18	$21.53		$21.26		$33.71	$29.42
Initial AEDC Cost-Benefit Ratio Calculation Outcome	positive	positive	positive	positive	N/A	positive	positive	N/A	positive	N/A	positive	positive
ALA Cost Benefit Ratio	1:10.63	1:12.83	1:9.38	1:9.13	1:1.08	1:1.67	1:7.44	1:0.75	1:5.44	1:0.66	1:5.00	1:8.06
Met Minimum Requirements for Incentive	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DFA Audits Completed	Yes	Yes	Yes	Yes	*Note 4*	Yes	Yes	*Note 4*	Yes	*Note 4*	Yes	Yes

Schedule 1 (continued)

Company	26	27	28	29	30	31	32	33	34	35	Total Projects Reviewed
Years Incentives Awarded	2017-2019	2017-2019	2017-2019	2017-2019	2017-2019	2018-2022	2018-2019	2018-2022	2018	2017-2019	
Tier	1	1	1	1	1	1	1	1	1	3	
CIA Incentives Awarded: *(Note 1)*											
Statutory Incentives:											
AA - Advantage Arkansas										$69,327	$2,818,926
TB - Tax Back											$6,893,172
IHR - In-House Research and Development	$379,865	$1,023,834	$229,578	$464,218	$51,508		$1,839,540				$5,322,138
Discretionary Incentives:											
AP - ArkPlus											$3,500,000
CR - Create Rebate									$945,426		$18,290,850
IHR-TB - In-House Research - Targeted Business						$2,158,255		$2,225,942			$4,384,197
PTC-TB - Payroll Tax Credit - Targeted Business											$0
Total	$379,865	$1,023,834	$229,578	$464,218	$51,508	$2,158,255	$1,839,540	$2,225,942	$945,426	$69,327	$41,209,283
Estimated Direct, Indirect, and Induced State Tax Benefits *(Note 1)*	$442,128	$779,788	$158,009	$890,475	$64,344	$870,292	$1,167,230	$777,641	$1,899,260	$668,173	$127,533,499
Actual Eligible Project Costs: *(Notes 1 and 2)*	$0	$0	$0	$209,499	$151,348	$0	$0	$1,879,989	$0	$0	$138,552,558
New Full-Time, Permanent Employees (positions):											
Projected	Note 3								187	50	2,536
Actual (average of years available)									N/A	23	
Actual (final year total)									200	48	2,937
New Annual Wages (years receiving payroll incentive):											
Projected									$22,126,404	$1,861,600	$118,242,737
Actual (average over life of project)									N/A	$921,289	
Actual (final year total)									$18,908,522	$1,670,005	$159,495,204
Average Hourly Rate:											
Projected									$44.08	$17.90	
Actual (average over years data available)									N/A	$18.64	
Actual (final year total)									$47.37	$17.98	
Initial AEDC Cost-Benefit Ratio Calculation Outcome	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	positive	positive	
ALA Cost Benefit Ratio	1:1.16	1:0.76	1:0.69	1:1.90	1:1.28	1:0.40	1:0.63	1:0.35	1:2.01	1:9.65	
Met Minimum Requirements for Incentive	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
DFA Audits Completed	*Note 4*	*Note 4*	*Note 4*	*Note 4*	*Note 4*	*Note 4*	*Note 4*	*Note 4*	Yes	Yes	

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 are not included for Research and Development projects since, in some cases, these are not new full-time, permanent employees.
Note 4: 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

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

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. Act 465 of 2017 phased out the InvestArk program with no new InvestArk projects being approved after June 30, 2017.

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 were performed by DFA after incentives were 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.

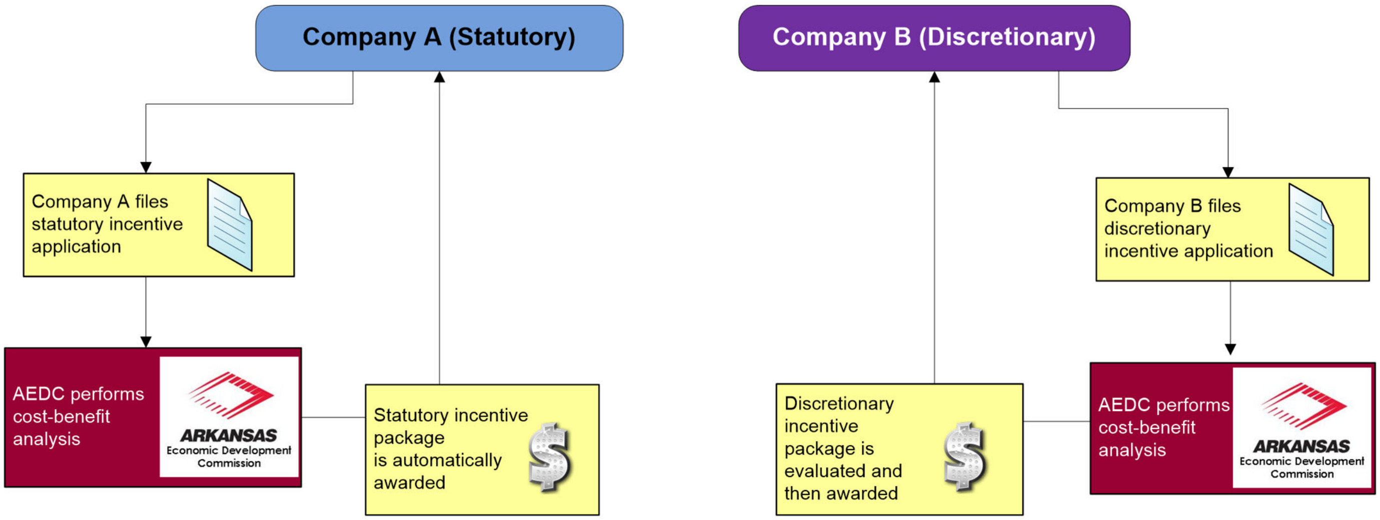
Note 3: Research and Development expenditures are reviewed by the Arkansas Economic Development Commission (AEDC) Division of Science and Technology prior to payment.

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

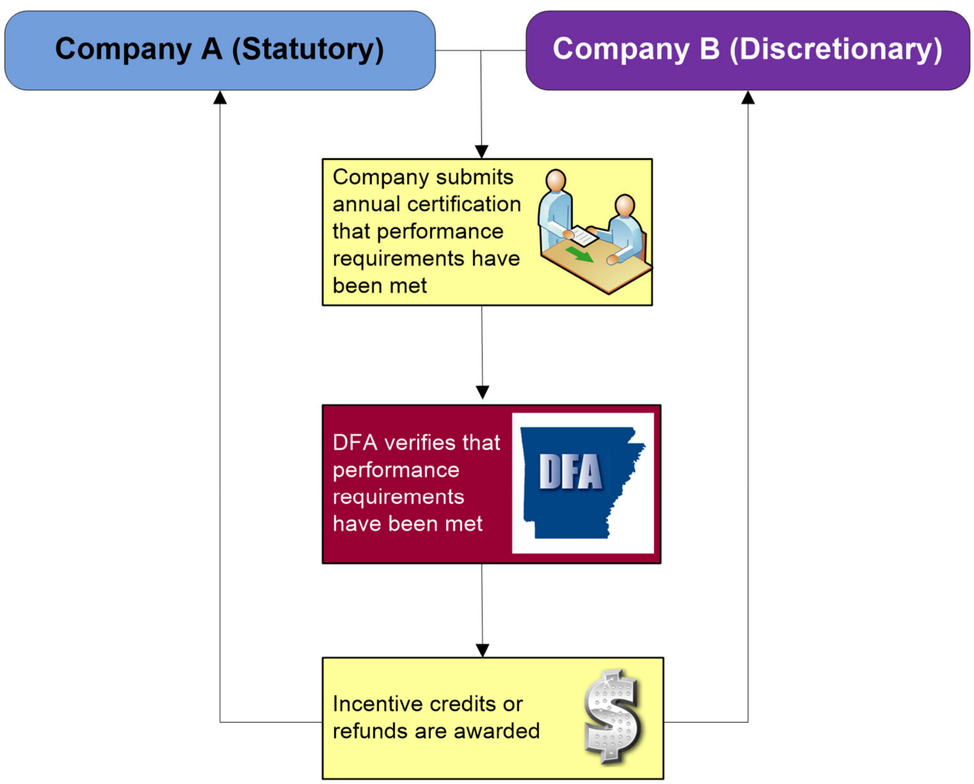
Appendix B

Consolidated Incentive Act (CIA)
Application and Verification Processes

Application Process for Statutory and Discretionary Incentives



Verification Process for Statutory and Discretionary Incentives (Note)



Note: The Department of Finance and Administration verifies that incentive requirements have been met and issues the payments/rebates, with the exception of In-House Research and Development incentives.

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

Appendix C

Management Response

Sarah Huckabee Sanders
GOVERNOR

Hugh McDonald
SECRETARY OF COMMERCE

November 19, 2024

Mr. Justin Meatte
Arkansas Legislative Audit
State Capitol, Room 172
Little Rock, AR 72201

RE: Cost Benefit Analysis of Selected Economic Incentive Projects Special Report
January 1, 2014 through December 31, 2023

Dear Mr. Meatte:

Thank you for the opportunity to review the draft of the Special Report: Cost Benefit Analysis of Selected Economic Incentive Projects Special Report prepared by your office reviewing certain incentive programs utilized by the Arkansas Economic Development Commission (AEDC).

Noted below are ALA Findings, Recommendations and Management's Response.

Finding: Research and Development (R&D) programs are the two Consolidated Incentive Act (CIA) programs for which AEDC is solely responsible for awarding state income tax credits, based on verification of data submitted by participating companies. AEDC should verify the existence, accuracy, and program eligibility of expenses claimed by participating companies. DFA's Office of Field Audit audits the data companies submit for all other CIA programs.

The prior-year report issued by ALA recommended that AEDC reevaluate its process used to award R&D tax credits to ensure expenses are valid, accurate, and allowable. ALA recommended that company expense submissions be substantiated by supporting documents including invoices, organizational charts, Internal Revenue Service (IRS) W-2 Forms, job and project descriptions, and other documentation to establish a direct tie to R&D.

As in the prior year, ALA noted deficiencies in internal controls related to AEDC's verification process of its tax credits awarded. ALA staff tested 11 R&D projects for which incentives totaling $9.7 million were awarded from 2017-2022 and noted the following:

- Nine projects tested contained no documented audit or review summary provided by AEDC explaining how the existence, accuracy, and allowability of R&D expenses claimed by participating companies were determined.
- The two remaining projects contained memos summarizing review steps taken by AEDC for calendar year 2022 only, which did not encompass the entire five-year lives of the projects. Any disallowances noted for 2022, such as the wage expenses of sales staff, were not uniformly disallowed from prior years.

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Justin Meatte
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It should be noted that one of the two project reviews performed by AEDC resulted in the disallowance of $3.3 million in expenses originally submitted by the company, highlighting the importance of these reviews.

The lack of appropriate monitoring controls over tax credit awards, which includes a documented review of R&D project expenditures by AEDC, could result in the loss of state funds.

Recommendation: *ALA recommends that AEDC continue to evaluate and improve its internal controls over tax credit awards to ensure that the expenditures supporting these awards are valid, accurate, and allowable. Company expense submissions should be substantiated by supporting documents, including invoices, organizational charts, IRS W-2 Forms, or job/project descriptions, to establish a direct link to R&D. ALA further recommends that AEDC establish clear guidelines and steps for its review process, which would assist in ensuring a consistent evaluation is performed. AEDC should also consider a review of previously issued tax credits and attempt to recover any erroneously awarded credits.*

Management's Response: In accordance with the ALA recommendations, AEDC has implemented the following internal controls to ensure expenditures supporting the awards are valid, accurate and allowable:

- AEDC has created standard operating procedures for these R&D Tax Credit programs.
- AEDC reviews all supporting documents including invoices, organization charts, IRS W-2 Forms for wage verification, job duty and project description analysis of qualifying employees for program eligibility that establish a direct link to the R&D project subject to the credit.
- AEDC issues a summary of findings for credits reviewed to document each company claim and provides justifications for adjustments.
- As current claims are evaluated, AEDC conducts prior credit reviews for accuracy and consistency to determine if a recapture of funds is necessary.
- AEDC has developed a committee consisting of multiple staff within AEDC to provide additional oversight to this process.
- AEDC has implemented a checklist that is used to provide oversight and compliance for each credit.

These internal control updates consist of living documents that will act to educate and enforce consistency and accuracy of the internal controls and processes of these programs for existing employees and future employees of AEDC.

Additionally, AEDC has been in communication with DFA regarding charge back procedures as authorized in the Tax Procedures Act. AEDC has implemented controls here as well that include identifying deficiencies with our new review procedures noted above. AEDC attempts to correct the deficiencies through direct company outreach and if unable to do so, submits project specific information to DFA for charge back procedures.

Justin Meatte
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It is important to note that as a result of the 10-year look-back of the annual R&D tax credit audits, internal monitoring control issues prior to 2023 will continue to be identified. AEDC has recognized these inadequacies and implemented more stringent controls in 2022 as noted above.

The implementation of those controls resulted in the disallowance of $3.3 million in expenses, as noted in the report. Based on subsequent discussions and review, we recognize that we must implement additional review policies and documentation to mitigate and ultimately eliminate deficiencies.

Additional R&D Tax Credit Program Changes and Background: The In-House Research and Development incentive program is an incentive that offers a company an income tax credit based on qualified research and development expenditures within a five-year period. In 2019, Act 327 amended the program to address some of the effectiveness concerns raised in the audit report. The original In-House Research and Development Facilities program was statutory and entitled a business to an automatic 20% tax credit for meeting basic qualifications in the program. Act 327 allowed this program to move from a statutory incentive to discretionary incentive. This allows AEDC the flexibility to offer a tax credit of up to 20% of qualified wages and benefits paid specific to research and development activities.

The programs no longer allow for supplies, equipment, and other items to be included in calculating the credit, which led, in some cases, to very large corporate tax credits. Finally, the program was changed to only incent the year-to-year incremental increase in the company's research and development expenditures over its baseline. This will ensure companies participating in the program are growing their research and development investments to receive the benefits offered by the state.

The In-House Research and Development by a Targeted Business incentive is offered at the discretion of the executive director of the Commission. This incentive offers a company an income tax credit of 33% of the amount spent on research for the first five years following the signing of an incentive agreement. This program is offered to companies either in the earliest stages of development or provided to knowledge-based companies that require continuing research to remain competitive. The program requires that projects pay 150% of the lesser of the county or state average wage. This investment in early-stage research and development does not always result in a short-term positive return on investment.

AEDC has implemented several safeguards for this program to improve program performance and improve the return to the state. For example, to be considered for approval, a project must demonstrate the potential to grow high wage jobs. In addition, a prospective company must also demonstrate an equity investment of at least $250,000 and have payroll between $100,000 and $1,000,000. Projects that do not demonstrate these benefits will not be approved. At this time, no projects have been reviewed under the new parameters set by Act 327 of 2019. We anticipate these changes will generate a more positive return to the state for this program and ensure prudent investment of state funds.

We appreciate the opportunity to respond to ALA's review of AEDC's incentive programs. We welcome further review of our programs by ALA and will continue to consider recommendations made by ALA and by the Legislature.

Sincerely,

Hugh McDonald
Secretary

LEGISLATIVE AUDIT

ARKANSAS