



Business Incentives and Economic Development Expenditures: An Overview of Arkansas' Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Arkansas' full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Arkansas.

In Fiscal year (FY) 2014, the most recent year for spending data are available for all program types, the state spent \$76 million on economic development program expenditures and approximately \$78 million on economic development tax expenditures.¹

Overview of Business Incentives

Arkansas had 38 active incentive programs in 2015. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives, as well as through non-tax programs, such as grants, loans, business assistance, and other investment vehicles.

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

¹ Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.



Figure 1: Arkansas State Business Incentives by Agency, 2015

State Agency	Number of Programs
Arkansas Economic Development Commission	18
Arkansas Development Finance Authority	10
Arkansas Department of Finance and Administration	5
Arkansas Department of Career Education	2
Arkansas Building Authority	1
Arkansas Department of Environmental Quality	1
Arkansas Department of Workforce Education	1

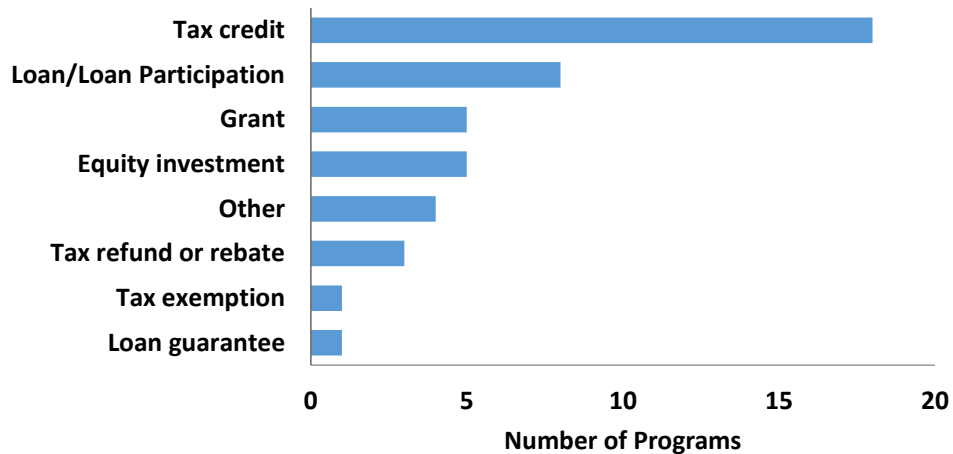
Source: C2ER State Business Incentives Database

These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.²

In Arkansas the responsibility for administering these incentive programs is shared across 7 different state agencies. The primary agencies responsible for administering incentive programs are the Arkansas Economic Development Commission, the Arkansas Development Finance Authority, and the Arkansas

Figure 2: Incentive Programs by Type**

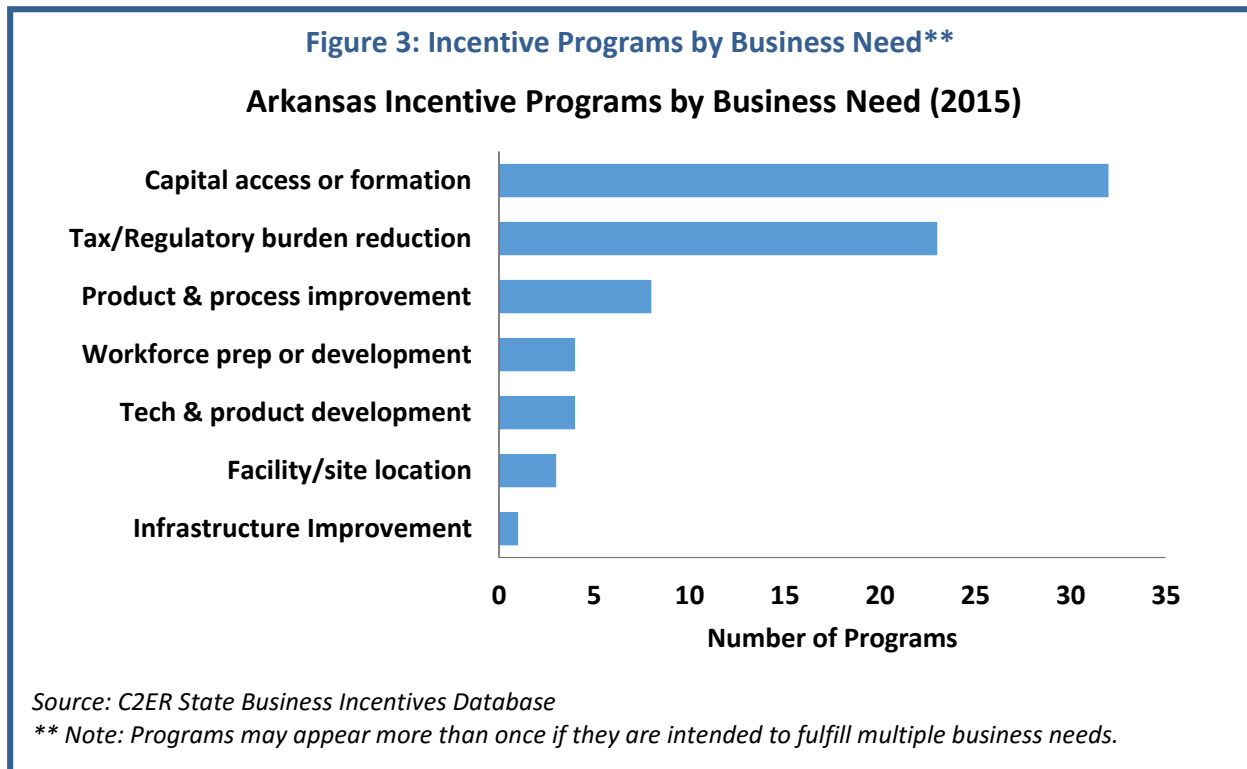
Arkansas Incentive Programs by Type (2015)



Source: C2ER State Business Incentives Database

** Note: Programs may appear more than once if they provide multiple incentive types.

² The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Arkansas. For a current list of incentive programs as defined by the state, please see both the [Arkansas Economic Development Commission](#) and [Arkansas Department of Finance and Administration](#) websites.



Department of Finance and Administration (See Figure 1.) the Department of Finance and Administration exclusively administers tax incentives, specifically tax credits, while the Economic Development Commission and other state agencies administer a mix of tax (primarily credits) and non-tax programs.

About half of Arkansas’ active incentive programs offer some kind of tax-related benefit. By comparison, tax incentives represent 45 percent of all state business incentive programs across the nation. Nearly half of Arkansas’ incentive programs provide direct financing for Arkansas businesses. Tax credits are the most commonly offered incentives by the state of Arkansas. Other incentives include loans, grants, and equity investments. (See Figure 2.)

The emphasis of the state’s current portfolio of incentives is on capital access or formation as well as tax/regulatory burden reduction and product & process improvement. Compared to other states, Arkansas’ program portfolio places a strong emphasis on capital access for businesses. (See Figure 3.)



Economic Development Program Expenditures

Examining Arkansas’s budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.³

According to Arkansas’s [FY2005-FY2014 Summary Of Operating Expenditures for State Agencies And Institutions](#), which details actual FY 2014 spending, the state spent \$76 million⁴ on economic development in FY 2014. This level of spending represents an average of \$868 per business, which is only slightly lower than the median average of \$877 per business spent in other states for that fiscal year.

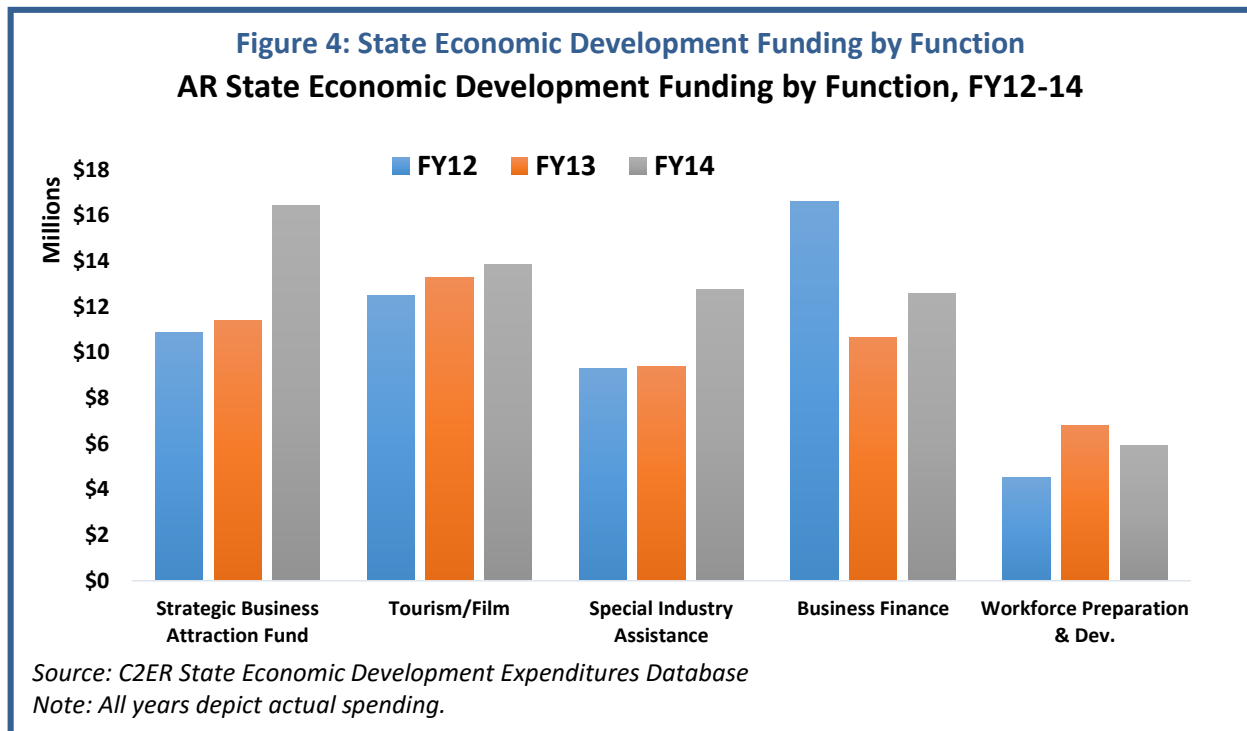
Half of Arkansas’s economic development expenditures went to the Economic Development Commission (51 percent), with the remainder going to the Department of Parks and Tourism, Department of Workforce Services, Department of Career Education, Department of Environmental Quality, and various state agricultural boards and technical schools.

**State Economic Development Expenditures
Function Areas**

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

³ See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf

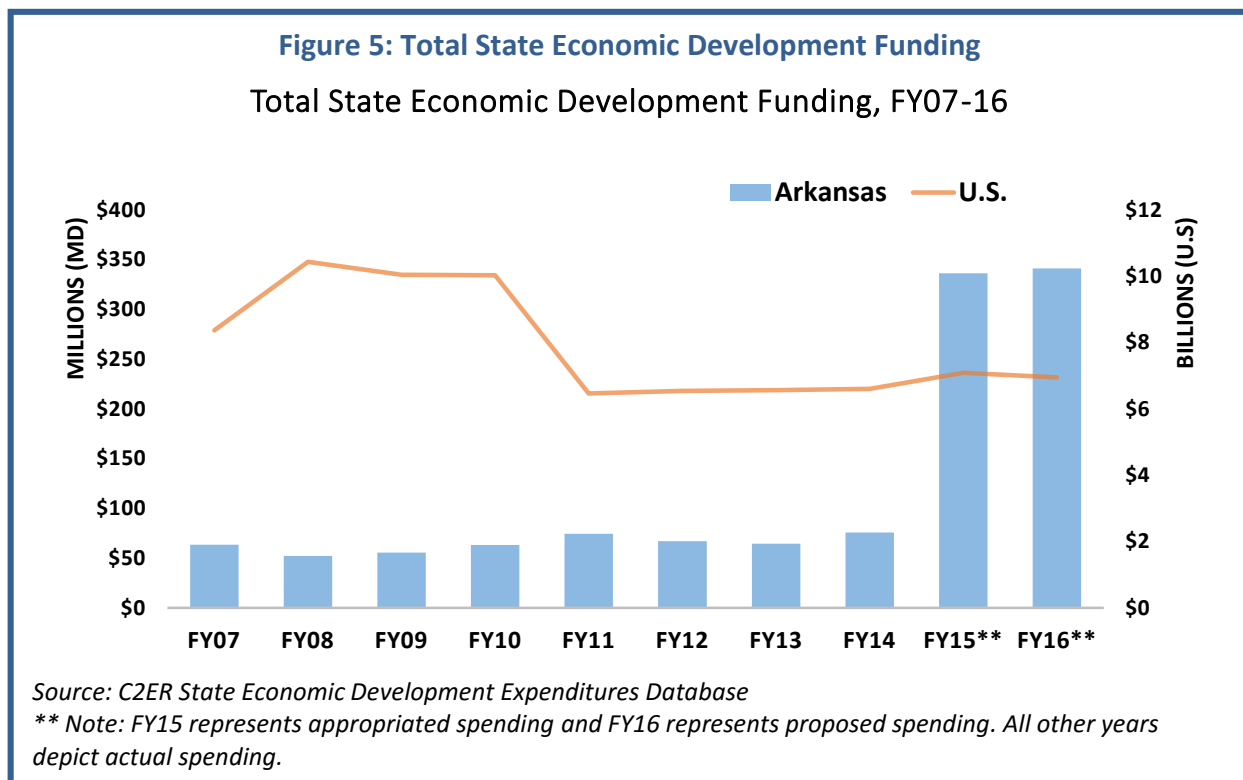
⁴ This total excludes all federal and local economic development expenditures.



In comparison to economic development expenditures nationally, in FY 2014 Arkansas spent a greater proportion of its budget (relative to other states) on programs related to business finance, special industry assistance, and strategic business attraction, and a lower share on programs related to community assistance, business assistance, and workforce development. (See Figure 4.)

Economic development spending in Arkansas slightly decreased prior to the Great Recession, from \$63 million in FY 2007 to \$52 million in FY 2008, before steadily rising to \$75 million in FY 2011. Economic development program expenditures then decreased in FY 2012 and FY 2013 before increasing to exceed pre-Recession spending levels by FY2014. This is inconsistent with national trends in economic development spending, as most states decreased spending in FY 2011 following the Great Recession and have since made very gradual spending increases. (See Figure 5.)

According to the FY 2015-2017 Biennial Budget, Arkansas appropriated \$336 million to spend on economic development in FY 2015, and proposed to spend \$341 million in FY 2016. This enormous increase over FY 2014 actual spending is due to the \$200 million appropriation for the state’s Super Projects fund and \$50 million appropriation for the Quick Action Closing fund. In 2004, Arkansas voters amended the constitution to give legislators authority to borrow money for economic development "super projects". Although this appropriation for the Super Projects fund has been included in every state budget since 2004, the funding has yet to be used for any project. However, the Quick Action Closing fund has been used for various economic development projects since FY 2008. To date, \$125 million in bonds have been issued, with a significant percentage of this amount for loans likely to be repaid.



Without including appropriations for these funds, the appropriated budget for FY 2015 shrinks to \$86 million, while the proposed budget for FY 2016 is reduced to \$91 million. This suggests that even without the appropriations for these two large business attraction funds, the state is set to increase overall economic development funding in upcoming fiscal years.

Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”⁵ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The [Arkansas Business Incentives and Tax Credits Report](#) for FY 2014, published by the Arkansas Office of Excise Tax Administration in September 2015 was used for the analysis in this section. Data was collected by reviewing and recording all line items in the report related to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. In some cases, the tax incentive is listed as having no tax expenditures for that year because there weren’t any forgone revenues for FY 2014.

⁵ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm



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In FY 2014, the state of Arkansas's economic development tax expenditures totaled approximately \$78 million, which was slightly higher than the amount Arkansas invested in economic development program expenditures for that fiscal year. Arkansas administered its tax expenditures related to economic development primarily through the Economic Development Commission, although for some incentives state agencies like the Development Finance Authority and the Department of Finance and Administration also contributed to administering tax expenditures.

For FY 2014, approximately 30 percent of Arkansas' economic development tax expenditures were for corporate income tax expenditures, while around 58% were for sales and use tax expenditures. The remainder fell under tax rebates through the Create Rebate programs, which provides an annual cash payment "rebate" program based on a percentage of new payroll taxes. The primary economic development functional goals of these tax expenditures were to encourage community assistance, tourism/film assistance, domestic recruitment, special industry assistance, technology transfer, and workforce preparation and development.

The majority of Arkansas' economic development tax expenditures went towards domestic recruitment (69 percent) and special industry assistance (16 percent). Arkansas used tax incentives to assist many different industries in the state, with more than half of line items going toward specific industries. The primary industries that received tax assistance in FY 2013 were manufacturing (63 percent); arts, entertainment and recreation (24 percent); and professional, scientific, technical services (13 percent).

Further, the program types represented by FY 2013 tax expenditures primarily consisted of tax credits (86 percent). Tax rebates (13 percent) and tax refunds (1 percent) were also represented.

Analysis of Available Outcome Data

Since 1995, the Arkansas Development Commission (AEDC) has been evaluating economic development business incentives. The accompanying entities that are also integral to the evaluation of business incentives are the Arkansas Department of Finance and Administration (DFA); the Division of Legislative Audit (DLA); and the Joint Committee on Economic and Tax Policy (provides feedback to the aforementioned entities). Today, incentives administered by AEDC require an audit by the Arkansas Department of Finance and Administration (DFA) before incentives can be received. In the instance a program provides incentives that preempt audits, recipients may be required to repay incentives should the company be out of compliance with the audit.

However, the process by which incentives are evaluated and reported in the state of Arkansas has undergone continuous revision. In 2002, ACT 1282 of 2001 required AEDC to begin publishing an annual report of incentives administered by the AEDC. In 2003, Arkansas enacted the Consolidated Incentive Act of 2003, described as a regrouping of most AEDC incentive programs. In 2005, legislation was enacted requiring annual review of incentive programs in the Consolidated Incentive Act of 2003.

The Division of Legislative Audit (DLA) is chiefly responsible for the review but works in concert with the AEDC and DFA. The database of information gathered and analyzed by the DLA is pursuant to assisting the Arkansas General Assembly in the process of assessing and modifying statutory incentive programs. In order to assist the AEDC, DFA also issues the aforementioned annual Business Incentives and Tax



Credit Report. The report delineates incentives and the corresponding amounts awarded and used by recipients.

Over the past few years, Arkansas has made significant progress in developing a well-defined and comprehensive process for examining the overall outcomes of the state's incentive portfolio. In 2012, Arkansas was considered by the *Evidence Counts: Evaluating State Tax Incentives for Job Growth*⁶ report to be one of 13 states "leading the way" in demonstrating a commitment toward developing a comprehensive analysis of incentives. In 2013, the Arkansas General Assembly enacted Act 1185 of 2013 to amend the 2005 legislation and have DLA review projects along with programs, as projects that might involve multiple incentives and have benefits and costs that are only measurable over the span of multiple years.

On the road to a more comprehensive system of evaluation, Arkansas has also augmented its transparency measures. Specifically in 2007, Act 510 of 2007 required that the AEDC list "disbursements made to businesses from the state's Quick Action Closing Fund." In 2011, Arkansas enacted the Arkansas Financial Transparency Act of 2011, Act 303, and shortly thereafter, in 2012 Arkansas launched its [transparency website](#) which lists cash disbursements made to companies. Even still, AEDC's annual report does not include specific information about which companies received incentives and does not include information specifying incentive performance.

Conclusion

Arkansas currently administers more incentive programs than the national median, emphasizing tax incentives as the most represented incentive type. As of FY 2013, economic development tax expenditures and economic development program expenditures represent a similar proportion of the state's economic development investments. The majority of Arkansas' incentives are non-specific to a particular industry. The few incentives that are tailored toward industry support Arkansas' top industry clusters for employment. These industries include manufacturing, hospitality and tourism, transportation and logistics, as well as business services.

Even while Arkansas stands-out as having one of the nation's better processes for evaluating incentives, the state continues to explore ways to ensure its incentive programs are aligned with the state's economic development priorities.

⁶ The Pew Charitable Trusts. 2012. Evidence Counts: Evaluating State Tax Incentives for Job Growth. http://www.pewtrusts.org/~media/Assets/2012/04/12/Pew_Evaluating_State_Tax_Incentives_Report.pdf



Appendix A: Full List of Arkansas State Business Incentives (2015)

Program Name	Program Provider	Business need	Type
Advantage Arkansas (Income Tax Credit)	Arkansas Economic Development Commission	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Ark Plus Investment Income Tax Credits	Arkansas Economic Development Commission	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Arkansas Industrial Energy Technology Loan Program	Arkansas Economic Development Commission	Tech & product development; Product & process improvement	Loan/Loan Participation
Biodiesel Incentive Act	Arkansas Department of Finance and Administration	Capital access or formation; Tax/Regulatory burden reduction; Product & process improvement	Tax credit
Bond Guaranty Program	Arkansas Development Finance Authority	Capital access or formation	Other
Business and Industry Training Program	Arkansas Economic Development Commission	Workforce prep or development	Grant
Capital Access Program	Arkansas Development Finance Authority	Capital access or formation	Loan/Loan Participation
Capital Development Company Income Tax Credit	Arkansas Department of Finance and Administration	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Coal Mining Income Tax Credit	Arkansas Department of Finance and Administration	Capital access or formation; Tax/Regulatory burden reduction; Product & process improvement	Tax credit
Co-Investment Fund	Arkansas Development Finance Authority	Capital access or formation	Equity investment
Create Rebate Program	Arkansas Economic Development Commission	Capital access or formation; Product & process improvement; Tax/Regulatory burden reduction	Tax refund or rebate
Delta Geotourism Incentive	Arkansas Department of Finance and Administration	Capital access or formation; Tax/Regulatory burden reduction; Product & process improvement	Tax credit
Disadvantaged Business Enterprise Program	Arkansas Development Finance Authority	Capital access or formation	Loan guarantee
Equity Investment Tax Credit	Arkansas Economic Development Commission	Capital access or formation; Tax/Regulatory burden	Tax credit



		reduction; Tech & product development	
Existing Workforce Training Program (EWTP)	Arkansas Department of Career Education	Workforce prep or development; Tax/Regulatory burden reduction	Grant; Tax credit
Industrial Revenue Bonds	Arkansas Economic Development Commission	Capital access or formation; Tax/Regulatory burden reduction	Tax exemption
Intermediary Relending Program	Arkansas Development Finance Authority	Capital access or formation	Loan/Loan Participation
InvestArk (Sales and Use Tax Credit)	Arkansas Economic Development Commission	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Non-Profit Incentive Act of 2005 (amended 2009)	Arkansas Economic Development Commission	Capital access or formation; Product & process improvement; Tax/Regulatory burden reduction	Tax refund or rebate; Other
Recycling Equipment Tax Credit	Arkansas Department of Environmental Quality	Tax/Regulatory burden reduction; Product & process improvement; Capital access or formation	Tax credit
Research and Development Tax Credits	Arkansas Economic Development Commission	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Research Park Authority	Arkansas Department of Finance and Administration	Capital access or formation; Facility/site location; Infrastructure Improvement; Tax/Regulatory burden reduction	Tax credit
Risk Capital Matching Fund	Arkansas Development Finance Authority	Capital access or formation	Equity investment
Seed and Angel Capital Network	Arkansas Development Finance Authority	Capital access or formation	Equity investment
Seed Capital Investment Program	Arkansas Economic Development Commission	Capital access or formation	Grant; Loan/Loan Participation; Equity investment
Speculative Building Loan Program	Arkansas Development Finance Authority	Capital access or formation	Loan/Loan Participation
Super Projects	Arkansas Economic Development Commission	Facility/site location	Other



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Sustainable Building Design Revolving Loan Fund	Arkansas Building Authority	Product & process improvement	Loan/Loan Participation
Targeted Businesses Incentives	Arkansas Economic Development Commission	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Tax Back - Sales and Use Tax Refund	Arkansas Economic Development Commission	Facility/site location; Tax/Regulatory burden reduction	Tax refund or rebate
Technology Development Program	Arkansas Economic Development Commission	Capital access or formation; Tech & product development	Grant
Technology Transfer Assistance Grant	Arkansas Economic Development Commission	Tech & product development	Grant
Tourism Development Incentives	Arkansas Economic Development Commission	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Tourism Development Loan Program	Arkansas Development Finance Authority	Capital access or formation	Loan/Loan Participation
Tuition Reimbursement Tax Credit Program	Arkansas Economic Development Commission	Workforce prep or development; Tax/Regulatory burden reduction	Tax credit
Venture Capital Investment Fund	Arkansas Development Finance Authority	Capital access or formation	Equity investment
Youth Apprenticeship Training Program	Arkansas Department of Career Education	Workforce prep or development; Tax/Regulatory burden reduction	Tax credit
Youth Apprenticeship/Work-Based Learning Program	Arkansas Department of Workforce Education	Capital access or formation; Tax/Regulatory burden reduction	Tax credit



Appendix B: AR Economic Development Program Expenditures (2014)

Function	Activity	Agency	Program	Total State Funding
Administration	Info systems, accounting, human resources, etc.	Economic Development Commission	State Operations (Regular salaries + Operating Expenses + Conference & Travel Expenses + Prof. Fee)	\$7,289,285
Business Finance	Grants to businesses	Economic Development Commission	State Operations (Grants and Aid + Capital Outlay)	\$391,733
Business Finance	Fund Management	Economic Development Commission	Incentive Plans	\$450
Business Finance	Loans available to Business	Department of Environmental Quality	Small Business Revolving Loan Program Operations	\$1,004
Business Finance	Other Business Finance	Economic Development Commission	Create Rebate	\$12,167,777
Community assistance	Grants to local/regional dev. orgs.	Economic Development Commission	State Operations (State Match for Grants)	\$15,903
Entrepreneurial Development	Seed/venture capital	AR Science and Tech Authority	Seed Capital Investment	\$200,000
Entrepreneurial Development	Seed/venture capital	Economic Development Commission	New Markets Performance Program	\$0
International Trade and Investment	Export promotion (excl. overseas representation)	Economic Development Commission	State Operations (Far East Trade/Industrial Recruitment)	\$150,000
Program Support	Other Program Support	Economic Development Commission	State Operations (Personal Services Matching)	\$1,390,247
Program Support	Other Program Support	Economic Development Commission	Existing Business Resource Program	\$0
Special Industry Assistance	Energy and environment	Economic Development Commission	Clean Cities	\$16,517
Special Industry Assistance	Agriculture/agribusiness	AR Catfish Promotion Board	Catfish promotion	\$19,240



Special Industry Assistance	Agriculture/agribusiness	AR Soybean promotion Board	AR Soybean promotion Board	\$11,497,341
Special Industry Assistance	Agriculture/agribusiness	AR Corn and Grain Sorghum Board	Corn and Grain Sorghum	\$917,366
Special Industry Assistance	Agriculture/agribusiness	AR Wheat Promotion Board	Arkansas Wheat Promotion	\$291,085
Strategic Business Attraction Fund	Other Strategic Business Attraction Fund	Economic Development Commission	Super Projects	\$0
Strategic Business Attraction Fund	Grants for strategic projects	Economic Development Commission	Quick Action Closing	\$16,435,647
Technology Transfer	Other Technology Transfer	AR Science and Tech Authority	Science & Technology - State Operations	\$2,826,938
Technology Transfer	Modernization/mfg. extension	AR Science and Tech Authority	AR Manufacturing Extension Network-State	\$257,182
Technology Transfer	Modernization/mfg. extension	AR Science and Tech Authority	New AMS - Cash in Treasury	\$330,660
Technology Transfer	Modernization/mfg. extension	AR Science and Tech Authority	Energy Efficiency-Cash in Treasury	\$56,719
Technology Transfer	Other Technology Transfer	AR Science and Tech Authority	AR Acceleration Fund	\$372,347
Technology Transfer	Technology commercialization	AR Science and Tech Authority	Innovate Arkansas Fund	\$1,300,000
Technology Transfer	Technology commercialization	AR Science and Tech Authority	Ag Grant - Argenta Center	\$50,000
Tourism/Film	Tourism advertising	Department of Parks and Tourism	State Operations (Advertising Expense)	\$617,888
Tourism/Film	Tourism promotion (exc. Advertising)	Department of Parks and Tourism	State Operations (Tourism Promotion)	\$316,263
Tourism/Film	Tourism promotion (exc. Advertising)	Department of Parks and Tourism	Tourism Promotion-Special Rev	\$12,921,367
Workforce Preparation & Dev.	Customized training	Economic Development Commission	Industry Training Program	\$999,817
Workforce Preparation & Dev.	Incumbent worker training	Department of Workforce Services	DWS Training Trust Fund	\$2,440,759

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Workforce Preparation & Dev.	Apprenticeships	Department of Career Education	Operations (Apprenticeship Program)	\$1,611,456
Workforce Preparation & Dev.	Other Workforce Preparation & Dev.	Department of Career Education	Construction Industry Craft Training Program	\$808,410
Workforce Preparation & Dev.	Apprenticeships	Riverside Vocational Technical School	Plumbing Apprenticeship Program	\$75,772
GRAND TOTAL				\$75,769,173



Appendix C: AR Economic Development Tax Expenditures (2014)

Description	Total Funds
Advantage Arkansas	\$1,486,542
Arkplus	\$1,658,525
Biotechnology Development and Training Credit (Expired)	\$253,258
Capital Development Corporation	\$145,419
Coal Mining Tax Credit	\$0
County and Regional Industrial Development (Expired)	\$0
Create Rebate	\$10,060,963
Delta Geotourism Incentive Act Of 2007	\$14,426
Digital Product and Motion Picture Industry Development Act	\$514,025
Economic Investment Credit (Expired)	\$81,749
Equity Investment Incentive Act Of 2007	\$3,229,753
Existing Workforce Training Act	\$1,575
Historic Rehabilitation Tax Credit	\$1,423,007
Investark	\$40,288,820
Qualified Research Equipment Donations	\$0
Research & Development Credits	\$2,165,229
Research Park Authority	\$0
Targeted Business Special Incentive	\$174,163
Targeted Business Taxback	\$0
Taxback (Sales Tax Refunds)	\$589,028
Tourism Development Act - Sales Tax Credits Used	\$4,137,078
Waste Reduction and Recycling Equipment	\$12,114,222
Youth Apprenticeship Training Program	\$7,161
Youth Apprenticeship/Work-Based Learning	\$0
GRAND TOTAL	\$78,344,943