



# RULES

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**Economic Development Programs**  
Administered by Arkansas Economic Development Commission



**July 2018**



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Arkansas Economic Development Commission

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## **TAX BACK**

### **Program Summary**

The Tax Back program provides sales and use tax refunds on the purchase of building materials, machinery, and equipment to qualifying businesses that create new jobs as a result of construction, expansion, or facility modernization projects in Arkansas.

To qualify for the Tax Back program, a business must:

- Invest in excess of one hundred thousand dollars (\$100,000);
- Obtain an endorsement resolution from the local governing authority (city, county, or both) in which the project is located that authorizes the refund of local taxes;
- Within twenty-four (24) months of signing the Tax Back agreement, sign a job creation agreement under the Advantage Arkansas program (§ 15-4-2705) or the Create Rebate program (§ 15-4-2707) unless the eligible business has met the requirements of a job creation financial incentive agreement under § 15-4-2705 or § 15-4-2707 within the previous forty-eight (48) months;
- Submit an application for Tax Back on forms provided by the Arkansas Economic Development Commission (Commission); and
- Receive Commission approval prior to incurring expenditures.

For convenience, the section of the Final Rules that contains the major requirements of the program is reproduced below. **For all the requirements of this and other incentive programs, see the entire Final Rules, particularly the “Definitions” section on pages 2 – 10 and the “Administration” section on pages 12 – 15.**

#### **D. Sales and Use Tax Refund for New and Expanding Eligible Businesses (Tax Back) – Act 182 of 2003, as amended, § 15-4-2706(d).**

This incentive program is available to any eligible business that meets the qualifications for investment and payroll thresholds for the tier in which it locates or expands and is approved for benefits by the Commission. The Commission’s approval is contingent upon receipt of a completed application and a local endorsement resolution from the city, county or both which authorizes the refund of its local taxes to the eligible business.

To qualify, the eligible business must invest in excess of one hundred thousand dollars (\$100,000) and meet the eligibility criteria of the Advantage Arkansas (§ 15-4-2705) or Create Rebate (§ 15-4-2707) job creation incentive programs.

The financial incentive agreement for the job creation tax credit (Advantage Arkansas) or payroll rebate (Create Rebate) must be signed within twenty-four (24) months of signing a financial incentive agreement for a sales and use tax refund unless the eligible business has met the requirements of a job creation financial incentive agreement under § 15-4-2705 or § 15-4-2707 within the previous forty-eight (48) months.

In the event an eligible business has an existing Tax Back agreement, the business may apply for additional Tax Back if it has signed a job creation financial incentive agreement under § 15-4-2705 or § 15-4-2707 within the previous forty-eight (48) months.

In the event the business does not have an existing Tax Back agreement, the business may apply for Tax Back benefits if it has signed a job creation financial incentive agreement under § 15-4-2705 or § 15-4-2707 within the previous forty-eight (48) months.

An application, accompanied by local endorsement resolution(s), must be filed with the Commission. The application should clearly identify the intent of the project, the expenditures planned, the start and end date of the project and an estimate of total project costs. The local endorsement resolution(s) from the governing authority (city council, quorum court or both) in which the project is located must authorize the refund of its local sales and use taxes.

The purpose of the resolution is to: A) approve the business's participation in the program; and B) specify that the municipality or county authorizes the DFA to refund all or part of any sales and use tax levied at the local level. The municipality or county in which the eligible business is located may authorize the refund of any sales or use tax levied by it but may not authorize the refund of any sales and use tax not levied by it.

This incentive program grants a refund of state and local sales and use taxes paid on the purchases of the material used in the construction of a building or buildings or any addition, modernization, or improvement to a new or expanding eligible business. A sales and use tax refund is also allowed for the purchases of taxable machinery or equipment associated with the building or project.

A refund shall not be authorized for:

- Routine operating expenditures;
- The purchase of replacements of items previously purchased as part of a project unless the items previously purchased will not enable the project to function as originally intended;
- Licensed motor vehicles; or
- Expenditures for routine repair and maintenance that do not result in new construction or expansion.

**For projects approved on or after July 1, 2005, the refund of state sales and use taxes shall not include the refund of taxes dedicated to the Educational Adequacy Fund (.875%) provided in § 19-5-1227 or the taxes dedicated to the Conservation Tax Fund (.125%) provided in § 19-6-484.**

All project costs must be incurred within four (4) years from the date the project is approved by the Commission. The project plan may be revised by written amendment filed with the Commission. The Commission's approval of an amendment will not extend the time period in which project costs may be incurred. Amendments that exceed twenty-five percent (25%) of the original project plan's estimated cost will not be considered and shall be submitted as a new project.

## Eligible Businesses Tax Back Refunds

For an eligible business to receive a refund, the business must file an *Annual Sales and Use Tax Refund Request Form (Form Tax Back 1000)* and schedule (*Schedule A*) listing the qualified purchases at the end of each calendar year.

An approved eligible business may receive a sales and use tax refund on eligible purchases made by a contractor or developer performing work, or building a structure for lease or sale to the approved eligible business provided the eligible business submits to the DFA Tax Credits/Special Refunds Section a notarized *Contractor's/Developer's Waiver of Refund Form (Form Tax Back 1100)* completed by the contractor or developer waiving any and all rights to claim a refund of sales and use taxes.

An approved business is prohibited from claiming a refund for the same amount of local tax that:

- The approved business has received, or will be receiving, for a local tax cap rebate on qualifying Tax Back purchases, either on the approved business's Sales and Use Tax Report or as a refund from the Sales and Use Tax Section; or
- The contractor or developer has received, or will be receiving, a local tax cap rebate on qualifying Tax Back purchases, either on the contractor's or developer's Sales and Use Tax Report or as a refund from the Sales and Use Tax Section.

**Example:** An eligible business approved for the Tax Back program makes a purchase of eligible items on an invoice totaling ten thousand dollars (\$10,000). Assuming a local tax rate of one percent (1%), the total local tax due is one hundred dollars (\$100). The local tax cap for business purposes is limited to the tax due on two thousand five hundred dollars (\$2,500). If the business claims a local tax cap rebate for the seventy-five dollars (\$75) (the tax paid in excess of the tax due on two thousand five hundred dollars (\$2,500)) on its Sales and Use Tax Report or as a refund from the Sales and Use Tax Section; the business's Tax Back refund is limited to twenty-five dollars **(\$25) for this invoice**. If the business has not claimed, or does not plan to claim, the local tax cap rebate, it may claim the full amount of local tax paid on its Tax Back Sales and Use Tax Refund Request.

## Refunds to Developers/Contractors

Developers building a structure for lease to an approved eligible business and contractors performing work for an approved eligible business may be permitted to receive a sales and use tax refund on eligible purchases directly from the state only when the approved eligible business requests the DFA Tax Credits/Special Refunds Section, in writing, that this be permitted and states the basis for this request. This request must be approved by the DFA prior to the signing of the financial incentive agreement.

The DFA Revenue Division will authorize this procedure only when it is satisfied that:

- The written request sufficiently states the basis for this request and provides a satisfactory

- explanation why this arrangement is crucial to the success of the project;
- All requirements of the Consolidated Incentive Act of 2003, as amended, and Commission rules will be adhered to;
  - The requisite affidavit indicating to whom the benefit accrues is submitted to the DFA.
    - If the business receives the benefit, a *notarized affidavit (Form Tax Back 1400)* is presented to the DFA Revenue Division from the contractor or developer stating the eligible business will receive the benefit of the sales and use tax refunds by having the cost of construction or lease payments reduced by the amount of the tax refund; or
    - If the contractor receives the benefit, a *notarized affidavit (Form Tax Back 1300)* is presented to the DFA Revenue Division from the approved eligible business waiving the right to claim a refund of sales and use taxes, and passing on the right to claim refunds to the contractor or developer. The affidavit must state that the eligible business acknowledges that if the eligible business fails to comply with the conditions contained in the Act or this rule, that the business will be liable for the payment of all sales and use taxes which were refunded to the contractors and developers under this Act, plus interest; and
  - The eligible business's incentive agreement with the Commission must include a provision for recapture of the sales and use tax refunds from the contractor or developer if the eligible business closes and ceases operations within a short period.

If a developer or contractor has been authorized by the DFA to receive the refund, the developer or contractor must file an *Annual Sales and Use Tax Refund Request by Developer Form (Form Tax Back 1200)* and schedule (*Schedule A*) listing the qualified purchases.

A developer or contractor is prohibited from claiming the same amount of local tax that it has received, or will be receiving, for a local tax cap rebate on qualifying Tax Back purchases, either on its Sales and Use Tax Report or as a refund from the Sales and Use Tax Section.

**Example:** A developer or contractor makes a purchase of eligible items on an invoice totaling ten thousand dollars (\$10,000). Assuming a local tax rate of one percent (1%), the total local tax due is one hundred dollars (\$100). The local tax cap for business purposes is limited to the tax due on two thousand five hundred dollars (\$2,500). If the developer or contractor claims a local tax cap rebate for the seventy-five dollars (\$75) (the tax paid in excess of the tax due on two thousand five hundred dollars (\$2,500)) on its Sales and Use Tax Report or as a refund from the Sales and Use Tax Section; its Tax Back refund is limited to twenty-five dollars (\$25) for this invoice. If the contractor or developer has not claimed, or does not plan to claim, the local tax cap rebate, it may claim the full amount of local tax paid on its Tax Back Sales and Use Tax Refund Request.

### **Filing Requirements**

It is the responsibility of the eligible business to file an *Annual Sales and Use Tax Refund Request Form (Tax Back 1000)* and supporting schedule (*Schedule A*) with the DFA at the end of each calendar year.

Upon determining the amount of eligible refund, the DFA shall issue a refund to the eligible business. All claims for sales and use tax refunds under this incentive program must be filed within three (3) years from the date of the qualified purchase or purchases or those claims will be denied.

**Example:** An eligible business is planning to expand its operations in a Tier 3 county and has signed an Advantage Arkansas agreement with the Commission. The business plans to hire seven (7) new full-time permanent employees at twelve dollars (\$12) per hour (\$12/hour X 2080 hours = \$24,960 average annual wage X seven (7) new employees = \$174,720 annual payroll). The business would meet the seventy-five thousand dollar (\$75,000) payroll threshold for a Tier 3 county. The business will renovate an existing building in the community and will spend approximately one hundred and twenty-five thousand dollars (\$125,000) in renovation costs. This investment is above the one hundred thousand dollar (\$100,000) threshold required. The sales tax paid on all renovation costs subject to the sales tax is eligible to be refunded at the sales or use tax rate in effect at the time of the purchase, excluding the taxes dedicated to the Educational Adequacy Fund and the Conservation Tax Fund. The eligible business must file for the sales or use tax refund within three (3) years of purchase or the claim will be denied. This example assumes all new full-time permanent employees are hired at the beginning of the first year and work forty (40) hours per week.

**Notes:** The refund of sales and use tax for eligible businesses is dependent upon the following:

- The refund is made contingent upon the signing of a financial incentive agreement for a jobs creation incentive (Advantage Arkansas or Create Rebate) within twenty-four (24) months of signing a financial incentive agreement for a sales and use tax refund for new and expanding eligible businesses;
- The items purchased being subject to the sales or use tax;
- The payroll threshold under the Advantage Arkansas or Create Rebate job creation financial incentive agreements being met within twenty-four (24) months of the signing of the financial incentive agreement unless the eligible business has met the requirements of a job creation financial incentive agreement under § 15-4-2705 or § 15-4-2707 within the previous forty-eight (48) months; and
- The documentation of the minimum investment of one hundred thousand dollars (\$100,000) needed to qualify for the sales and use tax refund.

**Combination with other incentives:** The sales and use tax refund for new and expanding eligible businesses, authorized by § 15-4-2706(d), may be combined with:

- Advantage Arkansas as authorized by § 15-4-2705 or Create Rebate as authorized by § 15-4-2707, if approved by the Executive Director; and
- The research and development income tax credit for university-based research authorized by § 15-4-2708(a); and
- The research and development income tax incentive for in-house research authorized by § 15-4-2708(b).

## **ADVANTAGE ARKANSAS**

### **Program Summary**

The Advantage Arkansas program provides an Arkansas income tax credit, accruable for up to sixty (60) months, based upon a percentage of the annual payroll paid to new full-time permanent employees hired as a result of an approved project. The tier in which the project is located determines the qualifying payroll threshold and the income tax benefit calculation. The income tax credits may be used to offset fifty percent (50%) of a business's income tax liability in the tax year the credit is earned. Unused credits may be carried forward for nine (9) years beyond the year in which the credit was first earned.

For convenience, the section of the Final Rules that contains the major requirements of the program is reproduced below. **For all the requirements of this and other incentive programs, see the entire Final Rules, particularly the "Definitions" section on pages 2 – 10 and the "Administration" section on pages 12 – 15.**

#### **A. Job Creation Income Tax Credit (Advantage Arkansas) – Act 182 of 2003, as amended, § 15-4-2705.**

The Advantage Arkansas program provides an Arkansas income tax credit based upon a percentage of the annual payroll paid to the new full-time permanent employees hired as a result of an approved project. The tier in which the project is located determines the qualifying payroll threshold as well as the income tax benefit calculation.

Pursuant to Act 716 of 2009, for agreements with an effective date on or after July 31, 2009, in all tiers, to qualify for the benefits of this program, the proposed average hourly wage of the eligible business applying for these benefits must be equal to, or greater than, the lowest county average hourly wage calculated by the Commission based on the most recent calendar year data published by the Arkansas Department of Workforce Services.

The date of the financial incentive agreement is the beginning date in determining when the payroll threshold must be met. Only those employees hired after the date of the financial incentive agreement are eligible for the income tax credits (except as provided in Section II (17)).

The income tax credit earned cannot be used to offset more than fifty percent (50%) of a business's income tax liability in any one (1) tax year. Any unused credits can be carried forward for nine (9) years beyond the year in which they were earned or until exhausted, whichever occurs first.

Income tax credits are earned in the tax year in which the new full-time permanent employees qualify after the financial incentive agreement was signed with the Commission. At the end of each tax year, during the term of the agreement, it is the responsibility of the qualified business to file the *Advantage Arkansas Program Employee Payroll Certification Audit Request* with the DFA. This certification provides the number of new permanent employees and their payroll during the preceding tax year and is the mechanism to initiate the verification audit. Therefore, the business must certify annually at the end of each tax year to the DFA.

The business shall be entitled to receive income tax credits for which it has remained eligible under the Act and for which has provided timely certification in support thereof, for each subsequent tax year during the term of the agreement. The term of the financial incentive agreement shall be for a period of sixty (60) months, beginning on the date of the approved financial incentive agreement.

The income tax credit for the tax year in which new employees qualify will be based on the payroll paid to each new full-time permanent employee from their hire date to the end of the tax year. To be counted as a new full-time permanent employee during any tax year, the employee must have worked a minimum of twenty-six (26) consecutive weeks with an average of at least thirty (30) hours per week. The payroll threshold of the new full-time permanent employees must be met by the business within twenty-four (24) months following the date the financial incentive agreement was signed (except as provided in Section V (1)).

The threshold for qualifying for the Advantage Arkansas job creation income tax credit and the benefit received is dependent upon the tier in which the project is located on the effective date of the financial incentive agreement:

- **Tier 1 Counties** – An eligible business must have a payroll of new full-time permanent employees in excess of one hundred twenty-five thousand dollars (\$125,000) in order to qualify. The benefit is a tax credit equal to one percent (1%) of the payroll paid to the new full-time permanent employees for the term of the agreement;
- **Tier 2 Counties** – An eligible business must have a payroll of new full-time permanent employees in excess of one hundred thousand dollars (\$100,000) in order to qualify. The benefit is a tax credit equal to two percent (2%) of the payroll paid to the new full-time permanent employees for the term of the agreement;
- **Tier 3 Counties** – An eligible business must have a payroll of new full-time permanent employees in excess of seventy-five thousand dollars (\$75,000) in order to qualify. The benefit is a tax credit equal to three percent (3%) of the payroll paid to the new full-time permanent employees for the term of the agreement; and
- **Tier 4 Counties** – An eligible business must have a payroll of new full-time permanent employees in excess of fifty thousand dollars (\$50,000) in order to qualify. The benefit is a tax credit equal to four percent (4%) of the payroll paid to the new full-time permanent employees for the term of the agreement.

**Example:** An eligible business intends to expand its operation in a Tier 3 county and will be adding twenty-five (25) new full-time permanent employees earning fifteen dollars (\$15) per hour. In a Tier 3 county, a payroll threshold of seventy-five thousand dollars (\$75,000) must be met to qualify for the job creation tax credit equal to three percent (3%) of payroll. ( $\$15 \text{ per hour} \times 2080 \text{ hours} = \$31,200 \text{ per employee} \times \text{twenty-five } 25 \text{ jobs} = \$780,000 \text{ annual payroll} \times 3\% = \mathbf{\$23,400 \text{ income tax credit earned for each of the next five (5) years.}$ ) This example assumes that all twenty-five (25) new full-time permanent employees were hired at the beginning of the first year and worked forty (40) hours per week.

**Notes:** Benefit calculations for the above example could change given the following circumstances:

- The number of jobs is increased or decreased;
- If all of the new jobs are not filled at the beginning of the first year;
- The pay level is decreased or increased; and
- If the payroll falls below the seventy-five thousand dollars (\$75,000) required for qualification in a Tier 3 county, the business may request an extension of up to twenty-four (24) months to regain the minimum payroll threshold. If the business fails to regain the threshold amount, the business shall be liable for repayment of any benefits received after it no longer qualified.

**Combination with other incentives:** The job creation income tax credit (Advantage Arkansas) authorized in § 15-4-2705 may be combined with:

- The research and development income tax credit for university-based research authorized by § 15-4-2708(a);
- The research and development income tax credit for in-house research authorized by § 15-4-2708(b); and
- Either the retention investment incentive (InvestArk) authorized in § 15-4-2706(c); or
- The sales and use tax refund investment incentive (Tax Back) authorized by § 15-4-2706(d).

## INVESTARK Program Summary

***Effective July 1, 2017, as per Act 465 of 2017, new applications for the InvestArk program will no longer be accepted for review. However, any projects that qualify for InvestArk based on applications filed through June 30, 2017, shall continue to earn credits. InvestArk tax credits issued on a project that qualified for InvestArk tax credits based on an application filed through June 30, 2017, shall remain in effect and shall be taken and carried forward as otherwise provided under § 15-4-2706(c). The project summary below applies to those projects.***

The qualifications and benefits for InvestArk are the same for all tiers. The InvestArk sales and use tax credit is available to businesses that have been in continuous operation in Arkansas for two (2) years or longer which invest five million dollars (\$5,000,000) or more at a single location in plant or equipment for new construction, expansion, or modernization. A credit against the business's state direct-pay sales and use tax liability, equal to one-half percent (1/2%) above the state sales and use tax rate in effect at the time of application, is earned based on the total eligible project cost. In any year, tax credits claimed under this program cannot exceed fifty percent (50%) of the business's sales and use tax liability on taxable purchases. All reported expenditures are subject to audit by the Department of Finance and Administration (DFA) to determine eligibility, which may result in a reduction of credit or a tax liability.

The credit is earned in the year the eligible expenditure is made and can be applied against the business's state direct-pay sales and use tax liability in the year following the year of expenditure. Any unused credits may be carried forward for a period of up to five (5) years. Total project expenditures must be incurred within four (4) years of the date the project is approved by the Commission.

For convenience, the section of the Final Rules that contains the major requirements of the program is reproduced below. **For all the requirements of this and other incentive programs, see the entire Final Rules, particularly the "Definitions" section on pages 2 – 10 and the "Administration" section on pages 12 – 15.**

### **A. Retention Sales and Use Tax Credit (InvestArk) – Act 182 of 2003, as amended, § 15-4-2706(c).**

The qualifications and benefits for this incentive are the same in all four (4) tiers. To qualify, a business must: 1) Have been in continuous operation in the state for at least two (2) years; 2) Invest a minimum of five million dollars (\$5,000,000) in a project (including land, buildings, and equipment); and 3) Hold a direct-pay sales and use tax permit from the DFA.

To obtain benefits under the InvestArk program, a business must apply to the Commission, using forms provided by the Commission, and be approved based on the qualifications submitted in the application and the accompanying project plan. With the exception of

preconstruction costs, only those costs incurred after the Commission's approval are eligible in calculating the benefit of this program.

The project plan shall clearly identify the scope of the project, the time frame in which the project is to be started and completed and a complete listing of estimated project expenditures. All project costs must be incurred within four (4) years from the date the project is approved by the Commission. However, a qualified business that enters into a lease for building or equipment for a period in excess of five (5) years may count the lease payments for the first five (5) years of the lease agreement as qualifying expenditures. The first five (5) years of qualified lease payments should be claimed in the expenditure year in which the lease is signed.

The project plan may be revised by written amendment filed with the Commission. The Commission's approval of an amendment will not extend the time period in which project costs may be incurred. Amendments that exceed twenty-five percent (25%) of the original project plan's estimated cost will not be considered and shall be submitted as a new project.

The benefit of the InvestArk program is a sales and use tax credit based on a percentage of qualified expenditures. The percentage used to determine the amount of sales and use tax credits earned is one-half of one percent (0.5%) above the state sales and use tax rate in effect at the time the financial incentive agreement is signed with the Commission.

The credit may be applied against the business's direct-pay state sales and use tax liability in the year following the year of expenditure. Any unused credits may be carried forward for a period of up to five (5) years. In any year, tax credits taken under this program cannot exceed fifty percent (50%) of the business's sales and use tax liability on taxable purchases.

Once a business has qualified for the benefits of the InvestArk incentive, the Executive Director will notify the DFA that the project has been approved and will transmit the documents upon which the qualification was based.

The Commission's approval of any application is for content only. It does not constitute approval of all items listed on the application or the project plan. These items will be reviewed and either approved or ruled ineligible by an audit by the Revenue Division of the DFA.

The DFA is authorized to conduct an audit to determine eligibility of reported project expenditures. The audit may be conducted after credits have been issued and used. If expenditures upon which credits have been issued are determined to be ineligible, the amount of credit will be adjusted, which may result in the repayment of all taxes.

It is the responsibility of the qualified business to file an *Annual Project Expenditure Report (Form InvestArk 2000)* annually at the end of each calendar year with the DFA to report the eligible project expenditures incurred during the preceding calendar year. Upon determining the amount of credit earned during that calendar year, the DFA shall issue a memorandum of credit to the

qualified business. The issuance of the credit does not imply the eligibility of the expenditures, which are subject to audit at a later date.

**Example:** A manufacturer is adding a new product line and will require additional space and new processing equipment. The total cost of the project, with land, building and equipment, totals seven million seven hundred and fifty-four thousand dollars (\$7,754,000). The business has been in operation for over fifteen (15) years in Arkansas, meeting the two-year residency requirement of this incentive. After being approved by and signing a financial incentive agreement with the Commission, the manufacturer is eligible for a sales and use tax credit of seven percent (7%) (one-half of one percent over the rate of 6.5% as of July 1, 2013). At the end of each calendar year, until project completion, the business shall certify to the DFA the amount of project expenditures incurred during the previous calendar year and shall be granted a sales and use tax credit. If the business had spent seven million seven hundred and fifty-four thousand dollars (\$7,754,000) in eligible expenditures in the previous calendar year, the total sales and use tax credit based upon a sales tax rate of 6.5% ( $\$7,754,000 \times 7\%$ ) would be **\$542,780**, which could be used the following year and any unused credit could be carried forward for an additional five (5) years. In any year, the amount of the sales and use tax credit used cannot exceed fifty percent (50%) of the business's sales and use tax liability on taxable purchases.

**Notes:** The benefit calculations above could change given any of the following circumstances:

- The sales tax rate was increased or decreased prior to the signing of a financial incentive agreement with the Commission. Once a business has signed a financial incentive agreement with the Commission, the sales tax rate and benefit will be "locked in" regardless of any subsequent change to the sales tax rate during the term of the project.
- The project fails to reach the minimum investment threshold of five million dollars (\$5,000,000). Should benefits be received for project expenditures and the threshold expenditure of five million dollars (\$5,000,000) not be met, the recapture provisions of Section V of these rules may be invoked by the DFA.

**Combination with other incentives:** The retention tax credit (InvestArk) authorized in § 15-4-2706(c) may be combined with:

- The job creation tax credit (Advantage Arkansas) as authorized in § 15-4-2705;
- The payroll rebate (Create Rebate), if offered by the Executive Director, as authorized in § 15-4-2707;
- The research and development income tax incentive for university-based research authorized by § 15-4-2708(a); and
- The research and development income tax incentive for in-house research authorized by § 15-4-2708(b).

## CREATE REBATE Program Summary

***Negotiated by the Arkansas Economic Development Commission in highly competitive situations.***

The Create Rebate program requires businesses to create a minimum payroll, comprised of new full-time permanent employees, of two million dollars (\$2,000,000) or greater within twenty-four (24) months of signing a financial incentive agreement with the Arkansas Economic Development Commission (Commission).

Under terms negotiated by the Commission, Create Rebate provides businesses a financial incentive accruable from one (1) to ten (10) years, equal to three and nine-tenths percent (3.9%) of payroll in Tier 1 counties, four and one-quarter percent (4.25%) of payroll in Tier 2 counties, four and one-half percent (4.5%) of payroll in Tier 3 counties and five percent (5%) of payroll in Tier 4 counties.

At the discretion of the Executive Director, an eligible business located in a Tier 1, 2, or 3 county may be authorized to receive an increased benefit, up to five percent (5.0%), of the payroll of the new full-time permanent employees if the following conditions are met:

- The business is considering a location in another state;
- The business derives at least seventy-five percent (75%) of its sales from out of state; and
- The business proposes to pay wages in excess of one hundred percent (100%) of the average wage of the county in which it locates.

The business is eligible to receive its first incentive payment when it certifies to the Department of Finance and Administration (DFA) that it has attained the requisite payroll and the payroll is verified by the DFA. Depending on term of the agreement, additional payments shall be made annually after the company has re-certified that it has maintained the two million dollar (\$2,000,000) payroll for new full-time permanent employees and the payroll is verified by the DFA.

The payroll rebate incentive payment for targeted businesses is equal to five percent (5%) of the payroll of the new full-time permanent employees for a period not to exceed ten (10) years provided that the following conditions are met:

- The average hourly wage of the new full-time permanent employees must be at least one hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less; and
- The payroll of the new full-time permanent employees exceeds two hundred fifty thousand dollars (\$250,000).

For convenience, the section of the Final Rules that contains the major requirements of the program is reproduced below. **For all the requirements of this and other incentive programs, see the entire Final Rules, particularly the “Definitions” section on pages 2 – 10 and the “Administration” section on pages 12 – 15.**

#### **A. Payroll Rebate (Create Rebate) – Act 182 of 2003, as amended, § 15-4-2707(a-d).**

The payroll rebate incentive, also known as “Create Rebate”, is offered only at the discretion of the Executive Director. Like the Advantage Arkansas job creation income tax credit, the payroll rebate is based on the payroll of new full-time permanent employees.

The date of the financial incentive agreement is the beginning date in determining when the payroll threshold must be met. Only the payroll of those employees hired after the date of the financial incentive agreement is eligible for the rebate (except as provided in Section II (17)). A minimum payroll of two million dollars (\$2,000,000) (payroll threshold) for new full-time permanent employees is required to qualify for this incentive.

The payroll rebate for the tax year in which new employees qualify will be based on the payroll paid to each new full-time permanent employee from their hire date to the end of the tax year. To be counted as a new full-time permanent employee during any tax year, the employee must have worked a minimum of twenty-six (26) consecutive weeks with an average of at least thirty (30) hours per week. The payroll threshold of the new full-time permanent employees must be met by the business within twenty-four (24) months following the date the financial incentive agreement was signed (except as provided in Section V (1)).

The incentive payment amount shall be subject to the terms provided in the financial incentive agreement and may be reduced based upon the audited performance of the eligible business.

It is the responsibility of the qualified business to file the *Create Rebate Program New Full-Time Permanent Employee Payroll Certification* with the DFA when the requisite two million dollar (\$2,000,000) payroll threshold has been attained. This certification provides the number of new full-time permanent employees hired, together with the dollar amount of their payroll. Thereafter, the business shall recertify the number of new full-time permanent employees and payroll amounts annually at the end of each tax year. The certification to the DFA is the mechanism to initiate the verification audit. Therefore, the business must certify annually at the end of each tax year to the DFA.

Pursuant to Act 625 of 2009, for financial incentive agreements with an effective date on or after July 31, 2009, failure of the business to certify and recertify payroll amounts annually to the DFA will result in the DFA reducing the amount of rebate earned by ten percent (10%) if not claimed within twelve (12) months from the end of the tax year in which the rebate was earned, or a one hundred percent (100%) forfeiture of the earned rebate if not claimed within twenty-four (24) months from the end of the tax year in which the rebate was earned. The offering of this incentive is intended to provide benefits to businesses locating or expanding in Arkansas. In the event the approved business ceases the operations of the facility for which the incentives are offered, the incentive agreement will be terminated and any benefits accrued and not claimed as of the date of closure will be forfeited.

The payroll rebate (Create Rebate) benefit can only be authorized at the discretion of the Executive Director in the form of a written proposal and may be offered for up to ten (10) years. The term of the agreement depends on the benefit to the state as determined by a cost-benefit analysis performed by the Commission. If the proposal is accepted by the business, a financial incentive agreement is signed by the Commission and the business. The provisions of the financial incentive agreement will be based upon the eligible business's proposed job creation and average hourly wage information provided in the written proposal from the Executive Director. With the exception of targeted businesses, the benefit allowed is dependent upon the tier in which the business locates as follows:

- **Tier 1 Counties** – An incentive payment equal to three and nine-tenths percent (3.9%) of the payroll of the new full-time permanent employees for the term of the agreement;
- **Tier 2 Counties** – An incentive payment equal to four and one-quarter percent (4.25%) of the payroll of the new full-time permanent employees for the term of the agreement;
- **Tier 3 Counties** – An incentive payment equal to four and one-half percent (4.5%) of the payroll of the new full-time permanent employees for the term of the agreement; and
- **Tier 4 Counties** – An incentive payment equal to five percent (5.0%) of the payroll of the new full-time permanent employees for the term of the agreement.
- At the discretion of the Executive Director, an eligible business located in a Tier 1, 2, or 3 county may be authorized to receive an increased benefit, up to five percent (5.0%), of the payroll of the new full-time permanent employees if the following conditions are met:
  - The business is considering a location in another state;
  - The business derives at least seventy-five percent (75%) of its sales from out of state; and
  - The business proposes to pay wages in excess of one hundred percent (100%) of the average wage of the county in which it locates.

The benefits provided by this section shall be calculated based upon the provisions of the financial incentive agreement. The financial incentive agreement may contain language that will adjust the benefit based upon the audited performance of the eligible business.

**Example:** An eligible business plans on locating in a Tier 2 county and plans to hire sixty-five (65) employees at an average wage of nineteen dollars (\$19) per hour. In Tier 2, a payroll rebate of four and one-quarter percent (4.25%) of payroll of new full-time permanent employees may be granted. A minimum annual payroll of two million dollars (\$2,000,000) is required to qualify for this incentive. In this example, the Executive Director agrees to award the payroll rebate for a period of three (3) years. ( $\$19 \text{ per hour} \times 2080 = \$39,520 \text{ per employee} \times 65 \text{ jobs} = \$2,568,800 \text{ annual payroll} \times 4.25\% = \mathbf{\$109,174 \text{ payroll rebate for each of the next three (3) years.}}$ ) This example assumes that all sixty-five (65) new full-time permanent employees were hired at the beginning of the first year and worked forty (40) hours per week.

**Notes:** Benefit calculations could change given any of the following circumstances:

- The business decided to locate in another tier;

- The Executive Director awards a shorter or longer term for the benefit;
- The payroll increases due to either raises being given or new employees being added to the payroll;
- The payroll decreases (if the payroll falls below the two million dollar [\$2,000,000] threshold for qualification, the business may request an extension of up to twenty-four (24) months to regain the payroll threshold); and
- If the business fails to regain the payroll threshold amount, the business shall be liable for repayment of all benefits previously received.

**Combination with other incentives:** The payroll rebate (Create Rebate) incentive authorized in § 15-4-2707, if offered by the Executive Director, may be combined with:

- Either the retention investment incentive (InvestArk) authorized by § 15-4-2706(c) **or** the sales and use tax refund incentive (Tax Back) authorized by § 15-4-2706(d), the approved business would choose between these two, but cannot take both;
- The ArkPlus investment incentive authorized by § 15-4-2706(b), if approved by the Executive Director;
- The research and development income tax incentive for university-based research authorized by § 15-4-2708(a); and
- The research and development income tax incentive for in-house research authorized by § 15-4-2708(b).

**B. Payroll Rebate for Targeted Businesses – Act 182 of 2003, as amended, § 15-4-2707(e).**

The payroll rebate incentive payment for targeted businesses is equal to five percent (5%) of the payroll of the new full-time permanent employees for a period not to exceed ten (10) years provided that the following conditions are met:

- The average hourly wage of the new full-time permanent employees must be at least one hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less; and
- The payroll of the new full-time permanent employees exceeds two hundred fifty thousand dollars (\$250,000).

The payroll rebate for targeted businesses may not be used in conjunction with the income tax credit based on payroll authorized by § 15-4-2709.

## **ARKPLUS**

### **Program Summary**

***Negotiated by the Arkansas Economic Development Commission in highly competitive situations.***

The ArkPlus program, offered at the discretion of the AEDC Executive Director, provides a ten percent (10%) income tax credit based upon the total investment of an eligible business in a new location or expansion project. To qualify, a business must meet minimum investment and payroll thresholds based on the payroll of new full-time permanent employees hired after the date a financial incentive agreement is signed with AEDC. The minimum investment and payroll requirements are dependent upon the tier in which the business is located and vary from a two million dollar (\$2,000,000) investment and eight hundred thousand dollar (\$800,000) payroll in Tier 4 counties to a five million dollar (\$5,000,000) investment and two million dollar (\$2,000,000) payroll in Tier 1 counties.

The business must reach the investment threshold for the tier in which it is located within four (4) years from the date of the signing of the financial incentive agreement and the payroll threshold for the tier in which it is located within twenty-four (24) months from the date of the signing of the financial incentive agreement.

Income tax credits may be used to offset fifty percent (50%) of a business's income tax liability in the tax year the credit is earned. Any unused credits may be carried forward for nine (9) years beyond the year in which the credit was first earned. To utilize the ArkPlus program, businesses must sign a financial incentive agreement with AEDC prior to construction.

For convenience, the section of the Final Rules that contains the major requirements of the program is reproduced below. **For all the requirements of this and other incentive programs, see the entire Final Rules, particularly the "Definitions" section on pages 2 – 10 and the "Administration" section on pages 12 – 15.**

#### **B. Investment Income Tax Credit (ArkPlus) – Act 182 of 2003, as amended, § 15-4-2706(b).**

This incentive is awarded only at the discretion of the Executive Director. To qualify, the business must meet both the investment and payroll thresholds for the tier in which it locates.

The benefit is an income tax credit equal to ten percent (10%) of the investment in land, buildings, equipment, and costs relating to licensing and protecting intellectual property (which would include license fees, patent fees and attorney fees to maintain or enhance the patent's or trademark's application). The benefit is the same regardless of the tier in which the business locates.

The business must reach the investment threshold for the tier in which it is located within four (4) years from the date of the signing of the financial incentive agreement. All project costs must be incurred within four (4) years from the date the project is approved by the

Commission; however, a qualified business that enters into a lease for building or equipment for a period in excess of five (5) years may count the lease payments for the first five (5) years of the lease agreement as qualifying expenditures. The first five (5) years of qualified lease payments should be claimed in the expenditure year in which the lease is signed. The business must reach the payroll threshold for the tier in which it is located within twenty-four (24) months from the date of the signing of the financial incentive agreement.

It is the responsibility of the qualified business to file an *ArkPlus Program Annual Incentive Plan Expenditure Report* and an *ArkPlus Program New Full-Time Permanent Employee Payroll Certification* with DFA when the investment threshold is met. This certification provides the amount of eligible project costs incurred in the previous tax year and the number of new full-time permanent employees hired, together with the dollar amount of their payroll. Thereafter, the business shall recertify eligible project costs and the number of new full-time permanent employees and payroll amounts annually at the end of each tax year. The certification to DFA is the mechanism to initiate the verification audit.

The income tax credit earned cannot be used to offset more than fifty percent (50%) of the business's income tax liability in any one (1) tax year. Any unused credits can be carried forward for nine (9) years beyond the year in which they were earned or until exhausted, whichever occurs first.

To qualify for this incentive, the business must meet the investment and payroll thresholds for the tier in which the business locates or expands:

- **Tier 1** – The business must invest at least five million dollars (\$5,000,000) and have an annual payroll of new full-time permanent employees of at least two million dollars (\$2,000,000);
- **Tier 2** – The business must invest at least three million seven hundred fifty thousand dollars (\$3,750,000) and have an annual payroll of new full-time permanent employees of at least one million five hundred thousand dollars (\$1,500,000);
- **Tier 3** – The business must invest at least three million dollars (\$3,000,000) and have an annual payroll of new full-time permanent employees of at least one million two hundred thousand dollars (\$1,200,000); and
- **Tier 4** – The business must invest at least two million dollars (\$2,000,000) and have an annual payroll of new full-time permanent employees of at least eight hundred thousand dollars (\$800,000).

**Example:** A new eligible business plans to begin operations in a Tier 4 county. It plans on hiring fifty (50) new full-time permanent employees at an average wage of fifteen dollars (\$15) per hour. (\$15/ hour X 2080 hours = \$31,200 average annual salary X 50 employees = \$1,560,000 annual payroll.) It will invest three million five hundred thousand dollars (\$3,500,000) in land, buildings and equipment for the new operation. The one million five hundred and sixty thousand (\$1,560,000) annual payroll exceeds the eight hundred thousand (\$800,000) payroll threshold for a Tier 4 county and the capital investment of three and one-half million dollars

(\$3,500,000) exceeds the two million dollar (\$2,000,000) investment threshold, allowing the business to meet minimum qualifications for the incentive. Should the Executive Director approve the business's application for this incentive program, and should the business spend precisely three and one-half million dollars (\$3,500,000), it would earn an income tax credit of three hundred and fifty thousand dollars (**\$350,000**) that could be carried forward for nine (9) years beyond the year it was first earned. This example assumes all new full-time permanent employees were hired at the beginning of the first year and work forty (40) hours per week.

**Notes:** The benefit calculation noted above could change if the business fails to reach either the investment or payroll threshold required to receive the benefit of this incentive program. Failure to meet investment or payroll requirements could necessitate the implementation of recapture provisions provided for in Section V of these rules.

**Combination with other incentives:** The investment income tax credit authorized by § 15-4-2706(b), if approved by the Executive Director, may be combined with:

- The payroll rebate (Create Rebate) authorized by § 15-4-2707, if approved by the Executive Director;
- The research and development income tax incentive for university-based research authorized by § 15-4-2708(a); and
- The research and development income tax incentive for in-house research authorized by § 15-4-2708(b).

### **C. Technology-Based Enterprises Investment Income Tax and Sales and Use Tax Credit (Targeted ArkPlus) – Act 182 of 2003, as amended, § 15-4-2706(b).**

At the discretion of the Executive Director, a targeted business may earn an income tax credit or a sales and use tax credit based upon new investment. The targeted business must:

- Invest a minimum of two hundred fifty thousand dollars (\$250,000) within four (4) years of the effective date of the financial incentive agreement;
- Create a new payroll of at least two hundred fifty thousand dollars (\$250,000); and
- Pay wages that are at least one hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less.

The credit earned by the targeted business shall be based upon a percentage of the investment as follows:

- The credit amount shall be two percent (2%) of investments from two hundred fifty thousand dollars (\$250,000) up to five hundred thousand dollars (\$500,000);
- The credit amount shall be two percent (2%) of the investment up to five hundred thousand dollars (\$500,000) plus four percent (4%) of the investment in excess of five hundred thousand dollars (\$500,000) up to one million dollars (\$1,000,000);
- The credit amount shall be two percent (2%) of the investment up to five hundred thousand dollars (\$500,000) plus four percent (4%) of the investment in excess of five hundred thousand dollars (\$500,000) up to one million dollars (\$1,000,000) plus six percent (6%) of

the investment in excess of one million dollars (\$1,000,000) up to two million dollars (\$2,000,000); and

- The credit amount shall be two percent (2%) of the investment up to five hundred thousand dollars (\$500,000) plus four percent (4%) of the investment in excess of five hundred thousand dollars (\$500,000) up to one million dollars (\$1,000,000) plus six percent (6%) of the investment in excess of one million dollars (\$1,000,000) up to two million dollars (\$2,000,000) plus eight percent (8%) of the investment in excess of two million dollars (\$2,000,000).

Prior to the execution of the financial incentive agreement, the targeted business must elect to receive the tax credits as sales and use tax credits or income tax credits.

The percentage of the targeted business's tax liability that may be offset is determined by the average hourly wage paid to the new full-time permanent employees as follows:

- A targeted business that pays at least one-hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less, may offset fifty percent (50%) of its tax liability.
- A targeted business that pays at least two hundred percent (200%) of the state or county average hourly wage, whichever is less, may offset seventy-five percent (75%) of its tax liability.
- A targeted business that pays at least two hundred twenty-five percent (225%) of the state or county average hourly wage, whichever is less, may offset one hundred percent (100%) of its tax liability.

The approved targeted business must certify eligible project expenditures annually with the DFA. Upon verification of eligibility, the DFA shall issue the credit according to the tax type specified in the financial incentive agreement.

The income tax credit may be applied against the approved business's Arkansas income tax liability. Any unused credit may be carried forward for a period not to exceed nine (9) tax years after the tax year in which it was first earned.

The sales and use tax credit may be applied against the business's state sales and use tax liability as reported on its monthly sales and use tax report in the calendar year following the calendar year of expenditure.

The tax liability reported on the business's monthly sales and use tax that may be offset by the credit may be derived from:

- Sales made by the approved business and collected from the customer;
- Use taxes accrued by the business for out-of-state purchases; and
- Sales and use taxes accrued and reported on the business's monthly direct-pay report.

The credit may not be applied against any taxes collected from the business by the seller. Any unused credit may be carried forward for a period not to exceed nine (9) calendar years after the calendar year in which it was first earned.

## **TARGETED BUSINESS INCENTIVES**

### **Program Summary**

*Offered at the discretion of the AEDC Executive Director.*

Businesses that qualify as “targeted businesses” may be offered the following special incentives designed to help new, knowledge-based businesses in their early years.

Companies that are doing business in a targeted business sector (see below), pay wages that are at least 150% of the state or county average wage, whichever is lower, and meet requisite payroll thresholds may qualify for:

- The Targeted Tax Back program, which provides a refund of sales and use taxes paid on the purchase of building materials and machinery and equipment associated with the approved project § 15-4-2706(e).
- A 10% tax credit based on payroll § 15-4-2709.
- A 33% tax credit on eligible research expenditures § 15-4-2708(c).
- The income tax credits earned under this program may be sold upon approval by AEDC.

**Targeted businesses are found within six growing business sectors that include:**

- (i) Advanced materials and manufacturing systems, with emphases on the following:
  - (a) Photonics;
  - (b) Nanotechnology;
  - (c) Electronics manufacturing;
  - (d) Environmental issues related to material and manufacturing;
  - (e) Photovoltaics; and
  - (f) Energy efficient storage devices.
  
- (ii) Agriculture, food and environmental sciences, with emphases on the following:
  - (a) Rice;
  - (b) Poultry;
  - (c) Aquaculture;
  - (d) Toxicology;
  - (e) Agricultural medicine;
  - (f) Forestry;
  - (g) Nutrition;
  - (h) Waste minimization;
  - (i) Energy reduction;
  - (j) Distributed energy generation; and
  - (k) Spatial technology.

- (iii) Biotechnology, bioengineering and life sciences, with emphases on the following:
  - (a) Genetics;
  - (b) Oncology;
  - (c) Geriatrics;
  - (d) Neuroscience;
  - (e) Medical devices;
  - (f) Rehabilitation;
  - (g) Biopharmaceuticals and drug discovery;
  - (h) Protein structure and function;
  - (i) Cell molecular biology; and
  - (j) Sensor technology.
  
- (iv) Information technology, with emphases on the following:
  - (a) Knowledge and data engineering;
  - (b) Database systems;
  - (c) Distributed systems;
  - (d) Wireless systems;
  - (e) Software development; and
  - (f) State-of-the-art applications of information technology to:
    - (1) Bioinformatics, and
    - (2) Healthcare.
  
- (v) Transportation logistics, with emphases on the following:
  - (a) Intelligent material handling;
  - (b) Automated systems; and
  - (c) Transportation management systems.
  
- (vi) Bio-based products, with emphases on the following:
  - (a) Biodiesel;
  - (b) Ethanol;
  - (c) Methanol;
  - (d) Synthetic transportation fuels;
  - (e) Adhesives;
  - (f) Polymers;
  - (g) Automotive components; and
  - (h) Engineered products from non-traditional biomass sources.

For convenience, the section of the Final Rules that contains the major requirements of the program is reproduced below. **For all the requirements of this and other incentive programs, see the entire Final Rules, particularly the “Definitions” section on pages 2 – 10 and the “Administration” section on pages 12 – 15.**

**Sales and Use Tax Refund for Targeted Businesses – Act 182 of 2003, as amended, § 15-4-2706(e).**

This incentive program extends the benefits of the Tax Back sales and use tax refund program to a category of new and expanding eligible businesses referred to as “targeted businesses.” This incentive is offered only at the discretion of the Executive Director.

To qualify as a targeted business, the Commission must determine that the business falls within one (1) of the six (6) categories noted above, the business must have been in operation for five (5) years or less and must pay average hourly wages in excess of one hundred fifty percent (150%) of the county or state average hourly wage, whichever is less. In addition, the targeted business must have an annual payroll of at least one hundred thousand dollars (\$100,000) and demonstrate evidence of an equity investment in the targeted business of at least two hundred fifty thousand dollars (\$250,000). A targeted business with an annual payroll in excess of one million dollars (\$1,000,000) will not qualify for the targeted business sales and use tax refund, but may be eligible for other incentives offered through the Consolidated Incentive Act of 2003 (Act 182 of 2003), as amended.

In addition to meeting the targeted business eligibility requirements, the business must meet the eligibility criteria of the Targeted Business payroll income tax credit incentive program (§ 15-4-2709). A signed financial incentive agreement for targeted payroll income tax credits must be signed within twenty-four (24) months of signing a financial incentive agreement for a sales and use tax refund.

An application accompanied by a local endorsement resolution must be filed with the Commission. The application should clearly identify the intent of the project, the expenditures planned, the start and end date of the project and an estimate of the total project costs. The local endorsement resolution from the governing authority (city council, quorum court, or both) in which the project is located must authorize the refund of its local sales and use taxes.

The purpose of the resolution is to: A) approve the specific entity’s participation in the program; and B) specify that the municipality or county authorizes DFA to refund all or part of any sales and use tax levied at the local level. The municipality or county in which the eligible business is located may authorize the refund of any sales or use tax levied by it but may not authorize the refund of any sales and use taxes not levied by it.

This incentive program grants a refund of state and local sales and use taxes paid on the purchases of the material used in the construction of a building or buildings or any addition, modernization or improvement to a new or expanding eligible business. A sales and use tax refund is also allowed for the purchases of taxable machinery or equipment associated with the building or project.

A refund shall not be authorized for:

- routine operating expenditures;

- the purchase of replacement items previously purchased as part of a project unless the items previously purchased will not enable the project to function as originally intended;
- licensed motor vehicles; or
- expenditures for routine repair and maintenance that do not result in new construction or expansion.

**For projects approved on or after July 1, 2005, the refund of state sales and use taxes shall not include the refund of taxes dedicated to the Educational Adequacy Fund (.875%) provided in § 19-5-1227 or the taxes dedicated to the Conservation Tax Fund (.125%) provided in § 19-6-484.**

All project costs must be incurred within four (4) years from the date the project is approved by the Commission. The project plan may be revised by written amendment filed with the Commission. The Commission's approval of an amendment will not extend the time period in which project costs may be incurred. Amendments that exceed twenty-five percent (25%) of the original project plan's estimated cost will not be considered and shall be submitted as a new project.

It is the responsibility of the qualified targeted business to file a *Targeted Business Tax Back Program Annual Sales and Use Tax Refund Request (Form TB 1000)* annually at the end of each calendar year to DFA to request a refund of sales and use taxes paid on eligible project expenditures incurred during the preceding calendar year. Upon determining the amount of the eligible refund, DFA shall issue a refund to the qualified business.

All claims for sales and use tax refunds under this incentive program must be filed within three (3) years from the date of the qualified purchase or purchases or those claims will be denied.

**Example:** A new start-up computer software design firm is beginning business. It has received an equity investment from a venture capital firm in the amount of seven hundred fifty thousand dollars (\$750,000), which exceeds the two hundred and fifty thousand dollar (\$250,000) threshold, to help it get started. It plans on hiring six (6) new full-time permanent employees at an average hourly wage of twenty-eight dollars (\$28) per hour. The average hourly wage for the Tier 1 county in which the business plans to locate is fifteen dollars (\$15) per hour. ( $\$15/\text{hour} \times 150\% = \$22.50$  per hour.) The business's average hourly wage of twenty-eight dollars (\$28) per hour is above the threshold wage to qualify in this Tier 1 county. ( $\$28/\text{hour} \times 2080$  hours = \$58,290 average annual salary X six (6) employees = \$349,440 annual payroll.) The business's annual payroll exceeds the threshold of one hundred thousand dollars (\$100,000) so the business meets the payroll, investment, and average wage requirements necessary to qualify for the sales and use tax refund. Eligibility is also dependent upon being approved by the Executive Director. The eligible targeted business must file for the sales and use tax refund within three (3) years of purchase or the claim will be denied. This example assumes all new full-time permanent employees are hired at the beginning of the first year and work forty (40) hours per week.

**Notes:** The refund of sales and use tax for eligible targeted businesses is dependent upon the following conditions:

- The refund is made contingent upon the signing of a financial incentive agreement for a targeted payroll income tax credit for targeted businesses incentive within twenty-four (24) months of signing a financial incentive agreement for a sales and use tax refund for a targeted business unless the eligible business has met the requirements of a job creation financial incentive agreement under § 15-4-2705 or § 15-4-2707 within the previous forty-eight (48) months;
- The items purchased being subject to the sales or use tax;
- The business meeting the average wage requirement;
- The payroll threshold being met within twenty-four (24) months of the signing of the financial incentive agreement; and
- The documentation that the targeted business has received an equity investment in excess of two hundred fifty thousand dollars (\$250,000).

**Combination with other incentives:** The sales and use tax refund for targeted businesses authorized by § 15-4-2706(e) may be combined with, if approved by the Executive Director:

- The Payroll Income Tax Credit for Targeted Businesses as authorized by § 15-4-2709; and
- The targeted research and development tax credit authorized by § 15-4-2708(c).

**Payroll Income Tax Credit for Targeted Businesses – Act 182 of 2003, as amended, § 15-4-2709.**

The payroll income tax credit for targeted businesses assists the start-up of businesses in targeted sectors that pay significantly more than the state or county average wage of the county in which the business locates. This incentive is offered only at the discretion of the Executive Director. To qualify for this incentive, the business must be included in one (1) of the six (6) targeted businesses identified above.

The business must also have an annual payroll of not less than one hundred thousand dollars (\$100,000) or more than one million dollars (\$1,000,000), show proof of an equity investment of at least two hundred fifty thousand dollars (\$250,000) and pay average hourly wages in excess of one hundred fifty percent (150%) of the county or state average hourly wage, whichever is less.

The benefit for a targeted business is an income tax credit equal to ten percent (10%) of its annual payroll, with a cap of one hundred thousand dollars (\$100,000) per year in earned income tax credits for a business that qualifies and is approved for this incentive. Any unused credits can be carried forward for nine (9) years beyond the year in which they were earned or until exhausted, whichever occurs first.

The incentive may be offered for a period not to exceed five (5) years. The five-year period begins on January 1<sup>st</sup> of the year in which the financial incentive agreement is signed and may

not extend beyond sixty (60) months from that date. Unlike the other incentives, the calculation of this income tax credit may include existing employees in the calculation of payroll to qualify for this benefit. To claim these benefits, the targeted business must sign a financial incentive agreement with the Commission.

Income tax credits are earned in the tax year in which the new full-time permanent employees qualify after the financial incentive agreement was signed with the Commission. At the end of each tax year, during the term of the agreement, it is the responsibility of the qualified targeted business to file the *Targeted Business Payroll Tax Credit Employee Annual Payroll Certification* with the DFA. This certification provides the number of new permanent employees and their payroll during the preceding tax year and is the mechanism to initiate the verification audit. Therefore, the business must certify annually at the end of each tax year to the DFA.

A unique feature of this incentive is the ability of the business that earns the targeted business income tax credit to sell the credits. The business must make application to the Commission for the sale of credits. The original holder of tax credits under this section may sell its tax credits only one (1) time, in whole or in part, the balance of which shall be used by the holder within the time frame allowed. The Commission may assist the business in finding a buyer for the tax credits. Any sale of tax credits through this incentive will be fully documented by the Commission and that information will be transmitted to the DFA Revenue Division. The buyer of the tax credit shall be subject to the same provisions for carry forward of the tax credits as the business that originally earned the credits.

Since one of the allowable costs under the research and development tax credits is the salary of a person performing research, a business earning payroll income tax credits for targeted businesses is prohibited from earning research and development tax credits, as authorized by § 15-4-2708 or by § 26-51-1102(b), for the same expenditure.

**Example:** A new biotechnology firm, which is a client of the BioVentures Incubator, is leaving the incubator to expand its business. It has received a Small Business Innovation Research (SBIR) grant of seven hundred thousand dollars (\$700,000) to continue its efforts with assistance from the National Institutes of Health. Currently, the business has one (1) employee, a former UAMS research scientist who holds the patent on the biomedical device that is to be the business's first product. The business plans on hiring four (4) new full-time permanent employees for a total of five (5) full-time permanent employees. The average hourly wage of the five (5) employees will be forty-five dollars (\$45) per hour. ( $\$45/\text{hour} \times 2080 = \$93,600$  average annual salary  $\times 5$  employees = \$468,000 annual payroll.) The SBIR grant allows the new business to meet the two hundred fifty thousand dollar (\$250,000) equity investment threshold and the annual payroll is well above the one hundred thousand dollar (\$100,000) minimum to qualify. The forty-five dollar (\$45) per hour wage is more than the one hundred fifty percent (150%) requirement. The new targeted business would earn a tax credit of forty-six thousand eight hundred dollars (**\$46,800**) which may be sold to a willing buyer. If this business was granted the payroll income tax credit for the maximum time allowable (five [5] years), the

credit in subsequent years would be equal to ten percent (10%) of the annual payroll in years two (2) through five (5). This example assumes all new full-time permanent employees are hired at the beginning of the first year and work forty (40) hours per week.

**Notes:** The calculation of the benefit for an income tax credit for new targeted businesses is dependent upon the following conditions:

- A minimum payroll of one hundred thousand dollars (\$100,000) being maintained during the term of the agreement;
- The business operations' continuing in one (1) of the six (6) targeted areas;
- The average hourly wage threshold being maintained; and
- The business's continuing to operate in accordance with the qualification requirements throughout the term of the financial incentive agreement.

**Combination with other incentives:** The payroll income tax credit for targeted businesses authorized by § 15-4-2709 may be combined with, if approved by the Executive Director:

- The sales and use tax refund for targeted businesses as authorized by § 15-4-2706(e); and
- The research and development income tax credit for targeted businesses as authorized by § 15-4-2708(c).

#### **In-House Research by a Targeted Business – Act 182 of 2003, as amended, § 15-4-2708(c)**

Businesses deemed by the Commission to fit within the six (6) business sectors classified as targeted businesses may enter into a financial incentive agreement for income tax credits based on qualified research and development expenditures.

A targeted business may be approved for an income tax credit each year equal to thirty-three percent (33%) of the qualified research and development expenditures incurred each year for the first (5) years of the financial incentive agreement. This incentive is offered only at the discretion of the Executive Director. The application for this income tax credit shall include a project plan, which clearly identifies the intent of the project, the expenditures planned, the start and end dates of the project, and an estimate of total project costs. The targeted business applying for in-house research and development income tax credits shall comply with all of the qualifications required of targeted businesses to qualify for a job creation income tax credit:

- In operation for less than five (5) years;
- Annual payroll of not less than one hundred thousand dollars (\$100,000) or more than one million dollars (\$1,000,000);
- An equity investment of at least two hundred fifty thousand dollars (\$250,000); and
- Pay at least one hundred fifty percent (150%) of the lesser of the county or state average wage.

The Commission will adhere to some of the federal guidelines for qualifying research for federal tax credits as a guide in determining the eligibility for this state income tax credit.

Qualified research expenditures include in-house expenses for taxable wages paid, usual fringe benefits, and supplies used in the conduct of qualified research. Qualified research must satisfy all of the following tests to qualify:

- The activity must be undertaken for the purpose of discovering information which is technological in nature;
- The application of technological information must be intended to be useful in a new or improved business component; and
- Substantially all of the activities related to the research effort must constitute elements of a process of experimentation relating to a new or improved function, performance, reliability or quality.

The following activities are specifically excluded from the definition of qualified research:

- Any research conducted after the beginning of commercial production;
- Research adapting an existing product or process to a particular customer's need;
- Duplication of an existing product or process;
- Surveys or studies;
- Research related to certain internal-use computer software;
- Research in the social sciences, arts or humanities; and
- Research conducted outside of Arkansas. However, the Executive Director may make an exception for research and development activities occurring outside of Arkansas for an agreed upon transition period if the following conditions exist:
  - The business qualifies as a targeted business;
  - The Commission and the business have entered into a Targeted In-House Research and Development incentive agreement;
  - The business is located in another state and has decided to relocate its research and development activities to Arkansas within a specified transition period, not to exceed eighteen (18) months; and
  - The certificate of tax credit will not be issued to an out-of-state business relocating to Arkansas until the business:
    - Has incorporated as a business in the State of Arkansas;
    - Has physically relocated to Arkansas; and
    - Is conducting research in Arkansas.

Qualified wages are taxable wages paid to a full-time permanent employee or "contractual employee", as defined in the Act, for performing qualified services. Qualified services are services of employees who are:

- Engaging in qualified research, which means the actual conduct of qualified research;
- Engaging in the direct supervision of qualified research, which means the immediate supervision (first-line management) of qualified research; and
- Engaging in the direct support of research activities which constitute qualified research.

Direct support of research activities does not include general administrative services or other

services only indirectly of benefit to the research activity.

As with the payroll income tax credits for targeted businesses, the income tax credit for research and development earned by targeted businesses may be sold upon approval by the Commission. Any sale of tax credits through this program must be fully documented by the Commission and that information will be transmitted to the DFA.

The purchaser of the tax credits provided by this program shall obtain certification from the Commission and attach the appropriate documentation provided by the Commission to the tax return on which the credit is first claimed.

The tax credit must be sold within one (1) year of its being issued by the Commission. The original holder of tax credits under this section may sell its tax credits only one (1) time, in whole or in part, the balance of which shall be used by the holder within the time frame allowed.

To claim a credit earned through this incentive, the business shall file with its income tax return the Certificate of Tax Credit issued by the Commission.

The buyer of the tax credit shall be subject to the same provisions for carry forward of the tax credits as the business that originally earned the credits. A targeted business earning research and development tax credits is prohibited from earning job creation tax credits, as authorized by § 15-4-2709, or research tax credits as authorized by § 15-4-2708(a), for the same expenditure.

**Example:** A new photonics business that has recently left the Genesis Technology Business Incubator and has applied for and been approved for in-house research income tax credits as a targeted business, is in need of further research to refine a process for using lasers in space applications. It plans to spend two hundred thousand dollars (\$200,000) on an in-house research and development project that has been approved by the Commission as a qualified research program. The two hundred thousand dollar (\$200,000) expenditure would be eligible for a thirty-three percent (33%) tax credit, entitling the photonics business to earn sixty-six thousand dollars (**\$66,000**) in income tax credits in the year of the expenditure. The credits may be carried forward nine (9) years. At the discretion of the photonics business and with the approval of the Commission, the credits may be sold within one (1) year of issuance by the Commission to allow the photonics business to realize the benefit of the credit. The purchaser of the credits would be able to carry the credit forward for nine (9) years.

**Notes:**

- The carry forward for this incentive is nine (9) years beyond the year in which the credit was first earned.
- A buyer of the credit is limited to the same carry forward period. A sale of the tax credit does not alter the time frame for using the credits.
- It is the intent of the Commission to adhere to some of the federal guidelines for research

conducted by an eligible targeted business.

**Combination with other incentives:** The income tax credit for research by a targeted business authorized by § 15-4-2708(c) may **not** be used with:

- Other in-house research and development incentives as authorized by § 15-4-2708(b) or § 15-4-2708(d)(1)(A); or
- Any other incentive in Act 182 of 2003 (Consolidated Incentive Act of 2003), as amended, for the same expenditures.

**Payroll Rebate for Targeted Businesses – Act 182 of 2003, as amended, § 15-4-2707.**

The payroll rebate incentive payment for targeted businesses is equal to five percent (5%) of the payroll of the new full-time permanent employees for a period not to exceed ten (10) years provided that the following conditions are met:

- The average hourly wage of the new full-time permanent employees must be at least one hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less; and
- The payroll of the new full-time permanent employees exceeds two hundred fifty thousand dollars (\$250,000).

The payroll rebate for targeted businesses may not be used in conjunction with the income tax credit based on payroll authorized by § 15-4-2709.

**Technology-Based Enterprises Investment Income Tax and Sales and Use Tax Credit (Targeted ArkPlus) – Act 182 of 2003, as amended, § 15-4-2706(b).**

At the discretion of the Executive Director, a targeted business may earn an income tax credit or a sales and use tax credit based upon new investment. The targeted business must:

- Invest a minimum of two hundred fifty thousand dollars (\$250,000) within four (4) years of the effective date of the financial incentive agreement;
- Create a new payroll of at least two hundred fifty thousand dollars (\$250,000); and
- Pay wages that are at least one hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less.

The credit earned by the targeted business shall be based upon a percentage of the investment as follows:

- The credit amount shall be two percent (2%) of investments from two hundred fifty thousand dollars (\$250,000) up to five hundred thousand dollars (\$500,000);
- The credit amount shall be two percent (2%) of the investment up to five hundred thousand dollars (\$500,000) plus four percent (4%) of the investment in excess of five hundred thousand dollars (\$500,000) up to one million dollars (\$1,000,000);
- The credit amount shall be two percent (2%) of the investment up to five hundred thousand

dollars (\$500,000) plus four percent (4%) of the investment in excess of five hundred thousand dollars (\$500,000) up to one million dollars (\$1,000,000) plus six percent (6%) of the investment in excess of one million dollars (\$1,000,000) up to two million dollars (\$2,000,000); and

- The credit amount shall be two percent (2%) of the investment up to five hundred thousand dollars (\$500,000) plus four percent (4%) of the investment in excess of five hundred thousand dollars (\$500,000) up to one million dollars (\$1,000,000) plus six percent (6%) of the investment in excess of one million dollars (\$1,000,000) up to two million dollars (\$2,000,000) plus eight percent (8%) of the investment in excess of two million dollars (\$2,000,000).

Prior to the execution of the financial incentive agreement, the targeted business must elect to receive the tax credits as sales and use tax credits or income tax credits.

The percentage of the targeted business's tax liability that may be offset is determined by the average hourly wage paid to the new full-time permanent employees as follows:

- A targeted business that pays at least one-hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less, may offset fifty percent (50%) of its tax liability.
- A targeted business that pays at least two hundred percent (200%) of the state or county average hourly wage, whichever is less, may offset seventy-five percent (75%) of its tax liability.
- A targeted business that pays at least two hundred twenty-five percent (225%) of the state or county average hourly wage, whichever is less, may offset one hundred percent (100%) of its tax liability.

The approved targeted business must certify eligible project expenditures annually with the DFA. Upon verification of eligibility, the DFA shall issue the credit according to the tax type specified in the financial incentive agreement.

The income tax credit may be applied against the approved business's Arkansas income tax liability. Any unused credit may be carried forward for a period not to exceed nine (9) tax years after the tax year in which it was first earned.

The sales and use tax credit may be applied against the business's state sales and use tax liability as reported on its monthly sales and use tax report in the calendar year following the calendar year of expenditure.

The tax liability reported on the business's monthly sales and use tax that may be offset by the credit may be derived from:

- Sales made by the approved business and collected from the customer;

- Use taxes accrued by the business for out-of state purchases; and
- Sales and use taxes accrued and reported on the business's monthly direct-pay report.

The credit may not be applied against any taxes collected from the business by the seller. Any unused credit may be carried forward for a period not to exceed nine (9) calendar years after the calendar year in which it was first earned.

## **RESEARCH AND DEVELOPMENT INCENTIVES**

### **Program Summary**

The different research and development tax credits are intended to provide incentives for university-based research, in-house research of several kinds, and research and development in start-up, technology-based enterprises. It is important for the applicant to understand the different incentives and to select the most appropriate for the eligible research and development activity. In summary:

#### **Research and Development with Universities – Act 182 of 2003, as amended § 15-4-2708(a).**

This incentive is intended for firms of virtually every size and stage of development, may complement in-house research, and may be combined with in-house research incentives.

#### **In-House Research – Act 182 of 2003, as amended § 15-4-2708(b).**

These incentives are intended for: (a) the on-going in-house research programs of mature firms; (b) younger “targeted” firms engaged in in-house research over limited five-year periods, and (c) emerging firms engaged in strategic research and development over limited five-year periods. Generally, these incentives may **not** be combined with one another (i.e., with other in-house research incentives), but may be combined with incentives for research with universities.

#### **Research and Development under Programs of the Division of Science and Technology of the Arkansas Economic Development Commission – Act 182 of 2003, as amended § 15-4-2708(c).**

This incentive is intended for companies in the earliest stages of development and for knowledge-based companies that require a continuing research and development program to remain competitive. Generally, this incentive may **not** be combined with other research and development incentives.

Unless otherwise specified, the research and development application and project plan shall be the basis for the Commission’s decision to approve tax credit treatment for research and development expenditures. It is the responsibility of the taxpayer to claim any research and development income tax credits that may have been earned under authority granted by Act 182 of 2003, as amended. At the discretion of the Commission, an approved application and project plan may serve as the financial incentive agreement. Claims for research and development tax credits shall require the taxpayer to file with its tax return a Certificate of Tax Credit issued by the Commission.

The term of the research and development financial agreements under § 15-4-2708 is five (5) years beginning on the first day of the business’s tax year in which the financial incentive agreement is signed and may not extend beyond sixty (60) months from that date.

For convenience, the sections of the Final Rules that contain the major requirements of the programs are inserted below. **For all the requirements of this and other incentive programs, see the entire Final Rules, particularly the “Definitions” section on pages 2 – 10 and the “Administration” section on pages 12 – 15.**

**A. Research and Development with Universities – Act 182 of 2003, as amended, § 15-4-2708(a)**

An eligible business that contracts with one or more Arkansas colleges or universities in performing research may qualify for a thirty-three percent (33%) income tax credit as authorized in § 26-51-1102(b) for qualified research expenditures. The income tax credit may be carried forward for nine (9) years beyond the year in which the credit was earned.

To qualify for the income tax credit for research and development with universities, an eligible business must submit an application and project plan to the Commission. The Division of Science and Technology of the Arkansas Economic Development Commission will review the application and project plan and, if eligible, recommend approval and execution of a financial incentive agreement.

To claim a credit earned through this incentive, the business shall file with its income tax return the Certificate of Tax Credit issued by the Commission.

If approved, the thirty-three percent (33%) income tax credit for research and development expenditures with an Arkansas college or university will be granted regardless of the business location or other qualifications.

**Example:** An Arkansas seed business contracts with the Division of Agriculture at the University of Arkansas to engineer a new drought-resistant soybean seed. The seed business spends one million dollars (\$1,000,000) with the University of Arkansas to research and develop a soybean seed with the characteristics desired by the seed business. This expenditure for this project could result in an earned income tax credit of three hundred thirty thousand dollars (**\$330,000**) that could be taken over a ten-year period (the year in which it was earned, plus nine (9) years of carry forward).

**Notes:** It is suggested that any business wishing to take advantage of this income tax credit first visit with the Commission to help insure the success of the research and development effort. It should also be noted that this incentive is subject to the limitations established in § 26-51-1103:

- The amount of credit which may be claimed in any year is limited to one hundred percent (100%) of tax liability;
- The credits may be used in the year earned, plus a nine-year carry forward period; and
- This incentive cannot be used with other income tax benefits for the same expenditure.

This business must also adhere to the documentation requirements of § 26-51-1104:

- Must demonstrate proof of approval by the Commission as a qualified research project;
- Must document expenditures with the university or college; and

- Must file copies of the two (2) above-mentioned documents with the DFA when claiming the credit.

**Combination with other incentives:** The income tax credit for research and development with universities authorized by § 15-4-2708(a):

- May be used with the in-house research and development incentive as authorized by § 15-4-2708(b), (c), and (d)(1)(A); but
- May not be used with any other incentive authorized in Act 182 of 2003, as amended (Consolidated Incentive Act of 2003) for the same expenditures.

**B. In-House Research – Act 182 of 2003, as amended, § 15-4-2708**

**(i) New In-House Research and Development Facilities § 15-4-2708(b)(1):**

A new eligible business that conducts in-house research within a research facility that is operated by the eligible business that qualifies for federal research and development tax credits may qualify for in-house research income tax credits. The eligible business must make an application to the Commission generally describing the research to be undertaken and the estimated expenditures to be made on in-house research. The credit allowed for approved in-house research is twenty percent (20%) of the amount spent on qualified in-house research expenditures that exceed the base year, for a period of three (3) years and the incremental increase in qualified research expenditures for the succeeding two (2) years.

**Example:** For a new in-house research facility, the base year is zero (0). Therefore, in the first three (3) years following the date of the financial incentive agreement, all eligible expenditures will qualify for credit.

The amount of qualified research expenditures incurred in the third year shall be used to calculate the tax credit in the fourth year.

The amount of qualified research expenditures incurred in the fourth year shall be used to calculate the tax credit in the fifth year.

**(ii) Existing In-House Research and Development Facilities § 15-4-2708(b)(2):**

Existing eligible businesses that conduct in-house research in a research facility operated by the business and that qualify for federal research and development tax credits may qualify for an income tax credit equal to twenty percent (20%) of the amount spent on research that exceeds the base year for a period of three (3) years and the incremental increase in qualified research expenditures for the succeeding two (2) years, subject to the limitations under § 26-51-1103.

**Example:** For an existing in-house research facility, the base year amount shall be the amount of eligible research expenditures incurred in the year prior to the year in which the financial incentive agreement was signed by the Commission.

The amount of qualified research expenditures incurred in the third year shall be used to calculate the tax credit in the fourth year.

The amount of qualified research expenditures incurred in the fourth year shall be used to calculate the tax credit in the fifth year.

### **(iii) Term of the In-House Research and Development Agreement**

The term of the financial incentive agreement for in-house research and development shall be for a period not to exceed five (5) years beginning on the first day of the business's tax year in which the financial incentive agreement is signed. The financial incentive agreement may be renewed for a period not to exceed five (5) years upon the submittal of a new application and project plan.

The approved business shall certify annually at the end of each tax year, to the Commission, the amount expended on in-house research.

The income tax credit earned for in-house research and development may be used to offset one hundred percent (100%) of the eligible business's state income tax liability. Any unused credit may be carried forward for a period not to exceed nine (9) years.

To claim the credit earned through this incentive, the business shall file with its return, the Certificate of Tax Credit issued by the Commission. The Commission will adhere to some of the federal guidelines for qualifying research for federal tax credits as a guide in determining eligibility for this state income tax credit.

Qualified research expenditures include in-house expenses for taxable wages paid, usual fringe benefits, and supplies used in the conduct of qualified research. Qualified research must satisfy all of the following tests to qualify:

- The activity must be undertaken for the purpose of discovering information which is technological in nature;
- The application of technological information must be intended to be useful in a new or improved business component; and
- Substantially all of the activities related to the research effort must constitute elements of a process of experimentation relating to a new or improved function, performance, reliability, or quality.

The following activities are specifically excluded from the definition of qualified research:

- Any research conducted after the beginning of commercial production;
- Research adapting an existing product or process to a particular customer's need;
- Duplication of an existing product or process;
- Surveys or studies;

- Research related to certain internal-use computer software;
- Research in the social sciences, arts or humanities; and
- Research conducted outside of Arkansas. However, the Executive Director may make an exception for research and development activities occurring outside of Arkansas for an agreed upon transition period if the following conditions exist:
  - The business qualifies as a targeted business;
  - The Commission and the business have entered into a Targeted In-House Research and Development incentive agreement;
  - The business is located in another state and has decided to relocate its research and development activities to Arkansas within a specified transition period, not to exceed eighteen (18) months; and
  - The certificate of tax credit will not be issued to an out-of-state business relocating to Arkansas until the business:
    - Has incorporated as a business in the State of Arkansas;
    - Has physically relocated to Arkansas; and
    - Is conducting research in Arkansas.

Qualified wages are taxable wages paid to an employee for performing qualified services.

Qualified services are services of employees who are:

- Engaging in qualified research, which means the actual conduct of qualified research;
- Engaging in the direct supervision of qualified research, which means the immediate supervision (first-line management) of qualified research; and
- Engaging in the direct support of research activities which constitute qualified research.

Direct support of research activities does not include general administrative services or other services only indirectly of benefit to the research activity.

**Combination with other incentives:** The in-house research income tax credit may **not** be combined with:

- Other in-house research and development incentives as authorized by § 15-4-2708(c) or § 15-4-2708(d)(1)(A); or
- Any other incentive in Act 182 of 2003 (Consolidated Incentive Act of 2003), as amended, for the same expenditures.

### **C. In-House Research by a Targeted Business – Act 182 of 2003, as amended, § 15-4-2708(c).**

Businesses deemed by the Commission to fit within the six (6) business sectors classified as targeted businesses may enter into a financial incentive agreement for income tax credits based on qualified research and development expenditures.

A targeted business may be approved for an income tax credit each year equal to thirty-three percent (33%) of the qualified research and development expenditures incurred each year for the first (5) years of the financial incentive agreement. This incentive is offered only at the

discretion of the Executive Director. The application for this income tax credit shall include a project plan, which clearly identifies the intent of the project, the expenditures planned, the start and end dates of the project, and an estimate of total project costs. The targeted business applying for in-house research and development income tax credits shall comply with all of the qualifications required of targeted businesses to qualify for a job creation income tax credit:

- In operation for less than five (5) years;
- Annual payroll of not less than one hundred thousand dollars (\$100,000) or more than one million dollars (\$1,000,000);
- An equity investment of at least two hundred fifty thousand dollars (\$250,000); and
- Pay at least one hundred fifty percent (150%) of the lesser of the county or state average wage.

The Commission will adhere to some of the federal guidelines for qualifying research for federal tax credits as a guide in determining the eligibility for this state income tax credit.

Qualified research expenditures include in-house expenses for taxable wages paid, usual fringe benefits, and supplies used in the conduct of qualified research. Qualified research must satisfy all of the following tests to qualify:

- The activity must be undertaken for the purpose of discovering information which is technological in nature;
- The application of technological information must be intended to be useful in a new or improved business component; and
- Substantially all of the activities related to the research effort must constitute elements of a process of experimentation relating to a new or improved function, performance, reliability or quality.

The following activities are specifically excluded from the definition of qualified research:

- Any research conducted after the beginning of commercial production;
- Research adapting an existing product or process to a particular customer's need;
- Duplication of an existing product or process;
- Surveys or studies;
- Research related to certain internal-use computer software;
- Research in the social sciences, arts or humanities; and
- Research conducted outside of Arkansas. However, the Executive Director may make an exception for research and development activities occurring outside of Arkansas for an agreed upon transition period if the following conditions exist:
  - The business qualifies as a targeted business;
  - The Commission and the business have entered into a Targeted In-House Research and Development incentive agreement;
  - The business is located in another state and has decided to relocate its research and development activities to Arkansas within a specified transition period, not to exceed eighteen (18) months; and

- The certificate of tax credit will not be issued to an out-of-state business relocating to Arkansas until the business:
  - Has incorporated as a business in the State of Arkansas;
  - Has physically relocated to Arkansas; and
  - Is conducting research in Arkansas.

Qualified wages are taxable wages paid to a full-time permanent employee or “contractual employee”, as defined in the Act, for performing qualified services. Qualified services are services of employees who are:

- Engaging in qualified research, which means the actual conduct of qualified research;
- Engaging in the direct supervision of qualified research, which means the immediate supervision (first-line management) of qualified research; and
- Engaging in the direct support of research activities which constitute qualified research.

Direct support of research activities does not include general administrative services or other services only indirectly of benefit to the research activity.

As with the payroll income tax credits for targeted businesses, the income tax credit for research and development earned by targeted businesses may be sold upon approval by the Commission. Any sale of tax credits through this program must be fully documented by the Commission and that information will be transmitted to the DFA.

The purchaser of the tax credits provided by this program shall obtain certification from the Commission and attach the appropriate documentation provided by the Commission to the tax return on which the credit is first claimed.

The tax credit must be sold within one (1) year of its being issued by the Commission. The original holder of tax credits under this section may sell its tax credits only one (1) time, in whole or in part, the balance of which shall be used by the holder within the time frame allowed.

To claim a credit earned through this incentive, the business shall file with its income tax return the Certificate of Tax Credit issued by the Commission.

The buyer of the tax credit shall be subject to the same provisions for carry forward of the tax credits as the business that originally earned the credits. A targeted business earning research and development tax credits is prohibited from earning job creation tax credits, as authorized by § 15-4-2709 or research tax credits as authorized by § 15-4-2708(a), for the same expenditure. **Example:** A new photonics business that has recently left the Genesis Technology Business Incubator and has applied for and been approved for in-house research income tax credits as a targeted business, is in need of further research to refine a process for using lasers in space applications. It plans to spend two hundred thousand dollars (\$200,000) on an in-house research and development project that has been approved by the Commission as a qualified

research program. The two hundred thousand dollar (\$200,000) expenditure would be eligible for a thirty-three percent (33%) tax credit, entitling the photonics business to earn sixty-six thousand dollars (**\$66,000**) in income tax credits in the year of the expenditure. The credits may be carried forward nine (9) years. At the discretion of the photonics business and with the approval of the Commission, the credits may be sold within one (1) year of issuance by the Commission to allow the photonics business to realize the benefit of the credit. The purchaser of the credits would be able to carry the credit forward for nine (9) years.

**Notes:**

- The carry forward for this incentive is nine (9) years beyond the year in which the credit was first earned.
- A buyer of the credit is limited to the same carry forward period. A sale of the tax credit does not alter the time frame for using the credits.
- It is the intent of the Commission to adhere to some of the federal guidelines for research conducted by an eligible targeted business.

**Combination with other incentives:** The income tax credit for research by a targeted business authorized by § 15-4-2708(c) may **not** be used with:

- Other in-house research and development incentives as authorized by § 15-4-2708(b) or § 15-4-2708(d)(1)(A); or
- Any other incentive in Act 182 of 2003 (Consolidated Incentive Act of 2003, as amended) for the same expenditures.

**D. Research Area of Strategic Value – Act 182 of 2003, as amended, § 15-4-2708(d).**

An income tax credit equal to thirty-three percent (33%) of qualified research expenditures may be allowed for an Arkansas taxpayer that invests in:

- In-house research in an area of strategic value; or
- A project under the research and development programs offered by the Commission.

**(i) In-house Research in an Area of Strategic Value – Act 182 of 2003, as amended, § 15-4-2708(d)(1)(A).**

The business must apply to the Commission to qualify for the income tax credit for research in an area of strategic value. Research area of strategic value means research in fields having long-term economic or commercial value to the state, and that have been identified in the research and development plan approved from time to time by the Executive Director with the advice of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission (Board). The tax credit for research in an area of strategic value may be earned for the first five (5) years following the signing of a financial incentive agreement with the Commission. The income tax credit earned cannot offset more than one hundred percent (100%) of a business's income tax liability in any one (1) tax year and the

benefits can be carried forward for nine (9) years beyond the year in which they were earned or until exhausted, whichever occurs first.

The maximum tax credit that may be claimed by a business under this program is fifty thousand dollars (\$50,000) per tax year. The application for this income tax credit shall include a project plan, which clearly identifies the intent of the project, the expenditures planned, the start and end dates of the project, and an estimate of total project costs.

To claim a credit earned through this incentive, the business shall file the Certificate of Tax Credit issued by the Commission with the tax return on which the credit is first claimed.

Qualified research expenditures for research in an area of strategic value include in-house expenses for taxable wages paid (wages subject to withholding), usual fringe benefits, and supplies used in the conduct of qualified research. Qualified research must satisfy all of the following tests to qualify:

- The activity must be undertaken for the purpose of discovering information which is technological in nature;
- The application of technological information must be intended to be useful in a new or improved business component; and
- Substantially all of the activities related to the research effort must constitute elements of a process of experimentation relating to a new or improved function, performance, reliability or quality.

The following activities are specifically excluded from the definition of qualified research:

- Any research conducted after the beginning of commercial production;
- Research adapting an existing product or process to a particular customer's need;
- Duplication of an existing product or process;
- Surveys or studies;
- Research related to certain internal-use computer software;
- Research in the social sciences, arts or humanities; and
- Research conducted outside of Arkansas. However, the Executive Director may make an exception for research and development activities occurring outside of Arkansas for an agreed upon transition period if the following conditions exist:
  - The business qualifies as a targeted business;
  - The Commission and the business have entered into a Targeted In-House Research and Development incentive agreement;
  - The business is located in another state and has decided to relocate its research and development activities to Arkansas within a specified transition period, not to exceed eighteen (18) months; and
  - The certificate of tax credit will not be issued to an out-of-state business relocating to Arkansas until the business:
    - Has incorporated as a business in the State of Arkansas;
    - Has physically relocated to Arkansas; and
    - Is conducting research in Arkansas.

Qualified wages are taxable wages paid to a new full-time permanent employee for performing qualified services. Qualified services are services of employees who are:

- Engaging in qualified research, which means the actual conduct of qualified research;
- Engaging in the direct supervision of qualified research, which means the immediate supervision (first-line management) of qualified research; and
- Engaging in the direct support of research activities which constitute qualified research.

Direct support of research activities does not include general administrative services or other services only indirectly of benefit to the research activity.

A business claiming a credit through this incentive shall be prohibited from receiving the research tax credit authorized by § 26-51-1102(b) for the same expenditures.

**Example:** A defense contractor located in Arkansas has decided to conduct research in the state to improve the function of microelectronic components in advanced weapons systems. The business has been approved for this research as being “research in an area of strategic value.” The defense contractor will spend one million dollars (\$1,000,000) in qualified research expenditures in Arkansas in conjunction with the approved program of in-house research. Assuming the entire one million dollars (\$1,000,000) is expended on qualified items over the five-year period at the rate of two hundred thousand dollars (\$200,000) per year, the defense contractor would generate a potential credit on the qualified annual expenditure of (\$200,000 X 33% = \$66,000) and earn an actual income tax credit of fifty thousand dollars (**\$50,000**) per tax year for each of the next five (5) years. The credits earned in each year may be carried forward for nine (9) years beyond the tax year in which they were first earned.

**Notes:**

- The carry forward for this incentive is nine (9) years beyond the year in which the credit was first earned.
- The Commission must approve any research for which a business is seeking a credit under this incentive.
- It is suggested that any business wishing to take advantage of this income tax credit first visit with the Commission to help insure the success of the research and development effort.

**Combination with other incentives:** The income tax credit for research in an area of strategic value may **not** be used in combination with:

- Any other research and development incentive as authorized by § 15-4-2708; or
- Any other incentive in Act 182 of 2003 (Consolidated Incentive Act of 2003, as amended) for the same expenditures.

**(ii) Research Under Programs of the Division of Science and Technology of the Arkansas Economic Development Commission – Act 182 of 2003, as amended, § 15-4-2708(d)(1)(B).**

The business must apply to the Commission to qualify for the income tax credit for research under programs of the Division of Science and Technology of the Arkansas Economic Development Commission. The application for this income tax credit shall include a project plan, which clearly identifies the intent of the project, the expenditures planned, the start and end dates of the project, and an estimate of total project costs. The Division of Science and Technology of the Arkansas Economic Development Commission specifies the application format for its programs. The tax credit may be earned for the first five (5) years following the signing of a financial incentive agreement with the Commission. The income tax credit earned cannot offset more than one hundred percent (100%) of a business's income tax liability in any one (1) tax year and the benefits can be carried forward for nine (9) years beyond the tax year in which they were earned or until exhausted, whichever occurs first. The maximum tax credit that may be claimed by a business under this program is fifty thousand dollars (\$50,000) per tax year.

To claim a credit earned through this incentive, the business shall file the Certificate of Tax Credit issued by the Commission with the tax return on which the credit is first claimed.

**Example:** A new medical device business had only a few assets and employees and it did not qualify for any of the other research and development incentives. As a start-up business, it had been seeking outside investors in its revolutionary circulatory system implant. The business received a three thousand dollar (\$3,000) technology transfer assistance grant from the Division of Science and Technology of the Arkansas Economic Development Commission to help the business prepare its first Small Business Innovation Research (SBIR) proposal to a federal agency. As part of its assistance to the business, the Division's staff encouraged the business to prepare an application and project plan (which was actually the business's commercialization and business plan) for the research and development incentive under programs of the Division. The application and project plan were approved by the Commission and became the five-year financial incentive agreement with the business. The agreement includes a timetable for commercializing the business's technology that would begin with the notice of the SBIR phase I award.

The financial incentive agreement includes a twenty thousand dollar (\$20,000) university research project under the Division's Applied Research Grant Program in support of the phase I SBIR effort, a fifty thousand dollar (\$50,000) product development project under the Technology Development Program, one hundred eighty thousand dollars (\$180,000) under the Applied Research Grant and Technology Development Programs in support of a future SBIR phase II award, and a three hundred thousand dollar (\$300,000) investment under the Seed Capital Investment Program in support of SBIR phase III. Qualification for tax credit consideration for these research and development activities is contingent on the business's performance under the federal SBIR program and decisions to fund phase I and II projects by the federal agency. It is also dependent on raising risk capital investments from individual investors who must decide that the potential benefit from sales of the implant is worth the risk.

The medical device business has been notified that it has been approved for its first SBIR award of sixty thousand dollars (\$60,000). A local individual investor has decided, on the strength of the SBIR award and the financial incentive agreement, to become part of the business. In the first year after the SBIR award notice, the investor put twenty thousand dollars (\$20,000) into university research and fifty thousand dollars (\$50,000) into product development. The Commission has approved both projects. The seventy thousand dollars (\$70,000) qualifies under the financial incentive agreement for a thirty-three percent (33%) tax credit equal to twenty-three thousand one hundred dollars (**\$23,100**), which is under the fifty thousand dollar (\$50,000) per year cap.

The business submitted an application for a phase II SBIR project to extend its commercialization work. Tax credits in the remaining four (4) years will depend on decisions by the federal agency regarding the phase II application and the investor (or investors) regarding additional investments.

**Notes:**

- The carry forward for this incentive is nine (9) years beyond the year in which the credit was first earned.
- Applications for tax credit approval under this incentive must be approved by the Executive Director with the advice of the Board.
- It is suggested that any business wishing to take advantage of this income tax credit first visit with the Commission to help insure the success of the research and development effort.

**Combination with other incentives:** The income tax credit for research and development under programs of the Division of Science and Technology of the Arkansas Economic Development Commission may **not** be used in combination with:

- Any other research and development incentive as authorized by § 15-4-2708 or
- Any other incentive in Act 182 of 2003 (Consolidated Incentive Act of 2003, as amended) for the same expenditures.

# **Consolidated Incentive Act of 2003 (Act 182 of 2003, as amended) Rules**

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## **I. Introduction**

Act 182 of 2003, “Consolidated Incentive Act of 2003,” as amended and codified at § 15-4-2701, et seq., consolidated six (6) previously-existing incentives into one (1) incentive package. The consolidated incentives include:

- Enterprise Zone (Advantage Arkansas);
- Economic Investment Tax Credit (InvestArk);
- Economic Development Incentive Act (Create Rebate);
- Arkansas Economic Development Act (AEDA);
- Emerging Technology Development Act; and
- Biotechnology Training and Development Act.

The Consolidated Incentive Act of 2003, as amended, also provides incentives for targeted businesses that allow earned income tax credits to be sold, which will allow these targeted businesses to realize the benefits of the incentive earlier. In addition, it expands the opportunities for qualified businesses to earn income tax credits based on research and development expenditures.

Other benefits of consolidating incentives include uniformity of definitions and administration of the various incentives.

A financial incentive agreement will be signed with each eligible business that qualifies for an incentive under this Act and is approved by the Arkansas Economic Development Commission (Commission). The financial incentive agreement will be the primary document outlining the benefits to be received and the start and end dates of the project. It will also serve as the primary source document when the Department of Finance and Administration (DFA) audits the business to verify compliance.

The financial incentive agreement shall specify the:

- Effective date of the agreement;
- Term of the agreement, which shall be calculated from the date the agreement is signed by the business and the Commission;

- Incentive the business is to receive;
- Investment, wage and/or payroll threshold requirements necessary to qualify for eligibility;
- Eligible business's responsibilities for certifying eligibility requirements; and
- Approved business's responsibilities for failure to meet or maintain eligibility requirements.

## II. Definitions

1. "Applied research" means any activity that seeks to utilize, synthesize, or apply existing knowledge, information, or resources to the resolution of a specific problem, question, or issue;
2. "Average hourly wage" means "Payroll" as defined in § 15-4-2703(28), divided by the number of hours worked to earn the "payroll". For purposes of counting the number of hours worked for salaried employees, forty (40) hours per week shall be used. The "average hourly wage" threshold determined at the signing of the agreement shall be the threshold for the term of the agreement;
3. "Basic research" means any original investigation for the advancement of scientific or technological knowledge;
4. "Board" means the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission;
5. "Business component" means any product, process, computer software, technique, formula, or invention held for sale, lease, or license or used in trade or business of the taxpayer;
6. "Commission" means the Arkansas Economic Development Commission;
7. "Contractual employee" means an employee who:
  - A. May be included in the payroll calculations of a business qualifying for benefits under this Act and is under the direct supervision of the business receiving benefits under this Act, but is an employee of a business other than the one receiving benefits under this Act;
  - B. Otherwise meets the requirements of a new full-time permanent employee of the business receiving benefits under this Act; and
  - C. Receives a benefits package comparable to direct employees of the business receiving benefits under this Act;
8. "Corporate headquarters" means:
  - A. The facility or portion of a facility where corporate staff employees are physically employed, and where the majority of the business's financial, personnel, legal, planning, information technology, or other headquarters-related functions are handled either on a regional basis or

national basis. These facilities include establishments primarily engaged in administering, overseeing, and managing other establishments of the business or enterprise as classified in sector 551114 of the 2012 North American Industrial Classification System (NAICS).

- B. A corporate headquarters must be a regional corporate headquarters or a national corporate headquarters;
9. "Council" means the Arkansas Economic Development Council as defined at § 15-4-201 et seq.;
10. "County or state average hourly wage" means:
- A. The weighted average weekly earnings for Arkansans in all industries, both statewide and county-wide, as calculated by the Arkansas Department of Workforce Services in their most recent Annual Covered Employment and Earnings publication, divided by forty (40).
  - B. The average hourly wage threshold determined at the signing of the financial incentive agreement shall be the threshold for the term of the agreement;
11. "Distribution center" means a facility for the reception, storage, and shipping of:
- A. A business's own products or products that the business wholesales to retail businesses or ships to its own retail outlets if seventy-five percent (75%) of the sales revenues are from out-of-state customers;
  - B. Products owned by other companies with which the business has contracts for storage and shipping if seventy-five percent (75%) of the sales revenues of the product owner are from out-of-state customers; or
  - C. Products for sale to the general public if seventy-five percent (75%) of the sales revenues are from out-of-state customers;
12. "Division" means the Division of Science and Technology of the Arkansas Economic Development Commission;
13. "Eligible businesses" means non-retail businesses engaged in commerce for profit that meet the eligibility requirements for the applicable incentive offered by this subchapter, and fall into one (1) or more of the following categories in effect on the effective date of the incentive agreement:
- A. (i) Manufacturers classified in sectors 31-33 of the 2012 North American Industrial Classification System (NAICS);  
(ii) Manufacturers classified in sectors 20-39 according to the Standard Industrial Classification (SIC) standards but which are classified under NAICS in another sector;
  - B. (i) Businesses primarily engaged in the design and development of prepackaged software, digital content production and preservation, computer processing and data preparation services, or information retrieval services.  
(ii) All businesses in this group shall derive at least seventy-five percent

- (75%) of their sales revenue from out of state;
  - C. (i) Businesses primarily engaged in motion picture productions.  
(ii) All businesses in this group shall derive at least seventy-five percent (75%) of their sales revenue from out of state;
  - D. A distribution center or intermodal facility;
  - E. An office sector business;
  - F. A national or regional corporate headquarters, as classified in sector 551114 of the 2012 North American Industrial Classification System (NAICS);
  - G. Firms primarily engaged in commercial, physical and biological research as classified in the 2012 North American Industrial Classification System (NAICS) codes 541711 or 541712;
  - H. (i) Scientific and technical services business.  
(ii)(a) All businesses in this group shall derive at least seventy-five percent (75%) of their sales revenue from out of state; and  
(b) (1) The average hourly wages paid by businesses in this group shall exceed one hundred fifty percent (150%) of the county or state average hourly wage, whichever is less.  
(2) The average hourly wage threshold determined at the signing of the financial incentive agreement shall be the threshold for the term of the agreement; and
  - I. The Executive Director may classify a non-retail business as an eligible business if the following conditions exist:
    - (i) The business must derive at least seventy-five percent (75%) of its sales revenue from out of state; and
    - (ii) The business proposes to pay wages in excess of one hundred ten percent (110%) of the county or state average wage, whichever is less;
14. "Endorsement resolution" means a resolution approved by the governing body of the municipality or county within whose jurisdiction the project facility is located which:
- A. Approves the business's participation in the program; and
  - B. Specifies that the municipality or county authorizes the Department of Finance and Administration to refund local sales and use taxes to the approved business. A municipality or county can authorize the refund of a tax levied by it but may not authorize a refund of any tax not levied by it;
15. "Equity investment" means capital invested in common or preferred stock, royalty or intellectual property rights, limited partnership interests, limited liability company interests, and any other securities or rights that evidence ownership in private businesses, including a federal agency's award of a Small Business Innovation Research (SBIR) or Small Business Technology Transfer

- (STTR) grant. For the purposes of this Act, subordinated debt may also be considered an equity investment;
16. "Executive Director" means the Executive Director of the Arkansas Economic Development Commission;
  17. "Existing employees" means:
    - A. Those employees hired by the business before the date the financial incentive agreement was signed.
    - B. (i) Existing employees may be considered new full-time permanent employees only if:
      - (ii)(a) The position or job filled by the existing employee was created in accordance with the signed financial incentive agreement; and
      - (b) The position vacated by the existing employee was either filled by a subsequent employee or no subsequent employee will be hired because the business no longer conducts the particular business activity requiring that classification.
    - C. If the Executive Director and the Director of the Department of Finance and Administration find that a significant impairment of job opportunities for existing employees will otherwise occur, they may jointly authorize existing employees to qualify as new full-time permanent employees;
  18. "Facility" means a single physical location at which the eligible business is conducting its operations. A physical location may consist of more than one (1) facility of the eligible business, that is conducting similar or complimentary activity, located on non-contiguous property within the same incorporated county;
  19. "Financial incentive agreement" means an agreement entered into by an eligible business and the Commission to provide the business an incentive to locate a new business or expand an existing business in Arkansas;
  20. "Fund" means the Arkansas Economic Development Incentive Fund;
  21. "Governing authority" means the quorum court of a county or the governing body of a municipality;
  22. "In-house research" means:
    - A. (i) Applied research supported by the business through the purchase of supplies for research activities and payment of wages and usual fringe benefits for employees of the business who conduct research activities in research facilities:
      - (a) Dedicated to the conduct of research activities;
      - (b) Operated by the business; and
      - (c) Performed primarily under laboratory, clinical, or field experimental conditions for the purpose of reducing a concept or idea to practice, or to advance a concept or idea, or improvement thereon, to the point of practical application.

- (ii) “In-house research” includes experimental or laboratory activity to develop new products, improve existing products, or develop new uses of products, but only to the extent that activity is conducted in Arkansas.
  - (iii) “In-house research” may also include contractual agreements with one or more Arkansas colleges or universities, or other research organizations to perform research for a “targeted business” as defined in § 15-4-2703, provided that the Executive Director of the Arkansas Economic Development Commission, with the advice of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission, determines in writing, in advance of the research being performed, that the research by the college or university or other research organization is essential to the core function of the targeted business.
- B. “In-house research” does not include tests or inspection of materials or products for quality control, efficiency surveys, management studies, other market research, or any other ordinary and necessary expenses of conducting business;
23. “Intellectual property” means an invention, discovery, or new idea that the legal entity responsible for commercialization has decided to legally protect for possible commercial gain, based on the disclosure of the creator;
24. “Intermodal facility” means a facility with more than one (1) mode of interconnected movement of freight, commerce, or passengers;
25. “Invest” or “Investment” means money expended by or on behalf of an approved eligible business that seeks to begin or expand operations in Arkansas, and without the infusion of capital, the location or expansion may not occur;
26. “Investment threshold” means the minimum amount of investment in project cost that must be incurred in order to qualify for eligibility;
27. “Lease” means a right to possession of real property for a specific term in return for consideration, as determined in a lease agreement by both parties;
28. “Modernization” means:
- A. An increase in efficiency or productivity of a business through investment in machinery, equipment, or both.
  - B. “Modernization” does not include costs for routine maintenance or the installation of equipment that does not improve efficiency or productivity, except for expenditures for pollution control equipment mandated by state or federal laws or regulations;
29. “National corporate headquarters” means the sole corporate headquarters in the nation that handles headquarters-related functions on a national basis;
30. “New full-time permanent employee” means:

- A. (i) A position or job that was created pursuant to the signed financial incentive agreement and that is filled by one (1) or more employees or contractual employees who:
  - (a) (1) Were Arkansas taxpayers during the year in which the tax credits or incentives were earned.
  - (2) Existing employees may not be considered new full-time permanent employees unless certain conditions are met as defined herein; and
  - (b) (1) Work at the facility identified in the financial incentive agreement.
  - (2) New employees who do not work at the facility identified in the financial incentive agreement may be counted as new full-time permanent employees if they:
    - (A) Otherwise meet the definition of “new full-time permanent employee”;
    - (B) Are subject to the Arkansas Income Tax Withholding Act, Ark. Code Ann. § 26-51-901 et seq.; and
    - (C) Meet an average hourly wage threshold equal to or greater than the state average hourly wage for the preceding calendar year.
- (ii) The position or job held by the employee or employees shall have been filled for at least twenty-six (26) consecutive weeks with an average of at least thirty (30) hours per week each tax year during the term of the agreement.
- B. A contractual employee may qualify as a new full-time permanent employee only when offered a benefits package comparable to a direct employee of the business seeking incentives;
- 31. “Non-retail business” means a business that derives less than ten percent (10%) of its total Arkansas revenue from sales to the general public;
- 32. “Office sector business” means:
  - A. Business operations that support primary business needs, including, but not limited to, customer service, credit accounting, telemarketing, claims processing, and other administrative functions.
  - B. All businesses in this group must be non-retail businesses and derive at least seventy-five percent (75%) of their sales revenue from out of state;
- 33. “Payroll” means the total taxable wages, including overtime and bonuses, paid during the preceding tax year of the eligible business to new full-time permanent employees hired after the date of the signed financial incentive agreement;
- 34. “Person” means:
  - A. An individual, trust, estate, fiduciary, firm, partnership, limited liability company, or corporation.

- B. "Person" includes:
    - (i) The directors, officers, agents, and employees of any person;
    - (ii) Beneficiaries, members, managers, and partners; and
    - (iii) Any county or municipal subdivision of the state;
35. "Preconstruction costs" means the cost of eligible items incurred before the start of construction, including:
- A. Project planning costs;
  - B. Architectural and engineering fees;
  - C. Right-of-way purchases;
  - D. Utility extensions;
  - E. Site preparations;
  - F. Purchase of mineral rights;
  - G. Building demolition;
  - H. Builder's risk insurance;
  - I. Capitalized start-up costs;
  - J. Deposits and process payments on eligible machinery and equipment; and
  - K. Other costs necessary to prepare for the start of construction;
36. "Project" means costs associated with the:
- A.
    - (i) Construction of a new plant or facility;
    - (ii) Expansion of an established plant or facility by adding to the building, production equipment, or support infrastructure; or
    - (iii) Modernization of an established plant or facility through the replacement of production or processing equipment or support infrastructure that improves efficiency or productivity.
  - B. "Project" does not include:
    - (i) Expenditures for routine repair and maintenance that do not result in new construction, expansion or modernization;
    - (ii) Routine operating expenditures;
    - (iii) Expenditures incurred at multiple facilities; or
    - (iv) The purchase or acquisition of an existing business unless:
      - (a) There is sufficient documentation that the existing business was closed; and
      - (b) The purchase of the existing business will result in the retention of the jobs that would have been lost due to the closure.
  - C. Eligible project costs must be incurred within four (4) years from the date the financial incentive agreement was signed by the Commission;
37. "Project plan" means a plan:
- A. Submitted to the Commission containing such information as may be required by the Executive Director to determine eligibility for benefits; and
  - B. That, if approved, is a supplement to the financial incentive agreement;

38. "Qualified business" means an eligible business that:
- A. Has met the qualifications for one (1) or more economic development incentives authorized by this Act; and
  - B. (i) Has signed a financial incentive agreement with the Commission; or  
(ii) Is involved in a research and development program administered by the Commission;
39. "Qualified research expenditures" means the sum of any amounts paid or incurred by an Arkansas taxpayer during the taxable year in funding a qualified research program which has been approved for tax credit treatment under rules promulgated by the Commission;
40. "Region" or "regional" means a geographic area comprised of this state and a contiguous state;
41. "Regional corporate headquarters" means:
- A. The location where a headquarters staff performs functions on a regional basis that involve the services of administration, planning, research and development, marketing, personnel, legal, computer, or telecommunications;
  - B. A function on a regional basis does not include a function involving manufacturing, processing, warehousing, distributing, wholesaling activities or the operations of a call center;
42. "Research and development programs of the Division of Science and Technology of the Arkansas Economic Development Commission" means statutory programs operated by the Commission under §§ 15-3-101 to 15-3-135;
43. "Research area of strategic value" means research in fields having long-term economic or commercial value to the state, and that have been identified in the research and development plan approved from time to time by the Executive Director of the Arkansas Economic Development Commission with the advice of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission;
44. "Scientific and technical services business" means a business:
- A. Primarily engaged in performing scientific and technical activities for others, including:
    - (i) Architectural and engineering design; or
    - (ii) Computer programming and computer systems design; or
    - (iii) Scientific research and development in the physical, biological, and engineering sciences;
  - B. Selling expertise;
  - C. Having production processes that are almost wholly dependent on worker skills;
  - D. Deriving at least seventy-five percent (75%) of their sales revenue from

- out of state; and
  - E. Paying average hourly wages that exceed one hundred fifty percent (150%) of the county or state average hourly wage, whichever is less;
45. "Start of construction" means any activity that causes a physical change to the building, property, or both, identified as the site of the approved project, but excluding engineering surveys, soil tests, land clearing, and extension of roads and utilities to the project site;
46. "Strategic research" means research that has strategic economic or long-term commercial value to the state and that is identified in the research and development plan approved from time to time by the Executive Director of the Arkansas Economic Development Commission with the advice of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission;
47. "Support infrastructure" means physical assets necessary for the business to operate, including, but not limited to, water systems, wastewater systems, gas and electric utilities, roads, bridges, parking lots, and communication infrastructure;
48. "Targeted businesses" means:
- A. A grouping of growing business sectors, the businesses of which:
    - (i) Have been operating in the state for less than five (5) years. For purposes of determining this criterion, the targeted business is considered operating in Arkansas when the minimum annual payroll threshold is met and the minimum equity investment has been constructively received. Once these thresholds are met, the business has five (5) years in which it is eligible to apply as a targeted business;
    - (ii) Pay at least one hundred and fifty percent (150%) of the lesser of the county or state average wage; and
    - (iii) That have been selected to receive special benefits;
  - B. Those groupings, not to exceed six (6), include the following:
    - (i) Advanced materials and manufacturing systems;
    - (ii) Agriculture, food and environmental sciences;
    - (iii) Biotechnology, bioengineering, and life sciences;
    - (iv) Information technology;
    - (v) Transportation logistics; and
    - (vi) Bio-based products;
49. "Technological information" means information derived from basic or applied research that provides an improved practical understanding of the business component; and
50. "Tiers" means the ranking of the seventy-five (75) counties of Arkansas into four (4) divisions that delineate the economic prosperity of the counties and allow for different levels of benefits.

### **III. Tiers**

Except for the retention investment credits (InvestArk) in § 15-4-2706(c), the research and development credits in § 15-4-2708, and the payroll income tax credit for targeted businesses in § 15-4-2709; all benefits provided in this Act are determined in relation to the tier of the county in which the project is located. The state's seventy-five (75) counties are divided into four (4) tiers, with Tier 1 counties being the most prosperous counties and Tier 4 counties being the least prosperous counties. Tiers are determined annually by the Commission by ranking four variables: poverty rate, population growth, per capita personal income, and unemployment rate. A county ranking is determined for each of these variables using a consistent source and the four (4) rankings are totaled and divided by four (4) to obtain an overall ranking. It is the intention of the Commission to place fifteen (15) counties in Tier 1 and twenty (20) counties in Tiers 2, 3, and 4 respectively. If there is a tie between two (2) or more counties for overall rankings at the break point for tiers, the counties with a tie score will be placed in the higher tier.

A county's tier ranking, determined on the effective date of any incentive agreement under the Consolidated Incentive Act of 2003, as amended, shall establish the thresholds and benefits for the term of the agreement.

A county's tier might be moved to one (1) higher tier if the county has experienced a sudden and severe period of economic distress, as indicated by a loss of more than five percent (5%) of the employed labor force. The most recent Labor Market Information publication, published by the Arkansas Department of Workforce Services, is used as the reference to determine a loss of five percent (5%) of the employed labor force. The movement to a higher tier is authorized by action of the Arkansas Economic Development Council (Council) after having received a request from the county judge of the county in question. A business that had signed a financial incentive agreement with the Commission prior to the action of the Council to move a county to a higher tier, shall receive the benefit assigned to it at the time of the signing of the financial incentive agreement for the duration of the agreement, regardless of any subsequent change of a county's tier assignment.

### **IV. Powers and Duties of the Arkansas Economic Development Commission**

The Commission shall administer the provisions of the Consolidated Incentive Act of 2003, as amended, and shall have the following powers and duties in addition to those mentioned in other laws of the state:

1. To promulgate rules in accordance with the Administrative Procedures Act, § 25-15-201 et seq., necessary to carry out the provisions of the Consolidated Incentive Act of 2003, as amended;
2. To provide the DFA with a copy of each financial incentive agreement entered into by the Commission with each qualifying business;
3. To assist governing authorities in obtaining assistance from any other department of state government to promote new businesses and industries;
4. To assist any employer or prospective employer with a qualifying project in obtaining the benefits of any incentive or inducement program authorized by state law;
5. To act as a liaison between other state agencies and businesses and industries to assure that both the spirit and intent of this Act are met;
6. To make disbursements from the Economic Development Incentive Fund to qualified businesses as authorized in § 15-4-2707 of the Consolidated Incentive Act of 2003, as amended; and
7. The Executive Director is authorized to negotiate proposals on behalf of the state with prospective businesses which are considering locating a new facility or expanding an existing facility that would seek the benefits of §§ 15-4-2706(b), 15-4-2706(e), 15-4-2707, 15-4-2708(c), or 15-4-2709.

## **V. Administration**

1. A. If the annual payroll threshold of the business applying for benefits under this Act is not met within twenty-four (24) months after the signing of the financial incentive agreement, the business may request, in writing, an extension of time to reach the required payroll threshold.
- B. (i) If the Executive Director and the Director of the Department of Finance and Administration (Director) find that the approved business has presented compelling reasons for an extension of time, the Executive Director may grant an extension of time not to exceed forty-eight (48) months.
  - (ii) However, the extension on projects applying for benefits under § 15-4-2705 is limited to a twenty-four (24) month extension.
- C. (i) If a business fails to reach the annual payroll threshold before the expiration of the twenty-four (24) months, or the time period established by a subsequent extension of time, that business will be liable for the repayment of all benefits previously received by the business.
  - (ii) (a) After a business has failed to reach the annual payroll threshold in a timely manner, the DFA shall have two (2) years to collect benefits previously received by the business or file a lawsuit to enforce the repayment provisions.

- (b) (1) If the annual payroll of a business receiving benefits under this Act falls below the payroll threshold for qualification in a year subsequent to the one in which it initially qualified for the incentive, the benefits outlined in the financial incentive agreement will be terminated unless the business files a written application for an extension of benefits with the Commission explaining why the payroll has fallen below the level required for qualification.
- (2) The Executive Director and the Director may approve the request for extension of time, not to exceed twenty-four (24) months, for the business to bring the payroll back up to the requisite threshold amount and may approve the continuation of benefits during the period the extension is granted.
- (3) If the business fails to reach the payroll threshold before the expiration of the time period established by a subsequent extension of time, the business shall be liable for the repayment of all benefits paid to the business after it no longer qualified for the benefits.
- (c) (1) If a business fails to reach the investment threshold before the expiration of the four (4) year time limit, that business will be liable for the repayment of all benefits previously received by the business.
- (2) After a business has failed to reach the investment threshold of this Act in a timely manner, the DFA shall have two (2) years to collect benefits previously received by the business or file a lawsuit to enforce the repayment provisions.
- (d) (1) If a business fails to reach the average hourly wage requirement for benefits under this Act within twenty-four (24) months of the effective date of the financial incentive agreement, the business will be liable for the repayment of all benefits previously received by the business.
- (2) After a business has failed to meet the hourly wage requirements, the DFA shall have two (2) years to collect benefits previously received by the business or file a lawsuit to enforce the repayment provisions.
- (e) (1) If a business fails to meet the non-retail business requirements of this Act, the business will be liable for the repayment of all benefits previously received by the business.
- (2) After a business has failed to meet the non-retail business requirements, the DFA shall have two (2) years to collect benefits previously received by the business or file a lawsuit to

- enforce the repayment provisions.
- (f) (1) Eligible businesses whose qualification depends on deriving seventy-five percent (75%) of their sales from out-of-state customers shall meet this requirement within three (3) years from the date of their financial incentive agreement.
    - (2)(A) If the requirement is not met within three (3) years of the signed financial incentive agreement, the business may request, in writing, an extension of time to reach the required sales threshold.
    - (B) If the Executive Director finds that the business has presented compelling reasons for an extension of time, the Executive Director may grant an extension of time not to exceed twenty-four (24) months.
  - (g) (1) If a business fails to timely meet the out-of-state sales requirements of this Act, the business will be liable for the repayment of all benefits previously received by the business.
    - (2) After a business has failed to meet the out-of-state sales requirements, the DFA shall have two (2) years to collect benefits previously received by the business or file a lawsuit to enforce the repayment provisions.
  - (h) (1) If a business fails to notify the DFA that the annual payroll of the business has fallen below the threshold for qualification for and retention of any incentive authorized by this Act, that business will be liable for the repayment of all benefits which were paid to the business after it no longer qualified for the benefits.
    - (2) After a business has failed to notify the DFA that the business has fallen below the payroll threshold, the DFA shall have two (2) years to collect benefits previously received by the business or file a lawsuit to enforce the repayment provisions.
    - (3) Interest shall also be due at the rate of ten percent (10%) per annum.
  - (i) The DFA may obtain whatever information is necessary from a participating business and from the Arkansas Department of Workforce Services (ADWS) to verify that a business that has entered into financial incentive agreements with the Commission is complying with the terms of the financial incentive agreements and reporting accurate information concerning investments, payrolls, and out-of-state revenues to the DFA.
  - (j) The DFA may file a lawsuit in the Circuit Court of Pulaski County, or the circuit court in any county where a program participant is located, to enforce the repayment provisions of this Act.

- (k) (1) If a business fails to satisfy or maintain any other requirement or threshold of this Act, that business will be liable for the repayment of all benefits received after it no longer qualified.
- (2) After a business has failed to comply with the requirements or thresholds of this Act, the DFA shall have two (2) years to collect benefits previously received by the business or file a lawsuit to enforce the repayment provisions.
- (l) If a repayment is required as a result of not complying with the requirements or thresholds of this Act, interest shall be due at the rate of ten percent (10%) per annum.

## **VI. Transfer and Assignment of Financial Incentive Agreements**

No Consolidated Incentive Act financial incentive agreement shall be transferrable or assignable without the written consent of the Executive Director.

## **VII. Incentive Programs Contained Within the Consolidated Incentive Act of 2003, as Amended**

The incentive programs below require that a potentially-eligible business submit an application and a project plan to the Commission prior to incurring project costs or hiring new employees associated with the project. In some cases, once an application is processed and signed by the Commission, the application, with supporting information, becomes a financial incentive agreement.

The date an application is received by the Commission is the earliest date benefits may be accrued.

### **1. Job-Creation Tax Credit § 15-4-2705.**

#### **A. Job Creation Income Tax Credit (Advantage Arkansas) – Act 182 of 2003, as amended, § 15-4-2705.**

The *Advantage Arkansas* program provides an Arkansas income tax credit based upon a percentage of the annual payroll paid to the new full-time permanent employees hired as a result of an approved project. The tier in which the project is located determines the qualifying payroll threshold as well as the income tax benefit calculation.

Pursuant to Act 716 of 2009, for agreements with an effective date on or after July 31, 2009, in all tiers, in order to qualify for the benefits of this program, the proposed average hourly wage of the eligible business applying for these benefits must be equal to, or greater than, the lowest county average hourly wage calculated by the Commission based on the most recent calendar year data published by the ADWS.

The date of the financial incentive agreement is the beginning date in determining when the payroll threshold must be met. Only those employees hired after the date of the financial incentive agreement are eligible for the income tax credits (except as provided in Section II (17)).

The income tax credit earned cannot be used to offset more than fifty percent (50%) of a business's income tax liability in any one (1) tax year. Any unused credits can be carried forward for nine (9) years beyond the year in which they were earned or until exhausted, whichever occurs first.

Income tax credits are earned in the tax year in which the new full-time permanent employees qualify after the financial incentive agreement was signed with the Commission. At the end of each tax year, during the term of the agreement, it is the responsibility of the qualified business to file the *Advantage Arkansas Program Employee Payroll Certification Audit Request* with the DFA. This certification provides the number of new permanent employees and their payroll during the preceding tax year and is the mechanism to initiate the verification audit. Therefore, the business must certify annually at the end of each tax year to the DFA.

The business shall be entitled to receive income tax credits for which it has remained eligible under the Act and for which has provided timely certification in support thereof, for each subsequent tax year during the term of the agreement. The term of the financial incentive agreement shall be for a period of sixty (60) months, beginning on the date of the approved financial incentive agreement.

The income tax credit for the tax year in which new employees qualify will be based on the payroll paid to each new full-time permanent employee from their hire date to the end of the tax year. To be counted as a new full-time permanent employee during any tax year, the employee must have worked a minimum of twenty-six (26) consecutive weeks with an average of at least thirty (30) hours per week. The payroll threshold of the new full-time permanent employees must be met by the business within twenty-four (24) months following the date the financial incentive agreement was signed (except as provided in Section V (1)).

The threshold for qualifying for the Advantage Arkansas job creation income tax credit and the benefit received is dependent upon the tier in which the project is

located on the effective date of the financial incentive agreement:

- **Tier 1 Counties** – An eligible business must have a payroll of new full-time permanent employees in excess of one hundred twenty-five thousand dollars (\$125,000) in order to qualify. The benefit is a tax credit equal to one percent (1%) of the payroll paid to the new full-time permanent employees for the term of the agreement;
- **Tier 2 Counties** – An eligible business must have a payroll of new full-time permanent employees in excess of one hundred thousand dollars (\$100,000) in order to qualify. The benefit is a tax credit equal to two percent (2%) of the payroll paid to the new full-time permanent employees for the term of the agreement;
- **Tier 3 Counties** – An eligible business must have a payroll of new full-time permanent employees in excess of seventy-five thousand dollars (\$75,000) in order to qualify. The benefit is a tax credit equal to three percent (3%) of the payroll paid to the new full-time permanent employees for the term of the agreement; and
- **Tier 4 Counties** – An eligible business must have a payroll of new full-time permanent employees in excess of fifty thousand dollars (\$50,000) in order to qualify. The benefit is a tax credit equal to four percent (4%) of the payroll paid to the new full-time permanent employees for the term of the agreement.

**Example:** An eligible business intends to expand its operation in a Tier 3 county and will be adding twenty-five (25) new full-time permanent employees earning fifteen dollars (\$15) per hour. In a Tier 3 county, a payroll threshold of seventy-five thousand dollars (\$75,000) must be met to qualify for the job creation tax credit equal to three percent (3%) of payroll. ( $\$15 \text{ per hour} \times 2080 \text{ hours} = \$31,200 \text{ per employee} \times \text{twenty-five } 25 \text{ jobs} = \$780,000 \text{ annual payroll} \times 3\% = \$23,400 \text{ income tax credit earned for each of the next five (5) years.}$ ) This example assumes that all twenty-five (25) new full-time permanent employees were hired at the beginning of the first year and worked forty (40) hours per week.

**Notes:** Benefit calculations for the above example could change given the following circumstances:

- The number of jobs is increased or decreased;
- If all of the new jobs are not filled at the beginning of the first year;
- The pay level is decreased or increased; and
- If the payroll falls below the seventy-five thousand dollars (\$75,000) required for qualification in a Tier 3 county, the business may request an extension of up to twenty-four (24) months to regain the minimum payroll

threshold. If the business fails to regain the threshold amount, the business shall be liable for repayment of any benefits received after it no longer qualified.

**Combination with other incentives:** The job creation income tax credit (Advantage Arkansas) authorized in § 15-4-2705 may be combined with:

- The research and development income tax credit for university-based research authorized by § 15-4-2708(a);
- The research and development income tax credit for in-house research authorized by § 15-4-2708(b); and
- Either the retention investment incentive (InvestArk) authorized in § 15-4-2706(c); or
- The sales and use tax refund investment incentive (Tax Back) authorized by § 15-4-2706(d).

## **2. Economic Development Incentive Fund – Payroll Rebate § 15-4-2707.**

### **A. Payroll Rebate (Create Rebate) – Act 182 of 2003, as amended, § 15-4-2707.**

The payroll rebate incentive, also known as “Create Rebate”, is offered only at the discretion of the Executive Director. Like the Advantage Arkansas job creation income tax credit, the payroll rebate is based on the payroll of new full-time permanent employees.

The date of the financial incentive agreement is the beginning date in determining when the payroll threshold must be met. Only the payroll of those employees hired after the date of the financial incentive agreement is eligible for the rebate (except as provided in Section II (17)). A minimum payroll of two million dollars (\$2 million) (payroll threshold) for new full-time permanent employees is required to qualify for this incentive.

The payroll rebate for the tax year in which new employees qualify will be based on the payroll paid to each new full-time permanent employee from their hire date to the end of the tax year. To be counted as a new full-time permanent employee during any tax year, the employee must have worked a minimum of twenty-six (26) consecutive weeks with an average of at least thirty (30) hours per week. The payroll threshold of the new full-time permanent employees must be met by the business within twenty-four (24) months following the date the financial incentive agreement was signed (except as provided in Section V (1)).

The incentive payment amount shall be subject to the terms provided in the

financial incentive agreement and may be reduced based upon the audited performance of the eligible business.

It is the responsibility of the qualified business to file the *Create Rebate Program New Full-Time Permanent Employee Payroll Certification* with the DFA when the requisite two million dollar (\$2 million) payroll threshold has been attained. This certification provides the number of new full-time permanent employees hired, together with the dollar amount of their payroll. Thereafter, the business shall recertify the number of new full-time permanent employees and payroll amounts annually at the end of each tax year. The certification to the DFA is the mechanism to initiate the verification audit. Therefore, the business must certify annually at the end of each tax year to the DFA.

Pursuant to Act 625 of 2009, for financial incentive agreements with an effective date on or after July 31, 2009, failure of the business to certify and recertify payroll amounts annually to the DFA will result in the DFA reducing the amount of rebate earned by ten percent (10%) if not claimed within twelve (12) months from the end of the tax year in which the rebate was earned, or a one hundred percent (100%) forfeiture of the earned rebate if not claimed within twenty-four (24) months from the end of the tax year in which the rebate was earned. The offering of this incentive is intended to provide benefits to businesses locating or expanding in Arkansas. In the event the approved business ceases the operations of the facility for which the incentives are offered, the incentive agreement will be terminated and any benefits accrued and not claimed as of the date of closure will be forfeited.

The payroll rebate (Create Rebate) benefit can only be authorized at the discretion of the Executive Director in the form of a written proposal and may be offered for up to ten (10) years. The term of the agreement depends on the benefit to the state as determined by a cost-benefit analysis performed by the Commission. If the proposal is accepted by the business, a financial incentive agreement is signed by the Commission and the business. The provisions of the financial incentive agreement will be based upon the eligible business's proposed job creation and average hourly wage information provided in the written proposal from the Executive Director. With the exception of targeted businesses, the benefit allowed is dependent upon the tier in which the business locates as follows:

- **Tier 1 Counties** – An incentive payment equal to three and nine-tenths percent (3.9%) of the payroll of the new full-time permanent employees for the term of the agreement;
- **Tier 2 Counties** – An incentive payment equal to four and one-quarter

percent (4.25%) of the payroll of the new full-time permanent employees for the term of the agreement;

- **Tier 3 Counties** – An incentive payment equal to four and one-half percent (4.5%) of the payroll of the new full-time permanent employees for the term of the agreement; and
- **Tier 4 Counties** – An incentive payment equal to five percent (5.0%) of the payroll of the new full-time permanent employees for the term of the agreement.
- At the discretion of the Executive Director, an eligible business located in a Tier 1, 2, or 3 county may be authorized to receive an increased benefit, up to five percent (5.0%), of the payroll of the new full-time permanent employees if the following conditions are met:
  - The business is considering a location in another state;
  - The business derives at least seventy-five percent (75%) of its sales from out of state; and
  - The business proposes to pay wages in excess of one hundred percent (100%) of the average wage of the county in which it locates.

The benefits provided by this section shall be calculated based upon the provisions of the financial incentive agreement. The financial incentive agreement may contain language that will adjust the benefit based upon the audited performance of the eligible business.

**Example:** An eligible business plans on locating in a Tier 2 county and plans to hire sixty-five (65) employees at an average wage of nineteen dollars (\$19) per hour. In Tier 2, a payroll rebate of four and one-quarter percent (4.25%) of payroll of new full-time permanent employees may be granted. A minimum annual payroll of two million dollars (\$2,000,000) is required to qualify for this incentive. In this example, the Executive Director agrees to award the payroll rebate for a period of three (3) years. ( $\$19 \text{ per hour} \times 2080 = \$39,520 \text{ per employee} \times 65 \text{ jobs} = \$2,568,800 \text{ annual payroll} \times 4.25\% = \$109,174 \text{ payroll rebate for each of the next three (3) years.}$ ) This example assumes that all sixty-five (65) new full-time permanent employees were hired at the beginning of the first year and worked forty (40) hours per week.

**Notes:** Benefit calculations could change given any of the following circumstances:

- The business decided to locate in another tier;
- The Executive Director awards a shorter or longer term for the benefit;
- The payroll increases due to either raises being given or new employees being added to the payroll;
- The payroll decreases (if the payroll falls below the two million dollar [\$2,000,000] threshold for qualification, the business may request an

extension of up to twenty-four (24) months to regain the payroll threshold); and

- If the business fails to regain the payroll threshold amount, the business shall be liable for repayment of all benefits previously received.

**Combination with other incentives:** The payroll rebate (Create Rebate) incentive authorized in § 15-4-2707, if offered by the Executive Director, may be combined with:

- Either the retention investment incentive (InvestArk) authorized by § 15-4-2706(c) *or* the sales and use tax refund incentive (Tax Back) authorized by § 15-4-2706(d), the approved business would choose between these two, but cannot take both;
- The ArkPlus investment incentive authorized by § 15-4-2706(b), if approved by the Executive Director;
- The research and development income tax incentive for university-based research authorized by § 15-4-2708(a); and
- The research and development income tax incentive for in-house research authorized by § 15-4-2708(b).

### **B. Payroll Rebate for Targeted Businesses – Act 182 of 2003, as amended, § 15-4-2707.**

The payroll rebate incentive payment for targeted businesses is equal to five percent (5%) of the payroll of the new full-time permanent employees for a period not to exceed ten (10) years provided that the following conditions are met:

- The average hourly wage of the new full-time permanent employees must be at least one hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less; and
- The payroll of the new full-time permanent employees exceeds two hundred fifty thousand dollars (\$250,000).

The payroll rebate for targeted businesses may not be used in conjunction with the income tax credit based on payroll authorized by § 15-4-2709.

### **3. Investment Tax Incentives § 15-4-2706.**

#### **A. Retention Sales and Use Tax Credit (InvestArk) – Act 182 of 2003, as amended, § 15-4-2706(c).**

A qualified business may apply for the Retention Sales and Use Tax Credit (InvestArk) through June 30, 2017. InvestArk applications shall not be accepted on or after July 1, 2017. However, any projects that qualify for InvestArk based on applications filed through June 30, 2017, shall continue to earn credits. InvestArk tax credits issued on a project that qualified for InvestArk tax credits based on an application filed through June 30, 2017, shall remain in effect and shall be taken and carried forward as otherwise provided under § 15-4-2706(c).

The qualifications and benefits for this incentive are the same in all four (4) tiers. To qualify, a business must: 1) Have been in continuous operation in the state for at least two (2) years; 2) Invest a minimum of five million dollars (\$5,000,000) in a project (including land, buildings and equipment); and 3) Hold a direct-pay sales and use tax permit from the DFA.

To obtain benefits under the InvestArk program, a business must apply to the Commission, using forms provided by the Commission, and be approved based on the qualifications submitted in the application and the accompanying project plan. With the exception of preconstruction costs, only those costs incurred after the Commission's approval are eligible in calculating the benefit of this program.

The project plan shall clearly identify the scope of the project, the time frame in which the project is to be started and completed and a complete listing of estimated project expenditures. All project costs must be incurred within four (4) years from the date the project is approved by the Commission. However, a qualified business that enters into a lease for building or equipment for a period in excess of five (5) years may count the lease payments for the first five (5) years of the lease agreement as qualifying expenditures. The first five (5) years of qualified lease payments should be claimed in the expenditure year in which the lease is signed.

The project plan may be revised by written amendment filed with the Commission. The Commission's approval of an amendment will not extend the time period in which project costs may be incurred. Amendments that exceed twenty-five percent (25%) of the original project plan's estimated cost will not be considered and shall be submitted as a new project.

The benefit of the InvestArk program is a sales and use tax credit based on a percentage of qualified expenditures. The percentage used to determine the amount of sales and use tax credits earned is one-half of one percent (0.5%) above the state sales and use tax rate in effect at the time the financial incentive agreement is signed with the Commission.

The credit may be applied against the business's direct-pay state sales and use tax liability in the year following the year of expenditure. Any unused credits may be carried forward for a period of up to five (5) years. In any year, tax credits taken under this program cannot exceed fifty percent (50%) of the business's sales and use tax liability on taxable purchases.

Once a business has qualified for the benefits of the InvestArk incentive, the Executive Director will notify the DFA that the project has been approved and will transmit the documents upon which the qualification was based.

The Commission's approval of any application is for content only. It does not constitute approval of all items listed on the application or the project plan. These items will be reviewed and either approved or ruled ineligible by an audit by the Revenue Division of the DFA.

The DFA is authorized to conduct an audit to determine eligibility of reported project expenditures. The audit may be conducted after credits have been issued and used. If expenditures upon which credits have been issued are determined to be ineligible, the amount of credit will be adjusted, which may result in the repayment of all taxes.

It is the responsibility of the qualified business to file an *Annual Project Expenditure Report (Form InvestArk 2000)* annually at the end of each calendar year with the DFA to report the eligible project expenditures incurred during the preceding calendar year. Upon determining the amount of credit earned during that calendar year, the DFA shall issue a memorandum of credit to the qualified business. The issuance of the credit does not imply the eligibility of the expenditures, which are subject to audit at a later date.

**Example:** A manufacturer is adding a new product line and will require additional space and new processing equipment. The total cost of the project, with land, building and equipment, totals seven million seven hundred and fifty-four thousand dollars (\$7,754,000). The business has been in operation for over fifteen (15) years in Arkansas, meeting the two-year residency requirement of this incentive. After being approved by and signing a financial incentive agreement with the Commission, the manufacturer is eligible for a sales and use tax credit of seven percent (7%) (one-half of one percent over the rate of 6.5% as of July 1, 2013). At the end of each calendar year, until project completion, the business shall certify to the DFA the amount of project expenditures incurred during the previous calendar year and shall be granted a sales and use tax credit. If the business had spent seven million seven hundred and fifty-four thousand dollars

(\$7,754,000) in eligible expenditures in the previous calendar year, the total sales and use tax credit based upon a sales tax rate of 6.5% (\$7,754,000 X 7%) would be \$542,780, which could be used the following year and any unused credit could be carried forward for an additional five (5) years. In any year, the amount of the sales and use tax credit used cannot exceed fifty percent (50%) of the business's sales and use tax liability on taxable purchases.

**Notes:** The benefit calculations above could change given any of the following circumstances:

- The sales tax rate was increased or decreased prior to the signing of a financial incentive agreement with the Commission. Once a business has signed a financial incentive agreement with the Commission, the sales tax rate and benefit will be “locked in” regardless of any subsequent change to the sales tax rate during the term of the project.
- The project fails to reach the minimum investment threshold of five million dollars (\$5,000,000). Should benefits be received for project expenditures and the threshold expenditure of five million dollars (\$5,000,000) not be met, the recapture provisions of Section V of these rules may be invoked by the DFA.

**Combination with other incentives:** The retention tax credit (InvestArk) authorized in § 15-4-2706(c) may be combined with:

- The job creation tax credit (Advantage Arkansas) as authorized in § 15-4-2705;
- The payroll rebate (Create Rebate), if offered by the Executive Director, as authorized in § 15-4-2707;
- The research and development income tax incentive for university-based research authorized by § 15-4-2708(a); and
- The research and development income tax incentive for in-house research authorized by § 15-4-2708(b).

**B. Investment Income Tax Credit (ArkPlus) – Act 182 of 2003, as amended, § 15-4-2706(b).**

This incentive is awarded only at the discretion of the Executive Director. To qualify, the business must meet both the investment and payroll thresholds for the tier in which it locates.

The benefit is an income tax credit equal to ten percent (10%) of the investment in land, buildings, equipment, and costs relating to licensing and protecting intellectual property (which would include license fees, patent fees and attorney

fees to maintain or enhance the patent's or trademark's application). The benefit is the same regardless of the tier in which the business locates.

The business must reach the investment threshold for the tier in which it is located within four (4) years from the date of the signing of the financial incentive agreement. All project costs must be incurred within four (4) years from the date the project is approved by the Commission; however, a qualified business that enters into a lease for building or equipment for a period in excess of five (5) years may count the lease payments for the first five (5) years of the lease agreement as qualifying expenditures. The first five (5) years of qualified lease payments should be claimed in the expenditure year in which the lease is signed.

The business must reach the payroll threshold for the tier in which it is located within twenty-four (24) months from the date of the signing of the financial incentive agreement.

It is the responsibility of the qualified business to file an *ArkPlus Program Annual Incentive Plan Expenditure Report* and an *ArkPlus Program New Full-Time Permanent Employee Payroll Certification* with the DFA when the investment threshold is met. This certification provides the amount of eligible project costs incurred in the previous tax year and the number of new full-time permanent employees hired, together with the dollar amount of their payroll. Thereafter, the business shall recertify eligible project costs and the number of new full-time permanent employees and payroll amounts annually at the end of each tax year. The certification to the DFA is the mechanism to initiate the verification audit.

The income tax credit earned cannot be used to offset more than fifty percent (50%) of the business's income tax liability in any one (1) tax year. Any unused credits can be carried forward for nine (9) years beyond the year in which they were earned or until exhausted, whichever occurs first.

To qualify for this incentive, the business must meet the investment and payroll thresholds for the tier in which the business locates or expands:

- **Tier 1** – The business must invest at least five million dollars (\$5,000,000) and have an annual payroll of new full-time permanent employees of at least two million dollars (\$2,000,000);
- **Tier 2** – The business must invest at least three million seven hundred fifty thousand dollars (\$3,750,000) and have an annual payroll of new full-time permanent employees of at least one million five hundred thousand dollars (\$1,500,000);

- **Tier 3** – The business must invest at least three million dollars (\$3,000,000) and have an annual payroll of new full-time permanent employees of at least one million two hundred thousand dollars (\$1,200,000); and
- **Tier 4** – The business must invest at least two million dollars (\$2,000,000) and have an annual payroll of new full-time permanent employees of at least eight hundred thousand dollars (\$800,000).

**Example:** A new eligible business plans to begin operations in a Tier 4 county. It plans on hiring fifty (50) new full-time permanent employees at an average wage of fifteen dollars (\$15) per hour. ( $\$15/\text{hour} \times 2080 \text{ hours} = \$31,200$  average annual salary  $\times 50$  employees = \$1,560,000 annual payroll.) It will invest three million five hundred thousand dollars (\$3,500,000) in land, buildings and equipment for the new operation. The one million five hundred and sixty thousand dollar (\$1,560,000) annual payroll exceeds the eight hundred thousand dollar (\$800,000) payroll threshold for a Tier 4 county and the capital investment of three and one-half million dollars (\$3,500,000) exceeds the two million dollar (\$2,000,000) investment threshold, allowing the business to meet minimum qualifications for the incentive. Should the Executive Director approve the business’s application for this incentive program, and should the business spend precisely three and one-half million dollars (\$3,500,000), it would earn an income tax credit of three hundred and fifty thousand dollars (\$350,000) that could be carried forward for nine (9) years beyond the year it was first earned. This example assumes all new full-time permanent employees were hired at the beginning of the first year and work forty (40) hours per week.

**Notes:** The benefit calculation noted above could change given any of the following circumstances:

- The business fails to reach either the investment or payroll threshold required to receive the benefit of this incentive program.

Failure to meet investment or payroll requirements could necessitate the implementation of recapture provisions provided for in Section V of these rules.

**Combination with other incentives:** The investment income tax credit authorized by § 15-4-2706(b), if approved by the Executive Director, may be combined with:

- The payroll rebate (Create Rebate) authorized by § 15-4-2707, if approved by the Executive Director;
- The research and development income tax incentive for university-based research authorized by § 15-4-2708(a); and
- The research and development income tax incentive for in-house research authorized by § 15-4-2708(b).

**C. Technology-Based Enterprises Investment Income Tax and Sales and Use Tax Credit (Targeted ArkPlus) – Act 182 of 2003, as amended, § 15-4-2706(b).**

At the discretion of the Executive Director, a targeted business may earn an income tax credit or a sales and use tax credit based upon new investment. The targeted business must:

- Invest a minimum of two hundred fifty thousand dollars (\$250,000) within four (4) years of the effective date of the financial incentive agreement;
- Create a new payroll of at least two hundred fifty thousand dollars (\$250,000); and
- Pay wages that are at least one hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less.

The credit earned by the targeted business shall be based upon a percentage of the investment as follows:

- The credit amount shall be two percent (2%) of investments from two hundred fifty thousand dollars (\$250,000) up to five hundred thousand dollars (\$500,000);
- The credit amount shall be two percent (2%) of the investment up to five hundred thousand dollars (\$500,000) plus four percent (4%) of the investment in excess of five hundred thousand dollars (\$500,000) up to one million dollars (\$1,000,000);
- The credit amount shall be two percent (2%) of the investment up to five hundred thousand dollars (\$500,000) plus four percent (4%) of the investment in excess of five hundred thousand dollars (\$500,000) up to one million dollars (\$1,000,000) plus six percent (6%) of the investment in excess of one million dollars (\$1,000,000) up to two million dollars (\$2,000,000); and
- The credit amount shall be two percent (2%) of the investment up to five hundred thousand dollars (\$500,000) plus four percent (4%) of the investment in excess of five hundred thousand dollars (\$500,000) up to one million dollars (\$1,000,000) plus six percent (6%) of the investment in excess of one million dollars (\$1,000,000) up to two million dollars (\$2,000,000) plus eight percent (8%) of the investment in excess of two million dollars (\$2,000,000).

Prior to the execution of the financial incentive agreement, the targeted business must elect to receive the tax credits as sales and use tax credits or income tax credits.

The percentage of the targeted business's tax liability that may be offset is determined by the average hourly wage paid to the new full-time permanent

employees as follows:

- A targeted business that pays at least one-hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less, may offset fifty percent (50%) of its tax liability.
- A targeted business that pays at least two hundred percent (200%) of the state or county average hourly wage, whichever is less, may offset seventy-five percent (75%) of its tax liability.
- A targeted business that pays at least two hundred twenty-five percent (225%) of the state or county average hourly wage, whichever is less, may offset one hundred percent (100%) of its tax liability.

The approved targeted business must certify eligible project expenditures annually with the DFA. Upon verification of eligibility, the DFA shall issue the credit according to the tax type specified in the financial incentive agreement.

The income tax credit may be applied against the approved business's Arkansas income tax liability. Any unused credit may be carried forward for a period not to exceed nine (9) tax years after the tax year in which it was first earned.

The sales and use tax credit may be applied against the business's state sales and use tax liability as reported on its monthly sales and use tax report in the calendar year following the calendar year of expenditure.

The tax liability reported on the business's monthly sales and use tax that may be offset by the credit may be derived from:

- Sales made by the approved business and collected from the customer;
- Use taxes accrued by the business for out-of state purchases; and
- Sales and use taxes accrued and reported on the business's monthly direct-pay report.

The credit may not be applied against any taxes collected from the business by the seller. Any unused credit may be carried forward for a period not to exceed nine (9) calendar years after the calendar year in which it was first earned.

**D. Sales and Use Tax Refund for New and Expanding Eligible Businesses (Tax Back) – Act 182 of 2003, as amended, § 15-4-2706(d).**

This incentive program is available to any eligible business that meets the qualifications for investment and payroll thresholds for the tier in which it locates

or expands and is approved for benefits by the Commission. The Commission's approval is contingent upon receipt of a completed application and a local endorsement resolution from the city, county, or both which authorizes the refund of its local taxes to the eligible business.

To qualify, the eligible business must invest in excess of one hundred thousand dollars (\$100,000) and meet the eligibility criteria of the Advantage Arkansas (§ 15-4-2705) or Create Rebate (§ 15-4-2707) job creation incentive programs.

The financial incentive agreement for the job creation tax credit (Advantage Arkansas) or payroll rebate (Create Rebate) must be signed within twenty-four (24) months of signing a financial incentive agreement for a sales and use tax refund unless the eligible business has met the requirements of a job creation financial incentive agreement under § 15-4-2705 or § 15-4-2707 within the previous forty-eight (48) months.

In the event an eligible business has an existing Tax Back agreement, the business may apply for additional Tax Back if it has signed a job creation financial incentive agreement under § 15-4-2705 or § 15-4-2707 within the previous forty-eight (48) months.

In the event the business does not have an existing Tax Back agreement, the business may apply for Tax Back benefits if it has signed a job creation financial incentive agreement under § 15-4-2705 or § 15-4-2707 within the previous forty-eight (48) months.

An application, accompanied by local endorsement resolution(s), must be filed with the Commission. The application should clearly identify the intent of the project, the expenditures planned, the start and end date of the project and an estimate of total project costs. The local endorsement resolution(s) from the governing authority (city council, quorum court, or both) in which the project is located must authorize the refund of its local sales and use taxes.

The purpose of the resolution is to: A) approve the business's participation in the program; and B) specify that the municipality or county authorizes the DFA to refund all or part of any sales and use tax levied at the local level. The municipality or county in which the eligible business is located may authorize the refund of any sales or use tax levied by it but may not authorize the refund of any sales and use tax not levied by it.

This incentive program grants a refund of state and local sales and use taxes paid on the purchases of the material used in the construction of a building or buildings or any addition, modernization, or improvement to a new or expanding eligible business. A sales and use tax refund is also allowed for the purchases of taxable machinery or equipment associated with the building or project.

A refund shall not be authorized for:

- routine operating expenditures;
- the purchase of replacements of items previously purchased as part of a project unless the items previously purchased will not enable the project to function as originally intended;
- licensed motor vehicles; or
- expenditures for routine repair and maintenance that do not result in new construction or expansion.

**For projects approved on or after July 1, 2005, the refund of state sales and use taxes shall not include the refund of taxes dedicated to the Educational Adequacy Fund (.875%) provided in § 19-5-1227 or the taxes dedicated to the Conservation Tax Fund (.125%) provided in § 19-6-484.**

All project costs must be incurred within four (4) years from the date the project is approved by the Commission. The project plan may be revised by written amendment filed with the Commission. The Commission's approval of an amendment will not extend the time period in which project costs may be incurred. Amendments that exceed twenty-five percent (25%) of the original project plan's estimated cost will not be considered and shall be submitted as a new project.

### **Eligible Business Tax Back Refunds**

For an eligible business to receive a refund, the business must file an *Annual Sales and Use Tax Refund Request Form (Form Tax Back 1000)* and schedule (*Schedule A*) listing the qualified purchases at the end of each calendar year.

An approved eligible business may receive a sales and use tax refund on eligible purchases made by a contractor or developer performing work, or building a structure for lease or sale to the approved eligible business provided the eligible business submits to the DFA Tax Credits/Special Refunds Section a notarized *Contractor's/Developer's Waiver of Refund Form (Form Tax Back 1100)* completed by the contractor or developer waiving any and all rights to claim a refund of sales and use taxes.

An approved business is prohibited from claiming a refund for the same amount of local tax that:

- The approved business has received, or will be receiving, for a local tax cap rebate on qualifying Tax Back purchases, either on the approved business's Sales and Use Tax Report or as a refund from the Sales and Use Tax Section; or
- The contractor or developer has received, or will be receiving, a local tax cap rebate on qualifying Tax Back purchases, either on the contractor's or developer's Sales and Use Tax Report or as a refund from the Sales and Use Tax Section.

**Example:** An eligible business approved for the Tax Back program makes a purchase of eligible items on an invoice totaling ten thousand dollars (\$10,000). Assuming a local tax rate of one percent (1%), the total local tax due is one hundred dollars (\$100). The local tax cap for business purposes is limited to the tax due on two thousand five hundred dollars (\$2,500). If the business claims a local tax cap rebate for the seventy-five dollars (\$75) (the tax paid in excess of the tax due on two thousand five hundred dollars [\$2,500]) on its Sales and Use Tax Report or as a refund from the Sales and Use Tax Section; the business's Tax Back refund is limited to twenty-five dollars (\$25) for this invoice. If the business has not claimed, or does not plan to claim, the local tax cap rebate, it may claim the full amount of local tax paid on its Tax Back Sales and Use Tax Refund Request.

### **Refunds to Developers/Contractors**

Developers building a structure for lease to an approved eligible business and contractors performing work for an approved eligible business may be permitted to receive a sales and use tax refund on eligible purchases directly from the state only when the approved eligible business requests the DFA Tax Credits/Special Refunds Section, in writing, that this be permitted and states the basis for this request. This request must be approved by the DFA prior to the signing of the financial incentive agreement.

The DFA Revenue Division will authorize this procedure only when it is satisfied that:

- The written request sufficiently states the basis for this request and provides a satisfactory explanation why this arrangement is crucial to the success of the project;
- All requirements of the Consolidated Incentive Act of 2003, as amended, and AEDC rules will be adhered to;
- A *notarized affidavit (Form Tax Back 1400)* is presented to the DFA

Revenue Division from the contractor or developer stating the eligible business will receive the benefit of the sales and use tax refunds by having the cost of construction or lease payments reduced by the amount of the tax refund;

- A *notarized affidavit (Form Tax Back 1300)* is presented to the DFA Revenue Division from the approved eligible business waiving the right to claim a refund of sales and use taxes, and passing on the right to claim refunds to the contractor or developer. The affidavit must state that the eligible business acknowledges that if the eligible business fails to comply with the conditions contained in the Act or this rule, that the business will be liable for the payment of all sales and use taxes which were refunded to the contractors and developers under this Act, plus interest; and
- The eligible business's incentive agreement with the Commission must include a provision for recapture of the sales and use tax refunds from the contractor or developer if the eligible business closes and ceases operations within a short period.

If a developer or contractor has been authorized by the DFA to receive the refund, the developer or contractor must file an *Annual Sales and Use Tax Refund Request by Developer Form (Form Tax Back 1200)* and schedule (*Schedule A*) listing the qualified purchases.

A developer or contractor is prohibited from claiming the same amount of local tax that it has received, or will be receiving, for a local tax cap rebate on qualifying Tax Back purchases, either on its Sales and Use Tax Report or as a refund from the Sales and Use Tax Section.

**Example:** A developer or contractor makes a purchase of eligible items on an invoice totaling ten thousand dollars (\$10,000). Assuming a local tax rate of one percent (1%), the total local tax due is one hundred dollars (\$100). The local tax cap for business purposes is limited to the tax due on two thousand five hundred dollars (\$2,500). If the developer or contractor claims a local tax cap rebate for the seventy-five dollars (\$75) (the tax paid in excess of the tax due on two thousand five hundred dollars [\$2,500]) on its Sales and Use Tax Report or as a refund from the Sales and Use Tax Section, its Tax Back refund is limited to twenty-five dollars (\$25) for this invoice. If the contractor or developer has not claimed, or does not plan to claim, the local tax cap rebate, it may claim the full amount of local tax paid on its Tax Back Sales and Use Tax Refund Request.

## Filing Requirements

It is the responsibility of the eligible business to file an *Annual Sales and Use Tax Refund Request Form (Tax Back 1000)* and supporting schedule (*Schedule A*) with the DFA at the end of each calendar year.

Upon determining the amount of eligible refund, the DFA shall issue a refund to the eligible business.

All claims for sales and use tax refunds under this incentive program must be filed within three (3) years from the date of the qualified purchase or purchases or those claims will be denied.

**Example:** An eligible business is planning to expand its operations in a Tier 3 county and has signed an Advantage Arkansas agreement with the AEDC. The business plans to hire seven (7) new full-time permanent employees at twelve dollars (\$12) per hour ( $\$12/\text{hour} \times 2080 \text{ hours} = \$24,960$  average annual wage  $\times$  seven (7) new employees =  $\$174,720$  annual payroll). The business would meet the seventy-five thousand dollar (\$75,000) payroll threshold for a Tier 3 county. The business will renovate an existing building in the community and will spend approximately one hundred and twenty-five thousand dollars (\$125,000) in renovation costs. This investment is above the one hundred thousand dollar (\$100,000) threshold required. The sales tax paid on all renovation costs subject to the sales tax is eligible to be refunded at the sales or use tax rate in effect at the time of the purchase, excluding the taxes dedicated to the Educational Adequacy Fund and the Conservation Tax Fund. The eligible business must file for the sales and use tax refund within three (3) years of purchase or the claim will be denied. This example assumes all new full-time permanent employees are hired at the beginning of the first year and work forty (40) hours per week.

**Notes:** The refund of sales and use tax for eligible businesses is dependent upon the following conditions:

- The refund is made contingent upon the signing of a financial incentive agreement for a jobs creation incentive (Advantage Arkansas or Create Rebate) within twenty-four (24) months of signing a financial incentive agreement for a sales and use tax refund for new and expanding eligible businesses;
- The items purchased being subject to the sales or use tax;
- The payroll threshold under the Advantage Arkansas or Create Rebate job creation financial incentive agreements being met within twenty-four (24) months of the signing of the financial incentive agreement; and

- The documentation of the minimum investment of one hundred thousand dollars (\$100,000) needed to qualify for the sales and use tax refund.

**Combination with other incentives:** The sales and use tax refund for new and expanding eligible businesses, authorized by § 15-4-2706(d), may be combined with:

- Advantage Arkansas as authorized by § 15-4-2705 or Create Rebate as authorized by § 15-4-2707, if approved by the Executive Director; and
- The research and development income tax credit for university-based research authorized by § 15-4-2708(a); and
- The research and development income tax incentive for in-house research authorized by § 15-4-2708(b).

**E. Sales and Use Tax Refund for Targeted Businesses – Act 182 of 2003, as amended, § 15-4-2706(e).**

This incentive program extends the benefits of the Tax Back sales and use tax refund program to a category of new and expanding eligible businesses referred to as “targeted businesses”. This incentive is offered only at the discretion of the Executive Director. Targeted businesses are found within six (6) growing business sectors that include:

- (i) Advanced materials and manufacturing systems, with emphases on the following:
  - (a) Photonics;
  - (b) Nanotechnology;
  - (c) Electronics manufacturing;
  - (d) Environmental issues related to material and manufacturing;
  - (e) Photovoltaics; and
  - (f) Energy efficient storage devices.
  
- (ii) Agriculture, food, and environmental sciences, with emphases on the following:
  - (a) Rice;
  - (b) Poultry;
  - (c) Aquaculture;
  - (d) Toxicology;
  - (e) Agricultural medicine;
  - (f) Forestry;
  - (g) Nutrition;
  - (h) Waste minimization;

- (i) Energy reduction;
  - (j) Distributed energy generation; and
  - (k) Spatial technology.
- (iii) Biotechnology, bioengineering, and life sciences, with emphases on the following:
- (a) Genetics;
  - (b) Oncology;
  - (c) Geriatrics;
  - (d) Neuroscience;
  - (e) Medical devices;
  - (f) Rehabilitation;
  - (g) Biopharmaceuticals and drug discovery;
  - (h) Protein structure and function;
  - (i) Cell molecular biology; and
  - (j) Sensor technology.
- (iv) Information technology, with emphases on the following:
- (a) Knowledge and data engineering;
  - (b) Database systems;
  - (c) Distributed systems;
  - (d) Wireless systems;
  - (e) Software development; and
  - (f) State-of-the-art applications of information technology to:
    - (1) Bioinformatics, and
    - (2) Healthcare.
- (v) Transportation logistics, with emphases on the following:
- (a) Intelligent material handling;
  - (b) Automated systems; and
  - (c) Transportation management systems.
- (vi) Bio-based products, with emphases on the following:
- (a) Biodiesel;
  - (b) Ethanol;
  - (c) Methanol;
  - (d) Synthetic transportation fuels;
  - (e) Adhesives;
  - (f) Polymers;
  - (g) Automotive components; and
  - (h) Engineered products from non-traditional biomass sources.

To qualify as a targeted business, the Commission must determine that the business falls within one (1) of the six (6) categories noted above, the business must have been in operation for five (5) years or less and must pay average hourly wages in excess of one hundred fifty percent (150%) of the county or state average hourly wage, whichever is less. In addition, the targeted business must have an annual payroll of at least one hundred thousand dollars (\$100,000) and demonstrate evidence of an equity investment in the targeted business of at least two hundred fifty thousand dollars (\$250,000). A targeted business with an annual payroll in excess of one million dollars (\$1,000,000) will not qualify for the targeted business sales and use tax refund, but may be eligible for other incentives offered through the Consolidated Incentive Act of 2003 (Act 182 of 2003), as amended.

In addition to meeting the targeted business eligibility requirements, the business must meet the eligibility criteria of the Targeted Business payroll income tax credit incentive program (§ 15-4-2709). A signed financial incentive agreement for targeted payroll income tax credits must be signed within twenty-four (24) months of signing a financial incentive agreement for a sales and use tax refund.

An application accompanied by a local endorsement resolution must be filed with the Commission. The application should clearly identify the intent of the project, the expenditures planned, the start and end date of the project and an estimate of the total project costs. The local endorsement resolution from the governing authority (city council, quorum court, or both) in which the project is located must authorize the refund of its local sales and use taxes.

The purpose of the resolution is to: A) approve the specific entity's participation in the program; and B) specify that the municipality or county authorizes the DFA to refund all or part of any sales and use tax levied at the local level. The municipality or county in which the eligible business is located may authorize the refund of any sales or use tax levied by it but may not authorize the refund of any sales and use taxes not levied by it.

This incentive program grants a refund of state and local sales and use taxes paid on the purchases of the material used in the construction of a building or buildings or any addition, modernization, or improvement to a new or expanding eligible business. A sales and use tax refund is also allowed for the purchases of taxable machinery or equipment associated with the building or project.

A refund shall not be authorized for:

- routine operating expenditures;
- the purchase of replacement items previously purchased as part of a

project unless the items previously purchased will not enable the project to function as originally intended;

- licensed motor vehicles; or
- expenditures for routine repair and maintenance that do not result in new construction or expansion.

**For projects approved on or after July 1, 2005, the refund of state sales and use taxes shall not include the refund of taxes dedicated to the Educational Adequacy Fund (.875%) provided in § 19-5-1227 or the taxes dedicated to the Conservation Tax Fund (.125%) provided in § 19-6-484.**

All project costs must be incurred within four (4) years from the date the project is approved by the Commission. The project plan may be revised by written amendment filed with the Commission. The Commission's approval of an amendment will not extend the time period in which project costs may be incurred. Amendments that exceed twenty-five percent (25%) of the original project plan's estimated cost will not be considered and shall be submitted as a new project.

It is the responsibility of the qualified targeted business to file a *Targeted Business Tax Back Program Annual Sales and Use Tax Refund Request (Form TB 1000)* annually at the end of each calendar year to the DFA to request a refund of sales and use taxes paid on eligible project expenditures incurred during the preceding calendar year. Upon determining the amount of the eligible refund, the DFA shall issue a refund to the qualified business.

All claims for sales and use tax refunds under this incentive program must be filed within three (3) years from the date of the qualified purchase or purchases or those claims will be denied.

**Example:** A new start-up computer software design firm is beginning business. It has received an equity investment from a venture capital firm in the amount of seven hundred fifty thousand dollars (\$750,000), which exceeds the two hundred and fifty thousand dollar (\$250,000) threshold, to help it get started. It plans on hiring six (6) new full-time permanent employees at an average hourly wage of twenty-eight dollars (\$28) per hour. The average hourly wage for the Tier 1 county in which the business plans to locate is fifteen dollars (\$15) per hour. ( $\$15/\text{hour} \times 150\% = \$22.50$  per hour.) The business's average hourly wage of twenty-eight dollars (\$28) per hour is above the threshold wage to qualify in this Tier 1 county. ( $\$28/\text{hour} \times 2080$  hours = \$58,290 average annual salary X six (6) employees = \$349,440 annual payroll.) The business's annual payroll exceeds the threshold of

one hundred thousand dollars (\$100,000) so the business meets the payroll, investment and average wage requirements necessary to qualify for the sales and use tax refund. Eligibility is also dependent upon being approved by the Executive Director. The eligible targeted business must file for the sales and use tax refund within three (3) years of purchase or the claim will be denied. This example assumes all new full-time permanent employees are hired at the beginning of the first year and work forty (40) hours per week.

**Notes:** The refund of sales and use tax for eligible targeted businesses is dependent upon the following conditions:

- The refund is made contingent upon the signing of a financial incentive agreement for a targeted payroll income tax credit for targeted businesses incentive within twenty-four (24) months of signing a financial incentive agreement for a sales and use tax refund for a targeted business;
- The items purchased being subject to the sales or use tax;
- The business meeting the average wage requirement;
- The payroll threshold being met within twenty-four (24) months of the signing of the financial incentive agreement; and
- The documentation that the targeted business has received an equity investment in excess of two hundred fifty thousand dollars (\$250,000).

**Combination with other incentives:** The sales and use tax refund for targeted businesses authorized by § 15-4-2706(e) may be combined with, if approved by the Executive Director:

- The targeted job creation income tax credit as authorized by § 15-4-2709; and
- The targeted research and development tax credit authorized by § 15-4-2708(c).

#### **4. Targeted Business Special Incentive § 15-4-2709.**

##### **A. Payroll Income Tax Credit for Targeted Businesses – Act 182 of 2003, as amended, § 15-4-2709.**

The payroll income tax credit for targeted businesses assists the start-up of businesses in targeted sectors that pay significantly more than the state or county average wage of the county in which the business locates. This incentive is offered only at the discretion of the Executive Director. To qualify for this incentive, the business must be included in one of six (6) targeted business sectors that include:

- (i) Advanced materials and manufacturing systems, with emphases on the following:
  - (a) Photonics;
  - (b) Nanotechnology;
  - (c) Electronics manufacturing;
  - (d) Environmental issues related to material and manufacturing;
  - (e) Photovoltaics; and
  - (f) Energy efficient storage devices.
  
- (ii) Agriculture, food, and environmental sciences, with emphases on the following:
  - (a) Rice;
  - (b) Poultry;
  - (c) Aquaculture;
  - (d) Toxicology;
  - (e) Agricultural medicine;
  - (f) Forestry;
  - (g) Nutrition;
  - (h) Waste minimization;
  - (i) Energy reduction;
  - (j) Distributed energy generation; and
  - (k) Spatial technology.
  
- (iii) Biotechnology, bioengineering, and life sciences, with emphases on the following:
  - (a) Genetics;
  - (b) Oncology;
  - (c) Geriatrics;
  - (d) Neuroscience;
  - (e) Medical devices;
  - (f) Rehabilitation;
  - (g) Biopharmaceuticals and drug discovery;
  - (h) Protein structure and function;
  - (i) Cell molecular biology; and
  - (j) Sensor technology.
  
- (iv) Information technology, with emphases on the following:
  - (a) Knowledge and data engineering;
  - (b) Database systems;
  - (c) Distributed systems;
  - (d) Wireless systems;

- (e) Software development; and
- (f) State-of-the-art applications of information technology to:
  - (1) Bioinformatics, and
  - (2) Healthcare.
  
- (v) Transportation logistics, with emphases on the following:
  - (a) Intelligent material handling;
  - (b) Automated systems; and
  - (c) Transportation management systems.
  
- (vi) Bio-based products, with emphases on the following:
  - (a) Biodiesel;
  - (b) Ethanol;
  - (c) Methanol;
  - (d) Synthetic transportation fuels;
  - (e) Adhesives;
  - (f) Polymers;
  - (g) Automotive components; and
  - (h) Engineered products from non-traditional biomass sources.

The business must also have an annual payroll of not less than one hundred thousand dollars (\$100,000) or more than one million dollars (\$1,000,000), show proof of an equity investment of at least two hundred fifty thousand dollars (\$250,000) and pay average hourly wages in excess of one hundred fifty percent (150%) of the county or state average hourly wage, whichever is less.

The benefit for a targeted business is an income tax credit equal to ten percent (10%) of its annual payroll, with a cap of one hundred thousand dollars (\$100,000) per year in earned income tax credits for a business that qualifies and is approved for this incentive. Any unused credits can be carried forward for nine (9) years beyond the year in which they were earned or until exhausted, whichever occurs first.

The incentive may be offered for a period not to exceed five (5) years. The five-year period begins on January 1<sup>st</sup> of the year in which the financial incentive agreement is signed and may not extend beyond sixty (60) months from that date. Unlike the other incentives, the calculation of this income tax credit may include existing employees in the calculation of payroll to qualify for this benefit. To claim these benefits, the targeted business must sign a financial incentive agreement with the Commission.

Income tax credits are earned in the tax year in which the new full-time permanent employees qualify after the financial incentive agreement was signed with the Commission. At the end of each tax year, during the term of the agreement, it is the responsibility of the qualified targeted business to file the *Targeted Business Payroll Tax Credit Employee Annual Payroll Certification* with the DFA. This certification provides the number of new permanent employees and their payroll during the preceding tax year and is the mechanism to initiate the verification audit. Therefore, the business must certify annually at the end of each tax year to the DFA.

A unique feature of this incentive is the ability of the business that earns the targeted business income tax credit to sell the credits. The business must make application to the Commission for the sale of credits. The original holder of tax credits under this section may sell its tax credits only one (1) time, in whole or in part, the balance of which shall be used by the holder within the time frame allowed. The Commission may assist the business in finding a buyer for the tax credits. Any sale of tax credits through this incentive will be fully documented by the Commission and that information will be transmitted to the DFA Revenue Division.

The buyer of the tax credit shall be subject to the same provisions for carry forward of the tax credits as the business that originally earned the credits. Since one of the allowable costs under the research and development tax credits is the salary of a person performing research, a business earning payroll income tax credits for targeted businesses is prohibited from earning research and development tax credits, as authorized by § 15-4-2708 or by § 26-51-1102(b), for the same expenditure.

**Example:** A new biotechnology firm, which is a client of the BioVentures Incubator, is leaving the incubator to expand its business. It has received a Small Business Innovation Research (SBIR) grant of seven hundred thousand dollars (\$700,000) to continue its efforts with assistance from the National Institutes of Health. Currently, the business has one (1) employee, a former UAMS research scientist who holds the patent on the biomedical device that is to be the business's first product. The business plans on hiring four (4) new full-time permanent employees for a total of five (5) full-time permanent employees. The average hourly wage of the five (5) employees will be forty-five dollars (\$45) per hour. ( $\$45/\text{hour} \times 2080 = \$93,600$  average annual salary  $\times 5$  employees = \$468,000 annual payroll.) The SBIR grant allows the new business to meet the two hundred fifty thousand dollar (\$250,000) equity investment threshold and the annual payroll is well above the one hundred thousand dollar (\$100,000) minimum to

qualify. The forty-five dollar (\$45) per hour wage is more than the one hundred fifty percent (150%) wage requirement. The new targeted business would earn a tax credit of forty-six thousand eight hundred dollars (\$46,800) which may be sold to a willing buyer. If this business was granted the payroll income tax credit for the maximum time allowable (5 years), the credit in subsequent years would be equal to 10% of the annual payroll in years two (2) through five (5). This example assumes all new full-time permanent employees are hired at the beginning of the first year and work forty (40) hours per week.

**Notes:** The calculation of the benefit for an income tax credit for new targeted businesses is dependent upon the following conditions:

- A minimum payroll of one hundred thousand dollars (\$100,000) being maintained during the term of the agreement;
- The business operations' continuing in one (1) of the six (6) targeted areas;
- The average hourly wage threshold being maintained; and
- The business's continuing to operate in accordance with the qualification requirements throughout the term of the financial incentive agreement.

**Combination with other incentives:** The payroll income tax credit for targeted businesses authorized by § 15-4-2709 may be combined with, if approved by the Executive Director:

- The sales and use tax refund for targeted businesses as authorized by § 15-4-2706(e); and
- The research and development income tax credit for targeted businesses as authorized by § 15-4-2708(c).

## **5. Research and Development Income Tax Credits § 15-4-2708.**

Section 5 deals with incentives for research and development. The different tax credits are intended to provide incentives for university-based research, in-house research of several kinds, and research and development in start-up, technology-based enterprises. It is important for the applicant to understand the different incentives and to select the most appropriate for the eligible research and development activity. In summary:

- The incentive for research and development with universities is intended for firms of virtually every size and stage of development, may complement in-house research, and may be combined with in-house research incentives;
- The incentives for in-house research are intended for (a) the on-going in-house research programs of mature firms, (b) younger, "targeted" firms

engaged in in-house research over limited five-year periods, and (c) emerging firms engaged in strategic research and development over limited five-year periods; generally these incentives may not be combined with one another (i.e., with other in-house research incentives), but may be combined with incentives for research with universities;

- The incentive for research and development under programs of the Division of Science and Technology of the Arkansas Economic Development Commission is intended for companies in the earliest stages of development and for knowledge-based companies that require a continuing research and development program to remain competitive; generally, this incentive may not be combined with other research and development incentives.

Unless otherwise specified, the research and development application and project plan shall be the basis for the Commission's decision to approve tax credit treatment for research and development expenditures. It is the responsibility of the business to claim any research and development income tax credits that may have been earned under authority granted by Act 182 of 2003, as amended. At the discretion of the Commission, an approved application and project plan may serve as the financial incentive agreement. Claims for research and development tax credits shall require the business to file with its tax return a Certificate of Tax Credit issued by the Commission.

The term of the research and development financial incentive agreements under § 15-4-2708 is five (5) years beginning on the first day of the business's tax year in which the financial incentive agreement is signed and may not extend beyond sixty (60) months from that date. The specific requirements to qualify for research and development incentives follow.

**A. Research and Development with Universities – Act 182 of 2003, as amended, § 15-4-2708(a)**

An eligible business that contracts with one or more Arkansas colleges or universities in performing research may qualify for a thirty-three percent (33%) income tax credit as authorized in § 26-51-1102(b) for qualified research expenditures. The income tax credit may be carried forward for nine (9) years beyond the year in which the credit was earned.

To qualify for the income tax credit for research and development with universities, an eligible business must submit an application and project plan to the Commission. The Division of Science and Technology of the Arkansas Economic

Development Commission will review the application and project plan and, if eligible, recommend approval and execution of a financial incentive agreement.

To claim a credit earned through this incentive, the business shall file with its income tax return the Certificate of Tax Credit issued by the Commission.

If approved, the thirty-three percent (33%) income tax credit for research and development expenditures with an Arkansas college or university will be granted regardless of the business location or other qualifications.

**Example:** An Arkansas seed business contracts with the Division of Agriculture at the University of Arkansas to engineer a new drought-resistant soybean seed. The seed business spends one million dollars (\$1,000,000) with the University of Arkansas to research and develop a soybean seed with the characteristics desired by the seed business. This expenditure for this project could result in an earned income tax credit of three hundred thirty-three thousand dollars (\$333,000) that could be taken over a ten-year period (the year in which it was earned, plus nine (9) years of carry forward).

**Notes:** It is suggested that any business wishing to take advantage of this income tax credit first visit with the Commission to help insure the success of the research and development effort. It should also be noted that this incentive is subject to the limitations established in § 26-51-1103:

- The amount of credit which may be claimed in any year is limited to one hundred percent (100%) of tax liability;
- The credits may be used in the year earned, plus a nine-year carry forward period; and
- This incentive cannot be used with other income tax benefits for the same expenditure.

This incentive must also adhere to the documentation requirements of § 26-51-1104:

- Must demonstrate proof of approval by the Commission as a qualified research project;
- Must document expenditures with the university or college; and
- Must file copies of the two (2) above-mentioned documents with the DFA when claiming the credit.

**Combination with other incentives:** The income tax credit for research and development with universities authorized by § 15-4-2708(a):

- May be used with the in-house research and development incentive as

authorized by § 15-4-2708(b), (c), and (d)(1)(A); but

- May not be used with any other incentive authorized in Act 182 of 2003, as amended (Consolidated Incentive Act of 2003) for the same expenditures.

**B. In-House Research – Act 182 of 2003, as amended, § 15-4-2708**

**(i) New In-House Research and Development Facilities § 15-4-2708(b)(1):**

A new eligible business that conducts “in-house” research within a research facility that is operated by the eligible business that qualifies for federal research and development tax credits may qualify for in-house research income tax credits. The eligible business must make an application to the Commission generally describing the research to be undertaken and the estimated expenditures to be made on in-house research. The credit allowed for approved in-house research is twenty percent (20%) of the amount spent on qualified in-house research expenditures that exceeds the base year, for a period of three (3) years and the incremental increase in qualified research expenditures for the succeeding two (2) years.

**Example:** For a new in-house research facility, the base year is zero (0). Therefore, in the first three (3) years following the date of the financial incentive agreement, all eligible expenditures will qualify for credit.

The amount of qualified research expenditures incurred in the third year shall be used to calculate the tax credit in the fourth year.

The amount of qualified research expenditures incurred in the fourth year shall be used to calculate the tax credit in the fifth year.

**(ii) Existing In-House Research and Development Facilities § 15-4-2708(b)(2):**

Existing eligible businesses that conduct in-house research in a research facility operated by the business and that qualify for federal research and development tax credits may qualify for an income tax credit equal to twenty percent (20%) of the amount spent on research that exceeds the base year for a period of three (3) years and the incremental increase in qualified research expenditures for the succeeding two (2) years, subject to the limitations under § 26-51-1103.

**Example:** For an existing in-house research facility, the base year amount shall be the amount of eligible research expenditures incurred in the year prior to the year in which the financial incentive agreement was signed by the Commission.

The amount of qualified research expenditures incurred in the third year shall be used to calculate the tax credit in the fourth year.

The amount of qualified research expenditures incurred in the fourth year shall be used to calculate the tax credit in the fifth year.

### **Term of the In-House Research and Development Agreement**

The term of the financial incentive agreement for in-house research and development shall be for a period not to exceed five (5) years beginning on the first day of the business's tax year in which the financial incentive agreement is signed. The financial incentive agreement may be renewed for a period not to exceed five (5) years upon the submittal of a new application and project plan.

The approved business shall certify annually at the end of each tax year, to the Commission, the amount expended on in-house research.

The income tax credit earned for in-house research and development may be used to offset one hundred percent (100%) of the eligible business's state income tax liability. Any unused credit may be carried forward for a period not to exceed nine (9) years.

To claim the credit earned through this incentive, the business shall file with its return, the Certificate of Tax Credit issued by the Commission. The Commission will adhere to some of the federal guidelines for qualifying research for federal tax credits as a guide in determining eligibility for this state income tax credit.

Qualified research expenditures include in-house expenses for taxable wages paid, usual fringe benefits, and supplies used in the conduct of qualified research.

Qualified research must satisfy all of the following tests to qualify:

- The activity must be undertaken for the purpose of discovering information which is technological in nature;
- The application of technological information must be intended to be useful in a new or improved business component; and
- Substantially all of the activities related to the research effort must constitute elements of a process of experimentation relating to a new or improved function, performance, reliability or quality.

The following activities are specifically excluded from the definition of qualified research:

- Any research conducted after the beginning of commercial production;

- Research adapting an existing product or process to a particular customer’s need;
- Duplication of an existing product or process;
- Surveys or studies;
- Research related to certain internal-use computer software;
- Research in the social sciences, arts or humanities; and
- Research conducted outside of Arkansas. However, the Executive Director may make an exception for research and development activities occurring outside of Arkansas for an agreed upon transition period if the following conditions exist:
  - The business qualifies as a Targeted Business;
  - The Commission and the business have entered into a Targeted In-House Research and Development incentive agreement;
  - The business is located in another state and has decided to relocate its research and development activities to Arkansas within a specified transition period, not to exceed eighteen (18) months; and
  - The certificate of tax credit will not be issued to an out-of-state business relocating to Arkansas until the business:
    - Has incorporated as a business in the State of Arkansas;
    - Has physically relocated to Arkansas; and
    - Is conducting research in Arkansas.

Qualified wages are taxable wages paid to an employee for performing qualified services. Qualified services are services of employees who are:

- Engaging in qualified research, which means the actual conduct of qualified research;
- Engaging in the direct supervision of qualified research, which means the immediate supervision (first-line management) of qualified research; and
- Engaging in the direct support of research activities which constitute qualified research.

Direct support of research activities does not include general administrative services or other services only indirectly of benefit to the research activity.

**Notes:**

- The carry forward for this income tax credit is limited to nine (9) years beyond the year in which the credit was earned.
- It is the intent of the Commission to adhere to some of the federal guidelines for research conducted within an eligible business.

**Combination with other incentives:** The in-house research income tax credit may **not** be combined with:

- Other in-house research and development incentives as authorized by § 15-4-2708(c) or § 15-4-2708(d)(1)(A); or
- Any other incentive in Act 182 of 2003 (Consolidated Incentive Act of 2003), as amended, for the same expenditures.

**C. In-House Research by a Targeted Business – Act 182 of 2003, as amended, § 15-4-2708(c)**

Businesses deemed by the Commission to fit within the six (6) business sectors classified as “targeted businesses” may enter into a financial incentive agreement for income tax credits based on qualified research and development expenditures.

A targeted business may be approved for an income tax credit each year equal to thirty-three percent (33%) of the qualified research and development expenditures incurred each year for the first (5) years of the financial incentive agreement. This incentive is offered only at the discretion of the Executive Director. The application for this income tax credit shall include a project plan, which clearly identifies the intent of the project, the expenditures planned, the start and end dates of the project, and an estimate of total project costs. The targeted business applying for in-house research and development income tax credits shall comply with all of the qualifications required of targeted businesses to qualify for a job creation income tax credit:

- In operation for less than five (5) years;
- Annual payroll of not less than one hundred thousand dollars (\$100,000) or more than one million dollars (\$1,000,000);
- An equity investment of at least two hundred fifty thousand dollars (\$250,000); and
- Pay at least one hundred fifty percent (150%) of the lesser of the county or state average wage.

The Commission will adhere to some of the federal guidelines for qualifying research for federal tax credits as a guide in determining the eligibility for this state income tax credit.

Qualified research expenditures include in-house expenses for taxable wages paid, usual fringe benefits, and supplies used in the conduct of qualified research. Qualified research must satisfy all of the following tests to qualify:

- The activity must be undertaken for the purpose of discovering information which is technological in nature;
- The application of technological information must be intended to be useful in a new or improved business component; and
- Substantially all of the activities related to the research effort must constitute elements of a process of experimentation relating to a new or improved function, performance, reliability or quality.

The following activities are specifically excluded from the definition of qualified research:

- Any research conducted after the beginning of commercial production;
- Research adapting an existing product or process to a particular customer's need;
- Duplication of an existing product or process;
- Surveys or studies;
- Research related to certain internal-use computer software;
- Research in the social sciences, arts or humanities; and
- Research conducted outside of Arkansas. However, the Executive Director may make an exception for research and development activities occurring outside of Arkansas for an agreed upon transition period if the following conditions exist:
  - The business qualifies as a Targeted Business;
  - The Commission and the business have entered into a Targeted In-House Research and Development incentive agreement;
  - The business is located in another state and has decided to relocate its research and development activities to Arkansas within a specified transition period, not to exceed eighteen (18) months; and
  - The certificate of tax credit will not be issued to an out-of-state business relocating to Arkansas until the business:
    - Has incorporated as a business in the State of Arkansas;
    - Has physically relocated to Arkansas; and
    - Is conducting research in Arkansas.

Qualified wages are taxable wages paid to a full-time permanent employee or "contractual employee", as defined in the Act, for performing qualified services.

Qualified services are services of employees who are:

- Engaging in qualified research, which means the actual conduct of qualified research;
- Engaging in the direct supervision of qualified research, which means the immediate supervision (first-line management) of qualified research; and

- Engaging in the direct support of research activities which constitute qualified research.

Direct support of research activities does not include general administrative services or other services only indirectly of benefit to the research activity.

As with the payroll income tax credits for targeted businesses, the income tax credit for research and development earned by targeted businesses may be sold.

The income tax credits earned under this program may be sold upon approval by the Commission. Any sale of tax credits through this program must be fully documented by the Commission and that information will be transmitted to the DFA.

The purchaser of the tax credits provided by this program shall obtain certification from the Commission and attach the appropriate documentation provided by the Commission to the tax return on which the credit is first claimed.

The tax credit must be sold within one (1) year of its being issued by the Commission. The original holder of tax credits under this section may sell its tax credits only one (1) time, in whole or in part, the balance of which shall be used by the holder within the time frame allowed.

To claim a credit earned through this incentive, the business shall file with its income tax return the Certificate of Tax Credit issued by the Commission.

The buyer of the tax credit shall be subject to the same provisions for carry forward of the tax credits as the business that originally earned the credits. A targeted business earning research and development tax credits is prohibited from earning job creation tax credits, as authorized by § 15-4-2709, or research tax credits as authorized by § 15-4-2708(a), for the same expenditure.

**Example:** A new photonics business that has recently left the Genesis Technology Business Incubator and has applied for and been approved for in-house research income tax credits as a targeted business, is in need of further research to refine a process for using lasers in space applications. It plans to spend two hundred thousand dollars (\$200,000) on an in-house research and development project that has been approved by the Commission as a qualified research program. The two hundred thousand dollar (\$200,000) expenditure would be eligible for a thirty-three percent (33%) tax credit, entitling the photonics business to earn sixty-six thousand dollars (\$66,000) in income tax credits in the year of the expenditure.

The credits may be carried forward nine (9) years. At the discretion of the photonics business and with the approval of the Commission, the credits may be sold within one (1) year of issuance by the Commission to allow the photonics business to realize the benefit of the credit. The purchaser of the credits would be able to carry the credit forward for nine (9) years.

**Notes:**

- The carry forward for this incentive is nine (9) years beyond the year in which the credit was first earned.
- A buyer of the credit is limited to the same carry forward period. A sale of the tax credit does not alter the time frame for using the credits.
- It is the intent of the Commission to adhere to some of the federal guidelines for research conducted by an eligible targeted business.

**Combination with other incentives:** The income tax credit for research by a targeted business authorized by § 15-4-2708(c) may **not** be used with:

- Other in-house research and development incentives as authorized by § 15-4-2708(b) or § 15-4-2708(d)(1)(A); or
- Any other incentive in Act 182 of 2003 (Consolidated Incentive Act of 2003, as amended) for the same expenditures.

**D. Research Area of Strategic Value – Act 182 of 2003, as amended, § 15-4-2708(d)(1)(A) and Research Under Programs of the Division of Science and Technology of the Arkansas Economic Development Commission – Act 182 of 2003, as amended, § 15-4-2708(d)(1)(B).**

An income tax credit equal to thirty-three percent (33%) of qualified research expenditures may be allowed for an Arkansas taxpayer that invests in:

- In-house research in an area of strategic value; or
- A project under the research and development programs offered by the Commission.

**(i) In-house Research in an Area of Strategic Value – Act 182 of 2003, as amended, § 15-4-2708(d)(1)(A).**

The business must apply to the Commission to qualify for the income tax credit for research in an area of strategic value. Research area of strategic value means research in fields having long-term economic or commercial value to the state, and that have been identified in the research and development plan approved from time to time by the Executive Director with the advice of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development

Commission (Board). The tax credit for research in an area of strategic value may be earned for the first five (5) years following the signing of a financial incentive agreement with the Commission. The income tax credit earned cannot offset more than one hundred percent (100%) of a business's income tax liability in any one tax year and the benefits can be carried forward for nine (9) years beyond the year in which they were earned or until exhausted, whichever occurs first.

The maximum tax credit that may be claimed by a business under this program is fifty thousand dollars (\$50,000) per tax year. The application for this income tax credit shall include a project plan, which clearly identifies the intent of the project, the expenditures planned, the start and end dates of the project, and an estimate of total project costs.

To claim a credit earned through this incentive, the business shall file the Certificate of Tax Credit issued by the Commission with the tax return on which the credit is first claimed.

Qualified research expenditures for research in an area of strategic value include in-house expenses for taxable wages paid (wages subject to withholding), usual fringe benefits and supplies used in the conduct of qualified research. Qualified research must satisfy all of the following tests to qualify:

- The activity must be undertaken for the purpose of discovering information which is technological in nature;
- The application of technological information must be intended to be useful in a new or improved business component; and
- Substantially all of the activities related to the research effort must constitute elements of a process of experimentation relating to a new or improved function, performance, reliability or quality.

The following activities are specifically excluded from the definition of qualified research:

- Any research conducted after the beginning of commercial production;
- Research adapting an existing product or process to a particular customer's need;
- Duplication of an existing product or process;
- Surveys or studies;
- Research related to certain internal-use computer software;
- Research in the social sciences, arts or humanities; and
- Research conducted outside of Arkansas. However, the Executive Director may make an exception for research and development activities occurring outside of Arkansas for an agreed upon transition period if the following

conditions exist:

- The business qualifies as a Targeted Business;
- The Commission and the business have entered into a Targeted In-House Research and Development incentive agreement;
- The business is located in another state and has decided to relocate its research and development activities to Arkansas within a specified transition period, not to exceed eighteen (18) months; and
- The certificate of tax credit will not be issued to an out-of-state business relocating to Arkansas until the business:
  - Has incorporated as a business in the State of Arkansas;
  - Has physically relocated to Arkansas; and
  - Is conducting research in Arkansas.

Qualified wages are taxable wages paid to a new full-time permanent employee for performing qualified services. Qualified services are services of employees who are:

- Engaging in qualified research, which means the actual conduct of qualified research;
- Engaging in the direct supervision of qualified research, which means the immediate supervision (first-line management) of qualified research; and
- Engaging in the direct support of research activities which constitute qualified research.

Direct support of research activities does not include general administrative services or other services only indirectly of benefit to the research activity.

A business claiming a credit through this incentive shall be prohibited from receiving the research tax credit authorized by § 26-51-1102(b) for the same expenditures.

**Example:** A defense contractor located in Arkansas has decided to conduct research in the state to improve the function of microelectronic components in advanced weapons systems. The business has been approved for this research as being “research in an area of strategic value.” The defense contractor will spend one million dollars (\$1,000,000) in qualified research expenditures in Arkansas in conjunction with the approved program of in-house research. Assuming the entire one million dollars (\$1,000,000) is expended on qualified items over the five-year period at the rate of two hundred thousand dollars (\$200,000) per year, the defense contractor would generate a potential credit on the qualified annual expenditure of ( $\$200,000 \times 33\% = \$66,000$ ) and earn an actual income tax credit of fifty thousand dollars (\$50,000) per tax year, due to the limit established. The

credits earned in each year may be carried forward for nine (9) years beyond the tax year in which they were first earned.

**Notes:**

- The carry forward for this incentive is nine (9) years beyond the year in which the credit was first earned.
- The Commission must approve any research for which a business is seeking a credit under this incentive.
- It is suggested that any business wishing to take advantage of this income tax credit first visit with the Commission to help insure the success of the research and development effort.

**Combination with other incentives:** The income tax credit for research in an area of strategic value may **not** be used in combination with:

- Any other research and development incentive as authorized by § 15-4-2708; or
- Any other incentive in Act 182 of 2003 (Consolidated Incentive Act of 2003, as amended) for the same expenditures.

**(ii) Research Under Programs of the Division of Science and Technology of the Arkansas Economic Development Commission – Act 182 of 2003, as amended, § 15-4-2708(d)(1)(B).**

The business must apply to the Commission to qualify for the income tax credit for research under programs of the Division of Science and Technology of the Arkansas Economic Development Commission. The application for this income tax credit shall include a project plan, which clearly identifies the intent of the project, the expenditures planned, the start and end dates of the project, and an estimate of total project costs. The Division of Science and Technology of the Arkansas Economic Development Commission specifies the application format for its programs. The tax credit may be earned for the first five (5) years following the signing of a financial incentive agreement with the Commission. The income tax credit earned cannot offset more than one hundred percent (100%) of a business's income tax liability in any one (1) tax year and the benefits can be carried forward for nine (9) years beyond the tax year in which they were earned or until exhausted, whichever occurs first. The maximum tax credit that may be claimed by a business under this program is fifty thousand dollars (\$50,000) per tax year.

To claim a credit earned through this incentive, the business shall file the Certificate of Tax Credit issued by the Commission with the tax return on which the credit is first claimed.

**Example:** A new medical device business had only a few assets and employees and it did not qualify for any of the other research and development incentives. As a start-up business, it had been seeking outside investors in its revolutionary circulatory system implant. The business received a three thousand dollar (\$3,000) technology transfer assistance grant from the Division of Science and Technology of the Arkansas Economic Development Commission to help the business prepare its first Small Business Innovation Research (SBIR) proposal to a federal agency. As part of its assistance to the business the Division's staff encouraged the business to prepare an application and project plan (which was actually the business's commercialization and business plan) for the research and development incentive under programs of the Division. The application and project plan were approved by the Commission and became the five-year financial incentive agreement with the business. The agreement includes a timetable for commercializing the business's technology that would begin with the notice of the SBIR phase I award.

The financial incentive agreement includes a twenty thousand dollar (\$20,000) university research project under the Division's Applied Research Grant Program in support of the phase I SBIR effort, a fifty thousand dollar (\$50,000) product development project under the Technology Development Program, one hundred eighty thousand dollars (\$180,000) under the Applied Research Grant and Technology Development Programs in support of a future SBIR phase II award, and a three hundred thousand dollar (\$300,000) investment under the Seed Capital Investment Program in support of SBIR phase III. Qualification for tax credit consideration for these R&D activities is contingent on the business's performance under the federal SBIR program and decisions to fund phase I and II projects by the federal agency. It is also dependent on raising risk capital investments from individual investors who must decide that the potential benefit from sales of the implant is worth the risk.

The medical device business has been notified that it has been approved for its first SBIR award of sixty thousand dollars (\$60,000). A local individual investor has decided, on the strength of the SBIR award and the financial incentive agreement, to become part of the business. In the first year after the SBIR award notice, the investor put twenty thousand dollars (\$20,000) into university research and fifty thousand dollars (\$50,000) into product development. The Commission has approved both projects. The seventy thousand dollars (\$70,000) qualifies under the financial incentive agreement for a thirty-three percent (33%) tax credit equal to twenty three thousand one hundred dollars (\$23,100), which is under the fifty thousand dollar (\$50,000) per year cap.

The business submitted an application for a phase II SBIR project to extend its commercialization work. Tax credits in the remaining four (4) years will depend on decisions by the federal agency regarding the phase II application and the investor (or investors) regarding additional investments.

**Notes:**

- The carry forward for this incentive is nine (9) years beyond the year in which the credit was first earned.
- Applications for tax credit approval under this incentive must be approved by the Executive Director with the advice of the Board.
- It is suggested that any business wishing to take advantage of this income tax credit first visit with the Commission to help insure the success of the research and development effort.

**Combination with other incentives:** The income tax credit for research and development under programs of the Division of Science and Technology of the Arkansas Economic Development Commission may **not** be used in combination with:

- Any other research and development incentive as authorized by § 15-4-2708 or
- Any other incentive in Act 182 of 2003 (Consolidated Incentive Act of 2003, as amended) for the same expenditures.

## **EQUITY INVESTMENT INCENTIVE ACT**

### **Program Summary**

*Offered at the discretion of the Executive Director of AEDC.*

Act 566 of 2007, also known as the “Equity Investment Incentive Act of 2007,” as amended and codified at § 15-4-3301 et seq., provides an income tax credit, offered at the discretion of the Executive Director of AEDC, for equity investments in targeted, early-stage, and start-up businesses. The purpose of equity investments is to encourage capital investments in certain types of early-stage businesses that are creating new, higher-paying jobs in Arkansas.

An approved business may offer income tax credits, equal to thirty-three and one-third percent (33 <sup>1</sup>/<sub>3</sub>%) of eligible equity investments to investors. Unused credits may be carried forward for nine (9) years.

In any one (1) tax year, the credit allowed shall not exceed fifty percent (50%) of the net Arkansas state income tax liability or premium tax liability of the taxpayer: (a) after all other credits and reductions in tax have been calculated; and (b) before the Equity Investment credit is applied.

The income tax credits earned under this program may be sold upon AEDC approval. The tax credits must be sold within one year of its being issued by AEDC. The original investor earning tax credits may sell its tax credits only one (1) time, in whole or in part, the balance of which shall be used by the original investor within the time frame allowed under the Act.

The equity investment must be made in the calendar years 2007 through 2028.

# Equity Investment Incentive Act of 2007

## (Act 566 of 2007, as amended)

### Rules

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#### I. Introduction

Act 566 of 2007, also known as the “Equity Investment Incentive Act of 2007,” as amended and codified at § 15-4-3301 et seq., provides a tax credit for equity investments in targeted, early-stage, and start-up businesses. The purpose of equity investment incentives is to encourage capital investment in certain types of early-stage businesses that are creating new, higher-paying jobs for the State of Arkansas.

#### II. Definitions

1. “Commission” means the Arkansas Economic Development Commission;
2. “Convertible financing structure” means an investment mechanism that converts into equity at a subsequent event, including without limitation convertible debt, convertible equity, and a convertible note;
3. “Director” means the Executive Director of the Arkansas Economic Development Commission;
4. “Eligible business” means a business that has been approved and has a signed equity investment incentive agreement with the Commission to participate and solicit equity investments in the business;
5. “Investor” means a person or entity purchasing an equity investment in an eligible business or otherwise advancing funds to the business under the terms of a qualifying convertible financing structure if the convertible financing structure is required to be converted to equity by the business receiving the investment no later than five (5) years from the date the convertible financing structure was consummated.

#### III. Eligibility

Eligibility for the equity investment incentive tax credit under this subchapter is limited to investments in:

1. Targeted businesses as defined in § 15-4-2703(43); or
2. A business that receives assistance in the form of equity investments from capital investment funds that target early-stage businesses and start-up businesses, if the business:
  - A. Pays at least one hundred fifty percent (150%) of the lesser of the

county average wage or the state average wage; and

B. Meets at least two (2) of the following conditions:

- (i) The business is in one (1) of the business sectors set forth in § 15-4-2703(43)(A)(i)-(vi);
- (ii) The business is identified in a local or regional economic development plan as the type of business targeted for recruitment or growth within the community or region;
- (iii) The business is supported by a resolution of the city council or quorum court in the municipality or county in which the business is located or plans to locate;
- (iv) The business is supported by business incubators certified under § 26-51-815(d);
- (v) The business is supported by federal small business innovation research grants; or
- (vi) The business is supported by technology development or seed capital investments made by instrumentalities of the state.

#### **IV. Approval**

A business that seeks eligibility for an equity investment incentive tax credit under this subchapter shall file an application with the Arkansas Economic Development Commission. The application shall include:

1. A business plan describing the proposed business for which an equity investment incentive tax credit is sought;
2. A projection of the amount of capital being sought for the proposed business;
3. If the application proposes to use a convertible financing structure, a clear statement concerning the timing and conditions under which the convertible financing structure converts into equity; and
4. Other information requested jointly by the Executive Director of the Arkansas Economic Development Commission and the President of the Arkansas Development Finance Authority.

The Commission shall gather information necessary to determine the eligibility of a business that seeks an equity investment incentive tax credit and process the application.

The Commission shall share the application and all information concerning the business with the Arkansas Development Finance Authority and the Division of Science and Technology of the Arkansas Economic Development Commission for review and concurrence on whether or not an equity investment incentive is offered to the business.

The award of the equity investment incentive tax credit to a qualified business under this subchapter shall be determined jointly at the discretion of the Executive Director of the Arkansas Economic Development Commission with the advice of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission and the President of the Arkansas Development Finance Authority.

Upon approval of the application, the approved business shall sign an equity investment incentive agreement with the Commission.

## **V. Equity Investment Tax Credits**

After the equity investment incentive agreement has been signed by the business and the Commission, the business may solicit investors and offer the equity investment incentive tax credit to the investors. Only cash investments shall qualify for the equity investment incentive tax credit under this subchapter, including without limitation the initial principle amount of a qualifying convertible financing structure if the convertible financing structure is required to be converted to equity by the business receiving the investment no later than five (5) years from the date the convertible financing structure was consummated.

For the equity investment tax credit to be awarded to an investor, the eligible business shall verify that all conditions to the award of an equity investment incentive tax credit stated in the equity investment incentive agreement have been met within the time set forth in the agreement.

A purchaser of an equity interest in an eligible business is entitled to a credit against any state income tax liability that may be imposed on the purchaser for any tax year beginning in the tax year in which the equity interest was purchased and for a period not to exceed nine (9) years beyond the tax year in which the equity interest was purchased.

The equity investment must be made in the calendar years 2007 through 2028.

The equity investment tax credit incentive shall be equal to thirty-three and one-third percent (33 1/3%) of the approved amount invested by an investor in an eligible business.

In any one (1) tax year, the credit allowed shall not exceed fifty percent (50%) of the net Arkansas state income tax liability or premium tax liability of the taxpayer: (a) after all other credits and reductions in tax have been calculated; and (b) before the credit allowed by this section is applied.

Any unused credit may be carried forward and applied against Arkansas state income tax for the next-succeeding tax year and annually thereafter for a total period of nine (9) years succeeding the year in which the equity interest in a business was purchased or until the credit is exhausted, whichever occurs first.

## **VI. Issuance of Tax Credit**

Upon receipt of the qualified investment, whether through the sale of an equity interest, or the issuance of a convertible debt instrument by the company in exchange for an infusion of cash from the investor, the qualified business shall provide the following documentation to the Arkansas Economic Development Commission:

1. The name and address of the original purchaser(s);
2. The tax identification number(s) of the person(s) entitled to the credit;
3. The original date of the qualified transaction;
4. The number and type of equity investment purchased;
5. The amount paid by the original purchaser for the equity interest or convertible debt instrument;
6. The amount of dividends and distributions previously paid by the business to the purchaser;
7. Articles of Incorporation;
8. Certificate of Good Standing;
9. Subscription Agreement for equity purchase or a Purchase Agreement detailing a convertible debt structure, terms, and conversion event; and
10. Proof of transfer of funds documenting the investor as the source of funds and the company as the recipient.

The Arkansas Economic Development Commission will issue a certificate of tax credit that must be attached to the income tax return on which the credit is first claimed.

Issuance of credit to a pass-through entity shall be according to each member's proportional ownership interest of the pass through entity.

## **VII. Sale or Transfer of Credit**

The income tax credits earned under this program may be sold upon approval by the Commission. Any sale of tax credits through this program must be fully documented by the Commission and that information will be transmitted to the Department of Finance and Administration.

The purchaser of the tax credits provided by this program shall obtain certification from the Commission and attach the appropriate documentation provided by the Commission to the tax return on which the credit is first claimed.

The tax credit must be sold within one year of its being issued by the Commission. The original investor earning tax credits under this section may sell its tax credits only one (1) time, in whole or in part, the balance of which shall be used by the original investor within the time frame allowed under this subchapter.

The purchaser of the tax credit shall be subject to the same carry forward provisions of the credits as the original owner of the credits.

### **VIII. Sale or Disposition of Equity Interest**

For the purpose of ascertaining the gain or loss from the sale or other disposition of an equity interest in a business, the owner of the equity interest shall reduce his or her basis in the equity interest by the amount of cash received from selling the tax credits and the tax credits previously deducted under this section. However, sale or other disposition does not include a transfer from the holder of an equity interest to the business in liquidation of the equity interest. This reduced basis shall be used by the original purchaser or transferee when calculating tax due under the Income Tax Act of 1929, § 26-51-101 et seq.

### **IX. Limitations**

The total cumulative amount of tax credits available to all purchasers of equity interest in qualified businesses under these rules and regulations and under § 15-4-1026 in any calendar year shall not exceed six million two hundred and fifty thousand dollars (\$6,250,000).

If the total amount of credits applied for under this subchapter for the year exceeds the cap, the AEDC, when allocating credits under this subchapter for the particular applications that would exceed that cap and in order not to exceed the cap, shall first award credits to investors taking an equity interest through an equity purchase before credits may be allocated to investors that use a convertible financing structure for the investment.

### **X. Coordination with the Arkansas Capital Development Company Act**

All agreements and commitments of the capital development company related to the purchase of equity interests in existence before July 1, 2007, and certified to the Commission shall remain valid and enforceable, shall be entitled to the tax credits set forth in Act 566 of 2007, and shall be completed in accordance with their respective terms.

A person who purchases an equity interest in a capital development company in any of the calendar years 2003 - 2015 under the Arkansas Capital Development Act is entitled to a credit against any state income tax liability or premium tax liability that may be imposed on the purchaser for any tax year commencing on or after the date of the purchase.

No capital development company shall enter into an agreement or a commitment for the purchase by any person of equity interests in the capital development company on or after July 1, 2007.

## **XI. Rulemaking Authority**

The AEDC and ADFA have authority, at § 15-4-3306, to promulgate rules necessary to implement Act 566 of 2007, as amended.

## **DIGITAL PRODUCT AND MOTION PICTURE INDUSTRY DEVELOPMENT ACT**

### **Program Summary**

To encourage growth in Arkansas's digital product and motion picture industry, Act 816 of 2009 was enacted by the 87<sup>th</sup> General Assembly and amended in 2013 and is codified at § 15-4-2001 et seq. The legislation's purpose is to cultivate the industry by offering financial incentives to foster the development of the digital and traditional film industry in Arkansas.

#### **Production Rebate**

To qualify for this rebate, a production company shall spend at least two hundred thousand dollars (\$200,000) within a six-month period in connection with the production of one (1) project. Upon approval of the application by the Commission, the production company shall be eligible for a twenty percent (20%) rebate on all qualified production costs in connection with the production of a state-certified film project.

An approved production company shall also receive an additional rebate of ten percent (10%) for the payroll of below-the-line employees involved in the production who are fulltime residents of Arkansas.

#### **Postproduction Rebate**

To qualify for this rebate, a production company shall spend at least fifty thousand dollars (\$50,000) within a six-month period in connection with the postproduction of one (1) project.

The amount of the rebate shall be twenty percent (20%) of all qualified production costs associated with the postproduction of a state-certified production. An additional rebate of ten percent (10%) shall be granted for the payroll of below-the-line employees who are full-time residents of Arkansas.

The program will sunset on June 30, 2019.

# **Digital Product and Motion Picture Industry Development Act (Act 816 of 2009, as amended)**

## **Rules and Regulations**

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### **I. Introduction**

To encourage growth in Arkansas's digital product and motion picture industry, Act 816 of 2009 was enacted by the 87<sup>th</sup> General Assembly and amended in 2013. The legislation's purpose is to cultivate the industry by offering financial incentives to foster the development of the digital and traditional film industry in Arkansas. See Arkansas Code Annotated § 15-4-2001 et seq.

For more information, please contact:

Arkansas Economic Development Commission  
Arkansas Film Office  
900 West Capitol  
Little Rock, AR 72201  
(501) 682-7326

### **II. Definitions**

(1) "Application for rebate" means the document required by the Film Office to begin the process for obtaining a rebate under the Digital Product and Motion Picture Industry Development Act;

(2) "Below-the-line employees" means:

- (A) employees involved with a motion picture production including but not limited to:
  - (i) Casting assistants,
  - (ii) Costume design,
  - (iii) Gaffers,
  - (iv) Grips,
  - (v) Location managers,
  - (vi) Production assistants,
  - (vii) Set construction staff, and

(viii) Set design staff.

(B) "Below-the-line employees" does not include directors and producers;

(3) "Commission" means the Arkansas Economic Development Commission;

(4) "Film" means a single media or multi-media production that is fixed on film, digital medium, videotape, computer disc, laser disc, or similar delivery medium;

(5) "Film and digital product" means video images or other visual media entertainment content in digital format, film, or videotape, provided the program meets all the underlying criteria of a qualified production including but not limited to the following:

- (A) Motion pictures,
- (B) Documentaries,
- (C) Long-form programs,
- (D) Specials,
- (E) Mini-series,
- (F) Series,
- (G) Music videos,
- (H) Television programming,
- (I) Interactive television,
- (J) Interactive games,
- (K) Videogames,
- (L) Commercials,
- (M) Digital media for distribution or exhibition to the general public, or
- (N) Trailer, pilot, video teaser, or demo created primarily to stimulate the sale, marketing, promotion, or exploitation of future investment;

(6) "Film Office" means the division of the Arkansas Economic Development Commission charged with the responsibility of promoting and assisting the digital content industry in Arkansas in order to enhance Arkansas as a land of opportunity for digital and motion picture filmmaking;

(7) "Film production company" means a corporation, individual, limited liability company or

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partnership that produces one (1) or more films or any part of a film;

(8) "Financial institution" means any bank or savings and loan in the state which carries Federal Deposit Insurance Corporation Insurance;

(9) "Highly compensated individual" means:

(A) An individual who directly or indirectly receives compensation in excess of five hundred thousand dollars (\$500,000) for personal services with respect to a single production.

(B) An individual receives compensation indirectly when a production company pays a personal service company or an employee-leasing company that pays the individual;

(10) "Interactive television" means a television production in which the viewer's action(s) may:

(A) Affect the program being watched, or

(B) Affect the outcome of the production;

(11) "Post-production" means a final stage in the production of film or digital content occurring after the action has been filmed or videotaped, including but not limited to:

(A) Dialogue replacement,

(B) Sound editing,

(C) Addition or deletion of special effects,

(D) Editing music,

(E) Beginning and end credits,

(F) Negative cutting,

(G) Soundtrack production,

(H) Dubbing,

(I) Subtitling,

(J) Addition or deletion of sound or visual effects,

(K) Soundtrack production,

"Post-production" does not include expenditures for advertising, marketing, or distribution;

(12) "Postproduction costs" means all expenditures associated with the post-production phase of a state-certified production within the state;

(13) "Production" means:

(A) The process of producing a type of entertainment content and includes film and digital content product.

(B) "Production" shall not include:

(i) An ongoing program created primarily as news, weather, or financial market reports;

(ii) A production containing any material or performance that is obscene;

(iii) A production deemed an infomercial; or

(iv) Sexually explicit productions as defined in 18 U.S.C. § 2257, as it existed on January 1, 2009;

(14) "Production company" means a corporation, partnership, limited liability company, or other business entity engaged in the business of producing qualified productions and is registered with the Arkansas Secretary of State to engage in business in Arkansas;

(15) "Qualified production costs" means costs associated with the development, preproduction, production, or postproduction of a qualified production within the state, including but not limited to:

(A) Per diem expenditures by the cast or crew for meals and lodging when accompanied by receipts,

(B) Costs associated with original music compositions produced by an Arkansas resident to be used as incidental music, the score, or the soundtrack in film or video games,

(C) Arkansas residents for labor, wages, fees, talent or management,

(D) Arkansas businesses for personal services,

(E) The story and scenario used in the production,

(F) Set construction,

(G) Set operations,

(H) Wardrobe and accessory services,

(I) Photography,

(J) Sound,

- (K) Lighting,
- (L) Editing related services,
- (M) Rentals of equipment and facilities,
- (N) Leasing of motor vehicles,
- (O) Chartering of aircraft through an Arkansas-based businesses for in-state transportation attributed to the production,
- (P) Commercial airfare purchased through Arkansas-based travel agencies for travel to and from Arkansas attributed to the production,
- (Q) Insurance and bonding costs,
- (R) Costs to option or purchase intellectual property, including without limitation books, scripts, music, or trademarks relating to the development or purchase of a script, screenplay, or format if:
  - (i) The intellectual property was produced primarily in Arkansas or the creator of the intellectual property is a resident of Arkansas;
  - (ii) At least seventy-five percent (75%) of the subsequent film or digital content is produced in Arkansas; and
  - (iii) The production expenses or costs for the optioning or purchase are less than twenty-five percent (25%) of the production expenses or costs incurred in Arkansas. The expenses or costs include all expenditures associated with the optioning or purchase of intellectual property, including option money, agent fees, and attorney fees relating to the transaction, but do not include deferrals, deferments, royalties, profit participation, or recourse or non-recourse loans which the eligible production company may negotiate in order to obtain the rights to the intellectual property;
- (S) Other costs of the production in accordance with generally accepted entertainment industry practices,
- (T) Fringe contributions being paid for work performed in Arkansas, including:
  - (i) Health benefits,
  - (ii) Pension contributions,
  - (iii) Welfare contributions,
  - (iv) Stipends, and
  - (v) Living allowances.
- (U) Food catering services. When a production company hires a food catering service company that is located outside the state, payments otherwise allowable

that are made by the out-of-state food catering service to food businesses located in Arkansas shall be allowed as eligible expenditures

- (V) "Qualified production costs" does not include:
- (i) The optioning or purchase of intellectual property that is not used in the production project;
  - (ii) Media buys, promotional events, or gifts or public relations associated with the promotion or marketing of any qualified production;
  - (iii) Deferred, leveraged, or profit participation costs relating to any and all personnel associated with any and all aspects of the production, including, without limitation, producer fees, director fees, talent fees, and writer fees;
  - (iv) Amounts paid to persons or businesses as a result of their participation in profits from the exploitation of the qualified production; and
  - (v) Payments for penalties or fines, payments to nonprofit organizations, and payments to federal and state entities that do not pay state taxes;

(16) "Resident" means natural persons and includes for the purpose of determining eligibility for the rebate incentive provided by this subchapter, a person domiciled in Arkansas and who maintains a permanent residence within the state and spends at least six (6) months of the taxable year within the state;

(17) "Season" means production of at least ten (10) episodes of a television series;

(18) "State-certified production" means a qualified production produced by an eligible production company that is:

- (A) In compliance with established rules and regulations of the Digital Content and Motion Picture Industry Development Act;
- (B) Authorized by the Film Office to conduct business in this state; and
- (C) Approved by the Film Office as qualifying for a production rebate under this section;

(19) "Television mini-series" means a limited run program of more than two (2) and less than the thirteen (13) part-season or half-season block associated with serial or series programming;

(20) "Television programming" means a long- or short-form narrative production of a television series, television mini-series or television special that is intended for commercial broadcast.

Television programming **does not include** programs created primarily as:

- (i) News reports,
- (ii) Weather reports,
- (iii) Financial market reports,
- (iv) Current events,
- (v) Sporting events,
- (vi) Award shows,
- (vii) Gala events,
- (viii) Fundraising events,
- (ix) Marketing a product or service,
- (x) Corporate training, or
- (xi) Corporate advertising;

(21) "Television series" means at least six (6) hours of television programming exhibited by a television station or network;

(22) "Television specials" means major dramatized presentations broadcast during times normally occupied by episodes of one or more weekly television series.

### **III. Registration Requirements**

A production company, which plans to operate within Arkansas shall register with the Film Office of the Arkansas Economic Development Commission on the prescribed forms before beginning operations in Arkansas.

### **IV. Application Requirement**

- A. A production company seeking benefits of this program shall submit an application to the Commission. The application must include an estimate of the production expenditures and shall be filed with the Commission prior to incurring any production costs or post-production costs in Arkansas.

- B. The application shall also include the name, phone number and address of a representative to work with the Commission and the Film Office on the reporting of expenditures and other information necessary to qualify for the rebate.
- C. Upon approval of the application by the Commission, the production company and the Commission shall sign a financial incentive agreement.  
The financial incentive agreement shall define the provisions of the program, which shall include the:
  - (i) Effective date of the agreement;
  - (ii) Term of the agreement;
  - (iii) Incentive for which the production company may qualify;
  - (iv) Investment threshold requirements necessary to qualify for eligibility;
  - (v) Production company's responsibilities for certifying eligibility requirements; and
  - (vi) Production company's responsibilities for failure to meet or maintain eligibility requirements.

## **V. Production Rebate**

To qualify for this rebate, a production company shall spend at least two hundred thousand dollars (\$200,000) within a six-month period in connection with the production of one (1) project.

Upon approval of the application by the Commission, the production company shall be eligible for a rebate on all qualified production costs in connection with the production of a state-certified film project.

The amount of the rebate shall be twenty percent (20%) of all qualified production costs associated with the production of a state-certified production.

An approved production company shall also receive an additional rebate of ten percent (10%) for the payroll of below-the-line employees involved in the production who are full-time residents of Arkansas.

A production rebate shall not be processed until the production company has met in full all obligations to each Arkansas institution and vendor owed for products and services in the state.

## **VI. Postproduction Rebate**

To qualify for this rebate, a production company shall spend at least fifty thousand dollars (\$50,000) within a six-month period in connection with the production of one (1) project.

Upon approval of the application by the Commission, the production company shall be eligible for a rebate on all qualified production costs in connection with the production of a state-certified film project.

The amount of the rebate shall be twenty percent (20%) of all qualified production costs associated with the postproduction of a state-certified production.

An additional rebate of ten percent (10%) shall be granted for the payroll of below-the-line employees who are full-time residents of Arkansas.

A postproduction rebate shall not be processed until the production company has met in full all obligations to each Arkansas institution and vendor owed for products and services in the state.

## **VII. Employment Rebate**

In addition to the production rebate and post-production rebates, the employment rebate also entitles a state-certified production company for benefits of employing full-time residents of Arkansas for which the company has submitted a Certified Declaration of Arkansas Residency form with the Film Office.

- A. The employment rebate authorizes a rebate of ten percent (10%) for the aggregate payroll of salaries and wages to Arkansas residents who are below-the-line employees of the state-certified production.
- B. If a production company hires a payroll service company to handle the payroll of a

production, the payroll payments otherwise allowable shall be allowed as eligible expenditures if all eligible income payments to employees and independent contractors done through the payroll service are subject to Arkansas state income taxes.

- C. The employment rebate shall include the first five hundred thousand dollars (\$500,000) of a highly compensated individual's salary.

## **VIII. Weekly Expenditure Reports**

- A. (i) Within two (2) weeks after principal photography begins, the production company shall begin filing weekly expenditure reports.  
(ii) Failure to file weekly expenditure reports may result in a delay in the disbursement of the rebate provided in §§ 15-4-2005 and 15-4-2006.
- B. The weekly expenditure report shall be filed in accordance with but shall not be limited to the following:
  - (i) Direct cash payments by the production company to Arkansas vendors, businesses, or citizens hired as cast or crew that are accompanied by receipts shall be allowed if the sum of that cash payments does not exceed forty percent (40%) of the total verifiable expenditures;
  - (ii) Per diem expenditures by cast or crew, or both, for lodging, when accompanied by receipts, shall be eligible expenditures; and
  - (iii) Expenditure reports shall include without limitation:
    - (a) Check identification number;
    - (b) Date of payment;
    - (c) Name of payee;
    - (d) Address of payee;
    - (e) Amount paid; and
    - (f) Other information the division deems necessary to ensure compliance with this subsection.

## **IX. Production Costs Certification**

Within one hundred eighty (180) days after the last production costs are incurred, the production company shall apply to the Commission for a production rebate certificate and

provide a final expenditure report that includes the amount of the company's production expenses or costs. Expenditure reports also shall include information as required by the Revenue Division of the Department of Finance and Administration to ensure compliance with §15-4-2001 et seq.

The Commission will forward the Final Expenditure Report with supporting documents with its recommendation for rebate to the Revenue Division of the Department of Finance and Administration (DF&A).

Upon receipt of the Final Expenditure report and supporting documents from the Commission, the Revenue Division of DF&A will review the Commission's recommendation and verify the amount of rebate recommended.

## **X. Application for Rebate**

Upon completion of filming or production, or both, in Arkansas, the production company shall file an application for the rebate allowed under §15-4-2001 et seq. The application for rebate shall include a proof of performance expenditure list that provides the total amount of expenditures that were made in the state in connection with the filming or production, or both, of a film and digital product that complies with this subchapter. The production company shall provide documentation for expenditures in accordance with rules promulgated by the Film Office.

- A. The Revenue Division of the Department of Finance and Administration shall upon receipt of an application for rebate, including a proof of performance expenditure report from the Film Office:
  - (i) Calculate the total expenditures of the relevant production company for which there are documented receipts for funds expended in the state;
  - (ii) Calculate the incentive benefit to which the applicant is entitled; and
  - (iii) Within one hundred twenty (120) days of the date the Final Expenditure Report was submitted to the Commission, the Revenue Division of DF&A will certify to the Director of the DF&A the amount of rebate due to the production company.
- B. Within ten (10) working days after the receipt of the certification from the

Revenue Division, the Director of DF&A shall issue the rebate to:

- (i) The production company, or
  - (ii) At the option of the production company, the full amount or a specified amount noted by the production company to the:
    - a. National Film Preservation Foundation;
    - b. Motion Picture Retirement Fund; or
    - c. Digital Product and Motion Picture Office Fund.
- C. (i) There is no per production cap on the rebate and the amount of the rebate shall be limited only by the amount of moneys in the Digital Product and Motion Picture Office Fund.
- (ii) The rebate shall be awarded on a first-come, first-served basis.
  - (iii) Rebates to be awarded from the Digital Product and Motion Picture Office Fund may be payable from any source of funds allocated for their rebates.

## **XI. Production Costs Limitations**

Production companies are encouraged to make payments for production and postproduction expenses from a checking account from an Arkansas financial institution.

Direct cash payments by a production company to Arkansas vendors, businesses, or citizens hired as cast or crew, which are accompanied by receipts, shall not exceed forty percent (40%) of the total verifiable expenditures.

## **XII. Penalties**

A production company that intends to apply for the rebate and does not register as required by § 15-4-2004 may be enjoined from engaging in production activities in the state by any court of competent jurisdiction until the production company has registered.

A production company that intends to apply for the rebate incentives and fails to comply with the provision of the Digital Product and Motion Picture Industry Development Act may be denied future participation in this incentive program and shall be subject to penalty in accordance with applicable state or federal law.

# **ARKANSAS TOURISM DEVELOPMENT ACT**

## **Program Summary**

The Arkansas Tourism Development Act, Act 291 of 1997 as amended, and codified at §15-11-501 et seq., provides state sales tax credits and income tax credits to approved companies operating an approved tourism attraction project. Since the intent is to generate additional tourist traffic to Arkansas, each proposed project must develop a marketing plan that targets at least twenty-five percent (25%) of its visitors from out-of-state.

### **Sales Tax Credits**

Sales tax credits shall be determined in accordance with the following criteria:

1. Eligible minimum approved project costs must be five hundred thousand dollars (\$500,000) in high unemployment counties and one million dollars (\$1,000,000) in all other counties;
2. The percentage of sales tax credits shall be determined by total approved project costs:
  - A. Projects with expenditures of at least five hundred thousand dollars (\$500,000) in high unemployment counties are eligible for a credit of twenty-five percent (25%) of the eligible project expenditures;
  - B. Projects not in high unemployment counties, with expenditures of more than one million dollars (\$1,000,000), are eligible for a credit of fifteen percent (15%) of the eligible project expenditures;
3. The sales tax credit may only be applied against the increased state sales tax liability of the approved project;
4. Unused credits may be carried forward nine (9) years; and
5. Other review criteria requested by the Arkansas Economic Development Commission may be needed to determine whether the tourism attraction project meets the intent of the Act.
6. Project costs must be incurred within two (2) years of the final approval date of the tourism attraction project, unless extended by the Executive Director of the Arkansas Economic Development Commission.

### **Income Tax Credits**

Additionally, approved companies may receive an income tax credit equal to four percent (4%) of payroll for new, full-time permanent employees who are Arkansas taxpayers and work at least thirty (30) hours per week.

The income tax credits may be earned for a period of five (5) years from the effective date of the financial incentive agreement. The income tax credits earned may be applied against the company's Arkansas state income tax liability for the succeeding nine (9) years or until the credit is entirely used, whichever occurs first.

# Arkansas Tourism Development Act (Act 291 of 1997, as amended) Rules and Regulations

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## I. Introduction

To encourage growth in Arkansas's tourism industry, Act 291 was passed by the 81st General Assembly in 1997 and amended in 1999, 2001, 2005, 2007 and 2009. The legislation's purpose is to stimulate expansion of Arkansas's tourism industry by offering economic incentives to qualified private development projects in the form of sales and income tax credits. Since the intent is to generate additional tourist traffic to Arkansas, each proposed project must develop a marketing plan that targets 25% of its visitors from out-of-state, meet other requirements and submit a completed application prior to incurring any project costs. See Arkansas Code Annotated § 15-11-501 et seq.

For more information, please contact:  
Arkansas Economic Development Commission  
Incentives Manager  
900 West Capitol  
Little Rock, AR 72201  
(501) 682-1682

## II. Definitions

- A. "Agreement" means a financial incentive agreement entered into pursuant to § 15-11-506, by and between the director and an approved company, with respect to a tourism attraction project;
- B. "Approved company" means any eligible company that is seeking to undertake a tourism attraction project that has been approved by the Director after obtaining the review and advice of the Director of the Department of Parks and Tourism;
- C. "Approved costs" mean:
  - 1. Obligations incurred on or after the effective date of the financial incentive agreement associated with the construction or expansion of a tourism attraction for labor and to vendors, contractors, subcontractors, builders, suppliers, delivery men, and material men in connection with the acquisition, construction, equipping, and installation of a tourism attraction project;
  - 2. The costs of acquiring real property or rights in real property in connection with a tourism attraction project, and any costs incidental thereto;

3. The cost of contract bonds and of insurance of all kinds that may be required or necessary during the course of the acquisition, construction, equipping, and installation of a tourism attraction project which is not paid by the vendor, supplier, delivery man, contractor, or otherwise provided;
  4. All costs of architectural and engineering services, including, but not limited to, estimates, plans and specifications, preliminary investigations, and supervision of construction and installation, as well as for the performance of all the duties required by or consequent to the acquisition, construction, equipping, and installation of a tourism attraction project;
  5. All costs required to be paid under the terms of any contract for the acquisition, construction, equipping, and installation of a tourism attraction project;
  6. All costs required for the installation of utilities in connection with a tourism attraction project, including, but not limited to, water, sewer, sewage treatment, gas, electricity, and communications, and including off-site construction of utility extensions paid for by the approved company; and
  7. All other costs comparable with those described in this subsection.
  8. "Approved costs" does not include:
    - (a) Costs incurred prior to the effective date of the financial incentive agreement, except for pre-construction costs.
    - (b) Expenditures for routine repair and maintenance that do not result in new construction, or expansion;
    - (c) Routine operating expenditures;
    - (d) Expenditures incurred at multiple facilities.
- D. "Director" means the director of the Arkansas Economic Development Commission or the director's designated representative;
- E. "Eligible company" means any corporation, limited liability company, partnership, registered limited liability partnership, sole proprietorship, or business trust, or any other entity that invests a minimum of five hundred thousand dollars (\$500,000) in a high unemployment county or one million dollars (\$1,000,000) in any other county for the purpose of constructing, operating or intending to operate a tourism attraction project, whether owned or leased, within the state that meets the standards promulgated by the director pursuant to § 15-11-504;
- F. "Final approval" means the action taken by the director authorizing the eligible company to receive inducements under § 15-11-507 and Section 5 of Act 1135 of 1999;
- G. "High unemployment" means an unemployment rate equal to or in excess of one hundred fifty percent (150%) of the state's average unemployment rate for the preceding calendar year as specified by statewide annual labor force statistics compiled by the Arkansas Department of Workforce Services, when the state's annual average unemployment rate is six percent (6%) or below. When the state's

annual average unemployment rate is above six percent (6%), “high unemployment” means equal to or in excess of three percent (3%) above the state’s average unemployment rate for the preceding calendar year as specified by statewide annual labor force statistics compiled by the Arkansas Department of Workforce Services.

- H. “Increased state sales tax liability” means that portion of an approved company’s reported state sales (gross receipts) tax liability resulting from taxable sales of goods and services to its customers at the tourism attraction for any monthly sales tax reporting period after the approved company provides the certification required by § 15-11-507(b) of Act 1135 of 1999, which exceeds the reported state sales tax liability for sales to its customers for the same month in the calendar year immediately preceding such certification. If an approved company purchases an existing tourism attraction which was selling goods and services at the time of purchase and which may or may not have been entitled to the benefits of this subchapter prior to such purchase, the “increased state sales tax liability” resulting from any investments in the tourism attraction by the new owners means that portion of the approved company’s reported state sales (gross receipts) tax liability resulting from taxable sales of goods and services to its customers at the tourism attraction for any monthly sales tax reporting period after the approved company provides the certification required by § 15-11-507(b) of Act 1135 of 1999, which exceeds the reported state sales tax liability for sales made by the seller of the tourism attraction for the same month in the calendar year immediately preceding such certification. The prohibitions against disclosure of confidential tax information provided in § 26-18-301 shall not apply for purposes of computing the credit available.
- I. “Inducements” means the Arkansas sales tax credit as prescribed in § 15-11-507 and/or the Arkansas income tax credit as prescribed in Section 5 of Act 1135 of 1999;
- J. “Investment Threshold” means the minimum amount of eligible project costs that must be incurred in order to qualify for eligibility;
- K. “New full-time permanent employee” means a position or job which was created as a result of a tourism attraction project, and which is filled by one (1) or more employees or contractual employees who were Arkansas taxpayers during the year in which the tax credits or incentives were earned or claimed. The employee or employees must work an average of at least thirty (30) hours per week. Provided, however, in order to qualify for the provisions of this subchapter, a contractual employee must be offered a benefits package comparable to a direct employee of the business seeking incentives;
- L. “Payroll” means the total taxable wages, including overtime and bonuses, paid during the preceding tax year of the approved tourism attraction to the new full-time

permanent employees hired after the date of the signed financial incentive agreement;

M. "Preconstruction costs" means the cost of eligible items incurred before the start of construction, including:

1. Project planning costs;
2. Architectural and engineering fees;
3. Land;
4. Feasibility Studies;
5. Right-of-way purchases;
6. Utility extensions;
7. Site preparations;
8. Purchase of mineral rights;
9. Building demolition;
10. Builders risk insurance;
11. Capitalized start-up costs;
12. Deposits and process payments on eligible machinery and equipment; and
13. Other costs necessary to prepare for the start of construction;

N. "Tourism attraction" includes:

1. A cultural or historical site;
2. A recreational or entertainment facility;
3. An area of natural phenomenon or scenic beauty;
4. A theme park;
5. An amusement or entertainment park;
6. An indoor or outdoor play or music show;
7. Botanical gardens; and
8. Cultural or educational centers;

O. "Tourism attraction" does not include:

1. Lodging facilities, unless the facilities constitute a portion of a tourism attraction project and represent less than sixty percent (60%) of the total approved costs of the tourism attraction project, or unless the approved costs for the lodging facility exceeds five million dollars (\$5,000,000) and is attached to a convention center containing seventy-five thousand (75,000) square feet or contains a minimum of twelve thousand (12,000) square feet of meeting or exhibit space;
  2. Facilities that are primarily devoted to the retail sales of goods, unless the goods are created at the site of the tourism attraction project or if the sale of goods is incidental to the tourism attraction project;
  3. Facilities that are not open to the general public;
  4. Facilities that do not serve as a likely destination where individuals who are not residents of the state would remain overnight in commercial lodging at or near the tourism attraction project such as:
    - a. Movie Theaters
    - b. Bowling Alleys
    - c. Fitness Centers
    - d. Miniature Golf Courses
    - e. Go-Kart Tracks
    - f. Skating Rinks
    - g. Night Clubs
    - h. Retail Stores
    - i. Restaurants
    - j. Any other establishments deemed by the Director to primarily serve the local community and in-state residents.
  5. Facilities owned by the State of Arkansas or a political subdivision of the state; or
  6. Facilities established for the purpose of conducting legalized gambling.  
However, a facility regulated under § 23-110-101 et seq. or § 23-111-101 et seq. shall be a tourism attraction for purposes of this subchapter for any approval project as outlined in subsection (j)(1) of Act 1135 of 1999 or for an approved project relating to pari-mutuel racing at the facility and not for establishing a casino or for offering casino-style gambling.
- P. "Tourism attraction project" or "project" means the acquisition, including the acquisition of real estate by leasehold interest with a minimum term of ten (10) years, construction, and equipping of a tourism attraction; the construction and installation of improvements to facilities necessary or desirable for the acquisition, construction, and installation of a tourism attraction, including, but not limited to, surveys; installation of utilities, which may include, water, sewer, sewage treatment, gas, electricity, communications, and similar facilities; and off-site construction of utility extensions to the boundaries of the real estate on which the facilities are located, all of which are to be used to improve the economic situation of the

approved company in a manner that shall allow the approved company to attract persons.

### **III. Qualifications**

- A. Qualifying tourism attraction projects are defined as one or more of the following:
1. Cultural or historical site;
  2. Recreational or entertainment facilities;
  3. Areas of natural phenomenon or scenic beauty;
  4. Theme parks;
  5. Amusement or entertainment parks;
  6. Indoor or outdoor plays or music shows;
  7. Botanical gardens;
  8. Cultural or educational center;
  9. A lodging facility may qualify, but only if it meets one of the following tests:
    - (a) It must constitute a portion of a tourism attraction project and represent less than 60% of the total approved costs of the tourism attraction project; or
    - (b) If the approved cost for the lodging facility exceeds \$5,000,000 and one of the following is met:
      - (1) The lodging facility is attached to a convention center containing a minimum of 75,000 square feet, or
      - (2) The lodging facility contains a minimum of twelve thousand square feet of meeting or exhibit space. Proposed projects under this category must be approved by the Director prior to April 1, 2011.
- B. Eligible tourism attraction projects do not have to be new construction projects. The expansion and/or purchase of existing properties may be eligible. However, the amount of sales tax credit can only be taken against the increased sales tax liability over and above the amount paid by the business being sold or expanded for the corresponding tax month of the previous year.
- C. Privately owned facilities constructed on state or federal lands (via a minimum 10-year lease) may be eligible.
- D. Ineligible businesses include:
1. Lodging facilities (unless it meets the tests described above);
  2. Retail sales facilities (unless the goods are created on-site or if sales are incidental to the overall project);
  3. Facilities not open to the general public;
  4. Facilities not likely to attract overnight guests from outside the state who would stay in commercial lodging near the attraction;

5. Facilities owned by the State of Arkansas or its political subdivisions;
6. Gambling facilities (unless for approved pari-mutuel racing currently regulated under Arkansas Code)

#### **IV. Powers and Duties of the Economic Development Commission**

- A. The Director or designee of the Arkansas Economic Development Commission will review each application, making certain the project proposal meets the following minimum criteria:
  1. the application shall be submitted prior to incurring any project cost, other than those costs defined as pre-construction cost;
  2. the project shall have a marketing plan designed to attract at least 25% of its visitors from out-of-state;
  3. shall cost at least \$500,000 in high-unemployment counties or \$1,000,000 in any other county;
  4. shall have a significant and positive impact on the State, including an analysis of whether the project will compete directly with existing tourism attractions in the state;
  5. shall produce sufficient revenues and public demand to be operating and open to the public on a regular and persistent basis;
  6. shall be likely to attract overnight guests from outside the state who would stay in commercial lodging near the attraction;
  7. shall not adversely affect existing employment in the state;
  8. and other criteria that the Director may deem to apply.
- B. Once the application has been reviewed, the applicant will be notified in writing of the results of the review.
- C. Upon granting approval, the Director shall enter into a financial incentive agreement with an approved company with respect to its tourism attraction project. The terms and provisions of each financial incentive agreement shall include, but shall not be limited to:
  1. The amount of approved costs, determined through negotiations with the Director and applicant;
  2. The eligibility date for incurring project costs;
  3. A date by which the approved company shall have completed the tourism attraction project (the Completion Date), provided that the Completion Date occurs within (2) years of the date of the financial incentive agreement unless an extension is granted. Within 3 months after the Completion Date, the approved company shall document the actual cost of the project through a certification of

such costs by an independent certified public accountant acceptable to the Director;

4. Provisions that the term of the financial incentive agreement may be extended for a period of two (2) years by the Director if: (i) such extension is also approved by the Director of the Arkansas Department of Finance and Administration or (ii) the approved company has failed to complete the project as a result of unanticipated and unavoidable construction delays or a change in business ownership;
  5. In any sales tax reporting period during which a financial incentive agreement is in effect, if the increased state sales tax liability of the approved company exceeds the state sales tax credit available to the approved company, then the approved company shall pay the excess to the state as sales tax;
  6. Within 45 days after the end of each calendar year, the approved company shall supply the Director with such reports and certifications as the Director may request demonstrating to the satisfaction of the Director that the approved company is in compliance with the provisions of the Act;
  7. The approved company shall not receive a credit against the Arkansas sales tax imposed by Ark. Code Ann. § 26-52-301 et seq. with respect to any calendar year if in any calendar year following the first year of the financial incentive agreement or the agreed upon completion date, the project is not operating and open to the public on a regular and persistent basis;
  8. The financial incentive agreement shall not be transferable or assignable by the approved company without the written consent of the Director; and
  9. If the approved company utilizes sales tax credits which are subsequently disallowed, then the approved company will be liable for the payment to the Director of the Department of Finance and Administration of all taxes resulting from the disallowance of the credits plus applicable penalties and interest.
- D. The Arkansas Economic Development Commission's approval of any application is for content only. It does not constitute approval of all items listed on the application or the project plan. These items will be reviewed and either approved or ruled ineligible upon an audit by the Revenue Division of the Department of Finance and Administration (DF&A).

## **V. Terms of the Financial Incentive Agreement**

- A. The following types of expenses directly related to the tourism attraction project may be included in the total approved costs that are eligible for sales tax credits:
  1. Land (outright purchase or leasehold interest with 10-year minimum term);
  2. Buildings at the tourism attraction site;

3. Land surveys and architectural/engineering fees;
  4. Cost of contract bonds and insurance;
  5. Installation of utilities paid by the approved company (including off-site extensions that are project specific);
  6. Equipping of the tourist attraction; and
  7. Other costs comparable to those described above can be approved on a case-by-case basis.
- B. Certain approved costs defined as “pre-construction costs” will be eligible for sales tax credits regardless of the date the costs were incurred.

## **VI. Administration of Benefits**

### **A. State Income Tax Credits (not eligible for lodging facilities)**

1. Upon notification from the director that an approved company has entered into a tourism attraction project financial incentive agreement, the Director of the Department of Finance and Administration shall provide the approved company with such forms and instruction as are necessary to claim those credits.
2. The approved company shall certify the number and the payroll of the new full-time permanent employees to the Revenue Division of the Department of Finance and Administration.
3. Upon certification by the company, the Revenue Division of the Arkansas Department of Finance and Administration shall authorize an income tax credit equal to four percent (4%) of the payroll of the new full-time permanent employees of the approved tourism attraction project qualifying for benefits.
4. As used herein, the term “new full time permanent employee(s)” shall mean a person who (i) is an Arkansas taxpayer in the year the credits are claimed; (ii) is employed in a position or job created by virtue of the project, and (iii) has worked an average of not less than thirty (30) hours per week.
5. The income tax credits may be earned for a period of five (5) years from the effective date of the financial incentive agreement.
6. The income tax credits earned may be applied against the company’s Arkansas state income tax liability for the succeeding nine (9) years or until the credit is entirely used, whichever occurs first.

7. The Director shall provide a copy of each financial incentive agreement entered into with an approved company to the Director of the Department of Finance and Administration.

## **B. Sales and Use Tax Credits**

1. Upon receiving notification from the Director that an approved company has entered into a tourism attraction project financial incentive agreement and is entitled to the sales tax credits provided by this Act, the Director of the Department of Finance and Administration shall provide the approved company with such forms and instructions as are necessary to claim the credits.
2. An approved company shall be entitled to a sales and use tax credit upon certifying to the Director of the Department of Finance and Administration that it has met the investment threshold for the county in which it is located. The Director of the Department of Finance and Administration shall then issue a sales tax credit memorandum for the appropriate amount (25% for projects located in high-unemployment counties and 15% for all other projects) to the approved company. Subsequent requests for credit for additional certified approved costs in excess of the investment threshold shall be submitted annually for the term of the financial incentive agreement or until the project is completed, whichever occurs first.
3. The Director of the Department of Finance and Administration may require proof of expenditures. Additional credit memorandums may be issued as the approved company certifies additional expenditures of approved costs.
4. No sales tax credit memorandum shall be issued for any approved costs expended after the expiration of two (2) years from the date the financial incentive agreement was signed by the Director and the approved company. However, the Director, with the advice and consent of the Director of the Department of Finance and Administration, may authorize sales tax credits for approved costs expended up to four (4) years from the date the financial incentive agreement was signed if the Director determines that the failure to complete the project within two (2) years resulted from:
  - (a) Unanticipated and unavoidable delay in the construction of the project;
  - (b) The project, as originally planned, will require more than two (2) years to complete; or
  - (c) A change in business ownership or business structure resulting from a merger or acquisition.
    - (1) The reasons listed above shall be brought to the attention of the Director prior to the expiration of the initial two (2) year period, and a request shall be made to the Director during the two (2) years for an extension of time.

5. The credit memorandum issued may be used to offset a portion of the reported state sales (gross receipts) tax liability of the approved company for all sales tax reporting periods following the issuance of the credit memorandum. One hundred per cent (100%) of the credit may be used to offset increased sales tax liability during the first year, with any unused credits carried forward for nine (9) additional years. The credits are also subject to the following limitations:
- (a) Only increased state sales tax liability resulting from sales by the approved company may be offset by the issued credit;
  - (b) All issued credit memorandums shall expire at the end of the month following expiration of the financial incentive agreement;
  - (c) The approved company shall have no obligation to refund or otherwise return any amount of this credit to the person from whom the sales tax was collected.
  - (d) By April 1 of each year, the Director of the Department of Finance and Administration shall certify to the Director the state sales and income tax liability of the approved companies receiving inducements under this section, and the amount of state sales and income tax credits taken during the preceding calendar year.
  - (e) The Director of the Department of Finance and Administration may promulgate administrative regulations as are necessary for the proper administration of this Act. The Director of the Department of Finance and Administration may also develop such forms and instructions as are necessary for an approved company to claim the sales and income tax credits provided by this act.
  - (f) The Director of the Department of Finance and Administration shall have the authority to obtain any information necessary from the approved company and the Director of Economic Development to verify that approved companies have received the proper amounts of sales tax credits as authorized by this act; the Director of the Department of Finance and Administration shall demand the repayment of any credits taken in excess of the credit allowed by this act.
  - (g) Qualified amusement parks entering into a financial incentive agreement on or after January 1, 2006 for an approved project that will exceed one million dollars (\$1,000,000) are eligible for a sales tax credit equal to twenty-five percent (25%) of the approved costs.

Qualified amusement parks entering into a financial incentive agreement on or after January 1, 2006 may use the credit to offset one hundred percent (100%) of its tax liability following the issuance of the credit.

The credit may be used to offset the qualified amusement park’s sales tax liability for the Gross Receipts tax levied under the Arkansas Gross Receipts Act, § 26-52-101 seq.; and the Tourism gross receipts tax levied under § 26-52-1001 et seq. Any unused credit may be carried forward for a period of nine (9) years.

(h) The special provisions for qualified amusement parks provided in paragraph (g) above shall apply retroactively to July 1, 2006.

**C. Calculation of Arkansas Income Tax Credits**

1. This program provides an Arkansas income tax credit equal to four percent (4%) of the payroll of each new full-time permanent employee for a period of five (5) years from the effective date of the financial incentive agreement.
2. The calculation of the income tax credit is as follows:

$$\begin{array}{rcccl} \text{Payroll of New Full-Time} & & & & \text{Total} \\ \text{Permanent Employees} & \times & 4\% & = & \text{Credits} \end{array}$$

**D. Calculation of Sales Tax Credit**

1. This program offers a sales tax credit in the amount of twenty-five percent (25%) of total project costs if the approved tourism attraction is located in a high-unemployment area.
2. If the approved tourism attraction is located in any other county the program offers a sales tax credit in the amount of fifteen percent (15%) of the total project cost.
3. The calculation of the sales tax credit is as follows:

$$\begin{array}{rcccl} & & \text{Appropriate} & & \text{Total} \\ \text{Approved Costs} & \times & \text{Percentage} & = & \text{Credits} \end{array}$$

**VII. Restrictions**

No person or entity may take advantage of this program and any other tax incentive program.

## **INDUSTRIAL REVENUE BOND GUARANTY LAW**

### **Program Summary**

The Industrial Revenue Bond Guaranty Law, Act 173 of 1967 as amended, and codified at § 15-4-601 et seq., effectuates long-term, tax-exempt and taxable financing for businesses expanding or locating in Arkansas by permitting AEDC to guarantee the debt service (principal and interest) of bonds issued under Act 9 of 1960, "The Municipalities and Counties Industrial Development Revenue Bond Law," (codified at § 14-164-201 et seq.) or bonds issued under the authority of the Arkansas Development Finance Authority (ADFA).

As a general rule, bond proceeds can be used to purchase or construct fixed assets including land, building and facilities for projects which should create new jobs. Although a local governing body issues the revenue bond, the company is still responsible for paying the principal and interest.

Under this program, AEDC "guarantees" timely payment of debt service, up to five million dollars (\$5,000,000) in principal per bond issue, to the bondholders. This guaranty gives the bonds a better rating, thereby making the bonds more attractive to investors and reducing the company's cost to borrow money.

AEDC charges a five percent (5%) fee for guaranteeing issues of this type.

# **Industrial Revenue Bond Guaranty Law (Act 173 of 1967, as amended) Arkansas Bond Guaranty Program Rules and Regulations**

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## **I. Introduction**

The Bond Guaranty Program was created to provide long-term, tax-exempt and taxable financing for businesses expanding or locating in Arkansas. Although the city or county may issue the revenue bond, the company is still responsible for paying the principal and interest. Under this program, the Department “guarantees” timely payment of principal and interest, up to five million dollars (\$5,000,000) principal per bond issue, to the bondholders. This guaranty gives the bonds a better rating, thereby making the bonds more attractive to investors and reducing the company’s cost to borrow money.

For additional information contact:  
Business Finance Division  
Arkansas Economic Development Commission  
900 West Capitol  
Little Rock, Arkansas 72201  
(501) 682-1246

## **II. Definitions**

- A. “Act 9 bonds” means revenue bonds issued in accordance with the provisions of the Municipalities and Counties Industrial Development Revenue Bond Law (ACA 14-164-201 et seq.) to benefit private companies. A vote of the local governing body is required to issue these bonds.
- B. “ADFA” means the Arkansas Development Finance Authority.
- C. “ADFA bonds” means revenue bonds issued by the Arkansas Development Finance Authority in accordance with the Arkansas Development Finance Authority Act, ACA 15-5-101 et seq., ACA 15-5-201 et seq., and ACA 15-5-301 et seq.
- D. “Department” means the Arkansas Department of Economic Development.
- E. “Direct loans” means loans as defined by ACA 15-103 (13) and including bond anticipation loans.

- F. “Director” means the Director of the Arkansas Department of Economic Development.
- G. “Lessee” means a person, business or firm who acquires the right to possession and use of goods under a lease. Unless the context clearly indicates otherwise, the term includes a sublessee.
- H. “Local governing body” means the quorum court of a county or the council, board of directors, or other elected governing body of a municipality.

### **III. To Qualify for the Program a Business Must**

- A. To qualify for a tax-exempt industrial revenue bond (IRB), a company must meet the following eligibility criteria:
  - 1. The firm must be engaged in manufacturing, processing or other activities directly supporting or related to manufacturing or processing;
  - 2. The total capital expenditures in a project must not exceed ten million dollars (\$10,000,000) for a six (6) year period; and
  - 3. The capital expansion should create new jobs.
- B. In order for the Department to guarantee the debt service (principal and interest) of bonds issued under Act 9, certain circumstances, including, but not limited to, the following shall be addressed:
  - 1. There shall be documentary evidence produced from investment bankers that the bonds are not saleable without this guaranty;
  - 2. The lessee must have a proven financial history and must have been in a similar or related business at least three years prior to the bond guaranty application;
  - 3. There is documentary evidence that by the addition or expansion of plant facilities, substantial employment is involved;
  - 4. There is a legal opinion to the effect that the industrial project involves manufacturing, processing, or other activities directly related to or supporting a manufacturing or processing industry;
  - 5. The lessee will not purchase or own at any time any of such bonds;
  - 6. The lessee is found to be financially responsible for, and sufficient rental income may be reasonably expected to amortize in an orderly manner, the interest on a principal amount of the bonds as evidenced by:
    - (a) An analysis of the business history of the lessee and/or principals thereof;

- (b) An evaluation of the most recent three (3) years audited annual financial statements as prepared by an independent certified public accounting firm. If the most recent annual statement is more than ninety (90) days old, then an unaudited interim statement must be provided; and
    - (c) A pro-forma projection for the ensuing three (3) years in substantially the same form as attached;
  - 7. There is a commitment to pay a one-time premium in the amount of five percent (5%) of the principal amount to be guaranteed or three percent (3%) of the debt service, whichever is greater; and
  - 8. Collateral for the issue will be substantiated by a perfected first mortgage on capital expenditures that are obtained in whole or in part by proceeds of the bond issue along with corporate and/or personal guarantees.
- C. The company shall develop a project overview which addresses the following eligibility considerations:
- 1. Total project costs;
  - 2. Specific uses of the funds;
  - 3. Company's financial strength;
  - 4. Type of operation (manufacturing, etc.);
  - 5. Expected new employment at location of project; and
  - 6. Relevant information about profitability of project.
- D. If the Department's staff determines that the project is feasible, it is recommended that the company simultaneously contact the following:
- 1. Bond counsel to assist in completing the process and to insure its legality;
  - 2. City/County officials which must submit the issue on behalf of the local government involved; and
  - 3. Bond underwriters to submit bids on underwriting the bond issue.
- E. A business plan and legal documentation must be submitted to the Department in order for the Department's staff to prepare an application for the Arkansas Economic Development Commission's (AEDC) Bond Guaranty Committee, which will approve or reject the bond guaranty application. If the project is approved, it will go before the full AEDC for final approval. Regardless of whether the application is approved or rejected, the company will be notified of the final decision by the Department's staff.

#### IV. Administration of Benefits

- A. Eligible Activities – As a general rule, bond proceeds can be used to purchase or construct fixed assets including land, building and equipment. Certain limitations, as governed by the IRS tax code, may apply. Experienced municipal bond counsel should be consulted as to eligible activities, but the following minimum restrictions must be adhered to:
1. When an existing building is purchased, fifteen percent (15%) of the purchase price must be expended on renovation; and
  2. When proceeds are used to purchase used equipment, one hundred percent (100%) of the purchase prices must also be expended to renovate that equipment.
- B. Sequence of Events – There are a number of activities that must occur before a bond guaranty can be executed by the Department. Following is a list of those activities:
1. Memorandum of Intent by the Governing Body (City or County) – This step is not required by state law, but is often utilized to fulfill requirements by the Internal Revenue Service to show “intent” to use tax exempt revenue bond financing. The memorandum should be issued prior to the commencement of a project (the purchase of any land, building or equipment to be financed). This process allows the company to recover any “out-of-pocket” expenditure from the tax-exempt funds. The company should contact an Arkansas licensed bond attorney to draft the memorandum.
  2. Notice of Hearing – Ten (10) days prior to the hearing, notice must be given setting forth the date of the hearing. The notice must be published one (1) time in a newspaper of general circulation.
  3. Public Hearing – A public hearing must be held before the governing body, whether it is the city or county, prior to the adoption of an ordinance.
  4. Referendum Period of Thirty (30) Days – The Constitution of the State of Arkansas requires that the governing body exercise a referendum period. This period is to allow time for a petition, if desired, by the general public requiring the issue to be subjected to a general election. This period is normally thirty (30) days in the case of a municipal issue.
  5. Execution of Documents – After a minimum period of forty-five (45) days, the industrial revenue bond issue may close. At this time, the money is delivered. It should be remembered, however, interim financing may be

used to start the project without affecting the tax exempt status of the issue once the memorandum of intent has been issued by the governing body.

## **V. Application Process**

- A. The application for the Bond Guaranty Program must be filed with the Department a minimum of thirty (30) days prior to the next meeting of the Arkansas Economic Development Commission (AEDC), which is regularly held on the third Thursday of each month. The applicant should check with the Business Finance Unit for meeting dates.
  
- B. Each application should contain or be accompanied by information and exhibits as follows:
  - 1. A description of the total amount of the financing involved, the purpose thereof, and the portion for which the guaranty is requested;
  - 2. A description of the site, including the total acreage, and a verification of its fair market value (appraisal or other satisfactory evidence);
  - 3. A general description of the improvements to be made;
  - 4. A written estimate of cost of construction;
  - 5. A general description of the machinery and equipment to be included in the project;
  - 6. A verification of cost of machinery and equipment (e.g. quotes from suppliers or written estimate by a recognized authority not in regular employ of company);
  - 7. If existing facilities are involved, written evidence of the current fair market value thereof (appraisal or other satisfactory evidence);
  - 8. A written statement by an officer of the company as to the average number of employees expected within three (3) years after operations are commenced;
  - 9. Projected financial statements for the first three (3) years' operation of the project, containing estimates of earnings and expenses and year-end balances;
  - 10. A description of the capital stock of the company (classes, amounts authorized, amounts outstanding, capital paid in);
  - 11. A history of the company, description of business, and length of time in business;
  - 12. Officer's names, ages, and business experience;
  - 13. Director's names, ages, and business affiliation or profession; amount of the company's stock owned by each officer and director, by class, and the percentage of outstanding stock of each class owned by all officers and directors as a group;

14. Copies of audited annual financial statements for the most recent three (3) year period including such statements of the parent if a subsidiary is to operate the proposed industrial facilities and the parent is to guarantee performance by its subsidiary. Statements that are more than ninety (90) days old must be accompanied by interim statements;
15. Written evidence that the Act No. 9 Bonds are not saleable without the guaranty;
16. A commitment to pay a one-time premium payment in the amount of five percent (5%) of the principal amount of the Act No. 9 Bonds to be guaranteed, or three percent (3%) of the total debt service, whichever is greater, with payment to be made before or simultaneously with the issuance of the guaranty;
17. A written statement to the effect that none of the bonds will be purchased or owned by the company; and
18. The Department and/or the AEDC may, if it so elects, require as conditions to the issuance of guaranty, all or any part of the following:
  - (a) That all or certain officers or stockholders execute and deliver to the Trustee, or the Department, their individual personal written guarantees;
  - (b) That all or certain officers deliver to the Trustee certificates representing the shares of the capital stock (of all classes) of the company owned by them, and execute and deliver to the Trustee "Stock Pledge Agreements" on forms commonly used by the Trustee for that purpose;
  - (c) That each or certain specified officers of the company will obtain life insurance upon his life, of a type and issued by a company satisfactory to the Trustee and to the Department;
  - (d) Restrictions as to declaring and paying dividends;
  - (e) Restrictions as to preferential treatment of or making advances, loans, or payments to any other company or organization directly or indirectly controlled by or affiliated with the company;
  - (f) Salary and bonus restrictions;
  - (g) Restrictions as to loans to officers, directors, stockholders, or employees;
  - (h) Restrictions as to incurring indebtedness or encumbering properties;
  - (i) Restrictions as to issuance of additional capital stock;
  - (j) Restrictions as to capital improvements and acquisitions; and
  - (k) Restrictions as to minimum limits on size of corporate net worth.

## **ARKANSAS PUBLIC ROADS IMPROVEMENTS CREDIT ACT**

### **Program Summary**

The Arkansas Public Roads Improvements Credit Act, Act 1347 of 1999, as codified at § 15-4-2301 et seq., provides an income tax credit to any individual, fiduciary, or corporation subject to Arkansas state income tax that contributes to the Public Roads Incentive Fund of the Arkansas Economic Development Commission (AEDC). The contribution may be made to a general improvement fund or designated for a specific project that is approved by the AEDC Executive Director.

The Executive Director is authorized to approve capital improvements for funding assistance upon a finding that a project is in the public interest and that there are sufficient dedicated project funds, when combined with the requested funds from the Public Roads Incentive Fund, to complete the project. Any project that is submitted to AEDC for approval will have to be fully funded before AEDC will release funds for the project.

The credit cannot exceed thirty-three percent (33%) of the taxpayer's contribution. In any one (1) tax year, the credit cannot exceed fifty percent (50%) of the taxpayer's net Arkansas state income tax liability after all other credits and reductions have been calculated. Any amount over fifty percent (50%) can be carried forward up to three (3) years.

# Arkansas Public Roads Improvements Credit Act (Act 1347 of 1999) Public Roads Project

## Rules & Regulations

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### I. Introduction

In order to facilitate the construction of specific capital improvement projects, Act 1347 of 1999, the Arkansas Public Roads Improvements Credit Act was passed by the 82<sup>nd</sup> General Assembly of the State of Arkansas.

The goal of this program is to provide an incentive to any individual, fiduciary, or corporation subject to Arkansas state income tax to make contributions in aid of the construction of public roads by providing an income tax credit based on the amount of the taxpayer's contribution.

For additional information contact:  
Incentives Manager  
Arkansas Economic Development Commission  
900 West Capitol  
Little Rock, AR 72201  
(501) 682-1682

### II. Definitions

- A. "Capital improvements" means capital improvements for public roads.
- B. "Contribution" means a contribution in aid of construction of a public road project made by a taxpayer to the Public Roads Incentive Fund.
- C. "Contribution in aid of construction" is a direct contribution of cash made by a taxpayer for public road improvements.
- D. "County" means any county in the State of Arkansas.
- E. "Department" means the Department of Economic Development.
- F. "Director" is the Director of the Department of Economic Development.

- G. “Fund” means the Public Roads Incentive Fund.
- H. “Governing Authority” means the quorum court of a county, the governing body of a municipality, and the State Highway Commission.
- I. “Municipality” means any city or incorporated town in the State of Arkansas.
- J. “Project” means all, any combination or any part of the capital improvements for public roads, which are authorized by a governing authority and approved by the director.
- K. “Public roads” means roads maintained by a governing authority.
- L. “Taxpayer” includes any individual, fiduciary, or corporation subject to Arkansas State Income Tax.

### **III. To Qualify for the Program**

#### **A. Contributions**

1. Eligible contributors include any individual, fiduciary, or corporation subject to Arkansas state income tax that contributes to the Public Roads Incentive Fund of the Arkansas Department of Economic Development.
2. The Public Roads Incentive Fund shall consist of contributions made by taxpayers for public roads projects approved by the Director, and any other funds as are designated or deposited to the fund by law.
3. Each taxpayer that contributes to the Public Roads Incentive Fund may make a general contribution or may designate a project for which the contribution is earmarked. When donations are made for dedicated projects, a separate account will be established. Any contributions which remain in the separate account when a project is completed or terminated shall be held and applied to other public roads projects in such manner as the Director shall direct.
4. To contribute to the Public Roads Incentive Fund, the taxpayer must send an application and contribution to the Department of Economic Development. An application can be obtained by contacting the Incentives Coordinator at the Department of Economic Development.
5. The contribution will be transmitted to the Treasurer of the State for deposit into the Public Roads Incentive Fund.

B. Applicants

1. Governing authorities may apply to the Director for funding assistance for capital improvement projects for public roads as provided by Act 1347 of 1999. The Director is authorized to approve capital improvements for funding assistance upon a finding that a project is in the public interest and that there are sufficient dedicated project funds, when combined with the requested funds from the Public Roads Incentive Fund, to complete the project.
2. Applicants must provide documentation that there are sufficient dedicated project funds available, when combined with the amount requested from the Public Roads Incentive Fund, to complete the improvement project.
3. The application, endorsement resolution, and project plan (see Attachment) must be sent to:

Arkansas Economic Development Commission  
Incentives Manager  
900 West Capitol  
Little Rock, AR 72201

4. The application must include:
  - (a) A city or county resolution (also known as an endorsement resolution) or a copy of a minute order from the Arkansas Highway and Transportation Department Commission.
  - (b) A completed application filled out completely with project plan.
  - (c) Send above to AEDC for processing.

**IV. Powers and Duties of the Department of Economic Development**

- A. The Director of the Department of Economic Development will determine whether or not the project is in the public interest and whether or not there are sufficient dedicated project funds, when combined with the requested funds from the Public Roads Incentive Fund, to complete the project. If the director determines that the project is in the public interest and that sufficient funding is available, the governing authority will be informed and a sub-account will be established for the project.
- B. Any project that is submitted to the Department for approval will have to be fully funded before the Department will release funds for the project. Applicants must provide documentation that there are sufficient dedicated project funds available, when combined with the amount requested from the Public Roads Incentive Fund, to complete the improvement project.

- C. However, if the project is terminated before completion, any additional funds remaining in the project account will be held and distributed to other projects approved by the Director.
- D. A separate account will be established for each project approved by the Director of the Department. The Director is authorized to assist the governing authority in obtaining assistance from any other department of state government. When sufficient funds are accumulated for a particular project, the Director will authorize the release of funds for the project.

**V. Administration of Benefits**

**Eligible taxpayers will be entitled to a state income tax credit that may be applied in any tax year after January 1, 1999. Contributions are to be sent to the Department of Economic Development.**

**The credit shall be determined in the following manner:**

- A. The credit is limited to an amount not to exceed 33% of the taxpayer's contribution;
- B. In any one (1) tax year, the credit allowed shall not exceed 50% of the taxpayer's net Arkansas state income tax liability after all other credits and reductions in tax have been calculated; and
- C. Any credit over 50% of the taxpayer's net Arkansas state income tax liability for any one (1) tax year may be carried forward and applied against Arkansas state income tax for the next-succeeding tax year (subject to the same terms as in "B." above) and annually thereafter for a total period of three (3) years next-succeeding the year in which the credit arose or until the credit is exhausted, whichever occurs first.
- D. The Department of Economic Development will issue a letter certifying the amount contributed to the Public Roads Incentive Fund. This certification must be attached to the taxpayers' income tax return in order to claim the credit.

# REPLACEMENT AND REPAIR OF MANUFACTURING MACHINERY AND EQUIPMENT SALES AND USE TAX REFUND

## Program Summary

Act 1404 of 2013, as amended, and codified at § 26-52-447; § 26-53-149; and § 15-4-3501, establishes two options by which certain state sales and use taxes relating to the partial replacement and repair of machinery and equipment used directly in manufacturing may be refunded to eligible taxpayers beginning July 1, 2014.

The first option, which provides for a graduated refund and subsequent exemption of sales and use taxes levied under §§ 26-52-301, 26-52-302, 26-53-106 and 26-53-107, may be claimed by a taxpayer for the purchase and installation of certain machinery and equipment used directly in manufacturing and processing. Taxes levied under §§ 26-52-301, 26-52-302, 26-53-106 and 26-53-107 subject to refund under this option are the taxes in excess of the following rates:

1. Beginning July 1, 2014, four and seven-eighths percent (4.875%);
2. Beginning July 1, 2018, three and seven-eighths percent (3.875%);
3. Beginning July 1, 2019, two and seven-eighths percent (2.875%);
4. Beginning July 1, 2020, one and seven-eighths percent (1.875%);
5. Beginning July 1, 2021, seven-eighths percent (0.875%); and
6. Beginning July 1, 2022, sales qualifying for the tax refund under this option are fully exempt from taxes levied under §§ 26-52-301, 26-52-302, 26-53-106 and 26-53-107.

The second option, which provides for an increased refund of all sales and use taxes (5.875%) levied under §§ 26-52-301, 26-52-302, 26-53-106 and 26-53-107, is a discretionary incentive that may be offered by the Executive Director of the Arkansas Economic Development Commission (AEDC) to a taxpayer who undertakes a major maintenance and improvement project to purchase and install certain machinery and equipment used directly in manufacturing and processing.

A taxpayer may apply for an increased refund for major maintenance and improvement projects under the second option through June 30, 2022. An application for an increased refund for major maintenance and improvement projects under the second option shall not be accepted on or after July 1, 2022.

To qualify for the discretionary refund, a taxpayer shall:

1. Be eligible for a refund of taxes under §§ 26-52-447 or 26-53-149 (partial replacement and repair of certain machinery and equipment);
2. Hold a direct pay or a limited direct pay sales and use tax permit from the DFA; and when claiming the refund, shall file their monthly direct pay sales and use tax report using the Department's electronic tax report filing system;
3. Enter into a financial incentive agreement with the AEDC for the major maintenance and improvement project prior to incurring project expenditures;

4. Expend at least \$3 million on an approved major maintenance and improvement project that includes the purchase of tangible personal property and services that are either exempt or subject to partial refund of tax under §§ 26-52-402, 26-52-447, 26-53-114, or 26-53-149;
5. File a completed Manufacturing Replacement and Repair Sales and Use Tax Refund Application with the AEDC; and
6. Receive approval from the Executive Director of the AEDC to receive the increased refund of sales and use taxes for the major maintenance and improvement project.

# Replacement and Repair of Manufacturing Machinery and Equipment Sales and Use Tax Refund

(Act 1404 of 2013, as amended)

## Rules

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### I. Introduction

#### Overview

Act 1404 of 2013, as amended and codified in §§ 26-52-447, 26-53-149 and 15-4-3501, establishes two options by which certain state sales and use taxes relating to the partial replacement and repair of machinery and equipment used directly in manufacturing may be refunded to eligible taxpayers beginning July 1, 2014.

Act 465 of 2017 amended the refund options by:

- Increasing the refund available for taxes paid on purchases related to the repair and partial replacement of manufacturing machinery and equipment;
- Sunsetting the tax refund for major maintenance and improvement programs; and
- Phasing in an exemption from tax for purchases related to the repair and partial replacement of manufacturing machinery and equipment.

The first option, which provides for a graduated refund and subsequent exemption of sales and use taxes levied under §§ 26-52-301, 26-52-302, 26-53-106 and 26-53-107, may be claimed by a taxpayer for the purchase and installation of certain machinery and equipment used directly in manufacturing and processing. Taxes levied under §§ 26-52-301, 26-52-302, 26-53-106 and 26-53-107 subject to refund under this option are the taxes in excess of the following rates:

1. Beginning July 1, 2014, four and seven-eighths percent (4.875%);
2. Beginning July 1, 2018, three and seven-eighths percent (3.875%);
3. Beginning July 1, 2019, two and seven-eighths percent (2.875%);
4. Beginning July 1, 2020, one and seven-eighths percent (1.875%);
5. Beginning July 1, 2021, seven-eighths percent (0.875%); and
6. Beginning July 1, 2022, sales qualifying for the tax refund under this option are fully exempt from taxes levied under §§ 26-52-301, 26-52-302, 26-53-106 and 26-53-107.

The second option, which provides for an increased refund of all sales and use taxes (5.875%) levied under §§ 26-52-301, 26-52-302, 26-53-106 and 26-53-107, is a discretionary incentive that may be offered by the Executive Director of the Arkansas Economic Development Commission (AEDC) to a taxpayer who undertakes a major maintenance and improvement project to purchase and install certain machinery and equipment used directly in manufacturing and processing.

A taxpayer may apply for an increased refund for major maintenance and improvement projects under the second option through June 30, 2022. An application for an increased refund for major maintenance and improvement projects under the second option shall not be accepted on or after July 1, 2022.

To qualify for this discretionary refund, a taxpayer shall:

1. Be eligible for a refund of taxes under §§ 26-52-447 or 26-53-149 (partial replacement and repair of certain machinery and equipment);
2. Hold a direct pay or a limited direct pay sales and use tax permit from the DFA; and when claiming the refund, shall file their monthly direct pay sales and use tax report using the Department's electronic tax report filing system;
3. Enter into a financial incentive agreement with the AEDC for the major maintenance and improvement project prior to incurring project expenditures;
4. Expend at least \$3 million on an approved major maintenance and improvement project that includes the purchase of tangible personal property and services that are either exempt or subject to partial refund of tax under §§ 26-52-402, 26-52-447, 26-53-114, or 26-53-149;
5. File a completed Manufacturing Replacement and Repair Sales and Use Tax Refund Application with the AEDC; and
6. Receive approval from the Executive Director of the AEDC to receive the increased refund of sales and use taxes for the major maintenance and improvement project.

All existing excise tax exemptions, including without limitation exemptions under §§ 26-52-402 and 26-53-114, remain in full force and effect and are not limited by this refund.

## **II. Rulemaking Authority**

The AEDC and DFA have authority, at § 15-4-3501(h), to promulgate rules necessary to implement Act 1404 of 2013, as amended.

### III. Effective Date

The effective date of Act 1404 of 2013 was July 1, 2014. The AEDC began accepting applications requesting an increased refund of all sales and use taxes levied pursuant to the replacement and repair of manufacturing machinery and equipment under §§ 26-52-301, 26-52-302, 26-53-106 and 26-53-107, beginning July 1, 2014.

### IV. Definitions

1. "Certain machinery and equipment" means items taxable under §§ 26-52-301 and 26-52-302 on the sale of, and §§ 26-53-106 and 26-53-107 on the privilege of storing, using, distributing, or consuming within this state, the following :
  - A. Machinery and equipment purchased to modify, replace, or repair, either in whole or in part, existing machinery or equipment used directly in producing, manufacturing, fabricating, assembling, processing, finishing, or packaging articles of commerce at a manufacturing or processing plant or facility in this state; and
  - B. Service relating to the initial installation, alteration, addition, cleaning, refinishing, replacement, or repair of machinery or equipment as defined in IV. 1(A) above;
2. "Commission" means the Arkansas Economic Development Commission;
3. "Major maintenance and improvement project" means a project with a defined scope and beginning and ending dates, the range of which shall not exceed twenty-four (24) consecutive months, in which the taxpayer expends at least \$3 million on the purchase of tangible personal property and services subject to §§ 26-52-447 and 26-53-149 that are either exempt from or subject to a partial refund of tax under §§ 26-52-402, 26-52-447, 26-53-114, or 26-53-149. The ending date of the project may be extended so that the range of dates is increased to forty-eight (48) consecutive months only with the written approval of the Executive Director of the AEDC and the Director of the Arkansas Department of Finance and Administration;
4. "Manufacturing" or "processing" means the same as defined under § 26-53-114(b) for items taxable under §§ 26-53-106 and 26-53-107 and the same as defined under § 26-52-402(b) for items taxable under §§ 26-52-301 and 26-52-302;
5. "Positive return on taxpayer's investment" means information provided by the taxpayer requesting an increased refund of all sales and use taxes levied under §§ 26-52-301, 26-52-302, 26-53-106 and 26-53-107 that reasonably proves that any or all of the following dollar amounts, when calculated

cumulatively, will offset the amount of taxes refunded as a result of the major maintenance and improvement project:

- a. Enhanced or retained productivity (expressed in dollars);
  - b. Enhanced or retained revenue, sales or output (expressed in dollars);
  - c. Enhanced or retained employee compensation (expressed in dollars);
  - d. Enhanced or retained taxes paid (expressed in dollars); or
  - e. Any other quantifiable information requested by the AEDC that the taxpayer may provide as reasonable proof of positive return of the taxpayer's investment in the major maintenance and improvement project; and
6. "Used directly" means the same as defined under § 26-52-402(c), § 26-53-114(c) and Arkansas Gross Receipts Tax Rule GR-55.

## **V. Application and Approval Process for Discretionary 5.875% State Sales and Use Tax Refund**

**Prerequisite: Taxpayers shall hold a direct pay or a limited direct pay sales and use tax permit from the DFA prior to filing an application with the AEDC requesting approval of an increased tax refund for major maintenance and improvement projects.**

1. A taxpayer submits to the AEDC Incentives Manager, a completed, signed Manufacturing Replacement and Repair Sales and Use Tax Refund Application, consisting of the following sections:
  - A. Applicant information including:
    - (i) The name, address, physical location and contact of the company for which the application is being submitted; and
    - (ii) A Statement of Project Need.
  - B. A Project Plan consisting of:
    - (i) Estimated start and completion dates of project;
    - (ii) A description of the project scope;
    - (iii) Project cost estimates; and
    - (iv) Data providing reasonable proof that there will be a positive return on the taxpayer's investment in the major maintenance and improvement project that is sufficient to offset the refunded taxes.
  - C. Certifications
    - (i) Signature of company official; and
    - (ii) Contract disclosure.
2. The AEDC Incentives Manager reviews the application to determine that:

- A. The taxpayer holds a direct pay or a limited direct pay sales and use tax permit from the DFA;
  - B. The taxpayer is eligible for the increased refund for major maintenance and improvement projects provided for by Act 1404 of 2013, as amended;
  - C. The taxpayer has provided reasonable proof that there will be a positive return on the taxpayer's investment in the major maintenance and improvement project that is sufficient to offset the costs of the refund;
  - D. The taxpayer has provided a defined scope, beginning date, and ending date for the major maintenance and improvement project;
  - E. The refund is reasonably necessary for the taxpayer to remain competitive and preserve Arkansas jobs; and
  - F. Major maintenance and improvement eligible project expenditures will be at least \$3 million.
3.
    - A. If the AEDC determines that the application is complete and meets all requirements, the AEDC Incentives Manager prepares a financial incentive agreement and forwards one copy to the approved applicant for signature and return.
    - B. Unapproved applicants will be notified of the reasons for disapproval in writing by the AEDC.
  4. Upon receipt of the signed financial incentive agreement from the approved applicant, the AEDC Incentives Manager prepares an approval letter and forwards the financial incentive agreement and the approval letter to the Executive Director of the AEDC for signature.
  5. The Executive Director of the AEDC signs the financial incentive agreement and the approval letter and forwards each to the AEDC Incentives Manager for distribution.
  6. The AEDC Incentives Manager, on behalf of the Executive Director of the AEDC:
    - A. Forwards the taxpayer's approved application, financial incentive agreement, signed approval letter, and any other pertinent documentation to the DFA Director;
    - B. Forwards a copy of the executed financial incentive agreement and approval letter to the approved applicant; and
    - C. Retains copies of all original documents in AEDC files.
  7. The taxpayer shall contact DFA with questions regarding refund claims.
  8. A taxpayer that has been approved for the increased refund for major maintenance and improvement projects may request changes to the project plan only by written amendment submitted to and approved by the Executive Director of the AEDC.

## **VI. Combinability of Expenditures**

An expenditure shall not qualify for both the increased refund for major maintenance and improvement projects and the retention tax credit provided for in § 15-4-2706(c).

### **Replacement and Repair of Manufacturing Machinery and Equipment Sales and Use Tax**

# REGIONAL ECONOMIC DEVELOPMENT PARTNERSHIP

## Program Summary

The Regional Economic Development Partnership Act, Act 895 of 2011, as amended, and codified at § 15-4-3401 et seq., authorized the creation of regional economic development partnerships, established standards by which partnerships shall be governed, and specified requirements under which partnerships may apply for matching grants from AEDC to further activities of the partnership to implement specific strategic planning efforts.

Entities approved by AEDC as regional economic development partnerships may, should funding be available, apply for one (1) year matching grants (1:1 ratio) which may be used for marketing, advertising, promoting, and other activities related to implementing regional economic development partnership strategic plans. Subsequent one (1) year agreements may be entered into by the regional economic development partnership and AEDC.

To qualify as a regional economic development partnership, an entity shall:

1. Include the active participation of at least two (2) contiguous counties;
2. Be of adequate size in population to effectively undertake economic development activities while remaining a distinct and viable region for attracting new investment and generating adequate regional resources to provide matching grant funds;
3. Be economically integrated as determined by commuting patterns, economic base, major employers, membership in a defined metropolitan or micropolitan statistical area, or other indicators determined by AEDC; and
4. Require new member counties to adopt county ordinances authorizing membership, and approve membership of eligible participating counties.

*AEDC may allow an existing entity that applies to be a regional economic development partnership to maintain the entity's existing rules regarding membership, terms, and duties of the board of directors, however, any economic development partnership formed after January 1, 2013, shall be governed by a board of directors as required by Section IV. Of these rules.*

An entity seeking AEDC approval as a regional economic development partnership shall submit an application containing:

1. At least a three-year strategic plan that is consistent with the Governor's Strategic Plan for Economic Development and includes the following:
  - A. The proposed activities of the partnership; and
  - B. A budget for the next calendar year clearly identifying the proposed expenditures for which the grant funds are requested.
2. Proof of organization (include a copy of corporation filings with the Secretary of State);
3. A copy of the entity's:
  - A. Governing documents approved by the entity's governing board;

- B. Bylaws; or
- C. If incorporated, the Articles of Incorporation;
- 4. A map of the economic development region and the population served by the partnership, based on the latest decennial census;
- 5. The identity of each public organization and private organization, active in economic development, within the economic development region and the role each organization will undertake in the regional economic development partnership;
- 6. A list of the current members of the board of directors and the entity each member represents;
- 7. Evidence of:
  - A. The staff dedicated to the regional economic development partnership; or
  - B. The staff dedicated to program management of the regional economic development partnership. Dedicated staff may be employed by an entity other than the regional economic development partnership; and
- 8. Evidence of local match, in a ratio of 1:1 to access state funding for regional economic development. Local matching funds may be:
  - A. Provided by private sources, or a combination of public and private sources;
  - B. Received in the form of cash, in-kind contributions, or a combination of cash and in-kind contributions; and
  - C. In-kind contributions shall not be more than forty percent (40%) of the regional economic development partnership's total matching funds.
- 9. A regional economic development partnership that receives state funding under § 15-4-3401 et seq., shall submit an annual report to the Arkansas Economic Development Commission.

# **Regional Economic Development Partnership (Act 895 of 2011, as amended) Rules and Regulations**

## **I. Program Summary**

Act 895 of 2011 (§ 15-4-3401 et seq.), as amended, authorized the creation of regional economic development partnerships and addressed the governance of these partnerships as well as funding opportunities and responsibilities. The 2011 act, and 2013 amendment, outlined the provisions needed to implement the legislation and provide the Arkansas Economic Development Commission with the ability to promulgate rules and regulations addressing all aspects of the approval and funding of a regional economic development partnership.

It is the purpose of this rulemaking to make as clear as possible the procedures and approvals required by this act.

## **II. Definitions**

- A. “Commission” means the state agency known as the Arkansas Economic Development Commission;
- B. “Economic development region” means a group of municipalities or counties that includes at least two (2) counties and has formed a regional economic development partnership;
- C. “In-kind contributions” means items given to a regional economic development partnership, including, without limitation, donated office space, equipment, staff, and other items specifically approved by the commission; and
- D. “Regional economic development partnership” means an organization whose mission is to promote specific regions within the state in accordance with the intent described under §15-4-3402.

## **III. Membership in a Regional Economic Development Partnership**

- A. A regional economic development partnership shall satisfy the following requirements:
  - 1. The economic development region proposed includes the active participation of at least two (2) contiguous counties;
  - 2. The economic development region is of adequate size in population to:
    - a. Effectively undertake economic development activities while remaining a distinct and viable region for attracting new investment; and
    - b. Generate adequate regional resources to provide matching funds;

3. The economic development region is economically integrated as determined by commuting patterns, economic base, major employers, membership in a defined metropolitan or micropolitan statistical area, or other indicators determined by the Arkansas Economic Development Commission;
  4. Any county seeking to join a regional economic development partnership must adopt an ordinance seeking membership in the regional economic development partnership; and
  5. The regional economic development partnership, by a majority vote of its board of directors, that are residents of Arkansas, may approve the membership of a requesting county after having received a copy of the approved ordinance seeking membership.
- B. The Arkansas Economic Development Commission may allow an existing entity that applies to be a regional economic development partnership to maintain the entity's existing rules regarding membership, terms, and duties of the board of directors.

#### **IV. Board of Directors**

A regional economic development partnership formed on or after January 1, 2013, shall be governed by a board of directors that shall operate, manage and control the regional economic development partnership in all respects. The following shall apply to boards of directors of regional partnerships formed on or after January 1, 2013:

1. The Board of Directors shall contain at least one (1) representative from each county that is a member of the regional economic development partnership.
2. The governing body of each county that is a member of the regional economic development partnership shall appoint members of the board of directors.
3. Each member of the board shall serve for a term as provided under the bylaws of the regional economic development partnership.
4. A person appointed to the board of directors may be a representative of either a public or a private entity.

#### **V. Application for Approval**

- A. An entity seeking approval from the Arkansas Economic Development Commission as a regional economic development partnership under §15-4-3401 et seq. shall submit an application provided by AEDC.
- B. The application shall contain at least a three-year strategic plan that is consistent with the Governor's Strategic Plan for Economic Development and includes the following:
1. The proposed activities of the partnership; and
  2. A budget for the next calendar year clearly identifying the proposed expenditure for which the grant funds are requested.

- C. Also, the application shall provide the following information:
1. Proof of organization (include copies of corporation filings with the Secretary of State);
  2. A copy of the entity's:
    - a. Governing documents approved by the entity's governing board;
    - b. Bylaws; or
    - c. If incorporated, the Articles of Incorporation;
  3. A map of the economic development region and the population served by the partnership, based on the latest decennial census;
  4. The identity of each public organization and private organization, active in economic development, within the economic development region and the role each organization will undertake in the regional economic development partnership;
  5. A list of the current members of the board of directors and the entity each member represents;
  6. Evidence of:
    - a. The staff dedicated to the regional economic development partnership; or
    - b. The staff dedicated to program management of the regional economic development partnership.
      - i. Dedicated staff may be employed by an entity other than the regional economic development partnership; and
  7. Be prepared to provide local match, in a ratio of 1:1 to access state funding for regional economic development. These agreements between the regional partnerships and the state will be for a term of one-year and may be renewed beyond the year in which funding was first provided under this act.

## **VI. Staff**

- A. Staff members and positions may be comprised in whole or in part by direct employees hired by the regional economic development partnership, persons employed by entities contracting with and performing services on behalf of the regional economic development partnership, volunteers or interns contributing in-kind staffing services to the regional economic development partnership, and persons employed and compensated by third-party entities to perform services on behalf, and at the request of, the regional economic development partnership.
- B. The primary responsibility of the staff is to market, promote and develop the economic development region to attract site selectors and business prospects and to accomplish the goals and objectives of the strategic plan required by §15-4-3405 (b)(1).

## **VII. Termination of Partnership**

- A. A board of directors of a regional economic development partnership may terminate the regional economic development partnership upon a majority vote of the board of directors.
- B. At least a thirty (30) day notice of intent to terminate a regional economic development partnership must be sent to the Arkansas Economic Development Commission prior to the vote on termination.
- C. Upon termination of a partnership, the board of directors shall remit any unspent state funds to the commission within sixty (60) days of the notice to terminate the regional economic development partnership.

## **VIII. Funding**

- A. State Funds
  - 1. Each regional economic development partnership approved by the commission shall enter into an agreement with the Arkansas Economic Development Commission to receive state funds, if available.
  - 2. The agreement shall be:
    - a. For a term not to exceed one (1) year; and
    - b. Identify the eligible expenses for which the regional economic development partnership intends to use state funds.
  - 3.
    - a. Subsequent one (1) year agreements may be entered into by the regional economic development partnership and AEDC, following the commission's review of the annual report of the regional economic development partnership.
    - b. If a regional economic development partnership was initially approved as a multi-year project, a one-year renewal may be granted by the commission without the regional economic development partnership submitting an annual application.
  - 4. Each year the commission shall allocate funds specifically appropriated by the General Assembly or the commission for regional economic development.
    - a. The funds shall be distributed equally to the qualifying regional economic development partnerships that meet the matching fund requirements under §15-4-3408.
    - b. Funds that are not disbursed under this section during a fiscal year may be distributed in a subsequent fiscal year.
  - 5. If a regional economic development partnership includes a territory located in another state, regional funding provided under this subchapter shall only be provided to a county in Arkansas.
- B. Matching Funds
  - 1. A regional economic development partnership shall match the state funds allocated to the regional economic development partnership on the basis of at

least one dollar (\$1.00) local matching funds for every one dollar (\$1.00) of state funds.

2. If a regional economic development partnership does not provide proof of sufficient matching funds before the release of state funds, the Arkansas Economic Development Commission shall reduce the award of state funds in the amount necessary to adhere to the required one-to-one ratio of local matching dollars to state dollars.
3. Local matching funds may be:
  - a. Provided by public sources, private sources, or a combination of public and private sources;
  - b. Received in the form of cash, in-kind contributions, or a combination of cash and in-kind contributions; and
  - c. In-kind contributions shall not be more than forty percent (40%) of the regional economic development partnership's total matching funds.

C. Eligible Uses of State Funds

State funds under §15-4-3401 et seq., shall be used only for marketing, advertising, promoting, and other activities related to implementing the required strategic plan.

D. Ineligible Uses of State Funds

1. State funds under §15-4-3401 et seq., shall not be used for administrative costs.
2. Ineligible uses of state funds include, without limitation, payment for the following expenses:
  - a. Administrative salaries, benefits, general administrative costs, and salaries and benefits related to economic development;
  - b. Overhead expenses, including, without limitation, postage, shipping, rent, subscriptions, equipment, furniture, fixtures, telephone and utilities;
  - c. Travel and conference expenses within the state;
  - d. Local promotions or sponsorships;
  - e. Stationery, paper, pens, and general office supplies;
  - f. Construction and infrastructure costs;
  - g. Membership dues;
  - h. Alcoholic beverages; and
  - i. Gratuity on meals, including meals related to activities classified as eligible expenses.

## **IX. AEDC Responsibilities**

- A. The commission shall review each application submitted under the provisions of §15-4-3405 and shall certify that:
  1. The applicant satisfies the general qualification requirements in § 15-4-3404; and
  2. The application submitted under § 15-4-3401 et seq. includes the information required.

- B. The commission shall notify unsuccessful applicants in writing of the deficiencies of the application.

## **X. Annual Reports**

- A. A regional economic development partnership that receives state funding under §15-4-3401 et seq., shall submit an annual report to the Arkansas Economic Development Commission.
- B. The annual report shall include the following:
  - 1. A description of the economic development activities and organizational activities of the regional economic development partnership in the preceding twelve (12) months;
  - 2. A detailed financial report;
  - 3. A detailed budget for the next twelve (12) months; and
  - 4. A description of the proposed activities of the regional economic development partnership for the next twelve (12) months for which state funding under §15-4-3401 et seq., is being requested.

## **XI. Rules**

§ 15-4-3401 et seq. authorizes the Arkansas Economic Development Commission to promulgate these rules.

# **MINORITY BUSINESS ENTERPRISE AND WOMEN-OWNED BUSINESS ENTERPRISE CERTIFICATION PROGRAM**

## **Program Summary**

Act 1456 of 2003 required the AEDC to develop a certification process for minority business enterprises seeking state procurement opportunities. Subsequent amendments expanded the program to include additional minority groups, service-disabled veterans, and women-owned businesses. Definitions specific to business eligibility include:

“Minority” means a lawful permanent resident of the State of Arkansas who is:

1. African American;
2. American Indian;
3. Asian American;
4. Hispanic American;
5. Pacific Islander American; or
6. A service-disabled veteran as designated by the United States Department of Veteran Affairs;

“Minority business enterprise” means a business that is at least fifty-one percent (51%) owned by one (1) or more minority persons; and

“Women-owned business enterprise” means a business that is at least fifty-one percent (51%) owned by one (1) or more women who are lawful permanent residents of this state.

Currently, the AEDC’s Division of Minority and Women-Owned Business Enterprise (Division) and the Office of State Procurement of the Department of Finance and Administration work closely to implement program requirements.

Certification by the Minority Business Enterprise and Women-Owned Business Enterprise Certification Program, although not a prerequisite for contracting with the State of Arkansas for goods and services, enhances the ability of businesses to better understand the state procurement and contracting processes, be aware of state contracting opportunities, and gain exposure through publication of company information in the Division’s online directory of minority business enterprises and women-owned business enterprises. This, consequently, helps minority-owned and women-owned businesses compete for state contracts and strengthens state agencies’ abilities to meet procurement spending targets which are:

1. Ten percent (10%) for minority business enterprises with two percent (2%) allocated for service-disabled veteran-owned minority business enterprises and eight percent (8%) for all other minority business enterprises; and
2. Five percent (5%) for women-owned business enterprises.

To be eligible for certification, applicants must:

1. Meet the definition of:
  - (i) Minority business enterprise; or
  - (ii) Women-owned business enterprise.
2. Provide proof of legal organization as a for-profit business entity in good standing with the appropriate governmental agency;
3. Verify minority or women majority ownership, operation, and management of the business, as applicable, based upon the type of certification requested;
4. Submit a completed minority business enterprise/women-owned business enterprise application with attachments required by the Division; and
5. Demonstrate that the business's annual revenues are less than \$10,000,000.

To request certification, eligible applicants shall, utilizing forms prescribed by the Division, submit a completed, signed application with all supporting documentation.

1. The Division shall review the application for completeness to determine that:
  - (i) All required eligibility, fiscal, managerial, and organizational documentation and attachments have been submitted;
  - (ii) The applicant meets the definition of:
    - a. Minority business enterprise; or
    - b. Women-owned business enterprise;
  - (iii) The applicant has provided proof of legal organization as a for-profit business entity in good standing with the appropriate governmental agency;
  - (iv) There is sufficient documentation to verify minority or woman majority ownership, operation, and management of the business, as applicable, based upon the type of certification requested; and
  - (v) All customer business references have been verified.
2. The Division may:
  - (i) Schedule a pre-certification interview/site visit with the applicant; and
  - (ii) Examine vendor agreements, invoices, partnership agreements, and articles of incorporation that relate to business with the State of Arkansas.

Certified Minority Business Enterprises and Certified Women-Owned Business Enterprises are required to be recertified every two (2) years.

# Minority Business Enterprise and Women-Owned Business Enterprise Certification Program

(Act 1456 of 2003, as amended)

## Rules

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### I. Introduction

The origins of the Minority Business Enterprise (MBE) and Women-Owned Business Enterprise (WBE) Certification Program date back to the creation of the Division of Minority Business Enterprise (Act 544 of 1977) and the passage of the “Minority Business Economic Development Act” (Act 698 of 1991) which established a goal for state agencies to annually procure ten percent (10%) of goods and services from minority businesses. Administration of the Minority Business Economic Development Act was transferred from the Department of Commerce to the Department of Economic Development, now the Arkansas Economic Development Commission (AEDC), in 1979 (Act 1060 of 1979).

Act 1456 of 2003 required the AEDC, through the Division of Minority Business Enterprise, to develop a certification process for minority business enterprises seeking state procurement opportunities. Currently, the Division of Minority Business Enterprise, renamed the Division of Minority and Women-Owned Business Enterprise (Division) by Act 1080 of 2017, and the Office of State Procurement of the Department of Finance and Administration work closely to implement program requirements.

Subsequent amendments to the Minority Business Economic Development Act in 2003, 2007, 2009, 2011, and 2017 have changed the name of the act to the Minority and Women-Owned Business Economic Development Act; expanded and added definitions; enhanced reporting requirements; renamed and expanded the duties of the Division of Minority Business Enterprise and the Minority Business Advisory Council; enhanced the responsibilities of the Office of State Procurement of the Department of Finance and Administration; modified procurement target percentages; and expanded the program to include additional minority groups, service-disabled veterans, and women-owned businesses.

Certification by the Minority Business Enterprise and Women-Owned Business Enterprise Certification Program, although not a prerequisite for contracting with the State of Arkansas for goods and services, enhances the ability of businesses to better understand the state procurement and contracting processes, be aware of state

contracting opportunities, and gain exposure through publication of company information in the Division's online directory of minority business enterprises and women-owned business enterprises. This, consequently, helps minority-owned and women-owned businesses compete for state contracts and strengthens state agencies' abilities to meet procurement spending targets which are:

- Ten percent (10%) for minority business enterprises with two percent (2%) allocated for service-disabled veteran-owned minority business enterprises and eight percent (8%) for all other minority business enterprises; and
- Five percent (5%) for women-owned business enterprises.

### **Contact Information**

For more information, please contact:

Arkansas Economic Development Commission  
Division of Minority and Women-Owned Business Enterprise  
900 West Capitol Avenue, Suite 400  
Little Rock, AR 72201  
(501) 682-1121

## **II. Rulemaking Authority**

The AEDC has authority, at § 15-4-314, to promulgate rules necessary to create a minority business enterprise and women-owned business enterprise certification process.

## **III. Definitions**

- A. "Minority" means a lawful permanent resident of the State of Arkansas who is:
- (i) African American;
  - (ii) American Indian;
  - (iii) Asian American;
  - (iv) Hispanic American;
  - (v) Pacific Islander American; or
  - (vi) A service-disabled veteran as designated by the United States Department of Veteran Affairs;
- B. "Minority and Women-Owned Business Advisory Council" means the appointed council of advisors to the Division of Minority and Women-Owned Business Enterprise whose duties and responsibilities are delineated under § 15-4-307;

- C. “Minority business enterprise” means a business that is at least fifty-one percent (51%) owned by one (1) or more minority persons;
- D. “Women-owned business enterprise” means a business that is at least fifty-one percent (51%) owned by one (1) or more women who are lawful permanent residents of this state.

#### **IV. Eligible Applicants**

To be eligible for certification, applicants must:

- A. Meet the definition of:
  - (i) Minority business enterprise; or
  - (ii) Women-owned business enterprise.
- B. Provide proof of legal organization as a for-profit business entity in good standing with the appropriate governmental agency;
- C. Verify minority or women majority ownership, operation, and management of the business, as applicable, based upon the type of certification requested;
- D. Submit a completed minority business enterprise/women-owned business enterprise application with all required attachments demonstrating the firm’s capacity to conduct business with the State of Arkansas (see Appendix); and
- E. Demonstrate that the business’s annual revenues are less than \$10,000,000.

Eligible minority and women-owned enterprises that are actively certified with any of the following organizations may qualify for a streamlined application by submitting the completed application and proof of certification from the qualifying organization:

- Southern Region Minority Supplier Development Council (MBE);
- Small Business Administration 8(a) Business Development Program;
- Arkansas Department of Transportation (DBE);
- Women’s Business Council-Southwest (WBE); and
- United States Department of Veterans Affairs (SDVOSB).

#### **V. Certification Benefits**

Although certification is not a requirement for contracting for goods and services with the State of Arkansas, certified minority business enterprises (CMBE) and certified women-owned business enterprises (CWBE) will enjoy several benefits which include:

- Notification of opportunities to conduct business with state agencies;
- Notification of training events, workshops, networking events, and educational opportunities;
- Designation as a CMBE or CWBE in the Division’s online directory;
- Issuance of an official CMBE or CWBE certificate; and
- A streamlined certification process.

The State Procurement Director, state agency procurement agents, college and university procurement officials, MBE, WBE, constitutional officers, and minority business officers will be notified of businesses which are CMBE or CWBE.

## VI. Certification Process

- A. To request certification, eligible applicants shall, utilizing forms prescribed by the Division, submit a completed, signed application with all supporting documentation listed in the Appendix.
- B. The Division shall review the application for completeness to determine that:
  - (i) All required eligibility, fiscal, managerial, and organizational documentation and attachments have been submitted;
  - (ii) The applicant meets the definition of:
    - a. Minority business enterprise; or
    - b. Women-owned business enterprise;
  - (iii) The applicant has provided proof of legal organization as a for-profit business entity in good standing with the appropriate governmental agency;
  - (iv) There is sufficient documentation to verify minority or woman majority ownership, operation, and management of the business, as applicable, based upon the type of certification requested; and
  - (v) All customer business references have been verified.
- C. The Division may:
  - (i) Schedule a pre-certification interview/site visit with the applicant; and
  - (ii) Examine vendor agreements, invoices, partnership agreements, and articles of incorporation that relate to business with the State of Arkansas.

The Division shall also include as an integral component of the ongoing certification program:

- A. An education program to assist minority business enterprises and women-owned business enterprises in achieving certification; and
- B. Outreach to ensure the broadest possible participation of minority business enterprises and women-owned business enterprises and persons proposing new minority business enterprises or women-owned business enterprises.

Eligible minority and women-owned firms, as defined herein, enterprises that are actively certified with any of the following organizations may qualify for a streamlined application by submitting the completed application and proof of certification from the qualifying organization:

- Southern Region Minority Supplier Development Council (MBE);
- Small Business Administration 8(a) Business Development Program;

- Arkansas Department of Transportation (DBE);
- Women’s Business Council-Southwest (WBE); and
- United States Department of Veterans Affairs (SDVOSB).

## **VII. CMBE and CWBE Operations**

CMBE and CWBE are subject to periodic reviews by the Division. It is mandatory to report any change in the status of the business affecting the ability to meet product demand or any change in ownership, with a notarized Notice of Change Affidavit. All business transactions, including billing and the remittance of such, must be conducted under the name appearing on the MBE or WBE certificate.

## **VIII. Recertification**

CMBEs and CWBEs are required to recertify every two (2) years. To initiate recertification, CMBEs and CWBEs shall send a Recertification Affidavit to the Division thirty (30) days prior to their current expiration date stating their desire to maintain certification.

The Affidavit shall state that the business enterprise continues to be fifty-one percent (51%) minority-owned, -operated and -managed, or fifty-one percent (51%) women-owned, -operated, and -managed, and must be signed by the owner, executive officer, and the chairman of its board of directors, if applicable.

## **IX. Revocation**

The Director of the Division of Minority and Women-Owned Business Enterprise (Director) has the authority to suspend, and revoke, or both, the certification of any business which fails to comply with the rules of this program. Any business with a revoked certification will be ineligible to reapply to the program for a period of two (2) years.

Prior to revocation of an MBE or WBE certification under these rules, the MBE or WBE shall be afforded an opportunity to discuss with the Director the issues which have given rise to the revocation.

## **X. Appeals**

Any applicant who is denied its request for certification or recertification because they were unable to prove it’s minority-owned or women-owned status may appeal the decision to the Minority and Women-Owned Business Advisory Council (Council). A written notice of appeal must be received no more than thirty (30) days after the date

of the notice of denial. The Council shall meet to hear the appeal within forty-five (45) days of receipt of the written notice.

Certified businesses may appeal a revocation action to the Council. A written notice of appeal must be received within thirty (30) days after the date on the notice of the revocation. The Council shall meet to hear the appeal within forty-five (45) days of receipt of the written notice.

## Appendix

### List of Documents

1. Completed, signed MBE/WBE application form
2. Proof of certification from qualifying organization\*
3. Organization Information:
  - a. Sole proprietorships (assumed name documents)
  - b. Partnerships (limited partnership documents; partnership, buy-out, and/or profit sharing agreements; partnership or operating agreement required for businesses with two (2) or more owners, evidencing division of shares and profit distribution)
  - c. Corporations (provide filings in good standing; bylaws; board of directors and/or shareholdings documentation)
4. Copy of bank signature authorization card, form or letter signed by a bank official at your financial institution identifying the person(s) authorized to sign checks on the business's account (signatory authority)
5. Federal Tax Identification Number and Dun & Bradstreet Number (DUNS)
6. Proof of Arkansas residency (State-issued driver's license or identification card)
7. Evidence of United States citizenship or permanent legal resident alien status (United States passport, United States birth certificate, naturalization papers, permanent legal residence alien "green" card, or tribal card)
8. Copy of resume(s) of owner(s), board of directors, and other senior corporate governance/management
9. Company overview
10. Proof of state and federal business tax returns as filed with the Internal Revenue Service (IRS federal transcript) and Arkansas Department of Finance and Administration for the previous two (2) years
11. Copy of insurance\*\*
12. Bonding information\*\*

13. Copy of each professional license\*\*
14. Veterans Administration adjudication letter, if applicant is a service-disabled veteran
15. Financial statements\*\*
16. Service agreements\*\*
17. Proof of capital and/or equity\*\*
18. Business customer references

\* Eligible minority- or women-owned businesses certified by a qualifying organization identified in Section IV. of these rules need only submit the MBE/WBE application form and proof of certification from the qualifying organization.

\*\*If required as a normal function of the business

# MINORITY BUSINESS ENTERPRISE AND WOMEN-OWNED BUSINESS ENTERPRISE LOAN MOBILIZATION PROGRAM

## Program Summary

Pursuant to authority granted under § 15-4-306 of the Minority Business Economic Development Act, § 19-5-1240, which established the Minority Business Loan Mobilization Revolving Fund, and Act 1080 of 2017, which expanded eligibility regarding programs and services under § 19-5-1240 to include women-owned business enterprises, AEDC's Minority and Women-Owned Business Enterprise Division administers a Minority Business Enterprise and Women-Owned Business Enterprise Loan Mobilization Program that may guarantee loans that:

1. Are made by a lender to a borrower who:
  - A. Meets the definitions of § 15-4-303 as a:
    - i. "Minority" and "minority business enterprise" or
    - ii. "Women-owned business enterprise".
  - B. Has been certified by the Minority and Women-Owned Business Enterprise Division of the AEDC as a minority business enterprise or women-owned business enterprise in accordance with § 15-4-314 and rules developed pursuant to § 15-4-314(a); and
  - C. Has done or is currently doing business with a Federal, state, or local Arkansas governmental entity;
2. Are made for purposes consistent with § 19-5-1240(d) or purposes consistent with other funding source criteria whenever loans are not guaranteed by the Minority Business Loan Mobilization Revolving Fund, or its successor fund, or other designated fund accounts;
3. Are made by an approved lender to a borrower for an amount, purpose and term approved in a written loan guaranty authorization signed by the AEDC Executive Director and the Director of the Minority and Women-Owned Business Enterprise Division of the AEDC; and,
4. Are made with respect to lender compliance with the terms and conditions of an executed Loan Guaranty Lender Participation Agreement.

Definitions specific to business eligibility include:

"Minority" means a lawful permanent resident of this state who is:

1. African American;
2. Hispanic American;
3. American Indian;
4. Asian American;
5. Pacific Islander American; or
6. A service-disabled veteran as designated by the United States Department of Veteran Affairs; and

“Minority and Women-Owned Business Enterprise Division of the Arkansas Economic Development Commission” means the division of the Arkansas Economic Development Commission responsible for administering the Minority Business Enterprise and Women-Owned Business Enterprise Loan Mobilization Program;

“Minority business enterprise” means a business that is at least fifty-one percent (51%) owned by one (1) or more minority persons as defined in this section; and

“Women-owned business enterprise” means a business that is at least fifty-one percent (51%) owned by one (1) or more women who are lawful permanent residents of this state.

To apply for a loan guaranty under the Minority Business Enterprise and Women-Owned Business Enterprise Loan Mobilization Program, a minority business enterprise or women-owned business enterprise shall submit an application and any supporting documentation on forms prescribed by the Division. AEDC shall:

1. Evaluate each application and any supporting documentation to determine whether the minority business enterprise or women-owned business enterprise is eligible for a loan guaranty in accordance with the requirements of § 15-4-301 et seq. (Minority and Women-Owned Business Economic Development Act) and § 19-5-1240(d) (Minority Business Loan Mobilization Revolving Fund), or its successor fund, or fund accounts;
2. Recommend approval of the minority business enterprise or women-owned business enterprise meeting eligibility requirements to the AEDC Executive Director; and
3. Notify the minority business enterprise or women-owned business enterprise of approval or denial of the application within seven (7) business days of receipt of the application by AEDC.

Upon notification of approval by AEDC, the approved minority business enterprise or women-owned business enterprise will be informed about the next steps including selection of a lender to begin the lender’s loan application process.

The lender selected by the approved minority business enterprise or women-owned business enterprise shall:

1. Notify the minority business enterprise or women-owned business enterprise of the lender’s determination to approve or deny the minority business enterprise’s or women-owned business enterprise’s loan application; and
2. Send written notification of the lender’s determination to approve or deny the loan application to AEDC within seven (7) business days after making the determination.

AEDC will review the approved lender application package and execute a written loan guaranty authorization between the lender and the AEDC. After a loan application has been approved by a lender, the minority business enterprise or women-owned business enterprise shall close the loan.

In the event of default, the Division may direct the lender to accelerate the maturity of the loan and proceed to enforce all loan documents to liquidate any security for the loan including proceeding against any guarantor(s), in a commercially reasonable, expeditious manner and in accordance with prudent lending practices.

# Minority Business Enterprise and Women-Owned Business Enterprise Loan Mobilization Program Rules

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## I. Introduction

### Overview

The Minority Business Loan Mobilization Program was created by the Arkansas Economic Development Commission (AEDC) pursuant to authority granted under § 15-4-306 of the Minority Business Economic Development Act and § 19-5-1240, which established the Minority Business Loan Mobilization Revolving Fund.

Act 1080 of 2017, amended the Minority Business Economic Development Act by expanding eligibility regarding programs and services under the Act to include women-owned business enterprises.

Expanding the Minority Business Loan Mobilization Program, renamed the Minority Business Enterprise and Women-Owned Business Enterprise Loan Mobilization Program, by extending eligibility and funding for loan guarantees to women-owned businesses, will help further effectuate the objectives of Act 1080 of 2017.

The Minority Business Enterprise and Women-Owned Business Enterprise Loan Mobilization Program may guarantee loans that:

1. Are made by a lender to a borrower who:
  - A. Meets the definitions of § 15-4-303 as a:
    - i. “Minority” and “minority business enterprise” or
    - ii. “Women-owned business enterprise”.
  - B. Has been certified by the Minority and Women-Owned Business Enterprise Division of the AEDC as a minority business enterprise or women-owned business enterprise in accordance with § 15-4-314 and rules developed pursuant to § 15-4-314(a); and
  - C. Has done or is currently doing business with a Federal, state, or local Arkansas governmental entity;
2. Are made for purposes consistent with § 19-5-1240(d) or purposes consistent with other funding source criteria whenever loans are not guaranteed by the Minority Business Loan Mobilization Revolving Fund, or its successor fund or other designated fund accounts;
3. Are made by an approved lender to a borrower for an amount, purpose, and term approved in a written loan guaranty authorization (authorization) signed by

- the AEDC Executive Director and the Director of the Minority and Women-Owned Business Enterprise Division of the AEDC; and,
4. Are made with respect to lender compliance with the terms and conditions of an executed Loan Guaranty Lender Participation Agreement (agreement).

## II. Definitions

1. "Lender" means:
  - A. A Federally-chartered bank;
  - B. A State-chartered bank;
  - C. A savings and loan association;
  - D. A credit union;
  - E. An Arkansas Planning and Development or Economic Development District; or
  - F. Any other form of financial institution regulated by the State of Arkansas or the Federal government;
2. "Minority" means a lawful permanent resident of this state who is:
  - A. African American;
  - B. Hispanic American;
  - C. American Indian;
  - D. Asian American;
  - E. Pacific Islander American; or
  - F. A service-disabled veteran as designated by the United States Department of Veterans Affairs;
3. "Minority and Women-Owned Business Enterprise Division of the Arkansas Economic Development Commission" means the division of the Arkansas Economic Development Commission responsible for administering the Minority Business Enterprise and Women-Owned Business Enterprise Loan Mobilization Program;
4. "Minority business enterprise" means a business that is at least fifty-one percent (51%) owned by one (1) or more minority persons as defined in this section; and
5. "Women-owned business enterprise" means a business that is at least fifty-one percent (51%) owned by one (1) or more women who are lawful permanent residents of this state.

### III. Lender Requirements and Responsibilities

1. To be eligible to serve as a lender for a loan that is guaranteed by the Minority and Women-Owned Business Enterprise Division of the AEDC, the lender shall be one of the following financial institutions:
  - A. A Federally-chartered bank;
  - B. A State-chartered bank;
  - C. A savings and loan association;
  - D. A credit union;
  - E. An Arkansas Planning and Development or Economic Development District; or
  - F. Any other form of financial institution regulated by the State of Arkansas or the Federal government.
2. The lender will only approve deals that are consistent with prudent lending practices through review of personal and business financial statements and other documents; the credit standing, repayment capacity, existence of title to and value of collateral pledged to the loan (if any); earnings prospects; and business acumen of the borrower requesting a loan guaranty through the Minority Business Enterprise and Women-Owned Business Enterprise Loan Mobilization Program.
3. Upon and after closing the loan and disbursing the loan proceeds, the lender shall cause to be executed, delivered, and, where necessary, filed or recorded with the proper authorities, a note, mortgage or trust deed, security agreement, financing statement, continuation statement, and such other instruments, documents and agreements as may be applicable. The lender shall take such other actions as required to assure that the borrower and any guarantor(s) are obligated to repay the loan.
4. The lender shall have valid and enforceable security interest in any collateral and insure that the collateral is adequately maintained and insured and that the interests of the lender and AEDC are fully protected, consistent with prudent lending practices.
5. The lender shall cause all loan documents, including any guaranty agreements, to be properly authorized and executed as required in the authorization. The lender shall take any further action necessary to assure that all guarantor(s) have a binding and enforceable obligation to repay the loan.
6. The lender shall exercise supervision over any collateral and ensure that any collateral is disposed of in a commercially reasonable sale.
7. Services of an escrow agent may be required at the request of AEDC to discuss issues regarding use of proceeds for authorized purposes.
8. Upon request, the lender shall provide to the Minority and Women-Owned Business Enterprise Division of the AEDC all documents executed in connection with the loan, loan disbursements, and loan records.

9. The lender will impose no charges on the borrower of a loan guaranteed hereunder that would not normally be imposed had the loan not been guaranteed.
10. The lender will provide the Minority and Women-Owned Business Enterprise Division of the AEDC with such financial information on guaranteed loans as the Minority and Women-Owned Business Enterprise Division of the AEDC may reasonably require.

#### **IV. Loan Guaranty Application Process**

1. To apply for a loan guaranty under the Minority Business Enterprise and Women-Owned Business Enterprise Loan Mobilization Program, a minority business enterprise or women-owned business enterprise shall submit an application and any supporting documentation required to the Minority and Women-Owned Business Enterprise Division of the AEDC.
2. The Minority and Women-Owned Business Enterprise Division of the AEDC shall:
  - A. Evaluate each application and any supporting documentation to determine whether the minority business enterprise or women-owned business enterprise is eligible for a loan guaranty in accordance with the requirements of § 15-4-301 et seq. (Minority and Women-Owned Business Economic Development Act) and § 19-5-1240(d) (Minority Business Loan Mobilization Revolving Fund), or its successor fund or fund accounts.
  - B. Recommend approval of the minority business enterprise or women-owned business enterprise meeting eligibility requirements to the AEDC Executive Director.
  - C. Notify the minority business enterprise or women-owned business enterprise of approval or denial of the application within seven (7) business days of receipt of the application by the Minority and Women-Owned Business Enterprise Division of the AEDC.
3. Upon notification of approval by the Minority and Women-Owned Business Enterprise Division of the AEDC, the approved minority business enterprise or women-owned business enterprise will be informed about the next steps including selection of a lender to begin the lender's loan application process.
4. The lender selected by the approved minority business enterprise or women-owned business enterprise shall:
  - A. Notify the minority business enterprise or women-owned business enterprise of the lender's determination to approve or deny the minority business enterprise's or women-owned business enterprise's loan application.

- B. Send written notification of the lender's determination to approve or deny the loan with application documents to the Minority and Women-Owned Business Enterprise Division of the AEDC within seven (7) business days after making the determination.
5. If the lender approves the loan application, the Minority and Women-Owned Business Enterprise Division of the AEDC will review the approved lender application documents and execute a written loan guaranty authorization between the lender and the AEDC.
6. After a loan application has been approved by a lender, the minority business enterprise or women-owned business enterprise shall close the loan.
7. The Minority and Women-Owned Business Enterprise Division of the AEDC will retain a copy of the loan package and monitor the project for compliance with program requirements.

## **V. Administration and Servicing of Loans**

The lender shall maintain the loan instruments, receive all payments, including but not limited to principal and interest, and take other such action as may be required or advisable to administer and service the loan consistent with prudent lending practices. The lender shall not, without prior written consent of the AEDC, engage in any of the following:

1. Make or consent to any transfer or assignment of any note or interest therein or any material alteration in the terms of any loan instrument;
2. Make or consent to any release, conveyance, lease, substitution or exchange of any collateral;
3. Extend or postpone any repayment terms except those authorized in the executed loan guaranty lender participation agreement; and
4. Waive or release any claim against the borrower, surety, guarantor, or other obligor, or any other creditor of trustee in bankruptcy, arising out of any loan instrument.

The Minority and Women-Owned Business Enterprise Division of the AEDC will respond to written requests regarding administration and servicing of loans from lenders within fifteen (15) days of receipt or such requests will be deemed not to require the written consent of the Minority and Women-Owned Business Enterprise Division of the AEDC.

## **VI. Default and Notice of Default**

The lender agrees to notify the Minority and Women-Owned Business Enterprise Division of the AEDC, in writing, within fifteen (15) business days of notice of actual default. Within fifteen (15) business days after receipt of notice of actual default, the Minority and Women-Owned Business Enterprise Division of the AEDC will notify the lender, in writing, which of the following options the AEDC elects:

1. **LIQUIDATION:** The Minority and Women-Owned Business Enterprise Division of the AEDC may direct the lender to accelerate the maturity of the loan and proceed to enforce all loan documents to liquidate any security for the loan including proceeding against any guarantor(s), in a commercially reasonable, expeditious manner and in accordance with prudent lending practices. In such an event, the AEDC shall pay the lesser of ninety percent (90%) of the remaining unpaid loan balance, or the guaranty percentage specified in the loan authorization agreement, with a maximum payment not to exceed \$100,000.
2. **PAYMENT:** The Minority and Women-Owned Business Enterprise Division of the AEDC shall pay the lesser of ninety percent (90%) of the remaining unpaid loan balance, or the guaranty percentage specified in the loan authorization agreement, with a maximum payment not to exceed \$100,000, in payments of equal value, but for the acceleration, on the due dates defined in loan documents and may direct the lender to assign all loan documents and rights to the AEDC.

The Minority and Women-Owned Business Enterprise Division of the AEDC and lender may take such other action, upon default, as they may agree to in writing. At any time after electing to direct the lender to liquidate, the AEDC may elect the above payment option VI. 2.

All proceeds of any collateral or guaranties of any nature (other than guaranties received pursuant to the AEDC guaranty agreement), including, without limitation, right of setoff and counterclaim, shall be used to repay and secure the interests of the lender and the AEDC.

## **VII. Requests for Payment of Guaranty**

In the event that the Minority and Women-Owned Business Enterprise Division of the AEDC has directed the lender to liquidate any collateral, the lender's request for the payment of guaranty shall be accompanied by the lender's written certification:

1. That the lender has liquidated any collateral and all guaranties for the loan and has diligently pursued and exhausted all sources of repayment, unless by mutual consent such pursuit has not been deemed cost-effective; and
2. That the lender has allocated repayments, proceeds of any collateral and any guaranties to the respective interest of the parties, as required by these rules or a specific authorization agreed to by both parties, including the remaining unpaid principal and interest.

## **VIII. Sources of Funds**

Any guaranties by the Minority and Women-Owned Business Enterprise Division of the AEDC have been entered into under the provisions of Act 1428 of 2009, Sections 10 and 11, codified at § 19-5-1240, or all provisions stipulated by funding sources other than the Minority Business Loan Mobilization Revolving Fund, or its successor fund or other designated fund accounts, for loan guaranties not secured under § 19-5-1240, and are subject to all terms, restrictions, and commitments contained therein. Neither the full faith nor credit of the State of Arkansas or any of its revenues is pledged to meet the obligations of the AEDC under any guaranty agreement. The obligations of the AEDC under Minority Business Enterprise and Women-Owned Business Enterprise Loan Mobilization Program guaranty agreements are limited to the funds available in the Minority Business Loan Mobilization Revolving Fund, or its successor fund or other designated fund accounts, as provided for in Act 1428 of 2009, and any other appropriation for similar purposes.

# ARKANSAS BUSINESS AND TECHNOLOGY ACCELERATOR GRANT PROGRAM

## Program Summary

The Arkansas Business and Technology Accelerator Grant Program (ArBTAGP), provided for by Act 165 of 2017, as codified at § 15-3-601 et seq., was created to stimulate innovation and growth among the state's technology businesses. The program, administered by the Division of Science and Technology of the Arkansas Economic Development Commission (Division), may provide, to eligible businesses, discretionary grants, subject to the availability of funds, of up to two hundred fifty thousand dollars (\$250,000) to sponsor business and technology programs to mentor start-up companies.

The ArBTAGP was created to stimulate innovation and growth among the state's technology businesses and create high-skilled, high-wage jobs.

"Business and technology accelerator" means a full-time, immersive program administered by an eligible applicant to potentially invest in, mentor, and accelerate commercial development of start-up businesses.

An "eligible applicant" means an entity that is:

1. Registered as a business entity in good standing with the Arkansas Secretary of State; and
2. Principally engaged in one (1) or more of the following categories of business or industry:
  - A. A manufacturer classified in sectors 31-33 of the 2012 North American Industrial Classification System;
  - B. A business that:
    - i. Is primarily engaged in the design and development of prepackaged software, digital content production and preservation, computer processing and data preparation services, or information retrieval services; and
    - ii. Derives at least seventy-five percent (75%) of its sales revenue from out of state;
    - iii. An office sector business whose business operations support primary business needs, including without limitation customer service, credit accounting, telemarketing, claims processing, and other administrative functions that:
      - a. Is a nonretail business; and
      - b. Derives at least seventy-five percent (75%) of its sales revenue from out of state;
    - iv. A national or regional corporate headquarters as classified in sector 551114 of the 2012 North American Industrial Classification System;
    - v. A scientific and technical services business that derives at least seventy-five percent (75%) of its sales revenue from out of state;

- vi. A firm primarily engaged in commercial, physical, and biological research as classified in code 541711 or 541712 of the 2012 North American Industrial Classification System; and
- vii. A firm engaged in one (1) or more of the following categories:
  - a. Advanced materials and manufacturing systems;
  - b. Agriculture, food processing, and environmental sciences;
  - c. Biotechnology, bioengineering, and life sciences;
  - d. Information technology;
  - e. Transportation logistics; and
  - f. Internet-enabled technology or service solution of one (1) or more of the categories described in subdivision 2.B.(vii)(a)-(e) of this section.

### **Program Rule Summary**

1. Eligible applicants shall submit completed applications, on forms prescribed by the Division, to request grant funding from the ArBTAGP.
2. The Director of the Division of Science and Technology of the Arkansas Economic Development Commission, with advice from the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission, shall review and recommend applications for grant funding to the Executive Director of the Arkansas Economic Development Commission (Executive Director).
3. Applicants receiving approval from the Executive Director shall execute grant agreements specifying grant terms and conditions.
4. Grant funding shall be made available to grantees on a reimbursement basis, subsequent to submittal of requests for payment as instructed in the grant agreement by the Division.
5. Grantees shall submit final reports, upon full expenditure of ArBTAGP grant funds, in accordance with terms specified in the grant agreement.

# Arkansas Business and Technology Accelerator Grant Program Rules

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## I. Introduction

### Overview

The Arkansas Business and Technology Accelerator Grant Program (ArBTAGP), provided for by Act 165 of 2017, was created to stimulate innovation and growth among the state's technology businesses. The program, administered by the Division of Science and Technology of the Arkansas Economic Development Commission (Division), may provide, to eligible businesses, discretionary grants of up to two hundred fifty thousand dollars (\$250,000) to sponsor business and technology programs to mentor start-up companies.

Objectives of the ArBTAGP are to:

- Stimulate corporate growth through the infusion of innovative ideas, products, and services;
- Create high-skilled, high-wage jobs by encouraging the development of technological products and services; and
- Foster economic growth by linking new ideas, products, and services by entrepreneurs and start-up companies to corporate sponsors seeking the commercialization of new products and services.

### Program Rule Summary

1. Eligible applicants shall submit completed applications, on forms prescribed by the Division, to request grant funding from the ArBTAGP.
2. The Director of the Division of Science and Technology of the Arkansas Economic Development Commission (Director), with advice from the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission (Board), shall review and recommend applications for grant funding to the Executive Director of the Arkansas Economic Development Commission (Executive Director).
3. Applicants receiving approval from the Executive Director shall execute grant agreements specifying grant terms and conditions.
4. Grant funding shall be made available to grantees on a reimbursement basis, subsequent to submittal of requests for payment as instructed in the grant agreement by the Division.

5. Grantees shall submit final reports, upon full expenditure of ArBTAGP grant funds, in accordance with terms specified in the grant agreement.

### **Contact Information**

For more information, please contact:  
Arkansas Economic Development Commission  
Division of Science and Technology  
900 West Capitol, Suite 400  
Little Rock, AR 72201  
(501) 682-1121

## **II. Rulemaking Authority**

The AEDC has authority, at § 15-3-608, to promulgate rules necessary to administer the Arkansas Business and Technology Accelerator Grant Program.

## **III. Definitions**

1. “Business and technology accelerator” means a full-time, immersive program administered by an eligible applicant to potentially invest in, mentor, and accelerate commercial development of start-up businesses;
2. “Business and technology accelerator grant” means a discretionary grant of up to two hundred fifty thousand dollars (\$250,000) for each approved business and technology accelerator application; and
3. “Eligible applicant” means an entity that is:
  - A. Registered as a business entity in good standing with the Arkansas Secretary of State; and
  - B. Principally engaged in one (1) or more of the following categories of business or industry:
    - (i) A manufacturer classified in sectors 31-33 of the 2012 North American Industrial Classification System;
    - (ii) A business that:
      - (a) Is primarily engaged in the design and development of prepackaged software, digital content production and preservation, computer processing and data preparation services, or information retrieval services; and
      - (b) Derives at least seventy-five percent (75%) of its sales revenue from out of state;

- (iii) An office sector business whose business operations support primary business needs, including without limitation customer service, credit accounting, telemarketing, claims processing, and other administrative functions that:
  - (a) Is a nonretail business; and
  - (b) Derives at least seventy-five percent (75%) of its sales revenue from out of state;
- (iv) A national or regional corporate headquarters as classified in sector 551114 of the 2012 North American Industrial Classification System;
- (v) A scientific and technical services business that derives at least seventy-five percent (75%) of its sales revenue from out of state;
- (vi) A firm primarily engaged in commercial, physical, and biological research as classified in code 541711 or 541712 of the 2012 North American Industrial Classification System; and
- (vii) A firm engaged in one (1) or more of the following categories:
  - (a) Advanced materials and manufacturing systems;
  - (b) Agriculture, food processing, and environmental sciences;
  - (c) Biotechnology, bioengineering, and life sciences;
  - (d) Information technology;
  - (e) Transportation logistics; and
  - (f) Internet-enabled technology or service solution of one (1) or more of the categories described in subdivision 3.B.(vii)(a)-(e) of this section.

## **IV. Eligibility**

### **Eligible Applicants**

To be eligible to receive ArBTAGP funding, an applicant shall:

1. Meet the definition of “eligible applicant”; and
2. Submit a completed, signed application, on forms provided by the Division.

### **Eligible Costs**

The Division will review all expenditure requests prior to payment to ensure that costs are consistent with the terms and conditions of the grant agreement.

## **V. Application Process**

### **Application Submittal**

To request ArBTAGP funds, eligible applicants shall, utilizing forms prescribed by the Division, submit a completed, signed application with all supporting documentation to the Division. Applications shall include:

1. Accelerator title;
2. Contact information;
3. Proof of legal organization as a business entity in good standing with the Arkansas Secretary of State;
4. A statement of work;
5. The amount of funding requested; and
6. Start and completion dates of the project.

### **Application Review and Approval**

No grant offer shall be made by the Executive Director to an applicant until the Division has completed the following review and approval process.

1. The Division shall conduct a preliminary review of each application, in order of receipt, to confirm that it:
  - A. Was submitted by an eligible applicant;
  - B. Is for a targeted business activity consistent with program objectives; and
  - C. Is complete, including all required attachments.
2. At its discretion, the Division may request supplemental materials from the applicant. All supplemental materials must be received at least forty-five (45) days prior to the next scheduled meeting of the Board.
3. All applications meeting preliminary review requirements shall be forwarded to the Board at least thirty (30) days prior to their next scheduled meeting.
4. The Board shall:
  - A. Review each application in accordance with program rules; and
  - B. Forward, for each application reviewed, a recommendation to approve or disapprove the application to the Director.
5. The Director shall review each application in accordance with program rules and the advice and recommendation of the Commercialization Committee of the Board.
6. Upon completion of review, the Director will provide preliminary funding recommendations to the Executive Director.
7. The Executive Director, after reviewing Director recommendations, will specify which applicants may receive grants.
  - A. Unsuccessful applicants will be notified in writing by the Director.

- B. Approved applicants will be required to execute a grant agreement outlining the amount, terms, and conditions of the grant.

## **VI. Grant Agreements**

1. ArBTAGP grants may be awarded, pending availability of funds, at the discretion of the Executive Director. Grant agreements shall specify:
  - A. The eligibility date for incurring project costs;
  - B. Terms and conditions of the grant;
  - C. The amount of approved costs; and
  - D. The process by which grant funds shall be invoiced and disbursed to the grantee.
2. The amount of the grant shall be discretionary and may be for amounts less than requested.
3. Grants may be funded from any source of funds allocated to the ArBTAGP.
4. Grants will be executed according to the following process:
  - A. Two (2) original copies of the grant agreement will be prepared by the Director and forwarded to the grantee for signature and return.
  - B. Upon receipt of the signed grant agreements from the grantee, the Director will prepare an approval letter and forward the grant agreements and the approval letter to the Executive Director for signature.
  - C. One (1) original copy of the grant agreement will be forwarded to the grantee with the signed approval letter. One (1) original copy of the grant agreement will be retained by the Director.
5. Any material change to the scope of the project is subject to prior approval by the Executive Director.

## **VII. Confidential Information**

Applications submitted to the Division are subject to the Freedom of Information Act of 1967, § 25-19-101 et seq. To the extent an applicant believes that information in an application is confidential or otherwise exempt under the Freedom of Information Act of 1967, § 25-19-101 et seq., the applicant shall specifically designate in writing the information the applicant believes to be confidential or exempt and the basis for the confidentiality or exemption on that portion of the application in which the information appears.

## **VIII. Reimbursement**

Disbursements of Arkansas Business and Technology Accelerator Grant Program funds shall be made on a reimbursable basis, payable when invoices and financial reports are submitted to the Division.

## **IX. Final Report**

Grantees shall submit final reports, upon full expenditure of ArBTAGP grant funds, in accordance with terms specified in the grant agreement. Reports shall:

- A. Include a one-page non-proprietary executive summary describing the impact and positive effect of the receipt of ArBTAGP funds;
- B. Document final expenditure of grant funds;
- C. Provide an updated status of the project;
- D. Summarize economic effects of the ArBTAGP on job creation, project commercialization, and patent applications filed or approved subsequent to grant award; and
- E. Certify that all grant terms and conditions were met.

## **X. Effective Date**

These rules are effective on or after October 1, 2017.

# **ARKANSAS SMALL BUSINESS INNOVATION RESEARCH MATCHING GRANT PROGRAM**

## **Program Summary**

The Arkansas Small Business Innovation Research Matching Grant Program (ArSBIRMGP), Act 166 of 2017, as codified at § 15-3-701 et seq., was created to stimulate innovation and growth among the state’s technology businesses. The program, administered by the Division of Science and Technology of the Arkansas Economic Development Commission (Division), may provide, to eligible businesses, discretionary matching grants, subject to the availability of funds, of up to fifty percent (50%) of the amount of federal Phase I and Phase II Small Business Innovation Research (SBIR) grants, not to exceed fifty thousand dollars (\$50,000) for Phase I awards and one hundred thousand dollars (\$100,000) for Phase II awards.

Objectives of the ArSBIRMGP are to:

- Create and retain high-tech jobs, especially high-wage jobs in middle-skill and high-skill occupations;
- Encourage innovative small businesses to engage in federally-funded research that has the potential for technological innovation and commercialization;
- Increase the amount of SBIR funds invested in Arkansas businesses; and
- Induce the retention, growth, and location of companies in Arkansas.

“Eligible business” means a for-profit business that is registered as a business entity in good standing and has its principal place of business in Arkansas.

To be eligible to receive ArSBIRMGP funding, an applicant shall:

1. Submit a completed signed application, under forms provided by the Division.
2. Meet the definition of “eligible business”; and
3. Certify that:
  - A. For Phase I applications, they have received an SBIR grant from a sponsoring agency in response to a specific federal solicitation; or
  - B. For Phase II applications, they have:
    - i. Submitted a final Phase I SBIR report to the sponsoring agency;
    - ii. Demonstrated that the sponsoring agency has interest in the Phase II SBIR proposal; and
    - iii. Submitted a Phase II proposal to the sponsoring agency.
  - C. All federal SBIR grant requirements will be met.
  - D. At least fifty-one percent (51%) of the ArSBIRMGP grant shall be spent in Arkansas.
  - E. They shall remain in Arkansas for the duration of the matching grant project.
  - F. An Arkansas resident or employee will be designated as the principal investigator/project manager for the duration of the matching grant;

- G. They will be principally engaged in one (1) or more of the following targeted business activities:
  - i. Advanced materials and manufacturing systems;
  - ii. Agriculture, food, and environmental sciences;
  - iii. Biotechnology, bioengineering, and life sciences;
  - iv. Information technology;
  - v. Transportation logistics; and
  - vi. Bio-based products.

**Program Rule Summary**

- 1. Eligible applicants shall submit completed applications, on forms prescribed by the Division to request grant funding from the ArSBIRMGP.
- 2. The Director of the Division of Science and Technology of the Arkansas Economic Development Commission, with advice from the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission, shall review and recommend applications for grant funding to the Executive Director of the Arkansas Economic Development Commission (Executive Director).
- 3. Applicants receiving approval from the Executive Director shall execute grant agreements specifying grant terms and conditions.
- 4. Grant funding shall be made available to grantees on a reimbursement basis, subsequent to submittal of requests for payment on forms approved by the Division.
- 5. Grantees shall submit final reports, upon full expenditure of ArSBIRMGP grant funds, in accordance with terms specified in the grant agreement.

# Arkansas Small Business Innovation Research Matching Grant Program Rules

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## I. Introduction

### Overview

The Arkansas Small Business Innovation Research Matching Grant Program (ArSBIRMGP), Act 166 of 2017, was created to stimulate innovation and growth among the state's technology businesses. The program, administered by the Division of Science and Technology of the Arkansas Economic Development Commission (Division), may provide, to eligible businesses, discretionary matching grants of up to fifty percent (50%) of the amount of federal Phase I and Phase II Small Business Innovation Research (SBIR) grants, not to exceed fifty thousand dollars (\$50,000) for Phase I awards and \$100,000 for Phase II awards.

Objectives of the ArSBIRMGP are to:

- Create and retain high-tech jobs, especially high-wage jobs in middle-skill and high-skill occupations;
- Encourage innovative small businesses to engage in federally-funded research that has the potential for technological innovation and commercialization;
- Increase the amount of SBIR funds invested in Arkansas businesses; and
- Induce the retention, growth, and location of companies in Arkansas.

### Program Rule Summary

1. Eligible applicants shall submit completed applications, on forms prescribed by the Division to request grant funding from the ArSBIRMGP.
2. The Director of the Division of Science and Technology of the Arkansas Economic Development Commission (Director), with advice from the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission (Board), shall review and recommend applications for grant funding to the Executive Director of the Arkansas Economic Development Commission (Executive Director).
3. Applicants receiving approval from the Executive Director shall execute grant agreements specifying grant terms and conditions.

4. Grant funding shall be made available to grantees on a reimbursement basis, subsequent to submittal of requests for payment on forms approved by the Division.
5. Grantees shall submit final reports, upon full expenditure of ArSBIRMGP grant funds, in accordance with terms specified in the grant agreement.

### **Contact Information**

For more information, please contact:  
Arkansas Economic Development Commission  
Division of Science and Technology  
900 West Capitol  
Little Rock, AR 72201  
(501) 682-1121

## **II. Rulemaking Authority**

The AEDC has authority, at § 15-3-709, to promulgate rules necessary to administer the Arkansas Small Business Innovation Research Matching Grant Program.

## **III. Definitions**

1. “Eligible business” means a for-profit business that:
  - A. Is registered as a business entity in good standing; and
  - B. Has its principal place of business in Arkansas;
2. “Matching grant” means a discretionary grant of up to fifty percent (50%) of the amount of a federal Small Business Innovation Research grant for each approved matching grant application;
3. “Principal investigator/project manager” means the primary individual designated by an eligible business to provide the scientific and technical direction to a project supported by a matching grant;
4. “Principal place of business” means the physical location in this state where the eligible business maintains its principal business office; and
5. “Small Business Innovation Research Program” means the federal program administered by the United States Small Business Administration according to regulations adopted pursuant to 15 U.S.C. § 638, as it existed on October 1, 2016, which provides funds for Phase I and Phase II Small Business Innovation Research grants through participating federal agencies.

## **IV. Eligibility**

### **Applicants**

To be eligible to receive ArSBIRMGP funding, an applicant shall:

1. Submit a completed signed application, under forms provided by the Division.
2. Meet the definition of “eligible business”; and
3. Certify that:
  - A. For Phase I applications, they have received an SBIR grant from a sponsoring agency in response to a specific federal solicitation; or
  - B. For Phase II applications, they have:
    - (i) Submitted a final Phase I SBIR report to the sponsoring agency;
    - (ii) Demonstrated that the sponsoring agency has interest in the Phase II SBIR proposal; and
    - (iii) Submitted a Phase II proposal to the sponsoring agency.
  - C. All federal SBIR grant requirements will be met.
  - D. At least fifty-one percent (51%) of the ArSBIRMGP grant shall be spent in Arkansas.
  - E. They shall remain in Arkansas for the duration of the matching grant project.
  - F. An Arkansas resident or employee will be designated as the principal investigator/project manager for the duration of the matching grant;
  - G. They will be principally engaged in one (1) or more of the following targeted business activities:
    - (i) Advanced materials and manufacturing systems;
    - (ii) Agriculture, food, and environmental sciences;
    - (iii) Biotechnology, bioengineering, and life sciences;
    - (iv) Information technology;
    - (v) Transportation logistics; and
    - (vi) Bio-based products.

### **Eligible Costs**

The Division will review all expenditure requests prior to payment to ensure that costs are consistent with the terms and conditions of the grant agreement.

## **V. Application Process**

### **Application Submittal**

To request ArSBIRMGP funds, eligible businesses shall, utilizing forms prescribed by the Division, submit a completed signed application with all supporting documentation to the Division. Applications shall include:

1. A project title;
2. Contact information;
3. Proof of legal organization as a business entity in good standing;
4. A statement of work;
5. Federal SBIR documentation, including:
  - A. For Phase I applications, they have received a SBIR grant from a sponsoring agency in response to a specific federal solicitation; or
  - B. For Phase II applications:
    - i. A final SBIR Phase I report submitted to the sponsoring agency;
    - ii. Documentation from the sponsoring agency indicating an interest in the Phase II proposal; and
    - iii. A copy of the Phase II SBIR proposal to the sponsoring agency.
6. A summary of previous ArSBIRMGP awards;
7. The amount of funding requested; and
8. Start and completion dates of the project.

### **Application Review and Approval**

No grant offer shall be made by the Executive Director to an applicant until the applicant has completed the following review and approval process.

1. The Division shall conduct a preliminary review of each application, in order of receipt, to confirm that it:
  - A. Was submitted by an eligible business;
  - B. Is for a targeted business activity;
  - C. Is complete, including all required attachments; and
  - D. Contains all required federal SBIR documentation.
2. At its discretion, the Division may request supplemental materials from the applicant. All supplemental materials must be received at least forty-five (45) days prior to the next scheduled meeting of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission.
3. All applications meeting preliminary review requirements shall be forwarded to the Board at least thirty (30) days prior to their next scheduled meeting.
4. The Board shall:
  - A. Review each application in accordance with program rules.
  - B. Forward, for each application reviewed, a recommendation to approve or disapprove the application to the Director.
5. The Director shall review each application in accordance with program rules and the advice and recommendation of the Board.
6. Upon completion of review, the Director will provide preliminary funding recommendations to the Executive Director.

7. The Executive Director, after reviewing Director recommendations, will specify which applicants may receive grants.
  - A. Unsuccessful applicants will be notified in writing by the Director.
  - B. Approved applicants will be required to execute a grant agreement outlining the amount, terms, and conditions of the grant.

## **VI. Grant Agreements**

1. ArSBIRMGP grants may be awarded, pending availability of funds, at the discretion of the Executive Director. Grant agreements shall specify:
  - A. The eligibility date for incurring project costs;
  - B. Terms and conditions of the grant;
  - C. The amount of approved costs; and
  - D. The process by which grant funds shall be invoiced and disbursed to the grantee.
2. The amount of the grant shall be discretionary and may be for amounts less than requested.
3. Grants may be funded from any source of funds allocated to the ArSBIRMGP.
4. Grants will be executed according to the following process:
  - A. Two (2) original copies of the grant agreement will be prepared by the Director and forwarded to the grantee for signature and return.
  - B. Upon receipt of the signed grant agreements from the grantee, the Director will prepare an approval letter and forward the grant agreements and the approval letter to the Executive Director for signature.
  - C. One (1) original copy of the grant agreement will be forwarded to the grantee with the signed approval letter. One (1) original copy of the grant agreement will be retained by the Director.
5. Grantees shall not receive more than three (3) matching grants under this program.
6. Any material change to the scope of the project, including changes to the principal investigator/project manager, is subject to prior approval by the Executive Director.

## **VII. Confidential Information**

Applications submitted to the Division are subject to the Freedom of Information Act of 1967, § 25-19-101 et seq. To the extent an applicant believes that information in an application is confidential or otherwise exempt under the Freedom of Information Act of 1967, § 25-19-101 et seq., the applicant shall specifically designate in writing the information the applicant believes to be confidential or exempt and the basis for the confidentiality or exemption on that portion of the application in which the information appears.

## **VIII. Reimbursement**

Disbursements of matching grant funds shall be made on a reimbursable basis, payable when invoices and financial reports are submitted to the Division.

## **IX. Final Report**

Grantees shall submit final reports, upon full expenditure of ArSBIRMGP grant funds, in accordance with terms specified in the grant agreement. Reports shall:

- A. Include a one-page non-proprietary executive summary describing the impact and positive effect of the receipt of ArSBIRMGP funds;
- B. Document final expenditure of grant funds, including proof that at least fifty-one percent (51%) of the amount awarded for the matching grant was spent in Arkansas;
- C. Provide an updated status of the project;
- D. Summarize the technical progress of the federal Phase I or Phase II SBIR project;
- E. State whether or not the grantee plans to continue the proposed research with its own or other resources such as venture capital funding;
- F. Summarize economic effects of the ArSBIRMGP on job creation, project commercialization, patent applications filed or approved subsequent to grant award, and receipt of additional private or government funds; and
- G. Certify that all grant terms and conditions were met.

## **X. Effective Date**

These rules are effective on or after October 1, 2017.

# MILITARY AFFAIRS GRANT PROGRAM

## Program Summary

Inaugural funding was appropriated to the Arkansas Economic Development Commission (AEDC) in 2016 to establish the Military Affairs Grant Program (MAGP). Funds allocated to the MAGP may be granted, at the discretion of the AEDC Executive Director (Executive Director), to applicants meeting eligibility requirements for projects and programs that strengthen and sustain military installations in Arkansas, resulting in economic growth in host communities, surrounding regions, and the State of Arkansas. As such, grants are intended to leverage, not supplant, other funding sources. Definitions specific to eligibility include:

“Eligible applicant” means a:

1. City;
2. County;
3. Economic development organization;
4. Military Community Council;
5. Military installation; and
6. State agency.

“Military Community Council” means an organization registered in good standing with the Arkansas Secretary of State’s Office whose major objectives are to promote cooperation between military and civilian components of its designated geographic area by providing required infrastructure, safe and secure communities, support services, and a high quality of life through the adoption and implementation of matters of joint interest. Proof of documentation of Military Community Councils shall consist of:

1. Proof of legal organization as a business entity in good standing with the Arkansas Secretary of State’s Office;
2. A copy of the council’s current bylaws or governing documents approved by the council’s governing board;
3. A map of the geographic region covered by the council;
4. The identity of each public organization and private organization comprising the council and the role each organization will undertake in the project; and
5. A list of the current members of the council’s board of directors.

“Military installation” means:

Facilities located in Arkansas under the jurisdiction of the United States Department of Defense or the Arkansas State Military Department, including a:

1. Base;
2. Camp;
3. Post;
4. Station;
5. Yard;
6. Center; and

7. Homeport facility for any ship.

“Military installation” does not include any facility used primarily for:

1. National guard armories;
2. Civil works;
3. Rivers and harbors projects; and
4. Flood control projects.

The AEDC will review all expenditure requests prior to payment to ensure that costs are consistent with the terms and conditions of the grant agreement and are not “ineligible costs” as defined by these rules. The AEDC reserves the right to disallow all ineligible costs. It is the intention of AEDC to fund only expenditures directly related to projects.

#### **Program Rule Summary**

1. AEDC will periodically solicit MAGP applications as funding becomes available.
2. Eligible applicants shall submit completed applications, on forms prescribed by AEDC and in accordance with submittal deadlines, to request grant funding from the MAGP.
3. The AEDC Military Affairs Director, with advice from the Governor’s Military Affairs Steering Committee shall review and recommend applications for grant funding to the Executive Director.
4. Applicants receiving approval from the Executive Director shall execute grant agreements with AEDC specifying grant terms and conditions.
5. Grant funding shall be made available to grantees on a cost incurred basis, subsequent to submittal of requests for payment on forms prescribed by AEDC.
6. Grantees shall submit quarterly progress reports throughout the duration of the grant project in accordance with grant terms and conditions.
7. A contingency of up to ten percent (10%) of the grant award may be withheld from final payment until all closeout documents have been submitted and have been approved by AEDC.

# Military Affairs Grant Program

## Rules

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### I. Introduction

#### Overview

As a key component of Governor Asa Hutchinson's 2015 Military Affairs Initiative, to grow, support, and promote the state's military missions, installations and related economic development interests, inaugural funding was appropriated to the Arkansas Economic Development Commission (AEDC) in 2016 to establish the Military Affairs Grant Program (MAGP).

Funds allocated to the MAGP may be granted, at the discretion of the AEDC Executive Director (Executive Director), to applicants meeting eligibility requirements for projects and programs that strengthen and sustain military installations in Arkansas, resulting in economic growth in host communities, surrounding regions, and the State of Arkansas. As such, grants are intended to leverage, not supplant, other funding sources.

Pursuant to authority granted under § 15-4-209(a)(1) and § 15-4-209(b)(5), AEDC has established these rules governing administration of the MAGP.

#### Program Rule Summary

1. AEDC will periodically solicit MAGP applications as funding becomes available.
  2. Eligible applicants shall submit completed applications, on forms prescribed by AEDC and in accordance with submittal deadlines, to request grant funding from the MAGP.
  3. The AEDC Military Affairs Director (Director), with advice from the Governor's Military Affairs Steering Committee (Committee), shall review and recommend applications for grant funding to the Executive Director.
  4. Applicants receiving approval from the Executive Director shall execute grant agreements with AEDC specifying grant terms and conditions.
  5. Grant funding shall be made available to grantees on a cost incurred basis, subsequent to submittal of requests for payment on forms prescribed by AEDC.
  6. Grantees shall submit quarterly progress reports throughout the duration of the grant project in accordance with grant terms and conditions.
  7. A contingency of up to ten percent (10%) of the grant award may be withheld from final payment until all closeout documents have been submitted and have been approved by AEDC.
-

## Contact Information

For more information, please contact:  
Arkansas Economic Development Commission  
Military Affairs Director  
900 West Capitol  
Little Rock, AR 72201  
(501) 682-5196

## II. Rulemaking Authority

The AEDC has authority, at § 15-4-209(b)(5), to promulgate rules necessary to administer the MAGP.

## III. Definitions

1. "AEDC" means the Arkansas Economic Development Commission;
2. "City" means any city of the first class, city of the second class, or any incorporated town in this state;
3. "Committee" means the Governor's appointed Military Affairs Steering Committee;
4. "County" means any county in this state;
5. "Economic development organization" means an organization registered in good standing with the Secretary of State's Office whose major objectives are to promote community and economic development in a geographic area within the State of Arkansas;
6. "Eligible applicant" means a:
  - A. City;
  - B. County;
  - C. Economic development organization;
  - D. Military Community Council;
  - E. Military installation; and
  - F. State agency;
7. "Ineligible costs" means:
  - A. Obligations incurred prior to the eligibility date for incurring project costs as specified in the grant agreement;
  - B. Expenditures for routine repair, maintenance, and operation;
  - C. Expenditures that are unsupported by documentation;

- D. Project administration costs, including salaries and benefits for grantee personnel, in excess of ten percent (10%) of the grant award;
  - E. Lobbying expenditures;
  - F. Purchases of alcohol;
  - G. Entertainment expenses, including meals and activity fees;
  - H. Travel not directly related to the project; and
  - I. Purchases of material and services that result in benefits accruing to areas outside the State of Arkansas;
8. "MAGP" means the Military Affairs Grant Program as administered by the Arkansas Economic Development Commission;
9. "Military Community Council" means an organization registered in good standing with the Arkansas Secretary of State's Office whose major objectives are to promote cooperation between military and civilian components of its designated geographic area by providing required infrastructure, safe and secure communities, support services, and a high quality of life through the adoption and implementation of matters of joint interest. Proof of documentation of Military Community Councils shall consist of:
- A. Proof of legal organization as a business entity in good standing with the Arkansas Secretary of State's Office;
  - B. A copy of the council's current bylaws or governing documents approved by the council's governing board;
  - C. A map of the geographic region covered by the council;
  - D. The identity of each public organization and private organization comprising the council and the role each organization will undertake in the project; and
  - E. A list of the current members of the council's board of directors;
10. "Military installation" means:
- A. Facilities located in Arkansas under the jurisdiction of the United States Department of Defense or the Arkansas State Military Department, including a:
    - (i) Base;
    - (ii) Camp;
    - (iii) Post;
    - (iv) Station;
    - (v) Yard;
    - (vi) Center; and
    - (vii) Homeport facility for any ship.
  - B. "Military installation" does not include any facility used primarily for:
    - (i) National guard armories;
    - (ii) Civil works;

- (iii) Rivers and harbors projects; and
- (iv) Flood control projects.

## **IV. Eligibility**

### **Applicants**

To be eligible to receive MAGP funding, an applicant shall:

1. Meet program objectives stated in these rules;
2. Meet the definition of “eligible applicant”;
3. For projects within the legal boundaries of military installations, provide written support for the project by the commander of the military installation to which benefits will accrue; and
4. Submit a completed application, under forms and guidelines provided by AEDC to the Director.

### **Eligible Costs**

The AEDC will review all expenditure requests prior to payment to ensure that costs are consistent with the terms and conditions of the grant agreement and are not “ineligible costs” as defined by these rules. The AEDC reserves the right to disallow all ineligible costs. It is the intention of AEDC to fund only expenditures directly related to projects.

## **V. Application Process**

### **Application Submittal**

The AEDC will periodically solicit MAGP applications as funding becomes available. To request funds under the MAGP, eligible applicants shall, utilizing forms prescribed by AEDC, submit a completed, signed application with all supporting documentation to the Director by the specified submittal due date. Applications shall include:

1. A project title;
  2. Applicant contact information;
  3. Organizational information;
  4. Sources of all funds, including prior MAGP awards, for this project;
  5. Previous MAGP awards not included in item 4 above;
  6. Proposal information;
  7. The amount of funding requested; and
  8. Start and completion dates of the project.
-

## **Application Review and Approval**

No grant offer shall be made by the Executive Director to an applicant until the applicant has completed the following review and approval process.

1. The Director shall conduct a preliminary review of each application to confirm that it:
  - A. Was received on or before the due date specified in the application solicitation;
  - B. Was submitted by an eligible applicant;
  - C. Meets the objectives of the program;
  - D. Identifies clearly defined, measurable outcomes;
  - E. Includes a letter of support from the installation commander if the project is located within the legal boundaries of the military installation; and
  - F. Is complete, including all required appendices and attachments.
2. All applications meeting preliminary review requirements, as determined by the Director, will be forwarded to the Committee at least fifteen (15) days prior to the next scheduled Committee meeting.
3. The Committee shall:
  - A. Review each application in accordance with the MAGP Funding Recommendation Worksheet; and
  - B. Forward completed MAGP Funding Recommendation Worksheets to the Director.
4. The Director shall review each application in accordance with AEDC scoring criteria and funding recommendations provided by the Committee.
5. Upon completion of reviews, the Director will provide funding recommendations to the Executive Director.
6. The Executive Director, after reviewing the Director's recommendations, will specify which applicants may receive grants.
  - A. Unsuccessful applicants will be notified in writing by the Director.
  - B. Approved applicants will be required to execute a grant agreement with AEDC outlining the amount, terms, and conditions of the grant.

## **VI. Grant Agreements**

1. All MAGP grants shall be awarded at the discretion of the Executive Director. Grant agreements shall specify:
  - A. The eligibility date for incurring project costs;
  - B. The date by which the grantee shall complete the MAGP-funded portion of the project;

- C. Terms and conditions of the grant agreement;
  - D. The amount of approved costs, determined through negotiations with the Director and applicant; and
  - E. The process by which grant funds shall be disbursed to the grantee.
2. The amount of the grant shall be discretionary and may be for amounts less than requested, subject to funding availability, and Executive Director's discretion.
  3. Grants may be funded from any source of funds allocated to the MAGP.
  4. Grants will be executed according to the following process:
    - A. Two original copies of the grant agreement will be prepared by the Director and forwarded to the grantee for signature and return.
    - B. Upon receipt of the signed grant agreements from the grantee, the Director will prepare an approval letter and forward the grant agreement and the approval letter to the Executive Director for signature.
    - C. One original copy of the grant agreement will be forwarded to the grantee with the approval letter.

## **VII. Grant Disbursement**

1. Expenditures incurred before the eligibility date for incurring projects costs specified in the grant agreement are ineligible.
2. A contingency of up to ten percent (10%) of the grant award may be withheld from final payment until all closeout documents have been submitted and have been approved by AEDC.

## **VIII. Reporting**

Grantees shall submit quarterly progress reports throughout the duration of the grant agreement in accordance with terms specified in the grant agreement. Failure to submit reports in a timely manner may delay disbursement of grant funds.

Quarterly reports shall be made available for discussion by the Committee and Director at Committee meetings.

## **DAYCARE FACILITY ACT**

### **Program Summary**

Acts 820 and 987 of 1993, as amended by Act 850 of 1995, allow sales and use tax refunds and income tax credits to businesses initially constructing and operating child care facilities for their employees.

Child care facilities must be licensed under the Child Care Facility Licensing Act, § 20-78-201 et seq. To qualify as a child care facility, the child care facility shall provide an appropriate early childhood program as defined in § 6-45-103.

#### **Sales and Use Tax Refund**

A business which operates, or contracts for the operation of, a child care facility for the primary purpose of providing child care services to its employees may obtain a refund of state sales and use taxes paid on the purchase of construction materials and furnishings used in the initial construction and equipping of the child care facility after the facility is licensed pursuant to the Child Care Facility Licensing Act, § 20-78-201 et seq., and is certified as having an appropriate early childhood program pursuant to § 6-45-109.

#### **Income Tax Credit**

A business which qualifies for the refund of the gross receipts tax or compensating use tax under 26-52-516 or 26-53-132 shall be allowed an income tax credit of three and nine-tenths percent (3.9%) of the annual salary of its employees employed exclusively in providing child care service, or a five thousand dollar (\$5,000) income tax credit for the first tax year the business provides its employees with a child care facility.

If two (2) or more businesses participate in a child care program for their employees as provided by 26-52-516 or 26-53-132, then each business will be allowed an income tax credit of three and nine-tenths percent (3.9%) of the annual salary of only those employees who are on the respective business' payroll and are employed exclusively for providing child care services. The first year's five thousand dollar (\$5,000) credit will be prorated among the businesses based upon the percentage of the cost paid by each business for the initial construction and equipping of the child care facility.

The credit is first available for use in the taxable year following the year the business makes payment of wages to childcare workers. Any unused credit may be carried forward two (2) years.

## **Regulations for Administering the Daycare Facility Act Act 820 of 1993 as Amended by Act 850 of 1995**

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To qualify, companies must operate or contract the operations of a child care facility for the primary purpose of providing child care services to its employees, and be certified by the Arkansas Department of Education, Arkansas Early Childhood Commission as having an appropriate early childhood program. The company shall not qualify for income tax credits if its revenues from the operation of the child care facility exceed its direct operating costs of the facility. Two or more companies may participate in a single child care program.

### **For additional information contact:**

Arkansas Economic Development Commission  
900 West Capitol  
Little Rock, Arkansas 72201  
(501) 682-1682

### **Definitions:**

As herein used in this act:

- (1) “Child care facility” means any facility that provides care, training, education, custody, or supervision for any unrelated minor child, whether or not the facility is operated for profit, and whether or not the facility makes a charge for the services offered by it;
- (2) “Appropriate early childhood program” means a developmentally appropriate program for young children approved by the Arkansas Department of Education, Arkansas Early Childhood Commission;
- (3) “Direct operating costs” means the cost of food and beverages provided to the children; the cost of labor for personnel whose services are performed exclusively on the premises of the child care facility for the care of the children and all related employment taxes are paid by the employer; and all materials and supplies necessary to operate the child care facility.

### **Qualifications:**

To qualify for the benefits of this act, the business or businesses must:

- (1) Operate or contract the operations of a child care facility for the primary purpose of providing child care services to its employees;
- (2) Be certified by the Arkansas Department of Education, Arkansas Early Childhood Commission as having an appropriate early childhood program.

Businesses that qualify for the refund of the gross receipts tax paid on the purchase of construction and equipping of the child care facility may also qualify for the income tax credit if the revenue of the business or businesses from the child care facility do not exceed the direct operating costs of the facility.

### **Benefits:**

Businesses qualified for benefits from this incentive may choose from two options:

#### **Option One**

- (1) Obtain a refund of the gross receipts tax paid on the purchase of construction materials and furnishings used in the initial construction and equipping of the child care facility;
- (2) Receive an income tax credit of three and nine-tenths percent (3.9%) of the annual salary of its employees employed exclusively in providing child care service. This credit can be received each year as long as the child care program is certified by Arkansas Early Childhood Commission.

Example:     \$50,000 (*total annual salaries of child care workers*) x 3.9 % =  
                  \$1,950 income tax credit

If two or more businesses participate in a child care program for their employees, then each business will be allowed an income tax credit of three and nine-tenths percent (3.9%) of the annual salary of only those employees who are on the respective businesses' payroll and are employed exclusively for child care services.

This option is not available to businesses that have contracted for the operations of the child care facility.

#### **Option Two**

- (1) Obtain a refund of the gross receipts tax paid on the purchase of construction materials and furnishings used in the initial construction and equipping of the child care facility;
- (2) Receive a five thousand dollar (\$5,000) income tax credit for the first year the business provides its employees with a child care facility.

If two or more businesses participate in a child care program for their employees, then the first year \$5,000 credit will be prorated among the businesses based upon the percentage of the cost paid by each business for the initial construction and equipping of the child care facility.

The income tax credit shall first be available in the taxable year following the year the business makes payment of wages to child care workers. To the extent that the credit is not fully utilized in this first year, it may be carried forward for an additional two years.

Benefits are available for one year from the date of initial operation for 12 consecutive months.

**Steps for Qualifying for Benefits from the Daycare Facility Act:**

- (1) The business or businesses must submit an application with the Arkansas Department of Education, Arkansas Early Childhood Commission to be certified as having an appropriate early childhood program.
- (2) The business or businesses must submit an application with all supporting documentation to the Arkansas Industrial Development Commission (AIDC). AIDC reviews the application and verifies the eligibility of the business or businesses for benefits from this incentive. When approved, AIDC will furnish verification of eligibility to the applicant for use in filing for tax benefits. AIDC will also forward certification and supporting documents of eligible businesses to the Department of Finance and Administration (DF&A).
- (3) The Revenue Division of DF&A shall authorize a refund of sales and use taxes imposed by the state on the purchases of construction materials and furnishings used in the initial construction and equipping of the child care facility. DF&A shall also authorize tax credit benefits to eligible businesses.

# Partnership for Public Facilities and Infrastructure Act Program Guidelines



Arkansas Economic Development Commission  
October 2017

# Partnership for Public Facilities and Infrastructure Act

## Program Guidelines

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# I. Partnership for Public Facilities and Infrastructure Act

## A. Overview

The **Partnership for Public Facilities and Infrastructure Act (PPFIA)**, created by Act 813 of 2017<sup>1</sup>, provides a framework by which public-private partnerships may be formed to expedite the timely and cost-efficient “development of”<sup>2</sup> private projects for public infrastructure and government facilities. Specific legislative intent of the PPFIA is that:

- There is a public need for the timely acquisition, design, construction, improvement, renovation, expansion, equipping, maintenance, operation, implementation, and installation of public infrastructure and government facilities within the state that serve a public purpose;
- The public need for government facilities and public infrastructure may not be satisfied by existing methods of procurement or funding available to the state;
- There are inadequate resources to develop public infrastructure and government facilities for the benefit of citizens of the state, and there is demonstrated evidence that public-private partnerships can:
  - promote the timely and cost-efficient development of public infrastructure and governmental facilities;
  - provide alternative and innovative funding sources to governmental entities; and
  - allow governmental entities to leverage and supplement the developmental cost of public infrastructure and governmental facilities through private funding and participation by the private sector in governmental incentive and tax programs that are not otherwise available to governmental entities; and
- The formation of public-private partnerships may result in the ability to develop private projects for public infrastructure and government facilities in a more cost-efficient and timely manner, resulting in increased benefits to the public safety and welfare of the citizens of the state and substantial cost benefits to the governmental entities and the public.

Only “responsible public entities (RPE)”<sup>3</sup> as designated by the Arkansas Economic Development Commission (AEDC) and the Arkansas Development Finance Authority (ADFA), may solicit “requests for proposals (RFP)”<sup>4</sup> from “private entities”<sup>5</sup> for bids to develop “qualifying projects”<sup>6</sup> under the PPFIA. Unsolicited proposals will not be accepted for consideration under the PPFIA.

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<sup>1</sup> Codified at § 22-10-101 et seq.

<sup>2</sup> Words and terms in quotation marks are defined in Appendix A. See definition (3) of Appendix A.

<sup>3</sup> See definition (13) of Appendix A.

<sup>4</sup> See definition (11) of Appendix A.22-

<sup>5</sup> See definition (6) of Appendix A.

<sup>6</sup> See definition (10) of Appendix A.

## B. PPFIA Process

The summary below delineates the process (through execution of comprehensive agreements) that participants in the PPFIA shall follow as defined throughout these guidelines.

1. A “public entity”<sup>7</sup> is encouraged to seek the advice of AEDC and ADFA regarding potential PPFIA projects as early as possible, preferably prior to or during development of the Partnership for Public Facilities and Infrastructure Act (PPFIA) Application (Application)-see Attachment A. Public entities, however, are **required** to seek the advice and consent of AEDC and ADFA prior to issuing an RFP.
2. A public entity shall submit two (2) copies of the signed, completed Application and all required attachments to AEDC.
3. The AEDC and ADFA will concurrently review the Application for completeness and adherence to the PPFIA and all promulgated guidelines and rules.
  - a. Unapproved applicants will be notified in writing by AEDC.
  - b. AEDC and ADFA will designate the RPE for approved applications and will provide instruction on how they shall develop the qualifying project.
4. (Optional) A public entity may issue a Request for Information (RFI), or a “Request for Qualifications (RFQ)”<sup>8</sup>, or both, prior to issuing an RFP. The RFI, which may also include an Industry Forum, is a process by which industry feedback and perspective is sought prior to issuing an RFP regarding a potential public-private partnership project. Information received in an RFI may be utilized by public entities to gauge interest in the project and develop more detailed, and technically specific, RFQs and RFPs. An RFI is not a commitment to issue an RFQ or an RFP and responses are not required for future procurements. Responses are voluntary and do not create any preferential treatment or other advantage or disadvantage in any subsequent procurement process. An RFQ is a step sometimes used in the formal process of procuring a product or service as a screening step to establish a pool of vendors (businesses or individuals to provide a product or service) that are then qualified, and thus eligible to submit responses to an RFP. If the RFQ is conducted separately from an RFP, then RFQ responses shall describe the company or individual's general qualifications to perform a service or supply a product. The time required to complete the RFI or RFQ process, or both, is not contingent upon the timeframes specified throughout these guidelines but should be completed within six months to ensure timely development of the project.
5. Prior to issuing an RFP for the qualifying project, the RPE shall:
  - a. Adopt and make publically available<sup>9</sup> these guidelines and the PPFIA application.
  - b. Notify each “affected local jurisdiction”<sup>10</sup> and other public entities with shared responsibilities and/or concurrent authority<sup>11</sup> of the qualifying project in writing at least sixty (60) calendar days prior to issuing an RFP.

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<sup>7</sup> See definition (7) of Appendix A.

<sup>8</sup> See definition (12) of Appendix A.

<sup>9</sup> The PPFIA Application, guidelines, RFP notice, evaluation criteria, and any other documentation required to be made publically available in the guidelines or PPFIA rules promulgated under the Arkansas Administrative Procedure Act must be posted on a dedicated web page reserved exclusively by the RPE for the PPFIA project. The RPE may post additional, more detailed information when seeking proposals if deemed by the RPE to encourage competition. Multiple PPFIA projects may be posted simultaneously on the same web page as long as each project is clearly and separately delineated.

<sup>10</sup> See definition (1) of Appendix A.

<sup>11</sup> Identify all public entities that will be fiscally impacted by the project or who have statutory or constitutional authority relative to development of the qualifying project.

- c. Prepare an RFP and submit to AEDC at least sixty (60) calendar days prior to publication.
6. The RPE shall “publish”<sup>12</sup> the RFP one (1) time per week for three (3) consecutive weeks in a newspaper of statewide circulation. The period of time between the date of initial RFP publication and the RFP response deadline must be at least forty-five (45) calendar days but no more than 120 calendar days. The timeframe between the date of initial RFP publication and the RFP response deadline may be extended by the RPE up to an additional 120 days with the consent of AEDC.
  7. The RPE shall receive proposals from private entities in response to the RFP and evaluate each in accordance with established criteria. See Section II.B. of these guidelines for further information.
  8. After review, the RPE selects the “qualified respondent”<sup>13</sup> and begins negotiations.
  9. The RPE, in consultation with AEDC and ADFA, shall begin development of the qualified project via formal agreement(s) with the qualified respondent. “Comprehensive agreements”<sup>14</sup> are mandatory. “Interim agreements”<sup>15</sup> are not required but are encouraged. If the most qualified private entity and RPE fail to execute required written agreements within the specified time period, the RPE may begin negotiations with the next most-qualified RFP respondent. If so, then the negotiation period may be extended, upon AEDC approval, up to an additional 180 days.
  10. The RPE shall submit the proposed interim or proposed comprehensive agreement to the Chief Fiscal Officer (CFO) of the State of Arkansas and the AEDC.
  11. If approval by the CFO of the State of Arkansas is received for an interim agreement, the RPE and private entity may proceed with further development of the qualified project, leading up to development of a draft comprehensive agreement. RPEs must repeat steps 9 and 10 for comprehensive agreements prior to proceeding further. If approval is received from the CFO for a comprehensive agreement, the governing body of the RPE or a delegate thereof, shall conduct a public hearing on the comprehensive agreement. At least ten (10) days before the hearing, notice of the hearing must be published in a newspaper of general circulation in the locality to be affected. The notice shall contain the date, time, and location of the public hearing, a general description of the project, the identification of the parties to the comprehensive agreement and the roles that each have in the project. The notice shall also provide a website on which the proposed comprehensive agreement can be reviewed by interested parties. If bonds are proposed to be issued by the RPE, the maximum principal amount of the bonds shall be included in the notice. The hearing shall be held within the locality to be affected.<sup>16</sup>
  12. If the comprehensive agreement is approved by the CFO, the RPE shall submit it to the Governor after the public hearing has been conducted.
  13. The Governor shall review the comprehensive agreement and approve or disapprove.
  14. If approved, the RPE authorizes execution of the comprehensive agreement by order, ordinance, or resolution at a public meeting that complies with ACA § 25-19-106.<sup>17</sup>

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<sup>12</sup> See definition (8) of Appendix A.

<sup>13</sup> See definition (9) of Appendix A.

<sup>14</sup> See definition (2) of Appendix A.

<sup>15</sup> See definition (4) of Appendix A.

<sup>16</sup> Revenue Bond Act of 1987.

<sup>17</sup> Open Public Meeting requirements under the Freedom of Information Act of 1967.

### **C. Guidelines Development and Amendments**

These guidelines have been developed to help public entities implement certain requirements of the PPFIA. The intent was to provide structure to the PPFIA without overly dictating process. In developing these guidelines, as required by § 22-10-502<sup>18</sup>, the AEDC relied extensively on legislative intent specified in Act 813 of 2017, and best practices of other states which have implemented public-private partnership programs similar in nature to Arkansas's. Subsequent development of detailed rules, as required by § 22-10-503<sup>19</sup>, which will implement application submittal, review, and approval procedures, will build upon these guidelines.

In the event that the PPFIA is amended in a manner that either conflicts with these guidelines or concerns material matters not addressed herein, the PPFIA shall solely govern. Projects initiated under these guideline must adhere to all current laws, rules, and guidelines.

The AEDC and ADFA may amend these guidelines, as necessary, under provisions of the Administrative Procedures Act, § 25-15-201 et seq.

### **D. Review Fees**

Proposals which have technical, complex, or specialized information may require expert evaluation and review by third-party independent advisors and consultants to the RPE. The RPE may charge reasonable, nonrefundable fees to private entities to cover the costs of processing, reviewing, and evaluating any proposal under the PPFIA, including without limitation, reasonable attorney's fees and fees for financial, technical, or other advisors or consultants. RPEs shall ensure that advisors and consultants are licensed and certified to practice in good standing in Arkansas and have no fiduciary affiliation with the qualified project proposal submitted for review as evidenced by signed disclosure certifications.

Fees charged should not exceed the actual cost incurred by the RPE to conduct the necessary review of the proposal. RPEs must identify the fee or fee schedule to be applied, including methodologies used, in the PPFIA application and RFP solicitation to ensure that private entities considering an RFP response are aware of the fees associated with the review.

The RPE should perform a periodic cost review of their review fees and methodologies to ensure that they are accurate and reasonable. Data from public-private partnership projects in Arkansas and elsewhere in the United States may be utilized. Although specific costs to review individual PPFIA proposals will vary by project type, using a fee schedule based on quantitative data from historic projects should provide reliable guidance.

A private entity assumes all risks in submission of a proposal. An RPE shall not incur any obligation to reimburse a private entity for any costs, damages, or loss of property incurred in the creation, development, or submission of a proposal for a qualifying project.

### **E. PPFIA Legal Stipulations**

The PPFIA specifically addresses certain legal issues that may arise during the development of a qualifying project. RPEs should consult with their legal counsel to confirm compliance with any legal

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<sup>18</sup> § 22-10-502(b) specifies guidelines items.

<sup>19</sup> § 22-10-503(a) specifies rules items.

issues arising during the development of PPFIA qualifying projects. Below are specific PPFIA references to some of these major issues.

**1. Eminent Domain**

A public entity may exercise its right of eminent domain under applicable law in connection with the development of a qualifying project. The power of eminent domain shall not be delegated to a private entity with respect to a qualifying project commenced or proposed under the PPFIA. Damages awarded to a third party in an eminent domain action may be included in the development budget for the qualifying project.

An RPE may dedicate any real or personal property interest, including land, improvements, and tangible personal property, through lease, sale, or otherwise, to the qualified respondent to facilitate a qualifying project if so doing will serve the public purpose of the PPFIA.

**2. Sovereign Immunity**

The PPFIA does not waive the sovereign immunity of a public entity or the officers or employees of the public entity under state law; or extend a public entity's sovereign immunity to any private entity.

**3. Freedom of Information**

This PPFIA does not abrogate the obligation of an RPE to comply with the Freedom of Information Act of 1967, ACA § 25-19-101 et seq. However, records that would otherwise be exempt from disclosure under the Freedom of Information Act, including without limitation confidential and proprietary information, remain exempt when in the custody or control of a public entity, the Chief Fiscal Officer (CFO) of Arkansas, or the Governor.

Records related to a qualifying project that are provided to or compiled or developed by a public entity, the CFO of Arkansas, or the Governor in furtherance of the entity's or officer's powers, duties, or obligations under the PPFIA are exempt under ACA § 25-19-105(b)(9)(A) as files that would give an advantage to competitors or bidders.

**4. Financing the Qualifying Project**

Private entities and RPEs may utilize any funding sources legally available to them including without limitation issuing debt, equity, or other securities or obligations, entering into leases, tax credits, operating revenues, accessing designated trust funds, and borrowing or accepting grants from any state, federal, or private source. However, any bonds issued by an RPE under the PPFIA:

- a. Shall state plainly on the face of the bonds that they are issued under the PPFIA;
- b. Are obligations only of the RPE;
- c. Do not constitute an indebtedness of the state or a pledge of the full faith and credit of the state;
- d. Shall not be secured by a lien or security interest in any property of the state;
- e. May be secured by a pledge of the project revenues; and
- f. May be secured by a security interest in, or lien on, real or personal property of the qualified respondent, including any property interests in the qualifying project.

The expenditure of state funds in support of an interim or comprehensive agreement requires legal appropriations prior to expenditure of funds.

**5. Procurement**

Any comprehensive agreement entered into by an RPE may include terms and conditions specific to the procurement of services or materials related to the qualifying project. In selecting a qualified respondent, ACA § 19-11-801 et seq.<sup>20</sup> applies. Competitive bidding shall not be used. Procurements related to the development of a qualifying project are exempt from any procurement laws that are not contained in the PPFIA or any rules promulgated under the PPFIA that would otherwise apply to the responsible public entity.

**6. Legal Actions Under the PPFIA**

Any legal uncertainty or challenge to any aspect of the authorization and implementation of a public-private partnership seriously undermines the ability to attract private sector participation and impairs the timely implementation of public projects. A lawsuit brought concerning the validity of the PPFIA, bonds issued under the PPFIA, or the execution and delivery of an interim agreement or comprehensive agreement is of public interest and shall be advanced by the court and heard as a preferred cause of action. An appeal from a judgment or decree rendered in such a case shall be taken within thirty (30) calendar days after the judgment or decree is rendered.

The PPFIA is supplemental to all other powers conferred by law and does not restrict or limit any powers that a public entity has under any other law.

**F. Contact Information**

For more information, please contact:

Mike Preston, Executive Director  
Arkansas Economic Development Commission  
900 West Capitol, Suite 400  
Little Rock, AR 72201  
(501) 682-1121

**II. Guidelines**

**A. Criteria for Selecting Qualifying Projects Undertaken by a Public Entity**

Any public entity seeking approval of a proposed project to be developed under the PPFIA shall submit two (2) copies of the signed, completed Application to the AEDC. Public entities are encouraged to seek the advice of AEDC and ADFA regarding potential PPFIA projects as early as possible, preferably prior to or during development of the application. Public entities, however, are required to seek the advice and consent of AEDC and ADFA prior to issuing an RFP. Below are guidelines specific to the Application.

**1. Applicant Information**

- a. Applicants must receive AEDC and ADFA designation as an RPE prior to issuing an RFP under the PPFIA. Only applicants that meet the definition of “public entity” and are authorized to undertake projects as specified in the PPFIA may be designated as an RPE. Applicants must meet each of the criteria below to be eligible to submit an application.

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<sup>20</sup> Procurement of Professional Services.

- i. Meet the definition of public entity. “Public entity” means an agency or instrumentality of the state, including, without limitation a department, an agency, an institution of higher education, a board, or a commission. “Public entity” does not include a political subdivision of the state or any other local or regional governmental entity, including without limitation a city of the first class, a city of the second class, an incorporated town, a county, a school district, an improvement district, a water authority, a public facilities board, a solid waste management district, or a water distribution district.
- ii. Have statutory or constitutional authority to develop and operate the qualifying project.
- iii. Not be specifically prohibited from submitting projects under the PPFIA.<sup>21</sup>

## 2. Project Description

The project description must satisfy each of the following criteria.

- a. Projects must meet the definition of “**qualifying project**” as defined by the PPFIA. A “qualifying project” means a capital development or improvement of any nature that:
  - i. Serves a public purpose, including without limitation a ferry, mass transit facility, vehicle parking facility, port facility, power generation facility, fuel supply facility, combined heating and power facility, central utility plant facility, distributed generation facility, oil or gas pipeline, water supply facility, water treatment intake and distribution facility, waste water treatment and collection facility, waste treatment facility, hospital, library, school, educational facility, medical or nursing care facility, recreational facility, administrative facility, law enforcement facility, fire department facility, public administrative office, toll road, correctional facility, technology infrastructure facility, public building, transportation system as defined in § 27-76-103<sup>22</sup>, or other similar facility currently available or to be made available to a public entity for public use, including without limitation a structure, parking area, appurtenance, and other related or unrelated infrastructure that might otherwise be described in a comprehensive agreement; and
  - ii. Has one (1) or more of the following characteristics:
    - 1. It is developed using a long-term operations and maintenance agreement, management agreement, or services agreement entered into with a private entity;
    - 2. It is designed and built in whole or in part by a private entity;
    - 3. It is a capital development or improvement in which a private entity:
      - a. Invests its own capital or third-party capital arranged by the private entity;
      - b. Sources or uses indebtedness, available funds, revenues, or financial or tax incentives to fund the capital development or improvement; or
      - c. Provides other consideration in the form of goods or services to the public entity to fund the project;
    - 4. It is owned in whole or in part by a private entity for the benefit of a public entity;
    - 5. It involves real or personal property owned by a public entity that is sold to, leased to, or exchanged with a private entity for leaseback or for use by the public entity; or
    - 6. It is a qualifying project as defined in PPFIA rules.
  - iii. A qualifying project shall be located on real property owned or leased by a public entity and include any improvements necessary or desirable to unimproved real property owned

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<sup>21</sup> Projects of the Arkansas Highway and Transportation Department (or successor name) are ineligible to submit projects.

<sup>22</sup> Regional Mobility Authority Act.

- by a public entity.
- b. Applications must identify the geographic area to be served by the project. For some projects, this may encompass small geographic areas such as cities, parts of counties, or multiple counties. For larger projects, significant regions of Arkansas or all of Arkansas could benefit. Applicants are encouraged to provide a service or beneficiary area map.
  - c. Applications must identify each affected local jurisdiction and other affected public entities. “Affected local jurisdiction” means a county, a city of the first class, a city of the second class, an incorporated town, or a school district in which all or a portion of a qualifying project is located; and any other local governmental entity that is directly impacted by a qualifying project. Affected public entities are those public entities that will be fiscally impacted by the qualifying project or who have statutory or constitutional authority relative to development of the qualifying project.
  - d. Applications must include a statement of public purpose (i.e., how will the project serve Arkansans?). The statement should be supported by:
    - i. An estimate of the number of beneficiaries. Include demographic, geographic, and socio-economic data as available.
    - ii. An explanation as to how the qualifying project will be available for public use.
  - e. Applications must provide a determination of project need under the PPFIA and explain why the project is being developed under the PPFIA as opposed to utilizing traditional procurement and financing methods. Reasons may include timeliness, availability of alternative financing mechanisms, cost efficiencies/effectiveness, “opportunity cost”<sup>23</sup>, etc. A “Value-for-Money Analysis”<sup>24</sup> performed by or on behalf of the RPE must be provided to justify project development under the PPFIA.
  - f. Applications must contain a preliminary capital development and maintenance and operation budget which lists all proposed public and private sources and uses of funds, financing, revenues<sup>25</sup>, lease payments, and user fees<sup>26</sup> throughout the life of the project.
  - g. Applications must include the proposed review fee amount(s) (if any), fee schedule, and the methodology to be employed to charge fees for proposal reviews.

### **3. Application Certification**

The chief officer or executive director of the public entity must acknowledge each required authorization, sign and date the application, and return two (2) original copies to the AEDC.

Any comments, reviews, approvals, or designation issued by the AEDC or ADFA shall not bind the RPE to proceed with the qualifying project.

## **B. Criteria for Selecting Among Competing Proposals**

### **1. Preparing the RFP**

The development of a detailed, comprehensive RFP package will ensure that RPEs will receive proposals that correspond to the scope, development, and feasibility of the qualifying project as envisioned.

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<sup>23</sup> See definition (5) of Appendix A.

<sup>24</sup> See definition (16) of Appendix A.

<sup>25</sup> See definition (14) of Appendix A.

<sup>26</sup> See definition (15) of Appendix A.

A public entity may issue a Request for Qualifications (RFQ) prior to issuing an RFP. An RFQ is a step sometimes used in the formal process of procuring a product or service as a screening step to establish a pool of vendors (businesses or individuals to provide a product or service) that are then qualified, and thus eligible to submit responses to an RFP. If the RFQ is conducted separately from an RFP, then RFQ responses shall describe the company or individual's general qualifications to perform a service or supply a product.

Generally, RFPs should ascertain the proposer's capability to complete the proposed qualifying project in a timely manner and to ensure that proposed benefits will be derived throughout the life of the project. RFPs should also request a scope of work and financial plan, including anticipated revenues, to allow the RPE to thoroughly analyze the financial feasibility of competing proposals. Broad topical categories of the RFP should include:

- a. Qualifications and Experience
  - Capacity and capability to develop project
- b. Scope and Purpose of Project (Project Characteristics)
  - Technical and structural feasibility of qualified project
- c. Project Benefit and Compatibility with Existing Plans
  - Integration of project with existing plans and future benefit
- d. Financing Plans
  - Fiscal feasibility and financial sustainability

Significant detail to these broad categories can be augmented by incorporating specific criteria from Section II.B into the RFP solicitation.<sup>27</sup>

## 2. Issuing the RFP

Prior to issuing an RFP for the qualifying project, the RPE shall:

- a. Adopt and make publically available<sup>28</sup> these guidelines, the Application, and RFP.
- b. Notify each affected local jurisdiction and other public entities with shared responsibilities and/or concurrent authority in regard to the qualifying project in writing at least sixty (60) calendar days prior to issuing an RFP. Affected local jurisdictions and other public entities have sixty (60) calendar days after receiving the notice to submit in writing any comments to the RPE and to indicate whether the qualified project is incompatible with any plans or budgets. The RPE must address all comments before entering into a comprehensive agreement with a private entity.
- c. Prepare an RFP and submit to AEDC at least fifteen (15) calendar days prior to publication.

The RFP must be published one (1) time per week for three (3) consecutive weeks in a

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<sup>27</sup> The level of detail may differ significantly depending upon the degree to which the project has been defined by the RPE. See for example, *Governing Magazine*, *Governing Guide to Financial Literacy Volume 3, Understanding the Risks and Rewards of Public-Private Partnerships*, for a discussion of high-performance procurement vs. innovating early.

<sup>28</sup> The PPFIA application, guidelines, RFP notice, evaluation criteria, and any other documentation required to be made publically available in the guidelines or PPFIA rules promulgated under the Arkansas Administrative Procedure Act must be posted on a dedicated web page reserved exclusively by the RPE for the PPFIA project. The RPE may post additional, more detailed information when seeking proposals if deemed by the RPE to encourage competition. Multiple PPFIA projects may be posted simultaneously on the same web page as long as each project is clearly and separately delineated.

newspaper of statewide circulation. The period of time between the date of initial publication and the RFP response deadline must be at least forty-five (45) calendar days but no more than 120 calendar days. The timeframe between the date of initial RFP publication and the RFP response deadline may be extended by the RPE up to an additional 120 days with the consent of AEDC.

### **3. Selection Committee and Evaluation Criteria**

If the RPE does not have an existing process to evaluate RFPs and select qualified respondents, it shall select an evaluation committee, subject to AEDC approval, to review, evaluate, and rank all RFP responses. All criteria to be used in the review, evaluation, and ranking of competing proposals for a qualifying project shall be determined by the evaluation committee prior to issuing an RFP. A scoring matrix can be weighted in any fair manner to adequately assess the critical elements of a proposal. There are several factors that may be used when evaluating and selecting a proposal, including without limitation, the following:

#### **a. Qualifications and Experience**

- i. Experience and reputation (references) involving similar projects;
- ii. Demonstration of ability to complete work;
- iii. Legal structure of firm;
- iv. Leadership structure of firm;
- v. Project manager's experience and managerial approach; and
- vi. Financial capacity of firm.

#### **b. Scope and Purpose of Project (Project Characteristics)**

- i. Project description (qualifying type under PPFIA, scope of work, location, planning/design, and service delivery plan);
- ii. Proposed project ownership and responsibilities of public and private entities;
- iii. Schedule and timelines for all phases of project development;
- iv. Technical feasibility of qualifying project;
- v. Conformity to laws, regulations, and standards;
- vi. Environmental impacts and mitigation plans;
- vii. Acquisition of permits, property, easements, and utility/transportation crossings; and
- viii. Ongoing maintenance and operation of the project.

#### **c. Project Benefit and Compatibility with Existing Plans**

- i. Direct and indirect public benefits;
- ii. Project support or opposition, or both (positive and adverse social, economic, and environmental benefits);
- iii. Public involvement strategy;
- iv. Compatibility with local, regional, and state development plans; and
- v. Utilization of local contractors and workers, including minority-owned and women-owned businesses.

#### **d. Financing Plans**

- i. Proposed project cost by phase, segment, or both;
- ii. Cost and benefit to the RPE; life-cycle cost analysis;
- iii. Impact on the debt burden/debt limitations of affected local jurisdictions;
- iv. Opportunity cost assessment;

- v. Long-term maintenance and operations cost;
- vi. Financing options including the sources and uses of public and private funding; estimated “revenues”<sup>29</sup>, “user fees”<sup>30</sup>, lease payments, service payments, etc., realized from the operation of the qualified project; and
- vii. Such other items as the RPE deems appropriate.

There are several public-private partnership models with varying levels of public and private responsibility and financial risk. It is imperative that the RPE conduct a thorough financial analysis, including a comprehensive risk assessment, to ensure that the partnership meets the fiscal needs of the RPE with an acceptable level of risk.

Components of the financial review and analysis of a proposal by the RPE may include several<sup>31</sup> or all of the following prepared by or at the request of the RPE:

- *Cost-benefit analyses\**;
- *Opportunity costs\**;
- *Analysis of lifecycle costs\**;
- *Nonfinancial benefits\**;
- *Consideration of the results of all studies and analyses related to the proposed qualifying project\**;
- Risk assessment;
- Cash flow analysis;
- Evaluation of the public need for or benefit derived from the qualifying project;
- Evaluation of the estimated cost of the qualifying project for reasonableness in relation to similar facilities;
- Evaluation of the source(s) of funding for the project;
- Evaluation of risk sharing, including cost or completion guarantees, added value, or debt or equity investments by the private entity;
- Consideration of any increase in funding, dedicated revenue sources, or other economic benefits that would not otherwise be available; and
- Estimates of all revenues, including user fees and leases, projected to accrue to the project.

After the RFP response deadline has expired, the RPE shall rank the proposals in accordance with the criteria adopted by the evaluation committee. The RPE (not required to select the proposal with the lowest price offer) may consider price as one variable in evaluating the proposals. The RPE shall also decide whether it will engage independent advisors to assist (and not be a member of) the evaluation committee in its review of proposals. The RPE may charge a reasonable, nonrefundable fee to cover the cost of processing, reviewing, and evaluating a PPFIA proposal, including without limitation reasonable attorney's fees and fees for financial, technical, or other advisors or consultants. See Section I.D. of these guidelines for additional information.

During evaluation, the RPE may seek written clarification from any proposer regarding the contents of the proposer's response. A request for written clarification may be made when a proposer's response contains conflicting information or is so ambiguous that it is possible for a reasonable person to attribute different meanings to the ambiguous portion of the proposer's response. A request for written

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<sup>29</sup> See definition (14) of Appendix A.

<sup>30</sup> See definition (15) of Appendix A.

<sup>31</sup> The items with \* were delineated in the PPFIA as required review elements.

clarification may not be used for negotiation (i.e., request the private entity to revise or improve their response). Written clarifications received will become part of that proposer's response.

After ranking proposals, the evaluation committee shall make a recommendation to the chief officer or executive director of the RPE to begin the negotiation process with the qualified respondent based on the rankings. The RPE shall begin negotiations with the first ranked private entity. If the RPE and the first ranked private entity do not reach a comprehensive agreement or interim agreement in the time specified, then the RPE may conduct negotiations with the next ranked private entity. This process shall continue until the RPE either terminates the process or executes an interim or comprehensive agreement with a private entity.

At any time during the negotiation process, but before the execution of an interim or a comprehensive agreement, the RPE may, without liability to any private entity or third party, cancel the RFP or reject all proposals received in response to the RFP. Additionally, upon the RPE's entering into an interim agreement or a comprehensive agreement, the agreement shall govern the parties' obligations and liabilities.

### **C. Timelines for Executing a Comprehensive Agreement with a Qualified Respondent**

Although a specific timeframe for selecting a qualified respondent is not mandatory, RPEs are encouraged to begin negotiations with qualified entities as soon as possible to ensure that a comprehensive agreement is executed within 180 calendar days. This deadline can be extended to up to 365 calendar days by mutual written agreement of both parties. The following section contains information regarding the development of interim agreements and comprehensive agreements.

### **D. Guidelines for Negotiating a Comprehensive Agreement**

***Note:** Public entities (other than the RPE) appropriating or authorizing funding for financing qualified projects shall be afforded an opportunity to review any proposed interim agreement or comprehensive agreement prior to execution.*

#### **1. Interim Agreements**

Interim agreements are useful documents that are encouraged but are not required under the PPFIA. The PPFIA defines an interim agreement as a preliminary written agreement between a private entity and an RPE executed under ACA § 22-10-302 by which the development, scope, and feasibility of a qualifying project is identified.

An interim agreement will usually be less detailed than a comprehensive agreement and will leave open items for further negotiations to be included in the comprehensive agreement. An interim agreement may be used in situations where information is needed to further develop the concept of the qualifying project. Therefore, an interim agreement might be appropriate to have the selected private entity complete certain architectural and engineering (A/E) drawings and feasibility studies so that the RPE can determine how the final qualifying project might be developed or even if the project should proceed before entering into a more detailed comprehensive agreement.

An interim agreement may also be used to allow the private entity to start work on the A/E design and drawings as the comprehensive agreement is completed. An interim agreement could establish a process and timeframe for terminating the project if negotiations cease. This type of clause in the interim agreement would allow for termination of the agreement and provide for payment of agreed-upon compensation to the private entity for the work completed pursuant to the interim agreement.

An interim agreement may include, without limitation, any of the following items:

- a. Project planning and development;
- b. Design and engineering;
- c. Permitting;
- d. Environmental analysis and mitigation;
- e. Surveying;
- f. Land and easement acquisition;
- g. Ascertaining the availability of financing for the proposed facility through financial and revenue analysis;
- h. Establishing a process and timing of the negotiation of the comprehensive agreement; and
- i. Any other provisions related to any aspect of the development or operation of a qualifying project that the parties may deem appropriate prior to the execution of a comprehensive agreement.

If municipal financing by an RPE is a component of the interim agreement, the RPE shall obtain a written evaluation of the proposed qualifying project from a municipal advisor registered with the United States Securities and Exchange Commission and the Municipal Securities Rulemaking Board.

## **2. Comprehensive Agreements**

The selected private entity and RPE shall enter into a comprehensive agreement which shall cover all developmental aspects of the qualifying project not previously covered in an interim agreement. (The AEDC and ADFA may consult in negotiations at the request of the RPE.) “Comprehensive agreement” means a final written agreement between a private entity (qualified respondent) and a responsible public entity governing the development of a qualifying project. It should fully detail the planning, design, development, ownership, financing, leasing, acquisition, installation, construction, operation, maintenance, expansion, and termination of a qualifying project.

The comprehensive agreement shall include without limitation the following items:

- a. Any items (a. through g.) identified above in interim agreements;
- b. A thorough description of the duties and responsibilities of each party in the completion and operation of the qualifying project;
- c. Dates and schedules for the completion of all phases or segments of the qualifying project;
- d. All financing components including the sources and uses of public and private funding; estimated revenues, user fees, lease payments, service payments, etc., realized from the operation of the project as well as any process for changing fees, payments, or funding terms and conditions throughout the duration of the agreement;
- e. A process for the review and approval of plans and specifications for the qualifying project by the RPE;
- f. Delivery of all required payment, performance, surety, and other bonds in the forms and

- amounts required by law for the qualifying project;
- g. Proof of all required insurance, in the forms and amounts required by law for the qualifying project;
- h. The filing of appropriate financial statements and progress reports to the RPE, AEDC, ADFA, and DFA on a periodic basis;
- i. A process for monitoring and inspecting the development of the project by the RPE, ADFA, AEDC, and DFA to ensure compliance with terms and conditions of written agreements, PPFIA law and rules;
- j. Provisions governing the rights and responsibilities of the RPE and private entity in the event that the comprehensive agreement is terminated or if there is a material default by the private entity or RPE;
- k. Terms and conditions related to the procurement of services or materials through additional contracts related to the qualifying project;
- l. Safeguards to ensure that additional costs or service disruptions are not imposed on the public in the event of material default or cancellation of the agreement by the RPE or qualified respondent;
- m. Financing terms including all sources and amounts of funds, anticipated revenues, user fees, leases, and other fiscal components;
- n. Plans for long-term operation and maintenance agreements, management agreements, or service agreements with private entities;
- o. Any reimbursements to be paid to the RPE for services provided or procured by the RPE; and
- p. Processes and procedures regarding any changes to the terms of the comprehensive agreement, as may be mutually agreed upon by the parties from time to time, as added by written amendment.

The comprehensive agreement may include other terms and conditions that the RPE determines will serve the public purpose of the PPFIA and to which the private entity and the RPE mutually agree, including, without limitation, provisions regarding unavoidable delays, liquidated damages, and provisions where the authority and duties of the private entity under the PPFIA shall transfer and the qualifying project is dedicated to the RPE for public use. Comprehensive agreements shall include a hand-back clause which specifies the terms and conditions governing the transfer of ownership from the private entity to the RPE upon expiration of the lease, term, or concession period.

**E. Guidelines for Allowing Accelerated Selection of Qualified Respondents**

The following expedited timeframe shall be followed for accelerated selection of prioritized projects. Days listed are calendar days.

<b>Event</b>	<b>Standard Timeframe</b>	<b>Expedited Timeframe</b>
Affected local jurisdiction and other public entity notification prior to RFP issuance	60 days	30 days
Submittal of RFP to AEDC prior to publication	60 days	30 days
Duration of RFP publication from advertisement to response deadline	45-120* days	45-90* days
Execution of Comprehensive Agreement	180** days after RFP response deadline	120 days**

\* May be extended by the RPE up to an additional 120 days with the consent of AEDC.

\*\* This deadline may be extended to up to 365 calendar days by mutual written agreement of both parties.

## Appendix A Definitions

- (1) “Affected local jurisdiction” means:
  - (A) A county, a city of the first class, a city of the second class, an incorporated town, or a school district in which all or a portion of a qualifying project is located; and
  - (B) Any other local governmental entity that is directly impacted by a qualifying project, as specified in the rules promulgated under this chapter;
- (2) “Comprehensive agreement” means a final written agreement between a private entity and a public entity executed under § 22-10-303 by which a qualifying project shall be developed;
- (3) “Develop” or “development of” means to plan, design, develop, own, finance, lease, acquire, install, construct, operate, maintain, or expand a qualifying project;
- (4) “Interim agreement” means a preliminary written agreement between a private entity and a public entity executed under § 22-10-302 by which the development, scope, and feasibility of a qualifying project is identified;
- (5) “Opportunity cost” means the cost of passing up an alternative and the increase in costs as the result of delaying a decision;
- (6) “Private entity” means a natural person, corporation, general partnership, limited liability company, limited partnership, joint venture, business trust, public benefit corporation, nonprofit entity, and other business entity;
- (7)
  - (A) “Public entity” means an agency or instrumentality of the state, including without limitation a department, an agency, an institution of higher education, a board, or a commission.
  - (B) “Public entity” does not include a political subdivision of the state or any other local or regional governmental entity, including without limitation a city of the first class, a city of the second class, an incorporated town, a county, a school district, an improvement district, a water authority, a public facilities board, a solid waste management district, or a water distribution district;
- (8) “Publish” means the publication by a public entity of a request for proposals one (1) time a week for three (3) consecutive weeks in a newspaper of statewide circulation;
- (9) “Qualified respondent” means the private entity selected as the most qualified respondent to undertake a qualifying project based on a request for proposals issued under this chapter;
- (10) “Qualifying project” means a capital development or improvement of any nature that:
  - (A) Serves a public purpose, including without limitation a ferry, mass transit facility, vehicle parking facility, port facility, power generation facility, fuel supply facility, combined heating and power facility, central utility plant facility, distributed generation facility, oil or gas pipeline, water supply facility, water treatment intake and distribution facility, waste water treatment and collection facility, waste treatment facility, hospital, library, school, educational facility, medical or nursing care facility, recreational facility, administrative facility, law enforcement facility, fire department facility, public administrative office, toll road, correctional facility, technology infrastructure facility, public building, transportation system as defined in § 27-76-103<sup>32</sup>, or other similar facility currently available or to be made available to a public entity for public use, including without limitation a structure, parking area, appurtenance, and other related or unrelated infrastructure that might otherwise be described in a comprehensive agreement; and
  - (B) Has one (1) or more of the following characteristics:
    - (i) It is developed using a long-term operations and maintenance agreement,

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<sup>32</sup> The Regional Mobility Authority Act, established by Act 389 of 2007.

- management agreement, or services agreement entered into with a private entity;
- (ii) It is designed and built in whole or in part by a private entity;
  - (iii) It is a capital development or improvement in which a private entity:
    - (a) Invests its own capital or third-party capital arranged by the private entity;
    - (b) Sources or uses indebtedness, available funds, revenues, or financial or tax incentives to fund the capital development or improvement; or
    - (c) Provides other consideration in the form of goods or services to the public entity to fund the project;
  - (iv) It is owned in whole or in part by a private entity for the benefit of a public entity;
  - (v) It involves real or personal property owned by a public entity that is sold to, leased to, or exchanged with a private entity for leaseback or for use by the public entity; or
  - (vi) It is a qualifying project as defined in the rules promulgated under this chapter;
- (11) “Request for proposals” means a notice that is issued by a public entity announcing the public entity's interest in developing a qualifying project and seeking proposals from private entities to develop the qualifying project that identifies without limitation:
- (A) The anticipated scope and purpose of the qualifying project;
  - (B) The financial and nonfinancial benefits related to the qualifying project;
  - (C) Any anticipated revenues that might be realized as a result of the operation of the qualifying project;
  - (D) The proposed timeline under which the qualifying project is to be completed; and
  - (E) Any other issues required by the rules promulgated under this chapter;
- (12) “Request for qualifications” means an optional process, conducted prior to a request for proposals, by which a public entity may request potential vendors to submit specific qualifications in response to a formal request to perform specified services or activities, so that a pool of qualified vendors may be chosen by the public entity to respond to a request for proposals;
- (13) “Responsible public entity” means a public entity that has the statutory or constitutional authority to develop and operate the applicable qualifying project;
- (14) “Revenues” means the rates, revenues, income, earnings, user fees, lease payments, service payments, other available funds, and other revenue and cash flow of any nature arising out of or in connection with the development of a qualifying project, including without limitation the funds derived from the operation of a qualifying project or otherwise provided by the parties as stated in the comprehensive agreement, and excluding any revenues that are prohibited by law;
- (15) “User fees” means the rates, fees, or other charges imposed by a private entity for use of all or a portion of a qualifying project pursuant to a comprehensive agreement; and
- (16) “Value-for-money analysis” means the value calculated, in percentage terms, when comparing the costs to develop a qualifying project outside of this chapter to the costs to develop the qualifying project under this chapter to determine which procurement approach produces the best value to the public over a long-term period.

**Attachment A**  
**Partnership for Public Facilities and Infrastructure Act (PPFIA)**  
**Application**

**A. Applicant Information**

Legal Name of Public Entity\*: \_\_\_\_\_

Name and Title of Chief Officer/Executive Director: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_

Phone: \_\_\_\_\_

Project Contact\*\*: \_\_\_\_\_ Title: \_\_\_\_\_

Phone: \_\_\_\_\_ Email: \_\_\_\_\_

Web Address\*\*\*: \_\_\_\_\_

\*Must have statutory or constitutional authority to develop and operate the qualifying project.

\*\*Representative of public entity who is responsible for project management/meeting with private entities/meeting with state agencies.

\*\*\*Web address of public entity where PPFIA documents are available for public review.

**B. Project Description (Briefly describe how this project meets the requirements of the Act)**

Project Title: \_\_\_\_\_

Qualifying Project Type: \_\_\_\_\_

Summary of Project: (A detailed description of the project; what is to be accomplished; what are the goals/objectives of the project; timeline/when will key milestones be completed.)

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Geographic Area(s) Served:

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Affected Local Jurisdiction(s) (List each separately):

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

Affected Public Entities (e.g., co-funders, complementary authority) (List each separately)

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

Statement of Public Purpose: What public purpose or need is being served by the project? How will the project be available for public use? What issues or purposes do you plan to address through this project? Identify who will benefit from the project, how (financial and nonfinancial) they will benefit, and how the project will benefit the overall community, region, or state.

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Determination of Project Need: Explain how development of a public-private partnership will produce a higher quality, more timely, and cost-efficient project, resulting in increased benefits to the public safety and welfare to the citizens of Arkansas. Attach a Value-for-Money Analysis to justify project development under the PPFIA.

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Projected Project Development Budget:

List all proposed public and private sources and uses of funds, financing, revenues, lease payments, and user fees for capital development and maintenance and operations during the life of the project.

Source	Purpose	Amount	Commitment Date	Terms	Conditions, Contingencies, Assumptions
<b>Capital Development Budget</b>					
<b>Maintenance and Operation Budget (Annual)</b>					

Review Fees: List the proposed review fee amount, fee schedule, and the methodology to be employed to charge review fees for proposal reviews:

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**C. Application Certification:**

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**Authorizing Signature (President/Executive Director/Elected Official)**

**Please check each item below:**

- I verify that the information provided is correct and accurate to the best of my knowledge.
- The applicant meets the definition of “public entity” under the PPFIA and is not specifically prohibited from submitting an application.
- The applicant has statutory and constitutional authority to develop a project under the PPFIA.
- I agree to abide to all terms and conditions of the PPFIA as defined in legislation, guidelines, rules, and any written agreements executed pursuant to a qualified project.

Authorized Applicant (Print Name and Title): \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

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**Submitting the Application**

Please return two (2) copies of the completed PPFIA application and all supporting documents to:

Mike Preston, Executive Director

Arkansas Economic Development Commission

900 West Capitol Avenue, Suite 400

Little Rock, AR 72201

**FUNDING PROGRAMS OF THE DIVISION OF SCIENCE AND TECHNOLOGY OF THE  
AEDC AT § 15-3-101 ET SEQ.**

**Program Summaries**

**SEED CAPITAL INVESTMENT PROGRAM**

**Program Summary**

The Seed Capital Investment Program (SCIP) allows the Arkansas Economic Development Commission to invest in innovative, technology-based businesses that will stimulate the economy of Arkansas. SCIP funds may be used by AEDC to purchase qualified securities issued by Arkansas-based enterprises seeking initial capitalization of scientific and technological projects. Such securities shall include debt financing, equity financing, royalty participation, stock appreciation, or a combination thereof.

To qualify for the Seed Capital Investment Program, a business must

- Have its principal place of business in Arkansas;
- Undertake a project that is scientific, technological, or both; and
- Complete the application submittal process delineated in Section II.A.(iii) of the Rules.

No more than five hundred thousand dollars (\$500,000) shall be invested by AEDC in any one business.

Applications will be reviewed by Division staff as well as, potentially, external experts and/or the Commercialization Committee of the Board of Directors of the Division. Additionally, applicants may be subject to an interview or site visit, or both.

**TECHNOLOGY DEVELOPMENT PROGRAM**

**Program Summary**

The Technology Development Program provides “bridge” financing in the form of grants up to \$100,000 for projects to develop qualified technologies

To qualify for the Technology Development Program, an applicant must

- Be an inventor, business, Arkansas-based college or university, or federal laboratory with its principal place of business in Arkansas;
- Undertake commercialization of a new product or process that promotes the benefits of science and technology to the State of Arkansas; and
- Submit an application and project plan as required by Section II.B.(iii) of the Rules.

If approved, the applicant shall also

- Enter into a Royalty Agreement with the Arkansas Economic Development Commission outlining the amount, terms, and conditions of the funding.

Applications will be reviewed by Division staff as well as, potentially, external experts and/or the Commercialization Committee of the Board of Directors of the Division. Additionally, applicants may be subject to an interview or site visit, or both.

## **TECHNOLOGY TRANSFER ASSISTANCE GRANT PROGRAM**

### **Program Summary**

The purpose of the Technology Transfer Assistance Grant Program is to provide funds for the transfer or deployment of innovative technology to Arkansas-based enterprises to resolve identified technology-based, industry-driven issues. Maximum AEDC funding is \$3,750, covering the first \$2,500 of project costs and matching up to \$1,250 provided by the enterprise being assisted by the grant. The enterprise must assume all costs beyond \$5,000; however, additional TTAG funds may be awarded at the discretion of the Executive Director.

To qualify for the Technology Transfer Assistance Grant Program, an applicant must:

- Be a technology transfer resource provider approved by the Division assisting an enterprise with its principal place of business in Arkansas;
- Identify or transfer innovative technology to resolve a specific problem, issue, or concern identified by that enterprise;
- Be able to execute the technology transfer within a ninety (90) day project window; and
- Submit an application under Section II.C.(iii) of the Rules.

Applications will be reviewed by Division staff as well as, potentially, external experts and/or the Commercialization Committee of the Board of Directors of the Division. Additionally, applicants may be subject to an interview or site visit, or both.

## **BASIC RESEARCH AND APPLIED RESEARCH GRANT PROGRAMS**

### **Program Summary**

The Basic Research and Applied Research Grant Programs allow the Arkansas Economic Development Commission to support the growth of science and technology in Arkansas-based

**Funding Programs of the Division of Science and Technology of AEDC Summaries (6/15/2018)**

colleges and universities and to help create applied research partnerships between those colleges and universities and private industry.

The Basic Research Grant Program (BRGP) may provide up to sixty percent (60%) of the total costs of the project being funded. The remaining costs are to be funded by the Arkansas-based institution proposing the project.

The Applied Research Grant Program (ARGP) may fund up to fifty percent (50%) of the total costs of the applied research project being funded. The remaining costs are to be funded by the private industry, and may be funded with cash or new machinery and equipment. However, under the ARGP, if the private industry is principally located in Arkansas and employs fifty (50) or fewer persons, AEDC may fund up to sixty-six and two-thirds percent (66  $\frac{2}{3}$ %) of the project.

To qualify for the BRGP or ARGP, an applicant must:

- Propose a research project that has the potential to enhance research at an Arkansas-based college or university; and
- Submit an application under Section II.D.(iii) of the Rules.

If approved, the applicant shall also

- Enter into a Royalty Agreement with the Arkansas Economic Development Commission outlining the amount, terms, and conditions of the funding.
- Execute a written agreement with AEDC outlining the amount, terms, and conditions of the funding; and
- Submit a final summary report to the Division within sixty (60) days after project completion.

Applications will be reviewed by Division staff as well as, potentially, external experts and/or the Research Committee of the Board of Directors of the Division. Additionally, applicants may be subject to an interview or site visit, or both.

## **BUSINESS INCUBATOR PROGRAM**

### **Program Summary**

The Business Incubator Program fosters the growth of the state's entrepreneurial environment and technology-based enterprises through the establishment of Arkansas-based college and university business incubators. Eligible applicants are Arkansas-based state colleges and universities that are supported by general revenue appropriations from the Arkansas General Assembly.

To qualify for the Business Incubator Program, an applicant must:

- Propose the creation of a business incubator facility that will encourage the successful growth of technology-based enterprises which contribute to the state's economic development; and
- Submit an application under Section II.E.(iii) of the Rules.

If approved, the applicant shall also

- Enter into a written agreement with the Arkansas Economic Development Commission outlining the amount, terms, and conditions of the funding.

Applications will be reviewed by Division staff as well as, potentially, external experts and/or the Commercialization Committee of the Board of Directors of the Division. Additionally, applicants may be subject to an interview or site visit, or both.

## **CENTERS FOR APPLIED TECHNOLOGY PROGRAM**

### **Program Summary**

The Centers for Applied Technology (CAT) Program encourages collaboration between private enterprises and Arkansas-based colleges and universities in the development and use of new technologies by assisting in funding science- or technology-specific centers at those institutions of higher education.

To qualify for the CAT Program, an applicant must:

- Propose the creation of a Center for Applied Technology that will encourage the collaboration on applied technologies between private enterprises and Arkansas-based colleges and universities; and
- Submit an application under Section II.F.(iii) of the Rules.

If approved, the applicant shall also

- Enter into a written agreement with the Arkansas Economic Development Commission outlining the amount, terms, and conditions of the funding.

Applications will be reviewed by Division staff as well as, potentially, external experts and/or the Research Committee of the Board of Directors of the Division. Additionally, applicants may be subject to an interview or site visit, or both.

# Funding Programs of the Division of Science and Technology of the Arkansas Economic Development Commission at § 15-3-101 et seq. Rules

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## I. Introduction

### Overview

Act 859 of 1983 created the Arkansas Science and Technology Authority (ASTA) as a state agency to provide leadership, direction, incentives, and technical assistance to enable Arkansas to gain the advantages and benefits of advanced science and technology. This enabling legislation gave ASTA broad authority to develop programs and rules; receive money, property, services, or other things of value; acquire, own, and transfer real and personal property of all types; execute contracts and agreements; invest funds in lawful purposes; and finance scientific and technical endeavors through the provision of grants, loans, and other forms of assistance.

Act 409 of 1985 strengthened ASTA's powers by amending Act 859 of 1983 to enable ASTA to foster the development of high-technology industries within the State of Arkansas, assist minority businesses in obtaining financial assistance under programs of the act, and support basic and applied research in Arkansas-based colleges and universities. Subsequent amendments added emphasis on ASTA's role in small business research and development, development and promotion of product and process technologies, and providing assistance to qualified medical companies.

Act 803 of 1989 authorized creation of the Centers for Applied Technology (CAT) Program to encourage greater collaboration between private enterprises and Arkansas-based colleges and universities in the development and application of new technologies.

Finally, Acts 7 and 8 of the First Extraordinary Session, 2015, provided for a Type 2 transfer of ASTA to the Arkansas Economic Development Commission (AEDC), and renamed ASTA as the Division of Science and Technology of the Arkansas Economic Development Commission (Division).

Pursuant to authority granted at § 15-3-101, et seq., AEDC is granted the powers necessary to carry out programs delineated at § 15-3-109, which include:

1. Funding basic research at Arkansas-based colleges and universities as specified in § 15-3-110;
2. Stimulating applied research partnerships between private industry and Arkansas-based colleges and universities and matching funds from private sources for proposed applied research projects as specified in § 15-3-110;

3. Assisting small businesses in identifying and applying for funds to conduct research and development on innovative technical ideas;
4. Transferring knowledge and technology from college, university, and government laboratories to private industry;
5. Creating, in cooperation with Arkansas-based colleges and universities, facilities to foster the growth of technology-based enterprises;
6. Developing emerging product and process technologies which contribute to business and economic growth;
7. Engaging in innovative demonstration and pilot projects involving improved education and preparation of the future workforce in the areas of science, technology, and mathematics; and
8. Transferring knowledge and technology from colleges, universities, government entities and laboratories, and other sources of innovation to public schools.

## **II. Funding Programs of the Division of Science and Technology of the Arkansas Economic Development Commission**

The following programs, established in accordance with the authority granted above, are governed by these rules.

### **A. Seed Capital Investment Program (SCIP)**

#### **(i) Purpose**

The purpose of the Seed Capital Investment Program (SCIP) is to foster the formation and development of innovative, technology-based enterprises that will stimulate the economy of Arkansas by creating high-wage employment, leverage private investment, increase tax revenues, and advance the benefits and opportunities realized through advanced science and technology.

SCIP funds may be used by AEDC to purchase qualified securities issued by Arkansas-based enterprises seeking initial capitalization of scientific and technological projects.

SCIP investments shall be in the form of the following qualified securities including, without limitation:

- debt financing;
- equity financing;
- royalty participation;
- stock appreciation; or
- a combination of such financing arrangements.

#### **(ii) Eligibility Requirements**

Enterprise eligibility requirements include the following:

- (a) The enterprise's principal place of business is in Arkansas;
- (b) The project of the enterprise shall be scientific or technological, or both, in nature and promote the purpose of AEDC by providing scientific and technological benefits to Arkansas;
- (c) The enterprise shall complete the application submittal process delineated in Section II.A.(iii) of these rules; and
- (d) Not more than five hundred thousand dollars (\$500,000) shall be invested by AEDC in the qualified securities of any one (1) enterprise.

**(iii) Application Submittal Process**

Applicants for SCIP funds shall submit one (1) completed signed application, utilizing forms provided by AEDC, and may be subject to an interview or site visit, or both.

- (a) Applications shall include:
  - A. The legal name, address, North American Industry Classification System classification, and business filing status of the enterprise;
  - B. The names and contact information of professional staff affiliated with the enterprise;
  - C. A list of key officers, owners, and personnel, including senior technical staff (attach resumes);
  - D. Sources(s), amount(s), and anticipated uses(s) of AEDC and non-AEDC funds;
  - E. A brief description of the business enterprise;
  - F. A brief description of the project, including the technology involved, for which funds are requested;
  - G. An explanation of the enterprise's stage of development in relation to the project;
  - H. A statement of anticipated economic impact including the number, location, occupational classification, and compensation of jobs to be created;
  - I. A business plan, including a description of the enterprise and its background, management, product(s), and market(s); and
  - J. Other information as requested by AEDC.

**(iv) Application Review and Approval Process**

No financial commitment or approval shall be made by the Executive Director of the Arkansas Economic Development Commission (Executive Director) to an applicant until the applicant has completed the following review and approval process.

- (a) All applications will be evaluated by Division staff for completeness and for the potential to effectuate the formation and development of innovative, science- or technology-based enterprises that will stimulate the economy of Arkansas through increased high-wage employment and leveraging of private investment. Review criteria include, without limitation:
  - A. The application is signed and complete in accordance with Section II.A.(iii) of these rules;
  - B. Investment proceeds will be used to cover the initial capitalization needs of the enterprise;
  - C. Evidence has been provided showing that the enterprise has a reasonable chance of success;
  - D. The enterprise shall be able to demonstrate that it has been unable to secure sufficient capital from traditional sources on terms that would enhance the success of the enterprise;
  - E. The enterprise has the reasonable potential to create a substantial amount of primary employment within the state;
  - F. The entrepreneur and other founders of the enterprise have already made or are contractually committed to make substantial financial and time commitments to the enterprise;
  - G. The securities offered by the enterprise to AEDC for purchase are qualified securities;
  - H. There shall be evidence showing a reasonable possibility that AEDC will recoup at least its initial investment;
  - I. A binding commitment has been made by the enterprise to report financial data to AEDC. Commitments shall include a requirement for an annual or other periodic audit of the books of the enterprise, and for such control on the part of AEDC as the Executive Director shall consider prudent over the management of the enterprise, including, at the discretion of the Executive Director and without limitation, the right of access to financial and other records of the enterprise; and
  - J. Other criteria as determined by the Executive Director.
- (b) Applicants may be subject to an interview or site visit, or both, during the application review process;
- (c) Division staff shall prepare a project summary of each project reviewed in accordance with criteria listed in step II.A.(iv)(a);
- (d) Optional Step: The Executive Director may request an independent review of the application, including the technology employed by the applicant, by an external expert or external experts in accordance with Section V of these rules;
- (e) Optional Step: The Executive Director may request Division staff to submit project summaries to the Commercialization Committee of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission (Commercialization Committee) for review. If so requested:

- A. The Commercialization Committee will review projects in accordance with program rules;
  - B. Applicants may be invited to present their projects before the Commercialization Committee;
  - C. The Commercialization Committee may ask applicants for additional information before recommending projects for funding;
  - D. Projects receiving Commercialization Committee support will be forwarded to the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission (Board) for review; and
  - E. The Board will vote, by simple majority, to determine whether or not to recommend project funding.
- (f) Division staff will prepare a Resolution for Funding for each project recommended for funding and distribute for signature(s);
  - (g) For projects recommended by the Commercialization Committee, the Secretary of the Board will sign the Resolution for Funding and forward to the Executive Director;
  - (h) The Executive Director, or his or her designee, after reviewing all recommendations, will sign Resolutions for Funding for approved projects;
    - A. Unsuccessful applicants will be notified in writing by Division staff.
    - B. Approved applicants will be required to execute a written Investment Agreement outlining the amount, terms, and conditions of the qualified security purchase prior to receiving funds; and
  - (i) Funds shall be disbursed to enterprises in accordance with terms and conditions of the Investment Agreement.

**B. Technology Development Program (TDP)**

**(i) Purpose**

The purpose of the Technology Development Program (TDP) is to assist in commercializing new, technology-based products and processes created or developed by inventors, businesses, Arkansas-based colleges or universities, and federal laboratories located in Arkansas. The program is intended to provide flexible “bridge” financing in the form of grants of up to \$100,000, for projects to develop qualified technologies.

**(ii) Eligibility Requirements**

Applicant eligibility requirements include the following:

- (a) The qualified applicant’s principal place of business is in Arkansas;

- (b) The proposed TDP project shall promote the benefits of science and advanced technology to the State of Arkansas and its citizens by commercializing new products and processes;
- (c) The application is complete and has been submitted by a qualified applicant;
- (d) The applicant shall submit a well-developed and defined project plan in accordance with requirements of Section II.B.(iii) of these rules; and
- (e) A nonpublic applicant shall submit a nonrefundable fee, via check, of one dollar (\$1) with the preliminary application.

**(iii) Application Submittal Process**

Applicants for TDP funds shall submit one (1) completed signed application, and, if a non-public applicant, a nonrefundable fee of one dollar (\$1), under forms provided by the Division, and may be subject to an interview or site visit, or both.

- (a) Applications shall include the following information:
  - A. The legal name, address, North American Industry Classification System classification, and business filing status of the qualified applicant;
  - B. The names and contact information of professional staff affiliated with the enterprise;
  - C. A list of key officers, owners, and personnel, including senior technical staff (attach resumes);
  - D. Sources(s), amount(s), and anticipated uses(s) of AEDC and non-AEDC funds;
  - E. A brief description of the project, including the technology involved, for which funds are requested;
  - F. An explanation of the business's stage of development in relation to the project;
  - G. A statement of anticipated economic impact including the number, location, occupational classification, and compensation of jobs to be created;
  - H. A business plan, including a description of the business and its background, management, product(s), and service(s); and
  - I. Other information as requested by AEDC.
- (b) Applications shall also include a well-developed and defined project plan, showing progression from idea to prototype to production, which includes the following:
  - A. A description of the proposed product, process, or technical innovation;
  - B. An assessment (if applicable) of previous research and development efforts that strengthens technical claims;
  - C. Potential sources of prototype development;
  - D. A description of any known barriers to production of the product (e.g., process, materials, safety, or environment);
  - E. A description of the product to be commercialized, including potential manufacturers, distributors, niche markets, etc.;

- F. A description of the implementation plan for the accomplishment of the project, including a:
  - i. Timetable;
  - ii. Narrative description of the use of funds; and
  - iii. Listing of any required supporting facilities, equipment, and personnel.
- G. The budget for the proposed project period;
- H. A description of the qualifications of key personnel including resumes;
- I. A statement of economic impact, including without limitation:
  - i. Potential job creation;
  - ii. Export potential; or
  - iii. Value added to existing products.
- J. A description of all methods used to protect intellectual properties including disclosure documents, patents, trademarks, copyrights, etc.

**(iv) Application Review and Approval Process**

No financial commitment or approval shall be made by the Executive Director until a qualified applicant has completed the following review and approval process.

- (a) Division staff will evaluate applications for completeness based on the following five factors:
  - A. Technical Feasibility
    - i. Is there a sufficient description of the proposed product, process, or innovation to derive a sound technical evaluation;
    - ii. Is the invention based upon scientific principles;
    - iii. Is there previous research or development that substantiates the technical feasibility;
    - iv. Does it require redesign, rebuilding, or further testing; and
    - v. How is the project technically innovative?
  - B. Production Feasibility
    - i. Can it be produced economically and in sufficient quantities using existing production technology;
    - ii. Can it be produced safely meeting legal, liability, product infringement, and pollution guidelines; and
    - iii. How many sources are willing to produce it?
  - C. Commercial Feasibility
    - i. What specific customer needs does the product or process satisfy;
    - ii. Will the market support the project;
    - iii. Who is the competition;
    - iv. Does the product, process, or innovation provide a competitive edge;
    - v. Is there adequate financial support;
    - vi. Does the budget support the implementation plan;
    - vii. Is the commercialization plan valid; and

- viii. Can key personnel support the project?
- D. Economic Potential
  - i. Will the project impact Arkansas's economy;
  - ii. Does the project have job creation potential;
  - iii. Does the technology add value to existing products; and
  - iv. Can the technology be exported?
- E. Patentability
  - i. Has a patent been applied for;
  - ii. Have similar patents been granted; and
  - iii. Can the concept be protected with a patent?
- (b) Applicants may be subject to an interview or site visit, or both, during the application review process;
- (c) Division staff shall prepare a project summary of each project reviewed in accordance with criteria listed in step II.B.(iv)(a);
- (d) Optional Step: The Executive Director may request an independent review of the application, including the technology employed by the applicant, by an external expert or external experts in accordance with Section V of these rules;
- (e) Optional Step: The Executive Director may request Division staff to submit project summaries to the Commercialization Committee for review. If so requested:
  - A. The Commercialization Committee will review projects in accordance with program rules;
  - B. Applicants may be invited to present their projects before the Commercialization Committee;
  - C. The Commercialization Committee may ask applicants for additional information before recommending projects for funding;
  - D. Projects receiving Commercialization Committee support will be forwarded to the Board for review; and
  - E. The Board will vote, by simple majority, to determine whether or not to recommend project funding.
- (f) Division staff will prepare a Resolution for Funding for each project recommended for funding and distribute for signature(s);
- (g) For projects recommended by the Commercialization Committee, the Secretary of the Board will sign the Resolution for Funding and forward to the Executive Director;
- (h) The Executive Director, or his or her designee, after reviewing all recommendations, will sign Resolutions for Funding for approved projects:
  - A. Unsuccessful applicants will be notified in writing by Division staff.
  - B. Approved applicants will be required to execute a written agreement outlining the amount, terms, and conditions of the funding, in the form of a Royalty Agreement, prior to receiving funds.
- (i) Funds shall be disbursed to approved applicants in accordance with terms and conditions of the Royalty Agreement.

## **C. Technology Transfer Assistance Grant Program (TTAG)**

### **(i) Purpose**

The purpose of the Technology Transfer Assistance Grant (TTAG) Program is to increase Arkansas industry's competitiveness through technical and operational advancements by providing funds for the transfer or deployment, or both, of innovative technology to Arkansas-based enterprises to resolve identified technology-based, industry-driven problems, issues, or concerns.

TTAG is intended to provide financing that allows a business's specific technology to better compete for funding from other Division programs.

TTAG funds may be used to fund costs associated with engineering or technical support fees; database searches; travel; responses/cash matches to the Small Business Innovation Research Program or the Small Business Technology Transfer Program; and other costs decided on a case-by-case basis. TTAG funds are generally not approved to purchase fixed assets or training.

Maximum AEDC funding per project shall not exceed \$3,750 based on the following:

- First \$2,500 of project costs; and
- Additional amount up to \$1,250 based upon a 50:50 match with the enterprise assisted with TTAG funds for the next \$2,500 of project costs.

All costs in excess of \$5,000 shall be assumed by the assisted enterprise, however, additional TTAG funds may be awarded at the discretion of the Executive Director.

Unlike most Division programs, qualified applicants are technology transfer resource providers approved by the Division.

### **(ii) Eligibility Requirements**

Applicant eligibility requirements include the following:

- (a) Applications will be evaluated based upon the following criteria:
  - A. The application is complete and has been submitted by one (1) or more qualified applicant(s) (technology transfer resource providers);
  - B. The enterprise being assisted by the applicant(s) is a business with its principal place of business in Arkansas;
  - C. The purpose of the project is to promote the benefits of science and advanced technology to Arkansans by identifying and transferring innovative technology to resolve a specific problem, issue, or concern of an Arkansas-based enterprise; and

- D. Not more than \$3,750 (with appropriate enterprise matching funds) is being requested from AEDC. An enterprise may receive only two (2) TTAG awards in any one (1) state fiscal year.

**(iii) Application Submittal Process**

Applicants for TTAG funds shall submit one (1) completed signed application, utilizing forms provided by the Division, and may be subject to an interview or site visit, or both.

- (a) Applications shall include:
  - A. The legal name, address, phone number, and North American Industry Classification System classification of the enterprise being assisted by the technology transfer resource provider;
  - B. The name(s), title(s), and contact information of professional staff affiliated with the enterprise;
  - C. The legal name of the technology transfer resource provider;
  - D. The name(s), title(s), and contact information of professional staff affiliated with the technology transfer resource provider;
  - E. The area of technology covered in the application;
  - F. A brief description of the business and competitive challenges facing the business enterprise;
  - G. A brief description of the specific problem and anticipated solution to the project to be addressed;
  - H. A description of how the technology transfer resource provider will implement the solution to the problem;
  - I. A description of how the business enterprise will maintain the solution after implementation;
  - J. A listing of specific tasks to be performed by the project participants;
  - K. The anticipated financial impact of the project; and
  - L. Any other information as requested by AEDC.

**(iv) Application Review and Approval Process**

No financial commitment or approval shall be made by the Executive Director until the qualified applicant has completed the following review and approval process.

- (a) All applications will be evaluated by the AEDC's TTAG Review Committee for completeness and for the potential to identify and transfer innovative technology to solve a specific technology-based problem, issue, or concern of an Arkansas-based enterprise. Review criteria include, without limitation:
  - A. The application is complete;

- B. The qualified applicant and the associated enterprise shall have the support and resources available to ensure a reasonable probability of project success given that a transfer of appropriate technology occurs;
  - C. The qualified applicant or the Division shall be able to locate appropriate technology transfer resources willing to assist with the project;
  - D. The proposed technology transfer project shall be technically feasible. The transfer of technology shall improve the enterprise's technical competitiveness, operational competitiveness, or both, and add value to new or existing products, processes, or services;
  - E. The proposed technology transfer project shall have commercial feasibility potential. The transfer of technology should provide the enterprise with the ability to compete more effectively in the marketplace; and
  - F. The project shall have a time frame of no longer than ninety (90) days.
- (b) Applicants may be subject to an interview or site visit, or both, during the application review process;
  - (c) AEDC may request an independent review of the application, including the technology employed by the applicant, by an external expert or external experts in accordance with Section V of these rules;
  - (d) The Executive Director, or his or her designee, after reviewing the TTAG Review Committee's recommendations, will specify which applicants may receive funding.
    - A. Unsuccessful applicants will be notified in writing by Division staff.
    - B. Approved applicants will be required to execute a written agreement outlining the amount, terms, and conditions of the funding.
  - (e) Division staff shall provide a list of projects funded with TTAG funds to the Board.

## **D. Basic Research and Applied Research Grant Programs**

### **(i) Purpose**

#### Basic Research Grant Program

The Basic Research Grant Program provides matching grant funds to help promote and support the growth and development of scientists working in Arkansas and to enhance the status of science and technology in Arkansas-based colleges and universities by funding basic research.

AEDC may fund up to sixty percent (60%) of the total cost of the basic research project being funded. Remaining project costs shall be funded with cash or in-kind services provided by the college or university proposing the research project.

#### Applied Research Grant Program

The Applied Research Grant Program provides matching grant funds to help create applied research partnerships between private industry and Arkansas-based colleges

and universities to stimulate the transfer of science and technology. Private industry match may be in the form of cash or new machinery and equipment.

AEDC may fund up to fifty percent (50%) of the total cost of the applied research project being funded. Remaining project costs shall be funded with cash or new machinery and equipment provided by a business or industry cosponsoring the project; however, AEDC may fund up to sixty-six and two-thirds percent (66 and 2/3%) of the applied research project if the participating private industry is principally located in Arkansas and employs up to fifty (50) persons.

AEDC will approve for funding only those applied research projects which are likely to enhance employment opportunity within Arkansas.

**(ii) Eligibility Requirements**

Applicant eligibility requirements include the following:

- (a) Applications will be evaluated based upon the following criteria:
  - A. The application is complete and has been submitted by a qualified applicant in accordance with established deadlines;
  - B. The purpose of the project is to promote the benefits of science and advanced technology to Arkansans by addressing an area of either basic or advanced research. Basic research projects shall establish or build upon an established institutional base of research capability and result in permanent and significant enhancement of the institution's research capabilities; and
  - C. The Arkansas-based college or university has committed to provide the requisite match for the research program for which the applicant is applying.

**(iii) Application Submittal Process**

Potential applicants for Basic Research Program and Applied Research Program grant funds shall submit one (1) completed, signed, and dated application, utilizing forms provided by the Division, and may be subject to an interview or site visit, or both, during the application review process.

**(iv) Application Review and Approval Process**

- (a) All applications will be evaluated by Division staff for completeness and for the potential to enhance research at Arkansas-based colleges and universities. No financial commitment shall be made by the Executive Director to an applicant until the applicant has completed the following review and approval process.
  - A. Applications shall consist of the following documents:
    - i. A project summary and cover sheet;
    - ii. The name of the college or university applying for research funds;

- iii. The names, titles, addresses, and telephone numbers of the principal investigator and the institutional contract officer;
  - iv. The title and technical abstract of the project proposal;
  - v. The amount of funds requested from AEDC;
  - vi. A statement of how the specific objectives of the project relate to AEDC research program objectives;
  - vii. A review of the literature pertinent to the proposed research, including an assessment of previous research efforts;
  - viii. A clearly-described implementation plan for the accomplishment of the project including:
    - 1. A description of the proposed activities, including experimental design and methods;
    - 2. A timetable; and
    - 3. Information detailing the availability of support facilities, equipment, and personnel necessary for the attainment of the project's objectives.
  - ix. A detailed budget for the current and upcoming fiscal years including personnel, fringe benefits, equipment, supplies, travel, indirect costs, and support;
  - x. A statement and letters of commitment detailing the source and amount of the required matching funds;
  - xi. A statement of plans for future support of the research from sources other than AEDC including identification of anticipated funding sources and likely titles of the proposals to be submitted;
  - xii. A description of the qualifications of the personnel to be involved in the proposed project. Information shall include:
    - 1. Academic credentials of key professionals;
    - 2. A list of recent publications in accepted professional journals; and
    - 3. A record of past and current grant support received.
  - xiii. Acknowledgment that a final summary report will be submitted to the Division within sixty (60) days after project completion. The report shall include:
    - 1. A topic sentence restating the project's major thesis;
    - 2. The primary objectives and scope of the project;
    - 3. The techniques or approaches used;
    - 4. A concise statement of findings and implications; and
    - 5. Other information as requested by the Division.
- B. Projects shall meet the following administrative, technical, and scientific criteria:
- i. The scientific merit of the proposal, including the quality and importance of the proposed research and the suggested research procedures;
  - ii. The competence of the professional personnel involved in the project as evidenced by relevant academic training, research, and publications;

- iii. The availability of administrative support and resources necessary to ensure a reasonable probability of project success;
  - iv. The soundness of the implementation plan and the likelihood that the project objectives will be achieved;
  - v. The potential of the project to attract support from third-party sources; and
  - vi. The overall probability of success of the proposed project.
- C. Applications for Applied Research Grant funds shall meet the following additional fiscal criteria:
- i. The commercial feasibility of the proposed research;
  - ii. The capacity of the proposed project to enhance employment opportunities in Arkansas; and
  - iii. The capacity of the project to attract private investment.
- D. Applicants may be subject to an interview or site visit, or both, during the application review process;
- E. Division staff shall prepare a project summary of each project reviewed in accordance with criteria listed in step II.D.(iv)(a);
- F. Optional Step: The Executive Director may request an independent review of the application, including the technology employed by the applicant, by an external expert or external experts in accordance with Section V of these rules;
- G. Optional Step: The Executive Director may request Division staff to submit project summaries to the Research Committee of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission (Research Committee) for review. If so requested:
- i. The Research Committee will review projects in accordance with program rules;
  - ii. Applicants may be invited to present their projects before the Research Committee;
  - iii. The Research Committee may ask applicants for additional information before recommending projects for funding;
  - iv. Projects receiving Research Committee support will be reviewed by the Board;
  - v. The Board will vote, by simple majority, to determine whether or not to recommend project funding.
- H. Division staff will prepare a Resolution for Funding for each project recommended for funding and distribute for signature(s);
- I. For projects recommended by the Research Committee, the Secretary of the Board will sign the Resolution for Funding and forward to the Executive Director; and
- J. The Executive Director, or his or her designee, after reviewing all recommendations, will sign Resolutions for Funding for approved projects;
- i. Unsuccessful applicants will be notified in writing by Division staff.

- ii. Approved applicants will be required to execute a written agreement outlining the amount, terms, and conditions of the funding.

## **E. Business Incubator Program**

### **(i) Purpose**

The purpose of the Business Incubator Program is to enhance economic development by stimulating technological innovation and fostering the growth of technology-based enterprises to create new employment opportunities for Arkansans through the establishment of Arkansas-based college and university incubators. The intent of the program is to create an entrepreneurial and technological environment drawing upon a diversity of business enterprises which will stimulate the innovation process and result in economic benefits to Arkansans.

Applications for funding should emphasize innovation, entrepreneurial engagement, leveraging of private capital to the greatest extent possible, and local business support.

### **(ii) Eligibility Requirements**

Applicant eligibility requirements include the following:

- (a) Applications will be evaluated based upon the following criteria:
  - A. The application is complete and has been submitted by an Arkansas-based state college or university that is supported by general revenue appropriations from the Arkansas General Assembly;
  - B. The project shall propose the creation of a facility to locate a business incubator; and
  - C. The proposed project shall create an environment that fosters the success and growth of technology-based enterprises which contribute to the state's economic development. Such an environment might involve the presence of well-established technology businesses and non-technology supportive businesses.

### **(iii) Application Submittal Process**

- (a) Potential applicants for Business Incubator Program funds shall submit one (1) completed signed application, utilizing forms provided by the Division, and may be subject to an interview or site visit, or both, during the application review process.
  - A. Applications shall consist of the following documents:
    - i. The name and address of the college or university applying for funds;
    - ii. The name, title, address, and telephone number of the contract official;
    - iii. The title and description of the proposed project, including

1. An explanation of how the incubator addresses local economic development needs;
  2. The incubator's concept;
  3. The objectives of the proposed project; and
  4. The anticipated public benefits of the incubator project.
- iv. A discussion of the proposed business incubator facility operations, including without limitation:
1. Any entrance and graduation requirements of incubator tenants;
  2. A discussion of how the project proposes to establish an environment which stimulates innovation and economic development;
  3. A list of the basic services to be provided to incubator tenants, including technological and managerial assistance;
  4. A discussion of how the local business community will support the incubator efforts; and
  5. An explanation of the incubator facility's governance.
- v. A list of any cooperating institutions;
- vi. A statement of any other financial resources, including private funds that will be used during the project and afterwards for continuous operation;
- vii. A list of key project personnel including their education, related experience, and biographic information;
- viii. A list of proposed agreements with consultants who may develop or manage the incubator facilities;
- ix. Sources(s), amount(s), and anticipated uses(s) of AEDC and non-AEDC funds;
- x. A timetable showing major milestones for completing the project and the overall project duration; and
- xi. Any other information required by AEDC.

**(iv) Application Review and Approval Process**

No financial commitment shall be made by the Executive Director to an applicant until the applicant has completed the following review and approval process.

- (a) All applications will be evaluated by Division staff for completeness and adherence to eligibility criteria. Review criteria include, but are not limited to:
- A. Completeness of the application;
  - B. The comprehensiveness of the proposed project;
  - C. The cost-effectiveness of the proposed project;
  - D. The qualifications of the key project personnel;
  - E. The anticipated public benefits of the proposed project;
  - F. The overall merit of the proposal; and

- G. The potential of the project to assist the Division in carrying out its mission to bring the benefits of science and technology to Arkansans.
- (b) Applicants may be subject to an interview or site visit, or both, during the application review process;
- (c) AEDC may request an independent review of the application, including the technology employed by the applicant, by an external expert or external experts in accordance with Section V of these rules;
- (d) Division staff will provide a project summary to the Commercialization Committee for each project reviewed;
- (e) All applications will be reviewed by the Commercialization Committee in accordance with program rules. Prior to final approval:
  - A. Applicants may be asked to present their projects before the Commercialization Committee.
  - B. The Committee may ask applicants for additional information before recommending projects for funding;
- (f) Projects receiving Commercialization Committee support will be reviewed by the Board;
- (g) If the Board votes, by simple majority, to approve the application for funding, Division staff will prepare a Resolution for Funding for signature by the Secretary of the Board and the Executive Director;
- (h) The Executive Director, after reviewing Board recommendations, will specify which applicants may receive funding.
  - A. Unsuccessful applicants will be notified in writing by Division staff.
  - B. Approved applicants will be required to execute a written agreement outlining the amount, terms, and conditions of the funding.

**F. Centers for Applied Technology Program**

**(i) Purpose**

The purpose of the Centers for Applied Technology (CAT) Program is to encourage greater collaboration between private enterprises and Arkansas-based colleges and universities in the development and application of new technologies. This is effectuated through identifying, designating, and funding centers in technological areas with significant potential for economic growth and development in Arkansas, or in or within which the application of new technologies could significantly enhance the productivity and stability of Arkansas enterprises.

**(ii) Eligibility Requirements**

Applicant eligibility requirements include the following:

- (a) Applications will be evaluated based upon the following criteria:

- A. The application is complete and has been submitted by a state-supported or independent, not for profit, Arkansas-based state college or university that offers degrees at the baccalaureate level or higher; and
- B. The project proposes the creation of a center concentrating its effort on specific scientific and technological areas.

**(iii) Application Submittal Process**

- (a) Potential applicants for CAT funds shall submit one (1) completed signed application, utilizing forms provided by the Division, and may be subject to an interview or site visit, or both, during the application review process.
  - A. Applications shall consist of the following documents:
    - i. The name and address of the college or university applying for funds;
    - ii. The name, title, address, and telephone number of the institutional contract officer;
    - iii. A description of the scientific and technological focus, the research and development plans of the proposed CAT, and its relevance to the Arkansas economy;
    - iv. A discussion of the proposed CAT technology transfer and technology development efforts geared to benefit specific industries within Arkansas;
    - v. A description of the organizational structure and management plan for the proposed CAT;
    - vi. A detailed budget for an initial two-year period, and a projected budget for the subsequent three (3) years; and
    - vii. A description of institutional and other government and private funds to be used by the proposed CAT.

**(iv) Application Review and Approval Process**

No financial commitment shall be made by the Executive Director to an applicant until the applicant has completed the following review and approval process.

- (a) All applications will be evaluated by Division staff for completeness and adherence to eligibility criteria. Review criteria include, without limitation:
  - A. An established record of research, development, and instruction in the area of technology;
  - B. The capacity to conduct research and development activities in collaboration with private enterprises;
  - C. The capacity to secure substantial private and other government funding for the proposed CAT;

- D. A willingness to work cooperatively with other colleges and universities in conducting research and development activities, disseminating research results, and working with institutions of higher learning to enhance the quality of technological education in the area or areas of technology involved; and
  - E. The ability to cooperate with the Division and other economic development agencies in promoting the growth and development in Arkansas of enterprises based upon or benefiting from the areas of technology involved.
- (b) Applicants may be subject to an interview or site visit, or both, during the application review process;
  - (c) AEDC may request an independent review of the application, including the technology employed by the applicant, by an external expert or external experts in accordance with Section V of these rules;
  - (d) Division staff will provide a project summary to the Research Committee for each project reviewed;
  - (e) All applications will be reviewed by the Research Committee in accordance with program rules. Prior to final approval:
    - A. Applicants may be asked to present their projects before the Research Committee.
    - B. The Research Committee may ask applicants for additional information before recommending projects for funding;
  - (f) Projects receiving Research Committee support will be reviewed by the Board;
  - (g) If the Board votes, by simple majority, to approve the application for funding, Division staff will prepare a Resolution for Funding for signature by the Secretary of the Board and the Executive Director;
  - (h) The Executive Director, after reviewing Board recommendations, will specify which applicants may receive funding.
    - A. Unsuccessful applicants will be notified in writing by Division staff.
    - B. Approved applicants will be required to execute a written agreement outlining the amount, terms, and conditions of the funding.

### **Contact Information**

For more information regarding funding programs of the Division of Science and Technology of the Arkansas Economic Development Commission, please contact:

Arkansas Economic Development Commission  
 Division of Science and Technology  
 900 West Capitol, Suite 400  
 Little Rock, AR 72201  
 (501) 682-1121

### **III. Rulemaking Authority**

The AEDC has authority, at § 15-3-108(d)(1) to promulgate rules necessary to administer programs of the Division of Science and Technology of the Arkansas Economic Development Commission.

#### IV. Definitions

1. “AEDC” means the Arkansas Economic Development Commission;
- (i) “Applied research” means any activity which seeks to utilize, synthesize, or apply existing knowledge, information, or resources to the resolution of a specific problem, question, or issue;
- (j) “Basic research” means any original investigation for the advancement of scientific or technical knowledge;
4. “Board” means the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission;
5. “Business incubator” means a facility in which the success and growth of technology-based enterprises are fostered;
6. “Center for Applied Technology” means a college or university or university-affiliated unit, or a consortium of such units, which conducts a continuing program of basic research and applied research, development, and technology transfer in one (1) or more technological areas in collaboration with and through the support of private enterprises;
7. “Commercialization Committee” means a standing committee selected by the Chairman of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission who shall review funding program applications and make funding recommendations to the Executive Director of the Arkansas Economic Development Commission in accordance with program-specific review criteria;
8. “Deployment” means the effective transfer of knowledge, information, or resources from qualified applicants for the resolution of technology-based problems;
9. “Director” means the Director of the Division of Science and Technology of the Arkansas Economic Development Commission;
10. “Division of Science and Technology of the Arkansas Economic Development Commission” means the AEDC division designated by the Executive Director of the Arkansas Economic Development Commission to administer funding programs of the Division of Science and Technology of the Arkansas Economic Development Commission authorized under § 15-3-101 et seq.;
11. “Enterprise” means a business with its principal place of business in Arkansas and which is or proposes to be engaged in this state in manufacturing, research

and development, or the provision of services involving a significant amount of technology;

12. “Executive Director” means the Executive Director of the Arkansas Economic Development Commission;
13. “External expert” means a representative, selected at the discretion of the Executive Director of the Arkansas Economic Development Commission, from state or federal government, academia, private industry and/or the private sector who provides knowledge or experience useful in analysis and review of funding program applications of the Division of Science and Technology of the Arkansas Economic Development Commission in accordance with criteria defined under program-specific review criteria;
14. “Facility” means any real property, personal property, or mixed property of any and every kind that can be used or that will be useful in securing or developing industry, including science and technology, including without limitation, rights-of-way, roads, streets, pipes, pipelines, reservoirs, utilities, materials, equipment, fixtures, machinery, furniture, furnishings, and instrumentalities;
15. “Industry” means manufacturing facilities, warehouses, distribution facilities, repair and maintenance facilities, agricultural facilities, and corporate management offices for industry;
16. “Initial capitalization” means financing that is provided for the development, refinement, or commercialization of a product or process and other working capital needs;
17. “In-kind services” means scientific or technological equipment or suppliers, or both, release time, and indirect costs approved by the Arkansas Economic Development Commission;
18. “Investment Agreement” means a written agreement between the Arkansas Economic Development Commission and an enterprise or qualified applicant which stipulates the terms and conditions of a qualified security purchase by the Arkansas Economic Development Commission;
19. “Machinery and equipment” means tangible personal property used in connection with a Qualified Education Program or a Qualified Research Program which has been approved for a tax credit under rules and regulations prescribed by the Arkansas Department of Finance and Administration;
20. “New” means machinery and equipment that is state-of-the-art machinery and equipment which:
  - A. Has never been used except for normal testing by the manufacturer to insure that the machinery or equipment is of a proper quality and in good working order, or;
  - B. Has been used by the retailer or wholesaler solely for the purpose of demonstrating the product to customers for sale.
21. “Principal place of business” means the physical location in this state where the eligible business maintains its principal business office;
22. “Qualified applicant” means

- A. Under the Technology Development Program, one (1) or more Arkansas-based inventors, representing small businesses, colleges or universities, and federal laboratories engaged in innovation;
  - B. Under the Technology Transfer Assistance Grant Program, one (1) or more technology transfer resource providers who possess or have the capability to identify and transfer innovative technology to provide a technical solution to a specific problem identified by an Arkansas-based enterprise; and
  - C. Under the Basic Research and Applied Research Grant programs, a designated individual associated with an Arkansas-based college or university who enters into a contractual partnership with an industry to provide basic or applied research to stimulate the transfer of science and technology through the provision of matching services, equipment, or both.
23. “Qualified security” means any note, stock, treasury stock bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, preorganization certificate or subscription, transferable share, investment contract, certificate of deposit for a security, certificate of interest or participation in a patent or application therefore, or in royalty or other payments under such a patent or application, or, in general, any interest or instrument commonly known as a security or any certificate for, receipt for, guarantee of, or option, warrant, or right to subscribe to or purchase any of the foregoing, provided that in the valuation of qualified security, no value shall be placed on in-kind services;
24. “Qualified technology” means a technical or science-based product or process;
25. “Research Committee” means a standing committee selected by the Chairman of the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission who shall review Basic Research Grant Program and Applied Research Grant Program applications and make funding recommendations to the Executive Director of the Arkansas Economic Development Commission in accordance with program-specific review criteria;
26. “Royalty agreement” means a written agreement between the Arkansas Economic Development Commission (licensor) and an enterprise or qualified applicant, or both (licensee) specifying the conditions by which payments shall be made by the licensee to the licensor as a percentage of the revenues obtained using the investments made by the licensor to the licensee to commercialize a product, process, or both;
27. “Scientific and technological project” means a project undertaken in Arkansas by an enterprise, which project the Board of Directors of the Division of Science and Technology of the Arkansas Economic Development Commission shall have determined promotes the purposes of science and technology as defined under § 15-3-101 et seq.;

28. “Technology development” means the evolution of innovative products and processes through the following stages:
  - A. The laboratory/workshop stage of development, usually before a working prototype is developed, during which evaluation and protection of the idea are paramount and a market application is identified;
  - B. The workshop/early startup stage of development during which the production and testing of a working prototype are paramount; and
  - C. The late startup/setup stage of development during which limited production and market testing of products are paramount.
29. “Technology transfer” means the match, deployment, or implementation of innovative knowledge, information, or resources from a technology transfer resource provider to an enterprise for the resolution of technology-based problems, issues, or concerns; and
30. “Technology transfer resource provider” means any public or private Arkansas-based enterprise, college or university, or laboratory that has the capability to identify and transfer innovative technology.

## **V. External Expert(s)**

The Executive Director may request that an external expert or external experts, bound by a nondisclosure agreement to protect the applicant from unfair competition, review applications to aid AEDC in evaluation of the potential investment. External experts are representatives, selected at the discretion of the Executive Director, from state or federal government, academia, private sector who provide knowledge or experience useful in analysis and review of funding program applications of the Division of Science and Technology of the Arkansas Economic Development Commission. If so requested, the external expert(s) may evaluate applications based upon, without limitation, the following:

1. Management’s qualifications and ability to control growth and operate successfully;
2. The technology’s viability and commercial applicability;
3. The financial condition of the enterprise;
4. The legal aspects of the enterprise;
5. The feasibility of the enterprise’s marketing plan;
6. The feasibility of the enterprise’s operating plan;
7. The overall soundness of the business plan of the enterprise; and
8. Other information as requested.

## **VI. Confidential Information**

Applications and attachments submitted to the Division are subject to the Freedom of Information Act of 1967, § 25-19-101 et seq. To the extent an applicant believes that information in an application is confidential or otherwise exempt under the Freedom of Information Act of 1967, § 25-19-101 et seq., the applicant shall specifically designate in

writing the information the applicant believes to be confidential or exempt and the basis for the confidentiality or exemption on that portion of the application in which the information appears.

## **VII. Program Funding**

In establishing and maintaining the programs governed by these rules, the Executive Director may utilize such moneys as are lawfully available to the Executive Director for supporting the purposes of the Division of Science and Technology of the Arkansas Economic Development Commission.

Funding for all programs of the Division of Science and Technology of the Arkansas Economic Development Commission is at the discretion of the Executive Director, subject to the availability of funds.

## **VIII. Conflict of Interest**

No director, officer, or employee of AEDC, for purpose of personal gain, shall have or attempt to have, directly or indirectly, any interest in any contract or agreement of the AEDC in connection with funding programs of the Division of Science and Technology of the Arkansas Economic Development Commission.

It shall not be a conflict of interest for AEDC to permit any college or university with which a director, officer, or employee of AEDC is affiliated to participate in any program of AEDC provided that such director shall promptly disclose the nature of the affiliation to the Executive Director.

## **COMMUNITY ASSISTANCE GRANT PROGRAM**

### **Program Summary**

The Community Assistance Grant Program was established on July 1, 2018, to provide grant funds to cities of the first class, cities of the second class, incorporated towns, unincorporated communities, counties, or governmental entities of the State of Arkansas for eligible community and economic development projects.

Community Assistance Grant Program grants may be awarded, pending availability of funds, at the discretion of the Executive Director of AEDC. “Eligible community and economic development project” means a project which effectuates the construction, improvement, upgrading, renovation, retrofitting, equipping, rehabilitation, purchase, or addition of assets owned, leased, or otherwise under the jurisdiction of the eligible applicant including, without limitation, government buildings, community centers, transportation infrastructure, memorials, parks, amphitheaters, libraries, recreational facilities, fire-protection equipment, cemeteries, utilities, museums, public health facilities, public safety facilities, police equipment, emergency shelters, recycling centers, county fairs, childcare centers, senior centers, youth centers, or real estate.

Applicant eligibility requirements include the following:

1. The applicant is a city of the first class, city of the second class, incorporated town, unincorporated community, county, or governmental entity of the State of Arkansas;
2. The applicant has submitted a completed application, on forms supplied by the AEDC, that has been signed by the governing official authorized by the applicant’s jurisdiction to conduct business on its behalf;
3. The application is for an eligible community and economic development project that meets the objective of the CAGP;
4. Requested funding is for eligible project costs;
5. The amount of funding available to any one (1) project in any state fiscal year shall not exceed fifty thousand dollars (\$50,000);
6. The application is accompanied by a resolution passed by the city council or quorum court, whichever is appropriate, instructing the governing official authorized by the applicant’s jurisdiction to conduct business on its behalf to apply for CAGP funding; and
7. The applicant shall complete the application submittal and review processes delineated in Sections VI and VII of these rules.

# Community Assistance Grant Program Rules

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## I. Introduction

### Overview

Pursuant to authority granted by § 15-4-209, the Arkansas Economic Development Commission (AEDC) shall administer the Community Assistance Grant Program (CAGP).

The objective of the CAGP is to foster AEDC's mission statement "to create economic opportunity by attracting higher paying jobs, expanding and diversifying our state and local economies, increasing incomes and investment, and generating positive growth throughout Arkansas" by providing grant funds to cities of the first class, cities of the second class, incorporated towns, unincorporated communities, counties, or governmental entities of the State of Arkansas for eligible community and economic development projects. All project expenditures shall be completed within eighteen (18) months after the date of the grant award, unless such date has been extended by AEDC at the request of the grantee.

### Contact Information

For more information, please contact:  
Arkansas Economic Development Commission  
900 West Capitol, Suite 400  
Little Rock, AR 72201  
(501) 682-1121

## II. Rulemaking Authority

The AEDC has authority, at § 15-4-209(b)(5) to promulgate rules necessary to administer the CAGP.

## III. Community Assistance Grant Program Funding

The AEDC may utilize any funds legally appropriated and available to the CAGP to provide grants to eligible applicants for eligible community and economic development projects.

CAGP grants may be awarded, pending availability of funds, at the discretion of the Executive Director of the Arkansas Economic Development Commission (Executive

Director), or his or her designee. The amount of grant award shall be determined by the AEDC based upon eligibility criteria, availability of funding, and program demand for funds which may result in grant offers that are less than application requests.

Funds shall not be made available for the following expenditures:

- Routine repair, maintenance, and operation including supplies, utilities, and salaries;
- State or private fairgrounds;
- Principal and interest on any financed debt;
- Any and all travel, training, or other personnel-related expenses;
- Obligations incurred prior to grant award;
- Expenditures that are unsupported by documentation;
- Lobbying expenses;
- Purchases of alcohol;
- Entertainment expenses, including meals and activity fees;
- Purchases of material and services that result in benefits accruing to areas outside the State of Arkansas; and
- Other expenses specified at the discretion of AEDC.

#### **IV. Definitions**

1. “AEDC” means the Arkansas Economic Development Commission;
2. “Eligible applicant” means a city of the first class, city of the second class, incorporated town, unincorporated community, county, or governmental entity of the State of Arkansas;
3. “Eligible community and economic development project” means a project which effectuates the construction, improvement, upgrading, renovation, retrofitting, equipping, rehabilitation, purchase, or addition of assets owned, leased, or otherwise under the jurisdiction of the eligible applicant including, without limitation, government buildings, community centers, transportation infrastructure, memorials, parks, amphitheaters, libraries, recreational facilities, fire-protection equipment, cemeteries, utilities, museums, public health facilities, public safety facilities, police equipment, emergency shelters, recycling centers, county fairs, childcare centers, senior centers, youth centers, or real estate;
4. “Executive Director” means the Executive Director of the Arkansas Economic Development Commission;
5. “Leased” means the grant of use and possession of an asset for a term of at least ten (10) years beyond the date of award of a Community Assistance Grant Program award; and
6. “Review Committee” means an ad hoc committee comprised of at least three (3) AEDC staff members, with grant review and administration experience, selected

by the Executive Director of the Arkansas Economic Development Commission, or his or her designee, to review and recommend for funding eligible community and economic development projects submitted by eligible applicants under the Community Assistance Grant Program.

## **V. Eligibility Criteria**

Applicant eligibility requirements include the following:

1. The applicant is a city of the first class, city of the second class, incorporated town, unincorporated community, county, or governmental entity of the State of Arkansas;
2. The applicant has submitted a completed application, on forms supplied by the AEDC, that has been signed by the governing official authorized by the applicant's jurisdiction to conduct business on its behalf;
3. The application is for an eligible community and economic development project that meets the objective of the CAGP;
4. Requested funding is for eligible project costs;
5. The amount of funding available to any one (1) project in any state fiscal year shall not exceed fifty thousand dollars (\$50,000);
6. The application is accompanied by a resolution passed by the city council or quorum court, whichever is appropriate, instructing the governing official authorized by the applicant's jurisdiction to conduct business on its behalf to apply for CAGP funding; and
7. The applicant shall complete the application submittal and review processes delineated in Sections VI and VII of these rules.

## **VI. Application Submittal Process**

Potential applicants for CAGP funds shall submit two (2) completed applications signed by the governing official authorized by the applicant's jurisdiction to conduct business on its behalf, in accordance with AEDC submittal instructions, utilizing forms provided by AEDC.

1. Applications shall include:
  - A. The name, address, and phone number of the applicant;
  - B. The contact person's name, title, and contact information;
  - C. Sources(s), amount(s), and uses(s) of AEDC and non-AEDC funds, including a completed budget delineating cost estimate breakdowns and backup documentation for all items;
  - D. A brief description of the project;
  - E. A statement of project need, including a discussion of any emergencies or urgent need to be addressed by the project;

- F. A list of beneficiaries of the proposed project, how they will benefit, and how they will utilize the project;
- G. A copy of a deed, title, lease, or other instrument showing proof of public ownership, or legal possession, of properties being improved by this project;
- H. A signed certification letter from the governing official authorized by the applicant's jurisdiction to conduct business on its behalf agreeing to accept responsibility for administering any grant award;
- I. A copy of a signed resolution passed by the city council or quorum court authorizing the local elected official to apply for CAGP funds on behalf of the local jurisdiction; and
- J. Other information as requested by AEDC.

## **VII. Application Review and Approval Process**

No financial commitment shall be made by the Executive Director, or his or her designee, to an applicant until the applicant has completed the following AEDC review and approval process.

- A. All applications will be date-stamped and reviewed in order of receipt by the Review Committee, assigned by the Executive Director, or his or her designee, for completeness and eligibility, including a determination that;
  - (i) The applicant is a city of the first class, city of the second class, incorporated town, unincorporated community, county, or governmental entity of the State of Arkansas;
  - (ii) The application is complete, signed, and includes all attachments;
  - (iii) The scope of the project meets the definition of eligible community and economic development project;
  - (iv) The sources and uses of funds are sufficient to ensure the successful completion and initial operation of the project; and
  - (v) Project costs are eligible for funding.
- B. Applicants may be subject to an interview or site visit, or both, during the application review process;
- C. The Review Committee may ask applicants for additional information before recommending projects for funding;
- D. The Review Committee will provide a project summary of each project reviewed to the Executive Director, or his or her designee;
- E. The Executive Director, or his or her designee, may seek the advice of boards and commissions advising AEDC or other officials with expert community and economic development knowledge in making final funding decisions;
- F. The Executive Director, or his or her designee, will specify which applicants may receive funding;

- (i) Unsuccessful applicants will be notified in writing by the Executive Director, or his or her designee.
  - (ii) Approved applicants will receive a grant award notification letter outlining the amount, terms, and conditions of the funding.
- G. Grant funds will be disbursed to successful applicants;
- H. All project expenditures shall be completed within eighteen (18) months after the date of the grant award, unless such date has been extended by AEDC at the request of the grantee; and
- I. A final report including cancelled checks and receipts of all funds expended along with the state's portion of any unspent funds, shall be submitted to AEDC no more than sixty (60) days following the project's completion or within the eighteen (18) month period of the grant award, or other date as approved by AEDC, whichever comes first.

### **VIII. Effective Date**

These rules are effective on or after July 1, 2018.