



The Benefits of Amendment 82 *-Building Jobs in Tough Economic Times*

The Economic Climate in Arkansas

The economic crisis in the United States has reached levels not seen in decades; unemployment is up, the stock market is down, consumer spending has fallen and the number of Americans worried about losing their jobs grows daily. States are confronting declining tax revenue as jobs are eliminated, homes foreclosed and businesses halt expansion.

Arkansas is no exception to this unfortunate trend, and it is crucial that the state's leaders take all necessary steps to ensure that our state remains competitive and maintains our existing jobs while attracting new job opportunities.

According to the Bureau of Labor Statistics, the national unemployment rate was 8.1 percent as of February, 2009,¹ the highest it has been in over 25 years. Over 651,000 jobs were lost in February alone, and more than 20 million Americans are currently unemployed or underemployed. Arkansas' unemployment rate in February was below the national average at 6.4 percent,² but the rate has risen steadily for months.

According to the Arkansas Department of Workforce Services (ADWS), there were 88,000 Arkansans unemployed as of January 2009—up almost 22,000 from the same time the previous year.³ Every job is now more important than ever and Arkansas community, government and business leaders must be deliberate in using incentives to attract business to the state.

Amendment 82 and Economic Development

The state has seen some recent economic development success with the Governor's Quick Action Closing Fund, which was created to entice new employers to Arkansas by quickly meeting their infrastructure needs. In the two years since its inception, the fund has successfully attracted businesses from a variety of sectors that provide thousands of jobs to citizens (for more information, see Progress Arkansas' issue brief on economic development, "Countering the Downturn" at www.progressarkansas.com).

¹ U.S. Bureau of Labor Statistics. <http://www.bls.gov/cps/>

² U.S. Bureau of Labor Statistics. <http://www.bls.gov/lau/>

³ Arkansas Department of Workforce Services. <http://www.state.ar.us/esd/>

Another economic development tool successfully implemented in Arkansas is Amendment 82 of the state's constitution, which was approved by Arkansas voters in 2004. Amendment 82 empowers the Arkansas General Assembly to authorize the Arkansas Development Finance Authority (ADFA) to issue bonds for the financing of infrastructure or other needs to attract large economic development projects.³ These bonds are backed by the credit of the state government and used to attract large-scale "mega" projects to Arkansas.

Unfortunately Amendment 82 does not go far enough for Arkansas to be competitive with other states in the region.

According to the Amendment, "in order for the General Assembly to authorize the issuance of bonds bearing the full faith and credit of the State of Arkansas, the prospective employer must be planning an economic development project that will invest more than \$500 million dollars in capital expenditures and plan on hiring over 500 new employees."⁴

These strict parameters have caused Arkansas to fall behind at least five other Southern states in the area of bonding and incentive capacity for major economic development projects; projects that would have put numerous Arkansans to work. These other states either have no caps on similar legislation (and evaluate projects on a case-by-case basis), or their caps are much lower than those in Amendment 82.

These stringent guidelines have caused Arkansas to lose out on new jobs and valuable tax revenue. In 2005, Arkansas was a finalist for the development of a new facility planned by SeverCorr (now SeverStal), a steel manufacturing company. SeverCorr was prepared to invest \$880 million in the facility, well over the necessary \$500 million required by the state under Amendment 82. However, they were proposing to create 450 jobs, 50 fewer than the necessary 500. Mississippi, which has unlimited bonding capacity with legislative approval, eventually won the project.⁵

Another example occurred in 2007 when Paccar, the manufacturer of engines for Kenworth and Peterbilt trucks, was looking to build a new manufacturing plant. Arkansas and Mississippi were once again competing against each other. Paccar's proposal met Arkansas' job requirement at 500, but did not meet the necessary \$500 million investment requirement. As a result, Arkansas once again lost the project to Mississippi.⁶

These are just two unfortunate examples; other economic development projects and new job opportunities for Arkansas have been lost to Texas, Alabama, and South Carolina.

Changes to Amendment 82 Will Benefit Arkansas

If Arkansas is going to compete with other states for these valuable jobs in the future, the criteria established in Amendment 82 must be changed to allow the state to offer comparable incentives offered by other states.

³ Constitution of the State of Arkansas of 1874. <http://www.sos.arkansas.gov/ar-constitution/arcamend82.htm>

⁴ Ibid.

⁵ Analysis of State Use of General Obligation Bonds for Economic Development. Boyette Levy. October 2008.

⁶ Ibid.

The legislation should be amended to remove limits on state bonding capacity, and bond issue amounts should be decided on a case-by-case basis. A simple “and/or” provision to take into consideration relatively lower capital investment coupled with high job creation (or vice versa) would have been sufficient to issue bonds for both the SeverCorr and Paccar projects mentioned above to qualify.

Sufficient oversight by state agencies, the Governor’s office and the General Assembly will ensure that the revised Amendment 82 is properly implemented when it is beneficial to Arkansas, and that it is not subject to misuse.

While evaluating each project on a case-by-case basis without constitutional limitations would be ideal, lowering thresholds for the application of bonding authority by the legislature would help as well. Additionally, the wage level of new jobs should be taken into consideration. For example, if a project will result in the creation of 300 new jobs, the state should have the flexibility to consider whether or not those jobs will raise the median income in Arkansas, which remains well below the national average.

Conclusion

The first step in assuring a level playing field with neighboring states is for the Arkansas General Assembly to refer HJR1007 to the voters of Arkansas. If passed, the resolution would allow the voters of Arkansas to choose whether to make their state economically competitive with surrounding states.

We have already seen the state has lost out on attracting key employers that would have created jobs for hundreds of Arkansans. The economic crisis the nation is experiencing will eventually subside. Businesses will rebound and expand their operations, creating jobs and bringing life back into communities that have been hit by the current downturn. The competition from among different states and communities for these jobs will be intense.

Arkansas must take steps now to create a welcoming environment for new businesses and industries. Amendment 82’s guidelines must be amended so that Arkansas can reap the benefits that these projects can bring to the state. In doing so, the playing field among the states will be leveled to ensure Arkansans have a better opportunity to obtain good-paying jobs.

Progress Arkansas’ mission is to build consensus and support for economic, energy, and environmental policies that will support growth and prosperity for the State of Arkansas. Our membership is comprised of business and community-based leaders dedicated to promoting key solutions that will ensure that the State of Arkansas remains a great place to live, work and do business. www.progressarkansas.com