

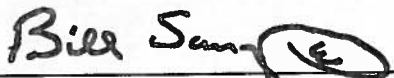
**Arkansas Legislative Council Report
For Emergency Review of
Consultant Services Contract
May 8, 2015**

On May 7, 2015, Senator Bill Sample and Representative David L. Branscum, Co-Chairs of the Legislative Council were notified of a request from Speaker of the House Jeremy Gillam and President Pro Tempore of the Senate Jonathan Dismang for emergency action for the approval of a consultant contract between the Bureau of Legislative Research and IHS Global, Inc. Under Arkansas Code § 15-4-3203, the Arkansas Economic Development Commission (AEDC), the Arkansas Development Finance Authority (ADFA), and the Department of Finance and Administration (DFA) submitted the letter of commitment, findings, recommendations, and cost-benefit analysis for an Amendment 82 projection on April 30, 2015. This code section authorizes Speaker Gillam and President Pro Tempore Dismang to employ a consultant to perform an independent analysis or confirmation of the analysis provided by AEDC, ADFA, and DFA. Under the law, the analysis must occur within twenty (20) working days after receiving the commitment letter. In order for the consultant to complete the analysis within the 20 day time frame, the contract must be approved prior to the next regularly scheduled meeting of the Legislative Council.

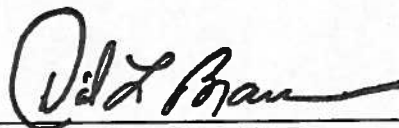
Given these facts, Senator Bill Sample and Representative David L. Branscum, Co-Chairs of the Legislative Council have determined that emergency review and approval of the Consultant Services Contract between the Bureau of Legislative Research and IHS Global, Inc. is necessary in order to meet the deadline under the law.

This action is taken by the Co-Chairs on behalf of the Legislative Council and shall be reported to the Legislative Council at its next regularly scheduled meeting.

Respectfully Submitted,



Senator Bill Sample, Co-Chair
Arkansas Legislative Council



Representative David L. Branscum, Co-Chair
Arkansas Legislative Council



STATEMENT OF WORK No: [1]

This Statement of Work No. 1, dated this 8th day of May, 2015 ("Effective Date") is entered into between IHS Global Inc., with its principal offices at 15 Inverness Way East, Englewood, CO 80112 and Arkansas Bureau of Legislative Research of Room 315, State Capitol Building, Little Rock, AR 72201 and is incorporated into the Services Agreement executed by IHS and Client on February 26, 2013 ("Agreement"). All capitalized terms have the same meaning as set forth in the Agreement.

As of the Effective Date for the Fees set forth below and subject to the restrictions set forth herein, Client is provided with the following Services pursuant to the terms and conditions of the Agreement.

STATEMENT OF WORK NO. : 1

Project name: Benefit-Cost Analysis of Lockheed Martin Amendment 82 Financing

Project Overview: Economic analysis of Humvee plant site improvements, incentives

Location(s) of Services: Philadelphia, Washington, Los Angeles

Term of Services: Currency: USD

Account #	Account Manager: O'Neil	SSO #: N8ZKFC0QCR	Client Reference #:
			Client VAT#:

Scope of Services and Deliverables

Fees

- ☒ Fixed Fees
☐ Time-Based Fees per hour/day/month
☐ Unit-Based Fees (ex-Taxes)

Economic Analysis of an Incentive Package to Attract a Proposed Joint Light Tactical Vehicle (JLTV) Assembly Plant to Camden, Calhoun County, Arkansas

0.00

Task One: Review project development costs and financing
The IHS project team will first confirm the accuracy, reasonableness, and completeness of project cost elements as prepared by LM for the assembly plant, including: building, equipment, land, permitting costs, architecture fees, contingency, etc. Having accurate figures for all of the elements of the project's capital costs is essential to performing an accurate review of its statewide economic impacts, and on estimating whether the project's long-term economic performance will generate enough incremental tax revenues to cover the costs of the economic incentive package. Senior analysts in our Economic, Aerospace, Defense & Security (AD&S), Automobile, and Steel groups will review the capital expenditure (capex) and operating expenditure (opex) cost estimates to confirm their accuracy. The expertise of these three groups will also be used in the study to analyze supply chain and logistical issues such as the locations of the plants that will provide key components (e.g., engines, drive trains, chassis, armor, etc.) of the JLTV that will be shipped to LM's Camden site for final production and assembly.

Once the detailed capex and opex costs have been finalized, we will disaggregate them to identify:

- The components that will be produced in Arkansas and those will be produced elsewhere and shipped to the Camden facility.
- The source of the funds that will be used to pay for improvements at LM's Camden plants including: equity contributions and corporate borrowing by LM, a low-interest loan from the State raised by the GO bond issue; and in-kind improvements and services paid by the State and local governments.

\$48,377

IHS will next review the financing plan for the \$87.45 million in GO bonds that will be issued by the Arkansas Development Finance Authority (ADFA) to pay for project costs. General obligation (GO) bonds issued by the ADFA are currently rated "AA" (investment grade) by Standard & Poor's and Aa1 Moody's. We will confirm such provisions of the issue as:

- Annual debt service, including principal and interest
- True interest cost, which will be used to estimate the difference between the rates that LM would pay if they were to issue taxable corporate bonds.
- Call provision

We will use the above information to estimate the annual value of the benefit to LM, in the form of interest rate savings they would receive from the loan by the ADFA.

Task Two: Estimate the project's direct economic effects

The second task will be to review and confirm the project's direct economic effects during both the construction and operation phases. The proposed study area will be the State of Arkansas. In order to capture the direct purchases and the tax effects. For the construction phase, we will confirm such details as:

- Schedule – starting month and ending month
- Person years of construction labor by month
- Number of workers and wages by occupation,



- % project capital costs for labor compensation, including fringe administrative costs, and non-labor inputs.
- Type and value of materials and equipment that will be purchased from within Arkansas (AR) during construction.
- Confirm annual economic impacts during construction using IMPLAN or regional model

We will confirm the following direct effects of the operations phase:

- Facility characteristics: parcel block and lot number, host municipality and other jurisdictions that levy taxes, land area and current land use, structure floor area by major activity, production equipment, processes used, pollution control equipment required, type and volume of utilities required, type and volume of wastes produced including on-site pre-treatment.
- Annual production levels and sales volumes for the JLTV vehicles.
- Number of permanent jobs, full and part-time, by occupation during first full year of operation, and at future years such as 5 and 10 years out; also annual wages paid.
- The major types goods and services, by industry sector or NAICS codes that will be purchased annually from suppliers located inside Arkansas, and outside it. This analysis will be required for the assessment of total economic impacts in Task Six below in order to accurately account for economic impacts that will occur within the State.
- Transportation activity – modes used for delivery of raw materials and components to the Camden facility.
- Review and independently confirm as appropriate growth rate assumptions for important variables such as production levels, wages, expenditures, sales, etc.

The analysis of in-state versus out of state purchases will consider to, the extent data allows, how the share of inputs purchased from within Arkansas may rise over time as suppliers located in facilities near the Camden plant.

We will confirm, and adjust as necessary, so that the direct operations impacts cover the term of the general obligation bond issue of 20 years. If there is a difference between the length of LM's contract with the Army and Marine Corps, and the bond term of 20 years, we will make the appropriate adjustments in calculating the benefits and costs.

Task Three: Review and confirm the types and values of economic incentives

IHS will review all the economic incentives for the project that will be awarded by state and local governments. We then confirm or calculate their values based on: 1) the dollar amount of the award; 2) the value tax revenues foregone in the case of tax abatements, deductions, or credits; 3) the value of cost savings to Lockheed Martin (i.e., the annual savings in debt service costs provided by an \$84.645 million low interest loan from AR); and 4) cost of in-kind improvements or services to be provided by state and local governments.

We will also confirm and describe as necessary regulations for the each of the different incentives that have penalty or claw-back provisions that will enable AR to recover a portion of incentives awarded, such as foregone tax revenues, if the proposed plant does not meet performance requirements such as the number and wage level of jobs created.

We will evaluate the following types of economic incentives, plus any new ones that have been enacted since our previous BLR study that the JLTV facility may be eligible for, including but not limited to:

- Grants and Loans from Arkansas and Local Governments
- Advantage Arkansas Program
- Recycling Equipment Tax Credit
- Tax Back Program
- Customized Training Incentives
- Sales and Use Tax Exemptions
- Purchases of Machinery and Equipment
- Purchase of Utilities

Task Four: Identify affected state and local taxes

IHS will identify the state and local taxes that would be affected by the construction and operation activities performed at the proposed site, including the direct, indirect and induced effects. For example, construction activities will generate increases in sales taxes, personal income taxes, and corporate net income taxes; operations will generate increases in these same three taxes as well as additional local real property tax revenues. We will compare this list to the individual taxes contained in the analysis to ensure that all significant ones were. A review of Arkansas quarterly State Tax Revenue report compiled by the Bureau of the Census indicates the following five types have accounted for approximately 88% of total state-level tax revenues since 2000:

- General sales and gross receipts taxes – 37.1%



- Individual income taxes – 29.6%
- Property taxes – 9.8%
- Motor fuels sales taxes – 6.8%
- Corporation net income taxes – 4.4%

Task Five: Analyze the proposed plant's supply chain

A key factor in the Camden facility's ability to meet the contracted annual production levels at the negotiated unit cost will be the ability of raw materials and components to be shipped to it on a timely basis at a reasonable cost. Transportation accessibility may be a consideration as the Army and Marine Corps consider the Camden site as it is located 95 miles west of Mississippi River, about 35 miles southeast of I-30, and a 2- hour one-way drive from the closest major airport in Little Rock. A main freight corridor of the Union Pacific, a class 1 railroad, passes just to the west of Camden so excellent rail access exists. As noted above, in Task Two IHS will first determine the states where the major types of inputs will be produced; once these locations have been identified we will determine the mode and route of transportation that will be used.

Task Six: Estimate total economic impacts

The IMPLAN input/output model, in conjunction with the IHS US Regional Economic Model and forecast, will be used to derive total statewide economic impacts during the construction and operation phases generated by the direct spending effects that will occur within AR. The total economic impacts will be compared to IHS's long-term economic forecast for AR to derive statewide percent impacts. Specific evaluation criteria to be used reviewing the components of the economic impact analysis for content and reasonableness of the results include:

- Did analysis consider both temporary construction impacts and permanent operations impacts?
- Review method and model used – IMPLAN, RIMS, state model
- Confirm that final demand changes – employment and output – were assigned to the appropriate IMPLAN industry sectors
- Determine which multiplier effects were considered – indirect or indirect and induced.
- Review reasonableness of derived multipliers by sector and by measure
- Review reasonableness of % changes in statewide economic activity

We will confirm that the estimates of the changes in the major state and local tax revenues include the direct, indirect and induced effects when appropriate.

Task Seven: Prepare a benefit/cost analysis

Finally, IHS Global Insight will perform a benefit-cost (BC) analysis of the proposed incentive package using the following steps:

- Confirm time period for analysis –it should be the same as the length of the bond issue.
- Verify key assumptions used in the analysis that have a significant impact on the BC analysis such as the discount rate; growth rates for costs, sales and wages; use of nominal or real data, etc.
- Ensure relevant costs have been included, including in-kind services provided by state and local governments
- Ensure all relevant benefits, especially tax revenues accruing to AR governments, have been included, then estimate the annual revenue flows.

The changes in state-level tax revenues generated by total increases in statewide economic activity will be derived by first estimating effective tax rates for the major state level taxes. We will then multiply the effective tax rates by total changes in economic activity as obtained from the IMPLAN model to estimate the change in tax revenues. The effective tax rates will be calculated by assembling time series data on levels of state-level tax revenues collections in Arkansas and dividing them by measures of economic activity that most accurately represent the tax base. For example, labor income will be used to estimate the effective rate for personal income taxes, while output will be used to derive effective rates for sales and corporate income taxes.

The objective of the BC analysis will be to determine if the present value (pv) of additional tax revenues generated by the construction and operation of the JLTV facility will exceed, or be less than, the pv of the economic incentives provided by the State of Arkansas. The focus on the BC analysis will be on the generation of state-level tax revenues that would flow to the General Fund and in turn be used to offset the costs of the incentives. IHS will perform a sensitivity analysis of the BC calculation to identify the assumptions and conditions under which the pv of the additional tax revenues could be less than the pv of the incentives. We will ensure that the BC analysis is balanced in that direct and indirect impacts are considered for both the costs and benefits, as appropriate.

Deliverable

IHS will produce a technical memorandum, a maximum of 20 pages in length, presenting our

analysis. We will make maximum use of tables and charts. A 2 to 3 page executive summary will also be prepared.					
					0.00
Client shall be responsible for IHS travel expenses associated with project execution					0.00
					0.00
					0.00
					0.00
					0.00
					0.00
					0.00
					0.00
					0.00
					0.00
Total Fee					48,377.00
Expenses					
Billing Address: Bureau of Legislative Research One Capitol Mall, 5th Floor Little Rock, AR 72201 Telephone: 501-682-1937 FAX: 501-682-1936 http://www.arkleg.state.ar.us			Client Contact' Name (incl. E-mail Address & Contact No.): Marty Garrity, Director Bureau of Legislative Research One Capitol Mall, 5th Floor Little Rock, AR 72201 Telephone: 501-682-1937 FAX: 501-682-1936 http://www.arkleg.state.ar.us		
Special Billing Instructions:					
Other information: This Agreement shall be governed by the laws of the State of Arkansas, without regard to Arkansas's conflict of law principles. Nothing in this Agreement shall be construed as a waiver of sovereign immunity of the BLR or the Arkansas General Assembly.					
Commencement Date of Services: May 11, 2015					
Expected Date of completion of Services: May 31, 2015					
Details of Milestones (if applicable):		Estimated Timing of Deliverables		Fee allocated per Milestone	
Economic Impact Analysis		May 14, 2015		\$15,000	
JLTV Market Analysis		May 15, 2015		\$6,000	
Draft Report		May 18, 2015		\$11,000	
Final Report		May 22, 2015		\$12,000	
Hearing Testimony		May 26, 2015		\$4,377	
a) The total estimate Fees for Services is \$48,377; provided, however, in no event will Client pay less than the rates set forth above for actual Services rendered if the Services performed are greater than this estimate. In no event will Client pay less than 75% of this estimate Fees, should actual Services performed be less than estimated above.					
b) Services are deemed accepted so long as IHS has performed tasks in accordance with the scope of Services as set forth above.					
c) Any services not specifically set forth herein, are excluded and will be quoted and provided on supplemental Statement of Work.					
d) The Fees for Services does not include reasonably incurred out-of-pocket Expenses and applicable tax, which will be billed separately.					
e) The pricing for Services under this SOW is valid for the duration of the Services, provided that Client executes and returns this SOW to IHS by <May 11, 2015>.					

IHS Global Inc.*

CLIENT

By: _____ Print Name: _____

By: [Signature]

Print Name: Bryan G. Smith

Title: _____ **Date:** _____

Title: Director

Date: 2/11/12