Exhibit B

MINUTES FROM THE
JOINT COMMITTEE ON ECONOMIC AND TAX POLICY MEETING
Wednesday, Aug. 29, 2012
Room B, MAC
Little Rock, Arkansas

The Joint Committee on Economic and Tax Policy met at 10:00 a.m., Wednesday, Aug. 29, 2012, in Room B, MAC.

Committee members in attendance: Sen. Jake Files (Co-Chair) Rep. Bobby J. Pierce (Co-Chair), Sen. Gilbert Baker, Sen. Mary Anne Salmon, Sen. Linda Chesterfield, Rep. Tommy Lee Baker, Rep. Allen Kerr, and Rep. Reginald Murdock.

Other members of the General Assembly in attendance: Sen. Cecile Bledsoe, Sen. Paul Bookout, Sen. Jonathan Dismang, Sen. Gene Jeffress, Sen. Jimmy Jeffress, Sen. Johnny Key, Sen. Michael Lamoureux, Sen. Randy Laverty, Sen. Bill Sample, Rep. Efrem Elliott, Rep. Billy Gaskill, Rep. Homer Lenderman, Rep. Uvalde Lindsey, Rep. Buddy Lovell, Rep. Walls McCrary, Rep. Leslee Milam Post, Rep. Johnnie Roebuck, Rep. Garry Smith, Rep. Randy Stewart, Rep. Butch Wilkins, Rep. Henry "Hank" Wilkins IV, and Rep. Jon Woods.

Without objection, the minutes for May 2, 2012 were approved as written.

Sen. Jake Files (Co-Chair) called the meeting to order and introduced Mr. Grant Tennille from the Department of Economic Development to present information about Arkansas's economic status relating to the Pew Report and the Fluor Report. Sen. Files wanted to begin the tax policy discussion now before session.

Grant Tennille, Executive Director, Arkansas Economic Development Commission (AEDC), stated AEDC is interested in working with legislators to create an audit system for AEDC's program incentives to accurately reflect their impact. AEDC wants the Legislature and the public to have confidence that these programs are worth the dollars invested in them. In doing this, the three challenges are: 1. Protection of tax payer information, 2. find an appropriate auditor, and 3. do not put Arkansas at a disadvantage competing with 49 other states. The Pew Report does give Arkansas high marks but also talks about problems on a national scale measuring the ultimate impact.

Morris Jenkins, Director of Strategic Planning and Legislative Affairs, AEDC, discussed the Pew Report that was issued in April 2012. Pew's evaluation of state tax incentives focused on each state's evaluation, determining whether and to what degree, they do the following: 1. Informed policy choices, 2. include all major tax incentives, 3. measure economic impact, and 4. draw clear conclusions. Arkansas led the way on the last three areas but was not advanced in the area of *informed policy choices* along with 41 other states.
Mr. Jenkins indicated the reason Arkansas started doing well in this report because in the late 1990's AEDC started doing a benefit/cost analyses on every incentive project. This analysis is used by 41 other states. This annual report will be submitted to the legislature in September per Act 1282 of 2001. There have been 10 annual reports completed since the 2001 Act. AEDC would like to close the gap by having someone look at a sampling of projects to see how close they came to accurately predicting what the state would get back.

Mr. Jenkins, Mr. Tennille, and members of the Senate and House, were recognized, and contributed to the discussion as needed. Topics included:

- Pew Center - Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth (Handout #1)
- AEDC not giving incentives to a company moving from one county to another,
- performance-based incentives,
- the Pew Report indication that no state does it completely right,
- informed policy choices establishing a comfort level that our process is fairly accurate and gives us the opportunity to make a good deal,

- encouraging the change of existing legislation from audit-based projects to audit-based programs,
- looking at legislation to create an ADEC audit, possibly by Legislative Audit,
- using the same process as DF&A,
- ADEC's target sectors,
- AEDC's economic impact model (Implan),
- AEDC not targeting startup companies based upon the risk,
- the amount of confidentiality a facility should agree to waive,
- how not to put Arkansas at a disadvantage in the competition with 49 other states,
- targeted industry report and study – AEDC guide for Arkansas,
- Quick Action Closure Fund and Ajay Malshe, NanoMech, University of Arkansas-Fayetteville,
- Claw Back Policy,
- Alex Biris, UALR, Nanotechnology,
- the need for investment in K-12, 2-year, and 4-year schools, and
- two-year colleges helping prepare people to work for new companies.

Sen. Jake Files asked Mr. Jenkins to give a quick synopsis of the Fluor report and what they are measuring.

Morris Jenkins stated the Fluor report was initiated by the General Assembly in 2001 by the late Sen. Gwatney. A number of site consulting companies bid on the opportunity to analyze Arkansas incentives, and Fluor Global Patient Strategies out of Greenville, SC was selected to do the report. They issued a report in 2002, and the *handout* shows their recommendations. The Fluor report was very instrumental to AEDC. One result of the report was the Consolidated Incentive Act of 2003. The report indicated our incentives were hard to understand, so we realigned our incentives to address investment and job creation incentives. We enacted a number of recommendations, but we didn't adopt others based on cost reasons. In 2006, Fluor Report was an update that compared the thirteen (13) Fluor states. We enacted the Super Project Incentive between the issuance of the 2002 and 2006 reports, which the 2006 report also looked at the super project incentive too. The 2002 report was far more useful.

Sen. Jake Files asked AEDC to come back in October and November to talk about what wasn't adopted that would help attract facilities in the future.

Other discussion topics were:

- Fluor Report recommendations adopted and not adopted,
- how to attract and retain businesses,
- businesses avoiding reinvestment because of the taxation of replacement equipment,
    - eliminating those sales taxes would cost roughly $40 million a year,
- local government incentives using cash or in-kind services for business infrastructure improvement,
- communities passing their own sales tax, and
- Quick Action Closure Fund used for the film Mud (Dumas, Arkansas).

Sen. Jake Files, There being no further business, the meeting adjourned.