



# Issue No. 3

## AN AMENDMENT TO LOWER THE THRESHOLD FOR ISSUING STATE BONDS TO ATTRACT MAJOR INDUSTRIES

### PROPOSED CONSTITUTIONAL AMENDMENT NO. 3

(Referred to the People by the Arkansas General Assembly)

**POPULAR NAME:** An amendment to the Arkansas Constitution Amendment 82 removing fixed criteria for the issuance of economic development bonds bearing the full faith and credit of the state of Arkansas and giving the General Assembly the authority to set criteria through legislation.

**BALLOT TITLE:** To amend Amendment 82 of the constitution of Arkansas to authorize the General Assembly to establish criteria before authorizing the issuance of bonds for prospective employers planning an economic development project.

#### Why is the issue on the ballot of a general election?

Proposed Constitutional Amendment No. 3 is a legislatively-referred measure the Arkansas General Assembly voted to put on the state's general election ballot. The legislature can refer up to three constitutional amendments for any one ballot. All constitutional amendments require approval by a majority of voters in a statewide election.

#### What does this amendment do?

Proposed Constitutional Amendment No. 3 would amend section (d) of Amendment 82 of the Arkansas Constitution to remove limits on the

size of economic development projects that could be supported through the issuance of general obligation bonds.

Under Amendment 82, the State of Arkansas can currently only issue bonds for the purpose of providing infrastructure and other needs to attract prospective companies that plan to invest a minimum of \$500 million dollars and hire a minimum of 500 new employees.

If passed, this ballot initiative would remove the threshold limits in Amendment 82 required to qualify for receipt of state bond-based government support. It would also empower the Arkansas General Assembly to establish criteria for determining the financing eligibility for economic development.

**Conflict of Interest:** The University of Arkansas Division of Agriculture's Cooperative Extension Service is a recognized unit of the University of Arkansas System and is funded in part by State of Arkansas appropriations. As such, any legislation affecting general revenues of the state has the potential to influence the Division of Agriculture and the Cooperative Extension Service's financial well-being. We are obligated to divulge potential conflicts of interest and to recognize their influence on the educational programs and material we produce. As professional faculty of the University of Arkansas Division of Agriculture's Public Policy Center, we are committed to full disclosure and open recognition of our potential for bias. We strive to present Arkansas citizens with a fair and balanced representation of the issues brought to the ballot and welcome any constructive criticism toward that effort.

Specifically, Amendment 82(d) would be changed to read:

*(d) The General Assembly may authorize the issuance of bonds bearing the full faith and credit of the State of Arkansas if the prospective employer planning an economic development project is eligible under criteria established by law.*

No other sections of Amendment 82 would be changed under this proposal.

### **What does Amendment 82 currently say?**

Amendment 82 currently allows the General Assembly to authorize the Arkansas Development Finance Authority to issue general obligation bonds to attract large economic development projects, also called superprojects, under the following circumstances:

- The bonds are issued to finance a variety of infrastructure needs, such as land acquisition, site preparation, road improvements, rail spurs, water and waste service, employee training, environmental mitigation or training or research facilities.
- Bond issues under this authority cannot exceed 5 percent of the state's most recent year general revenues collected.
- The prospective company must be planning to invest at least \$500 million in the project and plan to hire at least 500 new employees.
- Costs associated with the bonds must be paid using general or special revenues appropriated by the General Assembly.

The full text of Amendment 82 and the rest of the Constitution of Arkansas are accessible online at <http://www.arkleg.state.ar.us/assembly/Summary/ArkansasConstitution1874.pdf>.

### **What are general obligation bonds?**

In this context, a bond is an evidence of debt issued by the state. Bonds are typically used to finance large capital projects, which are costly and difficult to fund on a pay as you go basis. Typically, the benefits derived from the investment are expected to continue for the life of the bond issue or beyond.

In return for purchasing a bond, the bond holder (investor) will receive interest payments as well as the original investment on a schedule predetermined at the time the bond is issued. A general obligation bond is legally backed by the full faith and credit of the State of Arkansas. This means that costs associated with the bonds (interest payments and principle repayment) will be paid using any revenue source available to the state.

### **What costs are associated with issuing economic development bonds?**

It depends on the terms of the bond issue. Amendment 82 limits the bond issue amount to 5 percent of the state's general revenues. According to the Arkansas Department of Finance and Administration website, fiscal year 2009 gross general revenues were just over \$5.5 billion. Using this number as an example, a maximum issue of 5 percent would be approximately \$278 million. To retire the bonds, the state would have to repay that total amount issued, plus the interest payments associated with it, over a specified period of time. For example, assuming an interest rate of 4 percent, payments on a maximum amount of \$278 million would be approximately \$20.5 million annually if repaid over a 20-year period.

### **What benefits are associated with issuing economic development bonds?**

It is impossible to estimate specific benefits without knowing specific details about an economic development project. In general, goals of economic development include increasing the number of jobs, income and productivity. Additional revenues generated by a number of higher-paying jobs could offset principle and interest payments on the bonds and provide a substantial increase in overall state tax collections. More jobs and higher personal income levels could also lessen the need for unemployment and welfare program expenditures by the state. Other indirect benefits could also occur.

**The following statements are what supporters and opponents have made public either in media statements and literature or on websites. The University of Arkansas does not endorse or in any way validate these statements.**

## What do supporters say?

The General Assembly's Speaker of the House explained the need for the proposed constitutional amendment by saying it levels the playing field with many of our surrounding states whose economic incentive programs are not limited by such a high threshold.

The Arkansas Municipal League supports the proposed amendment because it believes the measure would broaden the application of economic development over a wider area of the State. The organization states that Arkansas has lost projects to Mississippi, Texas and other states that do not have such limitations for issuing bonds.

The Arkansas State Chamber of Commerce also formally endorsed the measure and has stated it will organize a grassroots effort in support of the proposed amendment.

## What do opponents say?

At the time this fact sheet was printed, there was no identified organized opposition to the proposed amendment. Individuals have raised concern that the state continues to experience revenue shortfalls and budget restrictions. New debt authority will only make a bad situation worse.

When Amendment 82 was being considered by voters in 2004, opponents argued that in light of commitments to increase funding for public education, Arkansas could not afford to incur additional demands from already stretched state revenues.

## When does the legislation take effect, if passed?

Unless a specific date is placed in the language of a ballot initiative, measures put before the voters, if approved, become effective 30 days after the election.

## What does a "FOR" vote mean?

A "FOR" vote means you support the removal of language in the Arkansas Constitution that limits the size of economic development projects supported by issuance of economic development bonds.

## What does an "AGAINST" vote mean?

An "AGAINST" vote means you support keeping the current size restrictions for economic development projects currently specified in Amendment 82.

## Where can I find more information?

The complete and official text of each ballot measure can be obtained through the Arkansas Secretary of State's Office:

- Phone: 501-682-1010
- Website: [http://www.votenaturally.org/2010\\_ballot\\_issues.html](http://www.votenaturally.org/2010_ballot_issues.html)

For additional information, including links to major support and opposition groups, please visit the University of Arkansas Division of Agriculture's Public Policy Center website at <http://ppc.uaex.edu> or contact your county Cooperative Extension Service office.

The following is information regarding this proposed constitutional amendment as it will appear on the state's November 2 General Election ballot.

### (Title)

TO AMEND AMENDMENT 82 OF THE CONSTITUTION OF ARKANSAS TO AUTHORIZE THE GENERAL ASSEMBLY TO ESTABLISH CRITERIA BEFORE AUTHORIZING THE ISSUANCE OF BONDS FOR PROSPECTIVE EMPLOYERS PLANNING AN ECONOMIC DEVELOPMENT PROJECT.

### (Popular Name)

AN AMENDMENT TO ARKANSAS CONSTITUTION AMENDMENT 82 REMOVING FIXED CRITERIA FOR THE ISSUANCE OF ECONOMIC DEVELOPMENT BONDS BEARING THE FULL FAITH AND CREDIT OF THE STATE OF ARKANSAS AND GIVING THE GENERAL ASSEMBLY THE AUTHORITY TO SET CRITERIA THROUGH LEGISLATION

### FOR ISSUE NO. 3

### AGAINST ISSUE NO. 3

### Exercising your voting privilege

We live in a democratic society where voting is a privilege of citizenship. Democracy works best when informed citizens exercise their voting privilege. Please vote November 2, 2010.

The University of Arkansas Division of Agriculture gives permission for individuals or organizations to copy and/or reproduce this fact sheet. The University of Arkansas Division of Agriculture is to be appropriately cited as the source, and the user will refrain from altering the content in any way that might be construed to suggest that the organization is a supporter or opponent of the issue.

Printed by University of Arkansas Cooperative Extension Service Printing Services.

The University of Arkansas Division of Agriculture offers its programs to all eligible persons regardless of race, color, national origin, religion, gender, age, disability, marital or veteran status, or any other legally protected status, and is an Affirmative Action/Equal Opportunity Employer.

**FSPPC307-9-10N**