EXHIBIT C

ADVANCE ARKANSAS

ANALYSIS

Are Arkansas Taxpayers Getting Value for Money? The Impact of Arkansas's Budget Decisions

Professor Noel Campbell, University of Central Arkansas
Professor David Mitchell, University of Central Arkansas

When compared to its regional neighbors, the State of Arkansas has a relatively high-tax, high-spending government. Furthermore, Arkansas state government spends a relatively high amount on current consumption, and a relatively low amount on investment goods that would lead to economic growth – and, furthermore, the investment goods state government does fund seem to produce relatively little. This suggests that in order to make Arkansas a welcoming place for workers and a fertile environment for businesses and job growth, we need a state government that taxes its citizens less and spends its revenue differently.

EXHIBIT C

The worst house in the neighborhood?

Arkansas spends more than its desirable neighbors spend

Introduction

Government budgets are fiendishly complex, with dozens of types of taxes and other revenues, direct expenditures, general expenditures, intergovernmental expenditures, and the like. However, like other complex documents—such as your mortgage loan paperwork, the prospectus on your 401(k), and your health insurance contract—they are very important and have real effects on people's lives. The recent recession put government budgets under enormous strain. States face weak and uncertain revenues, coupled with a strong and certain demand for government spending. This budgetary strain has prompted a wave of budgetary scrutiny. Can governments deliver on spending promised in the past? If so, then how? If governments do deliver on their promises, what will be the larger effect on our lives and incomes? What will states have to cut to keep these promises? Or, what will private citizens have to do without so state governments can collect enough revenue to meet those obligations? Will taxes and expenditures influence future private investment and entrepreneurship? What will be the effect on the migration of people and businesses to and from Arkansas? Let's remember that that taxing may deter, but government spending won't necessarily attract, the wealth-producers Arkansas needs to catch up to its neighbors, socially and economically.

Comparing Arkansas with its Neighbors

In this paper, we compare Arkansas' budget to the budgets of other states in the neighborhood, in a side-by-side, "yardstick" comparison. This is part of what investors and entrepreneurs do when they decide where to locate. It is what people often do when they are thinking of migrating to or from another state. It's also constructive to break down complicated problems into a set of easily measured

and easily compared "yardsticks." The neighborhood consists of Arkansas, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas, with "all U.S. state governments" serving as a baseline for reference. We limited ourselves to the recent past, but selected a time period long enough to be illustrative: 1998-2008. We use a wide variety of publicly available data. Much of the data comes from the U.S. Census Bureau's "State Government Finances."

In this type of comparison, it is important to compare apples to apples. Prices rise over time, so we have adjusted all dollar amounts for inflation. States are different in population and economic size so we show per-capita-spending. Occasionally we show spending as a percentage of states' economy (GDP). Failing to account for these sorts of differences would bias the results. For instance, Census data shows us *total* amounts of revenue and spending in each state. Texas has many more residents than Arkansas does. Texas' total spending could be far greater than Arkansas', even if Arkansas spends much more per person. Therefore, it would be appropriate to adjust for population. Data that has been adjusted for inflation and population is said to be in "real, per-capita" terms. It is very important to realize that the dollar figures we calculate using Federal data are in terms of 1983-1984 dollars!

It is important to remember that there are two iron laws of government budgets:

- **Government spending causes taxation.** Spending is the cause; taxation is the effect. Reforming taxation without changing spending is treating the symptom (which frequently can be worthwhile) without treating the cause. It's like taking an aspirin but not taking the antibiotic.
- **No *current* government can limit the actions of a *future* government.** Today's legislature makes the rules and writes the laws for *today*. However, *tomorrow's* legislature makes the rules and writes the laws for *tomorrow*. If tomorrow's

> legislature finds the rules and laws written by today's legislature to be uncomfortable, or inconvenient, then tomorrow's legislature will change the rules and laws. The fate of the Gramm-Rudman Balanced Budget Act should be example enough to convince anyone. Of course, future legislatures will find some current rules more difficult to change than other rules, but, in the end, there's very little practical limit to what future governments can do. This means that—regardless of its honest and good intentions—a government's promises to cut spending and reduce taxes at some point in the future are simply unbelievable. Today's government can only affect taxes and expenditures *today*.

As an illustration, imagine that government spending is the train engine. Taxes are the railroad cars. Engineers can shuffle the cars in the train; that is, we can change what we tax and how much we tax it. These changes may have a significant effect on the train's overall efficiency. But government spending is the engine. Spending pulls the train. No matter how we shuffle the cars, the train will still go wherever the engine pulls it—and the engine can only follow that tracks that the surveyors have laid down. No matter how we change the structure of taxes, spending will always pull taxes along in a line. And legislators are the surveyors who determine where the tracks will go.

Looking at the Data

Total Revenue and Total Expenditure

How have the neighborhood's state governments taxed and spent over the last ten years (for which we have complete data)? In Table 1, we compare the numbers, averaged over the decade. "Total Revenue" is the total amount of money that the state government received from all sources, in inflation-adjusted dollars per person. "Tot Rev-Own" measures how much revenue a state government collects from its

own citizens and economy through taxes, fees, and charges, but doesn't count revenue the state government receives "downstream" from the Federal government or "upstream" from local governments. It's a measure of how much juice that state government is squeezing out of its own orange. "Total Expenditure" is just that, the total spending of the state's government. "Direct Expenditure" measures how much the state government spends on its own account; that is, it is total expenditure *less* money "spent" by giving it to local-level governments.

<Table 1 about here>

Table 1 shows that, whether measured by revenues or expenditures, the neighborhood's state governments are somewhat smaller than the average of all U.S. state governments, with the exceptions of Louisiana and Mississippi. However, within the neighborhood, Arkansas is a comparatively "high revenue-high expenditure" state. Arkansas spent more than $2300 per person every year, and extracted from the economy more than $1800 per person every year, in 1983-1984 dollars. In 2010 dollars, that's roughly $5100 in spending and $4000 in revenue! Only Mississippi and Louisiana draw in more total revenue than Arkansas does. Only Louisiana squeezes its own state's economy harder than Arkansas does. The reason why the Arkansas state government thirsts for revenue is immediately obvious once you look at state government spending. Only Louisiana and Mississippi spent more money than Arkansas did. Recall that spending pulls the train: Arkansas' comparatively large government spending forced its government to clamp down on the economy to extract revenue. Speaking generally, the Arkansas government's "tax & spend" profile is more like the rest of the U.S. states than it is like its neighbors.

<Table 2 about here>

In Table 2 we take a slightly different look at the same data. Table converts the neighborhoods' revenue and spending figures into a percentage of the comparable national ("all U.S. states") figure. So, for example, Tennessee collects "own source" revenue equal to 65.7 percent of the "own-source" revenue that all U.S. states collect on average. The storyline continues: Arkansas is a "big government" state when compared to its neighbors, with the exceptions of Louisiana and Mississippi. Arkansas collects between 92%-96% of the revenue that all states collect, and spends 96%-97% of what all the states spend. Compare those figures to Texas' 75%-77% of revenues and Texas' 73%-77% of expenditures. Overall, the neighborhood consists of two clusters of states: a "big government" cluster of states—Arkansas, Louisiana, and Mississippi—whose governments are as big or larger than the average state government, and a "small government" cluster of states—Kansas, Missouri, Oklahoma, Tennessee, and Texas—whose governments are smaller than that of the average state.

Intergovernmental Revenue

One should note that state governments' total spending is greater than total revenues. This means that state governments are spending more money than they collect in revenues. Unlike the Federal government, these states cannot easily and indefinitely fund spending by selling bonds. The difference between state spending and state revenues is almost completely the effect of "intergovernmental revenue" transfers (IGR). That is, revenue that the Federal government raises through Federal taxation or debt issuance that is passed through to the state governments to spend, or revenue that is raised locally through local taxation that is passed "upstream" to the state government. "Upstream" revenue transfers are usually the result of some form of fee for service; that is, the state government performs government services for a local government, for which the local government pays the state government a fee.

On one hand, we might view IGR in a positive light. IGR allows a state's citizens to consume more state government services than they are paying for in state taxes. On the other hand, these extra services are paid for through Federal taxation or local taxation. It becomes an open question as to whether a state's people get more state services than they pay for in Federal taxes, or whether they pay more in Federal taxes than they receive in extra state government services. Regarding "upstream" revenue transfers, citizens receive local government services provided by state government resources. It's possible that the state government can provide these services more effectively or efficiently than local governments could, but that, too, is an empirical question.

What is known, however, is that tax revenues do not collect themselves nor distribute themselves to other governments. There seems to be ample opportunity for waste and inefficiency when one government raises revenue, then sub-contracts the provision of services to another government. Furthermore, the large volume of state government-to-local government and local government-to-state government revenue transfers complicates the relationships between local governments and the state government, and blurs the distinction between local governments and state government. If there are benefits to federalism, this situation seems capable of diluting those benefits. If there are no benefits to federalism, then why should citizens pay for a redundant level of government? Moreover, relying on federal intergovernmental revenue transfers means that the state government is dependent on the Federal government to meet its budget. When Federal spending priorities change, this fiscal dependency could cause severe strains in state budgets.

<Table 3 about here>

As Table 3 shows, when discussing IGR, the entire neighborhood is something of a mixed bag. On one hand, state governments throughout the neighborhood rely more heavily on IGR than do all states, at large. Arkansas ranks fourth, relying on IGR for just over $1 out of $4. However, the neighborhood is also very "federal" in the sense that local governments are fiscally and functionally independent of the state governments. With the exception of Texas, the neighborhood's state governments rely very little on revenues from local governments. The Arkansas state government collects less than one-quarter of one percent of its total revenues from its constituent governments. Of course, taking these two facts together means that the neighborhood's state governments rely disproportionately heavily on IGR from the Federal government. Again, Arkansas is in the middle of the neighborhood pack, relying on the Federal government for over 27 percent of its revenues. Therefore, like all of the states in our neighborhood, Arkansas' budgetary health is substantially dependent upon governmental affairs in Washington.

How a state government spends its money.

In Tables 4 and 5, we analyze state government's expenditures by category. We viewed expenditure from several different angles: the spending type's expenditure in dollars, and as percentages of total revenue and of direct expenditure. We analyze two broad categories of spending, "education services" and "social services and income maintenance," based on the U.S. Census Bureau's definitions of these services (See Appendix). Education services counts a very large amount of state government spending on K-12 education, college and university education, and public libraries. Social services and income maintenance includes the functions of *Public Welfare, Hospitals, Health, Social Insurance Administration*, and *Veterans' Services*.

<Table 4 about here>

Whether measured in dollar amounts, as a percentage of own revenue, or as a percentage of direct expenditure, Arkansas spends a comparatively large amount on education services, overall: schools, libraries and colleges. But, since Arkansas ranks at the bottom of nearly every measure of educational attainment, that would seem to imply that Arkansas schools are inefficient at producing education. One complicating factor is that K-12 education is typically the largest expenditure function for local governments. We didn't include local spending in this analysis. Regardless, given Arkansas' educational performance over this time, the state's spending appears to have had a disappointing effect.

Public Welfare is need-based assistance to persons. It includes cash assistance paid directly to citizens and vendor payments made directly to private purveyors; it also includes payments to other governments for welfare purposes, amounts for administration, support of private welfare agencies, and other public welfare services. Hospitals is the financing, construction, acquisition, maintenance or operation of hospital facilities, provision of hospital care, and support of public or private hospitals, but nursing homes are included under Public Welfare. Health covers outpatient health services including public health administration; research and education; categorical health programs; treatment and immunization clinics, and more. Social Insurance Administration, for state and local governments, is the administration of unemployment compensation, public employment offices, and veterans' readjustment allowances. Veterans' Services counts cash bonuses to veterans and other financial grants not contingent on need, administration of bonus payments, and other veterans' services not classified under Public Welfare, Education, Hospitals, or other functions. Table 5 shows social services and income maintenance data.

<Table 5 about here>

Once again, the neighborhood has two clusters. One cluster includes 6 of the 8 neighborhood states, in which social services and income maintenance are about on par with the average of all 50 states. The second cluster consists of Mississippi, but also Tennessee, which is clearly unlike most states in this regard. However, within the "lower spending" cluster, Arkansas ranks near the top. Arkansas is something of a big spender on social services & income maintenance. This is very important for the following reason: these expenditures are for current consumption of services. Taxation and expenditure on current services means that the state is collecting revenues from one set of Arkansans and giving them to another set of Arkansans to fund current consumption. While perhaps laudable from a humanitarian perspective, these sorts of expenditures do nothing to help an economy develop. They do not add human capital, capital, or infrastructure to the state's economy. At the level of the crudest example, the state government is taking money out of Sarah's pocket, reducing the amount of groceries that Sarah can buy this month, and giving the money to Joe, but limiting him to buying only groceries. Joe isn't allowed to spend the money on completing his associate's degree, or on a bulldozer. Joe's gain is offset by Sarah's loss, and neither of them was able to use the money in such a way to increase future income for anyone.

The Total Cost of Taxation

However, that analogy understates the state government's impact on the Arkansas economy and Arkansans' lives. Taxes don't collect themselves. Economists discuss three types of cost associated with taxation, separate from the tax revenue the state collects, i.e. the dollars taken from Sarah. These costs are administrative cost, compliance cost, and "dead weight" cost of taxation. Administrative cost is cost of operating the bureaucracy of tax collectors; the salaries, office expenses, and overhead if the state's revenue offices, for example. For every dollar the state government takes from Sarah, the government

must keep a few cents to pay the tax collectors. That means that for every dollar government collects from Sarah, it has less than one dollar to spend on Joe. Compliance cost is the money spent, time diverted, and opportunities missed in order for you or your business to comply with the tax laws. For example, suppose a firm spends several thousand dollars on software and employees specifically for the purpose of making sure that the business can accurately calculate its taxes and defend its actions to the taxing authorities. Without the requirement to comply with taxation, these resources would have been spent expanding and improving the business; that is, expanding Arkansas' economy and increasing its citizens' incomes. Instead, those resources are consumed complying with the tax code.

The "dead weight" cost of taxation arises from the fact that every tax alters the return to economic activity; taxation changes the prices that people pay and the revenues that they receive. Simple economics tells us that when prices change, people's behavior will change, too. Taxes, in general, raise the prices that people pay for products and services and reduce the revenue people receive from being active in the economy. Let's look at a couple of simple examples. Suppose the state increases income tax rates. As a result, *for no reason other than the tax rate increase*, some people will choose to work fewer hours; some people, especially mothers contributing a second income, will drop out of the labor force altogether; some people will choose to work in lower pay/higher "fun" jobs instead of higher pay/higher productivity jobs; some people will shift their pay structure toward more untaxed benefits and away from taxed income. It is important to note that all of these changes (a) will not increase tax revenue for the state, and will work to counteract the revenue-enhancing effect of the tax rate increase; and (b) reduce income and economic growth in the state overall.

Pointing out those costs of taxation above and beyond the revenue transferred to the government is not a criticism of government or of taxes. Neither is the analysis specific to the case of social services and

income maintenance. It is simply analytical fact. When the Arkansas public demands government services, Arkansas' government must tax its citizens and economy. Taxes, everywhere and always, cost people more than the government collects in spendable revenue. The questions are, how big are these extra costs, and how quickly do they grow as government size increases?

Estimating the size of the taxation's "extra cost" has always proven to be an extremely difficult task. However, enough researchers have tackled the problem to allow us to make some general statements. First, we must notice that no state is starting from zero; with an untaxed economy. All discussions of tax changes are about increasing or decreasing previously existing taxes. Second, the evidence shows that when current tax rates are changed, the "extra costs" of taxation change much faster. Third, these extra costs are very, very large. In the case of Federal income taxation, Harvard economist and former Council of Economic Advisors chairman, Martin Feldstein has estimated that to raise an extra dollar of Federal tax revenue (to pay for an extra dollar of Federal spending), the private economy will pay a bill in the neighborhood of $2.65. That's one dollar transferred to the government out of citizen's pockets, and $1.65 of "extra cost".[1] Fourth, by a large margin, the biggest component of the "extra cost" is the "dead weight" cost. This is the cost that cannot be reduced by enhancing the efficiency of the Arkansas Department of Finance and Administration, or streamlining compliance issues. This cost can be reduced only by reducing the size of the state's government.

Putting it all together, Arkansas is a comparatively high tax state. This means that its government is imposing an enormous cost of the state's economy; a cost that is far higher than the revenue it collects.

---

[1] Feldstein, M. (2008). Effects of taxes on economic behavior. *National Tax Journal, 61*(1), 131-139. And Feldstein, M. (1997). How big should government be? *National Tax Journal, 50* (2), 197-213.

Taxes and the Average Family

The Census Bureau estimates the state and local taxes paid by an average family of three in several "neighborhood" cities as calculated by the U.S. Census Bureau; that is, Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, and Texas. For a working class family that makes $25,000 a year, Little Rock is the most expensive city in the comparison group. For a family making $50,000 a year, Little Rock is in the top half of taxing localities cities for the South Central.

<Table 6 about here>

Taxes on New Investment

The Council on State Taxation and Ernst and Young, separately, publish a measure of taxes levied on new investment in a state, which will happen when new businesses open, or when existing businesses relocate. They "weight" by the size of capital investment and by jobs. Arkansas ranks 36th and 39th out of 50. For comparison's sake, Texas ranks 19th or 20th, depending on the weighting system. Although Arkansas ranks better than some of its neighbors, this poor national ranking encourages new firms to locate elsewhere.

Concluding Thoughts

What does this have to say about Arkansas? Arkansas' comparatively big government is financed by comparatively large tax collections. Arkansas also discourages new investment by taxing new business activity at comparatively high rates. This result implies that Arkansas' state government imposes large "extra costs" on its economy. The state spends a comparatively large amount of this expensively raised tax revenue on current consumption (taking Sarah's grocery money to buy groceries for Joe), rather than spending the money in ways more likely to help the economy develop. Arkansas also spends a

comparatively large amount on educational services. Typically, researchers expect that education expenditure *is* the sort of spending that would help develop an economy. However, despite at least a decade of comparatively high education spending, the state's educational outcomes remain unimpressive.

What can you take away from this analysis? The overall result is that we can expect Arkansas will continue to lag behind our neighbors, remaining a comparatively poor and lesser-developed state, unless we change our state government's budget. To be more like our neighborhood—to catch up to our neighbors—we need our state government to tax less and spend less, especially on current consumption. We need to figure out why we're so inefficient at producing quality education. We need to make Arkansas welcoming to families and investors, rather than making it expensive for them, by reducing the effective tax rates that families and job creators pay.

Table 1

Comparative Budget Overview

Inflation-adjusted, per capita dollars, averaged over 1998-2008

State	Total Revenue	Rank	State	Total Expenditure	Rank
Tennessee	1973.26	1	Texas	1771.78	1
Texas	2033.15	2	Tennessee	1880.56	2
Kansas	2178.15	3	Missouri	1962.54	3
Missouri	2201.94	4	Kansas	2153.21	4
Oklahoma	2402.84	5	Oklahoma	2198.39	5
Arkansas	**2512.25**	**6**	**Arkansas**	**2338.24**	**6**
US States	*2627.95*	*N.R.*	*US States*	*2445.04*	*N.R.*
Mississippi	2640.96	7	Louisiana	2471.67	7
Louisiana	2718.08	8	Mississippi	2532.12	8

State	Tot Rev-Own	Rank	State	Direct Expenditure	Rank
Tennessee	1302.26	1	Texas	1337.59	1
Texas	1479.52	2	Tennessee	1418.49	2
Missouri	1581.83	3	Missouri	1489.06	3
Kansas	1623.57	4	Kansas	1527.55	4
Mississippi	1679.42	5	Oklahoma	1660.05	5
Oklahoma	1772.57	6	**Arkansas**	**1694.91**	**6**
Arkansas	**1822.75**	**7**	*US States*	*1746.46*	*N.R.*
Louisiana	1848.22	8	Mississippi	1815.59	7
US States	*1982.74*	*N.R.*	Louisiana	1925.51	8

Table 2

Normalized Comparative Budget

Inflation-adjusted, per capita dollars, averaged over 1998-2008

State	Total Revenue	Rank	State	Total Expenditure	Rank
Tennessee	75.1	1	Texas	72.5	1
Texas	77.4	2	Tennessee	76.9	2
Kansas	82.9	3	Missouri	80.3	3
Missouri	83.8	4	Kansas	88.1	4
Oklahoma	91.4	5	Oklahoma	89.9	5
Arkansas	**95.6**	**6**	**Arkansas**	**95.6**	**6**
Mississippi	100.5	7	Louisiana	101.1	7
Louisiana	103.4	8	Mississippi	103.6	8

State	Tot Rev-Own	Rank	State	Direct Expenditure	Rank
Tennessee	65.7	1	Texas	76.6	1
Texas	74.6	2	Tennessee	81.2	2
Missouri	79.8	3	Missouri	85.3	3
Kansas	81.9	4	Kansas	87.5	4
Mississippi	84.7	5	Oklahoma	95.1	5
Oklahoma	89.4	6	**Arkansas**	**97.0**	**6**
Arkansas	**91.9**	**7**	Mississippi	104.0	7
Louisiana	93.2	8	Louisiana	110.3	8

Table 3

Intergovernmental Percentage of Total Revenue

Inflation-adjusted, per capita dollars, averaged over 1998-2008

State	Total	Rank	State	Federal	Rank	State	Local	Rank
US States	*24.6*	*N.R.*	*US States*	*23.2*	*N.R.*	**Arkansas**	**0.17**	**1**
Kansas	25.5	1	Kansas	25.1	1	Louisiana	0.28	2
Oklahoma	26.2	2	Oklahoma	25.6	2	Kansas	0.36	3
Texas	27.2	3	Texas	26.1	3	Missouri	0.48	4
Arkansas	**27.4**	**4**	**Arkansas**	**27.3**	**4**	Oklahoma	0.59	5
Missouri	28.2	5	Missouri	27.7	5	Tennessee	0.77	6
Louisiana	32.0	6	Louisiana	31.7	6	Mississippi	0.99	7
Tennessee	34.0	7	Tennessee	33.2	7	Texas	1.16	8
Mississippi	36.4	8	Mississippi	35.4	8	*US States*	*1.32*	*N.R.*

Table 4

Educational Services Expenditure								
Inflation-adjusted, per capita dollars, averaged over 1998-2008								
State	**Total**	**Rank**	**State**	**Pct Own Tot Rev**	**Rank**	**State**	**Pct Direct Exp.**	**Rank**
Tennessee	587.26	1	*US States*	*38.5*	*N.R.*	Louisiana	39.8	1
Missouri	640.55	2	Missouri	40.5	1	Tennessee	41.4	2
Texas	663.90	3	Louisiana	41.5	2	Mississippi	42.5	3
US States	*764.23*	*N.R.*	Texas	44.9	3	Missouri	43.0	4
Louisiana	766.42	4	Tennessee	45.1	4	*US States*	*43.8*	*N.R.*
Mississippi	771.42	5	Mississippi	45.9	5	Oklahoma	49.5	5
Oklahoma	822.10	6	Oklahoma	46.4	6	Texas	49.6	6
Kansas	863.23	7	**Arkansas**	**50.3**	**7**	**Arkansas**	**54.1**	**7**
Arkansas	**917.00**	**8**	Kansas	53.2	8	Kansas	56.5	8

Table 5

Social Services & Income Maintenance Expenditure								
Inflation-adjusted, per capita dollars, averaged over 1998-2008								
State	**Total**	**Rank**	**State**	**Pct Own Tot Rev**	**Rank**	**State**	**Pct Direct Exp.**	**Rank**
Texas	524.22	1	Oklahoma	32.4	1	Oklahoma	34.6	1
Kansas	534.25	2	Kansas	32.9	2	Kansas	35.0	2
Oklahoma	574.59	3	Texas	35.4	3	Louisiana	36.1	3
Missouri	636.13	4	*US States*	*37.4*	*N.R.*	Texas	39.2	4
Louisiana	695.07	5	Louisiana	37.6	4	**Arkansas**	**41.5**	**5**
Arkansas	**703.39**	**6**	**Arkansas**	**38.6**	**5**	*US States*	*42.4*	*N.R.*
US States	*740.69*	*N.R.*	Missouri	40.2	6	Missouri	42.7	6
Tennessee	758.89	7	Mississippi	49.0	7	Mississippi	45.3	7
Mississippi	823.26	8	Tennessee	58.3	8	Tennessee	53.5	8

Table 6

City	Total taxes paid by family with $25,000 income	Ranked lowest to highest	Total taxes paid by family with $50,000 income	Ranked lowest to highest
	$25,000		**$50,000**	
Wichita, KS	2,383	1	3,813	4
Houston, TX	2,497	3	3,003	2
New Orleans, LA	2,695	2	3,310	3
Oklahoma City, OK	2,731	4	4,079	6
Memphis, TN	2,740	5	2,959	1
Jackson, MS	2,808	6	4,638	7
Little Rock, AR	**3,149**	**7**	**4,053**	**5**
Kansas City, MO	3,203	8	5,062	8

Source: Census Bureau. Table 447.
http://www.census.gov/compendia/statab/cats/state_local_govt_finances_employment.html

Table 7

State and Local Business Tax Competitiveness Index: Taxes on New Investment by Selected Industries: (ETR = Effective Tax Rate)				
	Weighted by Capital Investment		Weighted by Jobs	
State	**ETR**	**Rank**	**ETR**	**Rank**
Texas	6.90%	20	8.20%	19
Missouri	7.10%	22	8.40%	24
Oklahoma	8.80%	35	10.50%	38
Arkansas	**8.90%**	**36**	**10.50%**	**39**
Alabama	9.70%	43	11.00%	44
Mississippi	10.20%	44	10.80%	40
Tennessee	10.30%	45	11.80%	45
Louisiana	11.10%	47	12.00%	46
Kansas	11.20%	48	12.50%	48
50-state mean	7.90%		9.10%	
50-state median	7.30%		8.70%	

Council on State Taxation & Ernst and Young: Competitiveness of state and local business taxes on new investment & Ranking states by tax burden on new investment; 11-April-2012, http://www.cost.org/WorkArea/DownloadAsset.aspx?id=78442.

APPENDIX

Education Services. Comprises the functions of *Education* and *Libraries*.

Education. Schools, colleges, and other educational institutions (e.g., for blind, deaf, and other handicapped individuals) and educational programs for adults, veterans, and other special classes. *Higher Education* includes activities of institutions operated by the state, except that agricultural extension services and experiment stations are classified under *Natural Resources*, and hospitals serving the public are classified under *Hospitals*. Revenue and expenditure for dormitories, cafeterias, athletic events, bookstores, and other *Auxiliary Enterprises* financed mainly through charges for services are reported on a gross basis. Direct *Elementary and Secondary Education* comprises direct state payments (rather than intergovernmental. payments to local governments) for operation of local public schools, construction of school buildings, purchase and operation of school buses, and other local school services. Direct state expenditure for *Other Education* includes state educational administration and services, tuition grants, fellowships, aid to private schools, and special programs.

Libraries. Provision of state public library facilities and services, and support of local public library services.

Social Services and Income Maintenance. Comprises the functions of *Public Welfare, Hospitals, Health, Social Insurance Administration,* and *Veterans' Services*.

Public Welfare. Support of and assistance to needy persons contingent upon their need. Excludes pensions to former employees and other benefits not contingent on need. Expenditures under this heading include: *Cash Assistance* paid directly to needy persons under the categorical programs (Aid to Families with Dependent Children) and under any other welfare programs; *Vendor Payments* made directly to private purveyors for medical care, burials, and other commodities and services provided under welfare programs; and provision and operation by the government of welfare institutions including nursing homes not directly associated with a government hospital. *Other Public Welfare* includes payments to other governments for welfare purposes, amounts for administration, support of private welfare agencies, and other public welfare services.

Hospitals. Financing, construction, acquisition, maintenance or operation of hospital facilities, provision of hospital care, and support of public or private hospitals. *Own Hospitals* are facilities administered directly by the government concerned; *Other Hospitals* refers to support for hospital services in private hospitals or hospitals owned by other governments. However, see *Public Welfare* concerning vendor payments under welfare programs. Nursing homes are included under *Public Welfare* unless they are directly associated with a government hospital. Expenditures of state hospitals from Federal Medicaid funds are reported in this category.

Health. Outpatient health services, other than hospital care, including: public health administration; research and education; categorical health programs; treatment and immunization clinics; nursing; environmental health activities such as air and water pollution control; ambulance service if provided separately from fire protection services; and other general public health activities such as mosquito abatement. School health services provided by health agencies (rather than school agencies) are included here. Sewage treatment operations are classified under *Sewerage*.

Social Insurance Administration. For state and local governments consists of *Employment Security Administration* activities; that is, the administration of unemployment compensation programs and employment offices only.

Employment Security Administration. Administration of unemployment compensation, public employment offices, and related services, and veterans' readjustment allowances.

Veterans' Services. Cash bonuses to veterans and other financial grants not contingent on need, administration of bonus payments, veterans' information and guidance services, and other veterans' services not classified under *Public Welfare, Education, Hospitals*, or other functions.