STATE FUNDING PROGRAMS FOR OUTDOOR RECREATION:

Arkansas Natural and Cultural Resources Grant and Trust Fund

SUMMARY

One of several state funding measures in Arkansas for conservation and recreation,[1] the Arkansas Natural and Cultural Resources Grant and Trust Fund authorizes the collection of a tax on the transfer of certain real estate in the State of Arkansas. A portion of the revenue is dedicated to the acquisition, management, and stewardship of land for recreation and conservation purposes. In total, these funds have supported almost $165 million for outdoor recreation in state and local parks since 1987. Most funds are distributed and overseen by the Arkansas Natural and Cultural Resources Council.[2]

This case study is part of a larger report describing how states fund outdoor recreation across the U.S. Access the full report "State Funding Mechanisms for Outdoor Recreation" here: http://oia.outdoorindustry.org/headwaters.

FUNDING TYPE

In 1987, the Arkansas State Legislature passed Act 729 (Arkansas Code Annotated §15-12-101 through §15-12-103) authorizing the collection of a new real estate transfer tax of $2.20 per $1,000 in the value of certain real estate transactions. (In 1996, Arkansas also passed a constitutional amendment that raised the general sales tax by 1/8th of one cent, with revenue dedicated to conservation and parks. The remainder of this report will focus on the real estate transfer tax.)

Since it is levied on most real estate transfers, funding has typically increased annually except for a dip following the recession in 2008. Although the dollar amount on each property transfer is a small part of the total transaction, the tax adds up to substantial sums each year. For example, 2017 allocations included just more than $3 million for local parks and $6.2 million for State Parks.

SNAPSHOT

Created in 1987

Real estate transfer tax dedicates $2.20 per $1,000 of certain real estate transactions to natural and cultural heritage programs

Funded more than $9 million in outdoor recreation in Fiscal Year 2017

Key factors of success:

- Dedicated funding through statute ensures reliability
- Support to rural and underserved communities helps distribute benefits of outdoor recreation

Funds are divided three ways:

- Eighty percent are deposited into the Arkansas Natural and Cultural Resources Grant and Trust Fund (ANCRGTF), which is "managed for the acquisition, management and stewardship of State-owned lands, or the preservation of State-owned historic sites, buildings, structures or objects" of value for recreation or conservation purposes. An average of 37 percent of the ANCRGTF has been granted to Arkansas State Parks each year.
- Ten percent of the real estate transfer tax revenue is deposited into the Parks and Tourism Fund Account, to be used by the Department of Parks and Tourism for making Outdoor Recreation Grants to cities and counties.
- The remaining ten percent helps the Natural and Cultural Resources Historic Preservation Trust Fund to fund the operation of the state historic preservation program.

The remainder of this report focuses on the ANCRGTF and the Parks and Tourism Fund, as they are directly tied to outdoor recreation.

PROGRAM ORIGINS

The Arkansas Legislature created the real estate transfer tax in the late-1980s after recognizing that federal funds for outdoor recreation (especially through the Land and Water Conservation Fund) and historic preservation were declining. The original legislation creating the tax passed in 1987, and the tax was increased in 1993.[3] The tax was widely supported as a novel way to support management and improvements of state-owned natural and cultural resources.

FUNDING ALLOCATION AND ADMINISTRATION

Arkansas Natural and Cultural Resources Grant and Trust Fund

The Arkansas Natural and Cultural Resources Grant and Trust Fund receives 80 percent of real estate transfer tax proceeds and is governed by the Arkansas Natural and Cultural Resources Council (ANCRC). ANCRC uses the funds to award annual grants to eligible state agencies. To be eligible for ANCRC grants, state agencies must receive general revenue funding and be authorized by law to acquire, manage, operate or maintain state-owned lands for recreation or conservation purposes. Applicants include Arkansas State Parks, historical sites, colleges and universities, and the Arkansas Forestry Commission.

Arkansas State Parks receives funds annually, and since 1989 has received more than $125 million, ranging from a low of $350,000 in the program's early years to a high of $8.1 million. The share of available funds that goes to State Parks depends on available funds and competing proposals, but State Parks typically receives 30-40 percent of available funds each year. In the last five years, allocations to State Parks average $5.7 million per year.

Arkansas State Parks typically submits a consolidated proposal that combines its prioritized funding requests across all properties and projects. State Parks does not generally receive its full request; for example, its 2018 request was slightly more than $12 million, but it received $6.8 million in funding.

Grants fund acquisition projects as well as management, stewardship, restoration/renovation, improvements, and programming. There is no match requirement and no maximum grant limitation. Some projects include multiple phases.

ANCRC staff review the proposals for completeness and then forward them to the 11 Council members. Four are appointed by the Governor to represent rural areas, urban areas, counties, and towns. One member is appointed by the Speaker of the House of Representatives and one by the President of the Senate. The remaining five members are: the Chairman of the Arkansas Natural Heritage Commission; the Chairman of the Arkansas Parks, Travel, and Recreation Commission; the Director of the Department of Arkansas Heritage; the Director of the Arkansas Department of Parks and Tourism; and the Commissioner of State Lands.[4]

The ANCRC hosts an annual funding meeting where applicants can make a presentation about their proposal. ANCRC members evaluate proposals based on review criteria, including: the presence of natural resources, recreation potential, archeological and historic features, susceptibility of the resources to degradation, manageability of the land, location, and cost. Priorities are guided by the Arkansas Statewide Comprehensive Outdoor Recreation Plan.[5] Projects are awarded funding at the annual meeting after an open, transparent, and collaborative discussion with the applicants and Council.[6] In addition, the ANCRC reserves some funding each year for emergency grants to address unanticipated opportunities.

Parks and Tourism Fund Account

Ten percent of the real estate transfer tax is dedicated to the Parks and Tourism Fund, which is then granted to local governments through the Arkansas State Parks Outdoor Recreation Grants Program. The program also manages the state-side Land and Water Conservation Fund (LWCF), and they have adopted LWCF's rules and regulations for Parks and Tourism Fund grants.

The Outdoor Recreation Grant program accepts applications annually. Eligible applicants include cities, counties, unincorporated areas or communities (which require county sponsorship), and school districts. Grants of up to $250,000 are awarded and require a match of 50 percent, which can include volunteer labor and in-kind support. Eligible projects include construction of outdoor recreation facilities and land acquisition such as areas for water-based recreation, floodplains and wetlands, scenic and natural areas, and urban lands for parks and sports facilities.

Arkansas also grants a total of $450,000 each year through its Fundamentally Underserved Neighborhood Parks (FUN Parks) program, which gives grants of up to $45,000 to smaller municipalities and communities that cannot meet the matching requirements.

Program officers make site visits to each community and provide technical assistance in the project design. Program officers then rank projects based on scoring criteria that include whether the project increases the diversity and opportunity of recreation activities, whether it serves an underserved area, the degree of public outreach and minority engagement, whether the project is ready to implement, the entity's history of project compliance and maintenance, and the amount of cash match secured.[7]

The entities with the highest-ranking projects are invited to give a presentation to the Outdoor Recreation Advisory Committee, consisting of five individuals appointed by the Governor for terms coinciding with the gubernatorial term. Out of the five members, there must be geographic representation from each of Arkansas' four congressional districts, two members from municipal governments, and two members from county governments. Committee members are typically parks and recreation professionals or local government elected officials. The Committee evaluates the proposed projects and recommends funding, which is then authorized by the Director of State Parks.

SUCCESSES

Arkansas spends $28-32 per capita on conservation and recreation, well above the national average of $6.29 per capita,[8] and the real estate transfer tax contributes significantly to this investment in outdoor recreation. The statutory dedication of a portion of the real estate transfer tax to parks has resulted in long-term financial stability for outdoor recreation programs and agencies. While there is some variability in the annual funding amount with fluctuations in the real estate market, funds have continually increased over time from a low of just under $2 million to more than $19.5 million in 2017, and the need to advocate with the legislature to keep the funding secure has been minimal because of the program's long history and strong and diverse advocates.

The program was also designed with two forward-thinking fiscal components. First, the ANCRC operates on a cost basis, rather than by projections of revenue. The ANCRC can write a check for funds as soon as grants are awarded, rather than relying on revenue projections. This adds credibility and dependability to the program. Second, statute allows the ANCRC to set aside funds into a trust fund, managed by the State Treasury, where the corpus is untouched and investment income can be used for grant purposes. The bylaws of the ANCRC require one percent of each year's real estate transfer tax revenue to be set aside. Since the 2008 recession, these investments have been quickly reinvested in grants, but the accumulation of investments helped bridge funding gaps during the recession.

CHALLENGES

As with many states, the need for funding continually outpaces the available revenue and competition for resources is increasing. In Arkansas, there have been few direct challenges to the real estate transfer tax, but occasionally interest groups pursue changes to the legislation to try and broaden the recipients of the real estate transfer tax. For example, in 2017 there was an attempt to divert some of the real estate transfer tax to affordable housing initiatives, but the legislation died in committee, in part due to a substantial outcry from park and heritage advocates.

In the mid-2000s, the ANCRC's trust fund balance surpassed $16 million and began to attract attention from legislators and others trying to find revenue during the recession. In 2008 and 2009, the ANCRC made the decision to give substantially more in grants than in other years - $25.8 and $24.7 million, respectively. This helped smooth cash flow troughs during lean revenue years, and helped ensure the saved trust funds went to the intended purposes and couldn't be diverted to other uses.

During the beginning of the program, the real estate community was skeptical about the tax, as it affects their customers and they must educate clients about the tax during real estate transactions. However, the tax is a one-time payment that is a very small amount of the overall real estate transaction, and the benefits extend to everyone. Polls and public opinion surveys show that Arkansans appreciate the return on investment.

LESSONS LEARNED

Statutory dedication and trust funds add security—but not completely.

The statute authorizing the real estate transfer tax requires the funds be treated as special revenues and credited to specific accounts for the intended purposes. This eases concerns that funds will be redirected by the Legislature, and the dependability of the funding creates credibility. Advocates and agencies do not have to expend as much time and resources campaigning for appropriations during each legislative session because the funding is automatic. However, the increasing revenue from the real estate transfer tax has drawn attention, and the accumulation of a large trust fund balance became a target when general revenues were down. Other interests have occasionally introduced legislation that would change the statutory dedication, and such efforts are not likely to abate.

Rural and underserved communities need special support.

Nearly half of Arkansas' population lives in rural (non-metro) communities.[9] The technical assistance provided by the Outdoor Recreation Grants staff allows smaller communities that do not have dedicated parks staff to compete for funding and execute reputable projects. The FUN Parks program also creates the ability for communities without matching funds to complete important park projects.

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END NOTES

1. In addition to the Natural and Cultural Resources Grant and Trust Fund, Arkansas passed a constitutional amendment in 1996 that raised the general sales tax by 1/8th of one cent, with revenue dedicated to conservation and parks. (See A.C.A. §19-6-484; §19-6-301(193).) Arkansas also authorized a non-transferable state income tax credit in 2009 for donation of conservation easements in wetland and riparian zones.
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4. http://www.dfa.arkansas.gov/offices/budget/budgetRequests/0887_dah_ncrc.pdf.
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6. Arkansas Natural and Cultural Resources Council. 2018 Guide to Grants. http://ancrc.org/.
7. Arkansas State Parks. 2018 Matching Grant Application Guide. http://www.outdoorgrants.com/Matching%20Grants/fillable%20Forms/2018MatchingGrantApplicationGuide.pdf.
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9. U.S. Department of Commerce. 2016. Census Bureau, American Community Survey Office, Washington, D.C.; U.S. Department of Commerce. 2000. Census Bureau, Systems Support Division, Washington, D.C. As reported by Headwaters Economics, 2017. Economic Profile System. https://headwaterseconomics.org/tools/economic-profile-system/.
10. Debra Fithen replaced Randy Dennis—who was interviewed for this study—as Program Manager of the Arkansas Natural and Cultural Resources Council in June of 2017. We would like to express our appreciation for Randy's contributions to this report.

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