

**FISCAL NOTE**  
**LEGISLATIVE FISCAL ANALYST ESTIMATE**

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)</b>				
	<b>FY 2020-21</b>		<b>FY 2021-22</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS			271,200	
CASH FUNDS			4,000,000 to 15,000,000	4,000,000 to 15,000,000
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS			4,000,000 to 15,000,000	4,000,000 to 15,000,000

**Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.**

LB 1214 would establish the Rural Economic Development Grant Act. The Department of Economic Development would administer a grant program beginning January 1, 2022 to provide assistance to businesses that were either located in a micropolitan statistical area or did not qualify for the main tax incentive program offered by the state. Under LB 1214, the “main tax incentive” program would be defined a program created on or after the effective date of Rural Economic Development Grant Act that is intended to provide tax incentives to businesses that agree to invest in or create new jobs in the state, and is the main tax incentive program used to recruit and retain businesses in Nebraska.

The Rural Economic Development Grant Fund would be created to receive revenue to provide grants and pay administrative expenses. The fund would receive its revenue from a 5% remittance paid by taxpayers using the main tax incentive program in tax year 2021 and any tax year thereafter. The Department of Revenue estimates that based upon historical data regarding main tax incentive programs, \$7,500,000 to \$15,000,000 could be received into the fund annually, while the Department of Economic Development estimates that \$4,000,000 to \$10,000,000 could be received annually.

The Department of Economic Development would incur expenses related to the administration of the program and the payment of grants. As written, LB 1214 would require taxpayers to submit the 5% remittance to the Department of Economic Development. As a result, administrative costs would include the development of a mechanism for the agency to collect and track remittances and to implement the grant program. The Department of Economic Development notes that it would incur expenses to establish the remittance collection system and to hire staff to administer the program. The agency estimates that costs would come from the General Fund until a sufficient balance existed in the Rural Economic Development Grant Fund. There is no basis to disagree with this determination. As a result, it is estimated that \$271,200 in General Funds would be required for program start-up costs, and in subsequent years, administrative expenses would come from cash funds.

It is estimated that grant funding would not be initiated until a sufficient balance had accumulated in the Rural Economic Development Grant Fund. The extent of funding available in FY21-22 may be somewhat limited, depending up the rate of participation in a main tax incentive program to be created on or after the effective date of LB 1214.

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**2020**

**LB<sup>(1)</sup> 1214**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Department of Economic Development

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**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

	<u>FY 2020-21</u>		<u>FY 2021-22</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>\$0</u>	<u>(See Below)</u>	<u>\$271,200</u>	<u>(See Below)</u>
CASH FUNDS	<u></u>	<u></u>	<u>(See Below)</u>	<u>(See Below)</u>
FEDERAL FUNDS	<u></u>	<u></u>	<u></u>	<u></u>
OTHER FUNDS	<u></u>	<u></u>	<u></u>	<u></u>
TOTAL FUNDS	<u>\$0</u>	<u></u>	<u>\$271,200</u>	<u></u>

**Explanation of Estimate:**

LB1214 creates the Rural Economic Development Grant Act. The act would be administered by the Department of Economic Development (DED), to provide grants to new or existing businesses that do not qualify for the next main tax incentive program passed by the Legislature, and nonprofit organizations or political subdivisions that assist businesses. Qualifying businesses would also need to create new jobs or make new investment, and are located in Micropolitan statistical areas. Qualifying nonprofits or political subdivisions need to assist businesses located in Micropolitan areas. Beginning in 2022, DED would award grants up to the amount of available funding. Nebraska Micropolitan areas include: Adams, Banner, Buffalo, Dawson, Dodge, Gage, Gosper, Kearney, Lincoln, Logan, Madison, McPherson, Pierce, Platte, Scotts Bluff, Sioux, and Stanton counties.

LB1214 creates the Rural Economic Development Grant Fund, a cash fund administered by DED. Funding for the cash fund is derived from a 5% levy on tax credits used by businesses qualifying for the main tax incentive program. These funds are to be remitted to DED by January 15 of the year following the end of a tax year when benefits are received.

LB1214 would direct the department to collect the 5% levy, design a grant program, award grants, and collect data for an annual report. The department estimates that approximately 25 grant applications would be processed annually, independent of the number of grants awarded. There appears to be no set limit on the number of grants, or the size of grants, only that they fall within the available funding. LB1214 specifies that the cash fund may be used for administrative costs. The definition of "main economic development program" would presumably not include Nebraska Advantage, which is scheduled to sunset on December 31, 2020. If a replacement program were similar to Nebraska Advantage in terms of the size of the tax credits offered, the cash fund could receive funds in amounts between \$4 million and \$10 million per year, once the replacement program is fully implemented. However, until businesses participating in a successor program earn sufficient tax credits, or a future legislature includes the creation of an adequately funded cash fund, the Rural Economic Development Grant Act would have to rely on General Funds for administrative costs, which is assumed for purposes of this note.

It is estimated that the provisions of LB1214 will require the services of an Economic Development Business Consultant and an Economic Development Financial Packager. The business consultant is needed for managing the applications, assisting in developing the program, and reporting, which requires each awardee to provide information for the year in which the grant is made and each of the next five years. The financial packager's time will be used for developing the initial program, track funding to ensure that businesses have deposited the 5% levy on qualified tax credit usage, and managing grants. In addition, there will be a one-time cost of \$50,000 for grant management software.

The operative date for LB1214 is January 1, 2022. The 5% funding from incentive refunds is based on tax credits used in 2021, which would be due in DED on January 15, 2022.

Section 4 of the bill, which creates the cash fund does not mention what should happen to any interest earned on the fund due to investment pursuant to the Nebraska Capital Expansion and the Nebraska State Funds Investment acts.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2020-21</u>	<u>2021-22</u>
	<u>20-21</u>	<u>21-22</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Economic Dev Business Consultant	0.0	1.0	\$0	\$60,900
Economic Dev Financial Packager	0.0	1.0		60,900
Benefits.....				48,700
Operating.....				75,000
Travel.....				8,500
Capital outlay.....				17,200
Aid.....				(see above)
Capital improvements.....				
<b>TOTAL.....</b>				<b>\$271,200</b>

