

**FISCAL NOTE**  
 LEGISLATIVE FISCAL ANALYST ESTIMATE

| <b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)</b> |                     |                |                     |                      |
|---|---------------------|----------------|---------------------|----------------------|
|   | <b>FY 2019-20</b>   |                | <b>FY 2020-21</b>   |                      |
|   | <b>EXPENDITURES</b> | <b>REVENUE</b> | <b>EXPENDITURES</b> | <b>REVENUE</b>       |
| GENERAL FUNDS   | \$26,300            | (\$40,000,000) | \$28,100            | (\$43,628,000)       |
| CASH FUNDS  | \$40,000,000        | \$40,000,000   | \$40,000,000        | \$40,000,000         |
| FEDERAL FUNDS   |                     |                |                     |                      |
| OTHER FUNDS   |                     |                |                     |                      |
| <b>TOTAL FUNDS</b>  | <b>\$40,026,300</b> | <b>\$0</b>     | <b>\$40,028,100</b> | <b>(\$3,628,000)</b> |

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

LB 419 amends provisions of the Nebraska Advantage Act. The bill requires new employees for tier 1, 2, 3, and 4 projects to be offered employer-provided health insurance and paid 130% of the Nebraska average weekly wage for the application year, a decrease from 160%.

For qualifying tier 1, 2, 3, or 4 project taxpayers, the amount of the credit is amended to be:

- 3% times the average wage if the average wage is at least 130% of the average weekly wage;
- 4% times the average wage if the average wage is at least 145% of the average weekly wage;
- 5% times the average wage if the average wage is at least 170% of the average weekly wage; and
- 6% times the average wage if the average wage is at least 195% of the average weekly wage.

The bill specifies that no more than \$60 million in credits can be approved each year, and once the limit is reached, the Tax Commissioner can continue to approve applications, but any agreement signed must not include any credits as part of the allowed incentives. The bill also reduces the carryover period for credits to four years after the year the credits were earned for all tiers and extends the sunset date for new applications under the act to December 31, 2026.

LB 419 also creates the Nebraska Advantage Deal-Closing Fund, administered by the Department of Economic Development (DED), to be used for grants to taxpayers who have a signed agreement under the act and have met the levels of employment and investment to qualify for incentives. Grants can be used for site and building development, customized job-training, and capital investments related to the project. The bill states intent to appropriate \$40 million to the fund each fiscal year, with DED retaining one-half of 1% for administration of the program.

**Revenue:**

The Department of Revenue estimates the change to the General Fund as follows:

|          | <b>General Fund Revenue Due to Nebraska Advantage</b> | <b>General Fund Transfer to Deal Closing Fund</b> |
|----------|---|---|
| FY 19-20 | \$ -  | \$ -  |
| FY 20-21 | (\$3,628,000)   | \$40,000,000                                      |
| FY 21-22 | (\$12,173,000)  | \$40,000,000                                      |
| FY 22-23 | (\$23,293,000)  | \$40,000,000                                      |
| FY 23-24 | (\$44,402,000)  | \$40,000,000                                      |
| FY 24-25 | (\$56,938,000)  | \$40,000,000                                      |
| FY 25-26 | (\$65,272,000)  | \$40,000,000                                      |
| FY 26-27 | (\$73,060,000)  | \$ -  |
| FY 27-28 | \$71,628,000  | \$ -  |
| FY 28-29 | \$62,033,000  | \$ -  |

The Legislative Fiscal Office believes there would also be a transfer to the Deal Closing Fund in FY 19-20 pursuant to the provisions of the bill.

**Expenditures:**

The Department of Revenue estimates expenditures for 0.5 FTE Fiscal Compliance Analyst for a total cost of \$26,300 in FY 19-20 and \$28,100 in FY 20-21. There is no basis to disagree with this estimate.

DED estimates Cash Fund expenditures for:

- A one-time charge of \$200,000 to OCIO for computer programming related to the application;
- Expenditures for 0.75 FTE in FY 19-20 and 1.0 FTE in FY 20-21 for an Economic Development Manager and 0.75 FTE in FY 19-20 and 1.0 FTE in FY 20-21 for an Economic Development Business Consultant to implement the bill. Including salary, benefits, operating, capital, and travel expenditures, the total cost is \$173,300 in FY 19-20 and \$323,100 in FY 20-21.

The bill provides that DED can retain one-half of 1% of all grants for administrative expenses related to carrying out the program, which would be a maximum of about \$200,000 if all funds, except funds reserved for administrative expenses, were appropriated by the Legislature and awarded as grants. However, DED estimates expenses of \$373,300 in FY 19-20 and \$323,100 in FY 20-21. While these estimates could be reasonable based on the administrative responsibilities under the bill, they exceed the funds allocated for such expenses.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE

LB: 419                      AM:                      AGENCY/POLT. SUB: Department of Revenue

REVIEWED BY: Lee Will                      DATE: 3/5/2019                      PHONE: (402) 471-4175

COMMENTS: No basis to disagree with the Department of Revenue's assessment of fiscal impact.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE

LB: 419                      AM:                      AGENCY/POLT. SUB: Department of Economic Development

REVIEWED BY: Lee Will                      DATE: 3/4/2019                      PHONE: (402) 471-4175

COMMENTS: No basis to disagree with the Department of Economic Development's assessment of fiscal impact.  
The Department would, however, need additional cash fund authority of \$40 million in each fiscal year to allow for grants to be administered from the Nebraska Advantage Closing Fund.

Please complete ALL (5) blanks in the first three lines.

2019

LB<sup>(1)</sup> 419

FISCAL NOTE

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

Prepared by: <sup>(3)</sup> Dave Rippe Date Prepared: <sup>(4)</sup> 2/28/2019 Phone: <sup>(5)</sup> 471-3777

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

|               | <u>FY 2019-20</u>   |                     | <u>FY 2020-21</u>   |                     |
|---------------|---------------------|---------------------|---------------------|---------------------|
|               | <u>EXPENDITURES</u> | <u>REVENUE</u>      | <u>EXPENDITURES</u> | <u>REVENUE</u>      |
| GENERAL FUNDS | _____               | (See Below)         | _____               | (See Below)         |
| CASH FUNDS    | <u>\$373,300</u>    | <u>\$40,000,000</u> | <u>\$323,100</u>    | <u>\$40,000,000</u> |
| FEDERAL FUNDS | _____               | _____               | _____               | _____               |
| OTHER FUNDS   | _____               | _____               | _____               | _____               |
| TOTAL FUNDS   | <u>(See Below)</u>  | <u>\$40,000,000</u> | <u>(See Below)</u>  | <u>\$40,000,000</u> |

**Explanation of Estimate:**

LB419 amends several provisions of the Nebraska Advantage Act, extends the sunset dates from 12/21/2020 to 12/31/2026, limits the amount of tax credits that the Tax Commissioner may approve to a total of \$60 million per year, and creates the Nebraska Advantage Deal-Closing Fund.

LB419 changes the definition of new employee for tiers 1 through 4 of Nebraska Advantage to add requirements that a new employee must be offered employer-provided health care benefits, and be paid 130% of the Nebraska average weekly wage. The bill also changes the calculation of the compensation credit based on the increased wage threshold, and limits the carryover period for all six tiers to 4 years.

When the approved \$60 million per year level is reached, the Tax Commissioner may continue to approve applications, but applicants will not be eligible to receive tax credits as part of their incentives. Although the amount of credits are limited, there appears to be no limitation on direct sales and use tax refunds or property tax benefits.

Any taxpayer with a signed agreement that has met the required levels of investment and employment may apply to the Department of Economic Development (DED) for a grant from the Nebraska Advantage Deal-Closing Fund. The Tax Commissioner is authorized to notify DED of each taxpayer that has met the requirements to be eligible for the grant. The amount of the grant is to be based upon available funding, and maybe used for site and building development, customized job training, and capital investment related to the project.

LB419 contains intent language for the transfer of \$40 million annually to the closing fund. As drafted, the bill states DED may retain ½% of the grant, rather than the appropriation for administrative expenses relating to the program. The Department estimates it will require the services of an economic development manager and two business consultants to administer the program. The business consultants will be responsible for reviewing projects in order to allocate offers of grant funds to projects. In addition, there will be a one-time \$200,000 estimated cost for computer programming with OCIO to develop an online application form for the program.

It is unclear how the Nebraska Advantage Closing Fund would operate. As drafted, the fund does not work like a traditional closing fund, as the thresholds for investment and employment must be fully met before any grants are made from the fund. Therefore, grants awarded under the program will likely be used to repay site acquisition and building development costs that were incurred in the initial stages of the project.

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**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

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**Personal Services:**

| <u>POSITION TITLE</u>           | <u>NUMBER OF POSITIONS</u> |              | <u>2019-20</u>      | <u>2020-21</u>      |
|---------------------------------|----------------------------|--------------|---------------------|---------------------|
|                                 | <u>19-20</u>               | <u>20-21</u> | <u>EXPENDITURES</u> | <u>EXPENDITURES</u> |
| G49550 Econ Dev Manager         | 0.75                       | 1.00         | \$48,400            | \$66,200            |
| A49310 Econ Dev. Bus Consultant | 0.75                       | 2.00         | 43,500              | 118,800             |
| <hr/>                           |                            |              |                     |                     |
| Benefits.....                   |                            |              | 36,800              | 74,000              |
| Operating.....                  |                            |              | 218,400             | 37,000              |
| Travel.....                     |                            |              | 9,000               | 18,500              |
| Capital outlay.....             |                            |              | 17,200              | 8,600               |
| Aid.....                        |                            |              | (See Above)         | (See Above)         |
| Capital improvements.....       |                            |              |                     |                     |
| TOTAL.....                      | 1.50                       | 3.00         | \$373,300           | \$323,100           |

**State Agency Estimate**

| State Agency Name: Department of Revenue |                | Date Due LFA: 3/1/19 |                |                     |                |                |
|--|----------------|----------------------|----------------|---------------------|----------------|----------------|
| Approved by: Tony Fulton                 |                | Phone: 471-5896      |                |                     |                |                |
| Date Prepared: 2/28/19                   |                |                      |                |                     |                |                |
| <u>FY 2019-2020</u>                      |                | <u>FY 2020-2021</u>  |                | <u>FY 2021-2022</u> |                |                |
| <u>Expenditures</u>                      | <u>Revenue</u> | <u>Expenditures</u>  | <u>Revenue</u> | <u>Expenditures</u> | <u>Revenue</u> |                |
| General Funds                            | \$26,300       | \$0                  | \$40,028,100   | (\$3,628,000)       | \$40,027,500   | (\$12,173,000) |
| Cash Funds                               |                |                      |                |                     |                |                |
| Federal Funds                            |                |                      |                |                     |                |                |
| Other Funds                              |                |                      |                |                     |                |                |
| Total Funds                              | \$26,300       | \$0                  | \$40,028,100   | (\$3,628,000)       | \$40,027,500   | (\$12,173,000) |

LB 419 amends the Nebraska Advantage Act and creates the Nebraska Advantage Deal-Closing Fund.

LB 419 makes several changes to the Nebraska Advantage Act including:

1. The definition of new employees for tier 1 through 4 is amended so that, in addition to current requirements, new employees must be offered employer-provided health care benefits and be paid wages at a rate equal to at least 130% of the Nebraska average weekly wage.
2. The bill states that the Tax Commissioner approves no more than sixty million dollars in credits for any calendar year. Once the limit is reached, additional project agreements may be approved; however, they may not include credits as part of the allowed incentives. This implies the amount of credits for the life of the project must be approved at the time of signing. This may be difficult to determine given the length of these agreements. There is no provision to prevent over estimation of credits as there is in Nebraska Advantage Rural Development Act.
3. The calculation of the compensation credit is amended as follows:
  - a. 3% credit 130% of Nebraska average weekly wage
  - b. 4% credit 145% of Nebraska average weekly wage
  - c. 5% credit 170% of Nebraska average weekly wage
  - d. 6% credit 195% of Nebraska average weekly wage
4. The calculation of the compensation credit is now based on the Nebraska average weekly wage instead of the Average annual wage.
5. The carryover period is reduced to 4 years after credits are earned, for all tiers.
6. The sunset date is extended to December 31, 2026.

LB 419 creates the Nebraska Advantage Deal-Closing Fund to provide grants to taxpayers who have signed an agreement under the Nebraska Advantage Act and who have met qualification levels of employment and investment. The fund will be administered by the Department of Economic Development (DED). Revenue is required to notify DED when qualification levels have been met. Grants may be used for site and building development, customized job-training, and capital investments related to the taxpayer's project. The amount of each grant will be determined by DED based on available funding and likelihood of the grant increasing job creation and investment in the state. DED will keep 1/2 of 1% for administration expenses. \$40 million shall be allocated to the fund each fiscal year.

