

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2019-20		FY 2020-21	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS			265,300	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS			265,300	

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

LB 605 would establish the Renewable Chemical Production Tax Credit Act. The Department of Economic Development would be directed to accept and review applications from companies producing renewable chemicals. Qualifying companies would be certified by the Department and become eligible to receive tax credits. Total tax credits granted in a calendar year would total up to \$3,000,000 2021 and 2022, and up to \$6,000,000 for calendar years 2023 and beyond. Eligible businesses would submit tax credits applications to the Department of Revenue. Tax credits would be based upon the number of pounds of renewable chemicals produced in Nebraska multiplied by 7.5 cents. The maximum annual credits that could be issued to a qualifying business would be \$1,500,000. The Department of Economic Development and the Department of Revenue would be directed to compile information regarding program results and provide an annual report to the Legislature, beginning on or before January 31, 2022.

The fiscal impact for LB 605 includes:

Department of Economic Development -- The Department of Economic Development (DED) estimates that it would incur costs in the last half of FY20-21, based upon the program starting in calendar year 2021. This position would be responsible for reviewing applications, certifying eligible businesses, and compiling program information. There is no basis to disagree with the DED estimate of \$65,300 General Funds hire a staff position in the second half of FY20-21. It is estimated that annualized costs for this position and associated operating costs would total \$107,000 General Funds. The DED estimate also includes a one-time cost of \$200,000 General Funds to pay programming costs of the Office of the Chief Information Officer (OCIO) to develop an online application process and a database to track information provided by the applicants. Based upon the rate schedule of the OCIO, there is no basis to disagree with this estimate.

Department of Revenue -- The Department of Revenue estimates that .50 FTE Fiscal Compliance Analyst would be hired in FY21-22 to analyze compliance with the act. There is no basis to disagree with the agency estimate of \$27,500 in annual General Fund expenses.

Tax credit impact – The impact of tax credits under the provisions of LB 605 would not occur until FY22-23, based upon the calendar year 2021 effective date. The revenue loss for FY22-23 and FY23-24 would total \$3,000,000. The FY24-25 impact would total \$6,000,000, which would continue into future years.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE			
LB: 605	AM:	AGENCY/POLT. SUB: Department of Economic Development	
REVIEWED BY: Lee Will	DATE: 3/7/2019	PHONE: (402) 471-4175	
COMMENTS: The Department of Economic Development's assessment of fiscal impact seems reasonable given the assumptions used.			

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

LB: 605 AM: AGENCY/POLT. SUB: Department of Revenue

REVIEWED BY: Lee Will DATE: 3/18/2019 PHONE: (402) 471-4175

COMMENTS: The Department of Revenue's assessment of fiscal impact seems reasonable given the assumptions used.

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

2019

LB⁽¹⁾ 605

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Department of Economic Development

Prepared by: ⁽³⁾ Dave Rippe Date Prepared: ⁽⁴⁾ 2/25/2019 Phone: ⁽⁵⁾ 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	<u>\$0</u>	<u>\$0</u>	<u>\$265,300</u>	<u>\$0</u>
CASH FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FEDERAL FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
OTHER FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNDS	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$265,300</u></u>	<u><u>\$0</u></u>

Explanation of Estimate:

LB605 creates the Renewable Chemical Production Tax Credit Act. The bill allows businesses that produce “renewable chemicals” from Nebraska-based agricultural products to apply to the Department of Economic Development (DED) for certification as an eligible business. An eligible business must produce at least 1 million pounds a year of renewable chemicals in Nebraska, the business must be organized, expanded, or located in Nebraska on or after the effective date of the act, and the business must be in compliance with all agreements entered into under the act and any other tax credit programs administered by DED or the Nebraska Department of Revenue (NDR). If the business is certified, it may enter into an agreement with DED to receive tax credits under the act for up to four years. An eligible business can apply to NDR for tax credits based on the prior year’s production of renewable chemicals. The credit is refundable, and based upon \$0.075 per pound of renewable chemical produced in Nebraska that is in excess of the business’s pre-eligibility production. The maximum amount of credits that a single application may receive is \$1.5 million per year. The program is capped at \$3 million for calendar years 2021 and 2022 and \$6 million thereafter. Based on the number of businesses in Nebraska producing renewable chemicals, DED expects the caps to be met each year.

LB605, as drafted, the first year’s production eligible for tax credits is 2021, which means the first tax credits paid out would not occur until calendar year 2022. The bill requires an annual report to the Revenue Committee of the Legislature, due on or before January 31, of 2022.

However, DED will require 0.5 FTE business consultant in FY2020-21 to administer the program in the first fiscal year, and anticipates that once the program is fully implemented in FY2021-22, this will increase to 0.75 business consultant and will require a financial packager at an additional 0.25 FTE. DED also anticipates one-time costs for the OCIO for developing an online application form that can pass required information on qualified applicants to the Department of Revenue. It is estimated that these one-time costs are \$200,000.

The bill appears to contemplate data sharing between DED and the Department of Revenue. It appears that some of the information DED needs to certify a business as eligible for the program is confidential tax information and cannot be disclosed to DED by the Department of Revenue.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

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>
A49310 Econ Dev Bus Consultant		0.5	\$0	\$29,700
Benefits				12,000
Operating (Contract Services, Promotional Materials, etc.).....				210,000
Travel				5,000
Capital outlay				8,600
Aid				
Capital improvements				
TOTAL				\$265,300

The Act includes a recapture provision if the eligible business doesn't meet terms of the agreement with DED. The Act requires DED and Revenue to produce an annual report describing program activity.

LB 605 is similar to Iowa's Renewable Chemical Production Tax Credit. Consequently, the Department used Iowa data to determine the number of eligible renewable chemicals produced. The Department believes that existing companies will increase production of renewable chemicals by 80 million pounds annually, and over the next 5 years an additional company will be added each year producing 10 million pounds of renewable chemicals. Consequently, at this level of production, the maximum tax credit allowable is assumed to be used. The estimated total reduction in General Fund Revenues is as follows:

FY 2019-2020	\$	-
FY 2020-2021	\$	-
FY 2021-2022	\$	-
FY 2022-2023	\$	3,000,000

The Department would require 0.5 FTE Fiscal Compliance Analyst starting in FY 2021-2022 to implement this bill.