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Revenue Committee and Appropriations Committee August 25, 2020
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LINEHAN: [RECORDER MALFUNCTION] Appropriations and Revenue Committees on the 2019 Nebraska tax incentives. This is a public hearing, but testimony is limited to the presentation of the report by the Department of Revenue. There is no public testimony. I would like to ask everyone to turn off your cell phones, at least the ringer. I asked the senators to introduce themselves, but some of them are not going to be here and they will be joining us by phone. So would you like to introduce yourself, Senator Clements?

CLEMENTS: Senator Rob Clements from Elmwood. I represent District 2, which is all of Cass County and parts of Sarpy and Otoe County.

HILKEMANN: I'm Robert Hilkemann. I represent District 4, which is west Omaha.

McDONNELL: Mike McDonnell, Legislative District 5: south Omaha.

VARGAS: Sharing the microphone with Mike here. Senator Vargas, District 7: downtown and south Omaha.

FRIESEN: Curt Friesen, District 34: Hamilton, Merrick, Nance, and part of Hall County.

GROENE: Senator Mike Groene.

McCOLLISTER: Senator John McCollister, District 20: the Westside area.

BRIESE: Tom Briese, District 41.

KOLTERMAN: Senator Mark Kolterman from District 24. And Mike, cheer up would you? [LAUGHTER]

LINEHAN: I'm Lou Ann Linehan. I'm District 39. So the joint hearing is required to be held no later than September 1 of each year pursuant to Section 77-5542 under the Nebraska Advantage Act. Other incentive programs are included in the report. The statuses specify that items to be included-- excuse me-- the statutes specify the items to be included in the report. I'd like to note pursuant to LB1107, which was-- just recently became law, these two committees will meet next year on or before December 15 for the hearing on the next-- on the tax incentives report. Also those on-- who are calling in, would you like to introduce yourself?

CRAWFORD: Hi. This is Sue Crawford, District 45.

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LINEHAN: Sue Crawford.

ERDMAN: Steve Erdman, District 47.

LINEHAN: I'm sorry, say again.

ERDMAN: Steve Erdman, District 47.

_____: Erdman.

LINEHAN: Yes, I heard. Anybody else?

LINDSTROM: Brett Lindstrom, District 18.

LINEHAN: OK, for you three that are on the phone, if you need to, you hit star 6 to mute yourself or star 6 to unmute yourselves. OK, with that, I'd like to welcome Commissioner Fulton. Hello.

TONY FULTON: Thank you, Chairwoman Linehan and honorable members of the Appropriations and Revenue Committee. For the record-- Revenue Committees. My name is Tony Fulton, T-o-n-y F-u-l-t-o-n, and I serve as Nebraska's Tax Commissioner. We have-- accompanying me here are some of my colleagues from the Department of Revenue, a couple of whom will present after me, as we've done in the past, so George Kilpatrick, who is the tax policy manager, and Dr. HoaPhu Tran, who is our research manager. They will come after me. We had a couple of questions who-- provided to us. Senator Groene had contacted us earlier this morning, had some questions, and so we'll respond to those questions in the presentation. And during the course of this, if you have questions, I'll take some here at the beginning and then I think we'll just take them at the end, also. Of course, you're-- it's your prerogative. If you want to stop George or HoaPhu to ask a question, that's fine too. And then if there are any questions that we're not able to respond to, then as is our practice, we'll get back to you, I think it's within 30 days. That's what we've been doing. We usually do a lot faster than that. OK, so you received-- you should have received the slide deck and that should have gotten to you on email. We also included a link to the report itself. It's, like, 90-- just under 100 pages, so saved some trees, didn't print those up, but you have access to them. The presentation includes reports on the following programs: the Nebraska Advantage Act, the Nebraska Advantage Rural Development Act, the Microenterprise Tax Credit Act, the R&D Act, the Employment and Incentive-- and Investment Growth Act, and the Invest Nebraska Act. So I'm going to turn over the presentation itself to Mr. Kilpatrick, but if you have any questions at the onset, I'll be

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glad to take a swing. And like I said, I'll be there till the end to clean up.

LINEHAN: Thank you, Commissioner Fulton. Are there questions from the committees? Senator Dorn, would you like to introduce yourself since--

DORN: Oh, Senator Myron Dorn, District 30, which is Gage County and southeast fourth of Lancaster.

LINEHAN: OK. Mr. Kilpatrick.

GEORGE KILPATRICK: Thank you, Chairman.

LINEHAN: Good afternoon.

GEORGE KILPATRICK: Thank you. Good afternoon, Chairman Linehan, members of the Appropriations and Revenue Committee. Here we are again. My name is George Kilpatrick, G-e-o-r-g-e K-i-l-p-a-t-r-i-c-k. I'm a manager of tax policy in the Department of Revenue, here to present the report as we do every year. I will say that you've-- you've seen most of this before. The order of presentation and so forth is like you've seen before. The numbers, obviously, are a year more recent. But-- but other than that, you won't find much change in the-- in the presentation. We have cut out some of what-- what was mostly descriptions of programs that was in-- that was in the presentation in order to try and shorten it a little bit. And with that, we'll-- we'll go ahead and start. What-- what we're going to talk about is-- what we can talk about is what-- what we can present, what we can't, the comparison of expenditures on these particular programs over the years, and then some description about Nebraska Advantage Act-- let me see if I can get the right arrow-- and then some other-- some other programs which tend to be smaller, a couple of those, and then some older acts that-- for which we no longer take applications, in both these cases, for many years now. But there are still some-- some benefits being paid and-- and so forth. So they remain a part of the-- of the report, at least until they are fully expired and gone away. What we're going to report to you and what the report reports to is the amount of employment investment, the benefits approved in the calendar year, active signed agreements for the Advantage, and-- and the Employment Investment Growth Act, the agreement-type programs, and then some project-specific information, which is allowed with regard to Rural and Nebraska Advantage and-- which is not true in the others. What is not disclosed is pretty much everything else. This is tax information. Generally speaking, it's confidential unless there's a specific exemption in place. The-- the

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section that Senator Linehan reported at the outset is-- is the report. There is an exception in statute for presenting the information in the report, which-- which we have done. And some of you may have noticed that if you ask the Department of Revenue about something specific, what you probably are going to get is a reference to some page in the report because that's as much as we can disclose. And beyond that, we cannot because it remains confidential tax information. So getting right on to the total expenditures, this is comparison of all of those programs. As you can see, the 2019 costs, that's calendar year 2019. I will note that Senator Linehan correctly pointed out that next year, this will-- this will occur much later in the year, towards December. That's because under-- under LB1107, this is going to be done on a fiscal year basis, not a calendar year basis, so it won't be completed until July 1. And so your-- this report to you will be in December, rather than at this-- this point in time. And that's the reason for the change. That allows it to match up with-- with what we're required to report under-- well, under what we-- of what are what we call CAFR. But there's some marrying of those types of-- of things, which creates a little bit less confusion of the difference in what we're reporting for budget purposes and what is reported in this report. The Rural Act and Microenterprise Act obviously are much smaller. R&D, \$7 million, about the same as the year before. And then the older Investment [INAUDIBLE] Growth Act declined somewhat as it will continue to do as the-- as the benefits run out for those particular beneficiaries. This is a chart we've had in this report for a number of years. And again, what I'm-- what this is intended to show is the declining impact of LB775 in terms of refunds and credits used versus the increasing impact of Nebraska Advantage. Those lines crossed four-- four years ago, four or five years ago. And this trend is expected to continue until-- until benefits from the Employment Investment Growth Act are totally extinguished, which will be a limited number of years. I don't remember how much, but it-- but no more than four or five. What we're doing here is-- is showing how the credits are used under Nebraska Advantage Act. I'm going to put this-- this table is presented in the report as having four lines across it. I'm going to go through them one at a time because I think it helps isolate them a little bit. This is the use of-- of credits against the corporate and individual income tax. And as you see, it's-- it's somewhat variable. The high there, in the line, is \$46 million. Last year, it was-- it was \$34 million, but it does bounce around a little bit depending upon what corporate income might be in any particular year for these companies. The next line I'll superimpose on there is the use of it against withholding. And as you can see, that's-- that's a more stable utilization of

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credits. Not surprisingly, the payroll is going to be more stable than corporate profits. And so that isn't-- shouldn't come as a surprise. The next line is sales and use tax refunds using credits. One of the provisions of this act is that if you cannot fully use-- utilize your credits against withholding and against corporate income, you can get refunded sales tax that you might have paid at the project that was not directly refunded. Because in order for you-- for you to get a direct refund, it has to be what's called qualified property under the act. It's-- I don't want to call it narrow, but it isn't all-inclusive. And so there is some opportunity to refund other sales tax if it-- if it takes place at the project that is not qualified property and therefore, is not eligible for the-- what we call the direct refund, meaning one of the benefits in the act. And-- and as you can see, that's somewhat more stable, but also varies somewhat from year to year, but is an on-- on an increasing plane. And then finally, this is what I was just referring to, is the direct refunds. Direct refunds tend to be a bit sporadic, largely because as companies invest and build their plan, they have to qualify in order to receive any benefits in Nebraska, which isn't true in every state, incidentally. And so as they build investment, they are paying sales tax on what they build; to build the building, to put in equipment, to do all of that stuff. And when they attain-- when they reach the levels of employment investment that is required, all of that refund since the-- all of that sales tax that was paid on all that qualified equipment during that time is eligible for a refund. And so they-- it tends to be all-- an all-at-once type of refund on the year that they attain and then it smooths out after that. But, but what you see essentially is-- is some variability in when-- again when, they are able to attain the required levels of employment investment and, therefore, qualify for benefits or maybe I should say when the department finishes reviewing their information and affirming that they have met levels, so. And then the next-- the next slide is simply what-- the one that we've always shown, which is all four of those lines all lit up and it has a comparison basis. This is the same series of things for LB775. You'll see the same patterns, high variability in corporate income tax, relatively stable, but now declining, of course, with LB775 on sales and use tax refunds using credits. The direct-- the direct number is also declining. The direct refunds, as we, again, finish up qualifying the-- the last of these businesses, and then all three of those lines together. There is no withholding in LB775, incidentally, no use against withholding in LB775, so that line isn't there. Talking about some specifics about the Nebraska Advantage Act, we have in the past handed out the brochure that DED prepares when they promote this. In order to avoid

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the paper and avoid handing stuff out, we didn't do that, but it is available. Again, the tax benefits depend upon the tier that is elected-- the tier selected. There is five and then some-- some nuances within the-- the five basic tiers. The summary description of all of those is on page 4-- 4 through 10 of the report. One of the things that is common in-- in most of our incentive programs, including the Nebraska Advantage Act, is that there is a-- there-- you have to be conducting a qualified business, so not every business is eligible for benefits under this act at all. Often with regard to Nebraska Advantage Act, what was being defined was a project, meaning-- and you could define a project, but the act was not particularly restrictive on how you defined a project. So sometimes, it was only part of what was going on at a particular location because they had qualified and nonqualified activities at the project. Retailing, for example, is not a qualified activity. And so commonly, even if it's a manufacturing plant, they might be selling some or they might be doing aspects like that, providing services perhaps, the repairs that were not qualified businesses. And so it required some careful definition of the-- of what the project was and some evidence the department that was going to allow us to separate the payroll and the investment and the so-forth that went into these activities at this place as opposed to those activities at the place. And again, I'll just note that that's one of the items that ImagiNE does not do because the ImagiNE Act talks about qualified locations, meaning that the predominant activity at the location is either qualified or it isn't. And if it's qualified, it's all in. If it's-- if it's not qualified, it's all out. And so that is a sum-- a simplification that the department had asked for in their conversations with the business community in forming that particular bill and one of the things that-- that was accepted that-- that we believe and hope will be a simplification in future years with regard to ImagiNE. Again, this is-- this is sort of the same topic, so I don't necessarily want to spend a lot of time on it. But if you had multiple locations in a Nebraska Advantage project, you had to prove that they were interdependent and interdependent meaning that there was some flow of value between them, that one really didn't-- couldn't exist without the other and that they were-- there was flow of value between those particular locations so that basically-- like, the process moved from this place to this place to this place to this place in order to have a product that could be sold at the end. Again, with-- with ImagiNE, that goes away because you're-- took-- looking at locations, not projects that might be multiple. Under Advantage-- under ImagiNE, you can apply for a single location. You can apply to have the benefits calculated and paid for all locations in a particular county or all

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locations in a particular state. So you're not defining a project based on a little here and a little there and trying to prove that somehow those are interdependent, another simplification, we believe, in Imagine. They select a tier. Again, I mentioned there are five tiers involved with that based upon the amount of-- of investment and the amount of employment growth. The-- the benefits come a little bit richer as there is more investment and more new jobs promised. And you can amend between tiers. The act has always allowed us to change tiers as-- as business conditions change and as the company's priorities might change during-- prior to entitle-- prior to when they attain and prior to the-- what we call the entitlement period. Once a company says-- believes that they have met levels, that they have met the-- the-- well, what we'll say is 10 and 100, for example, \$10 million and 100 new employees or what the-- the investment levels are adjusted for inflation, so it's not 100 anymore, but they ask for a qualification audit from the Department of Revenue and that sometimes takes some time to verify that the-- that the investment is actually made, that the employment is actually 100. What we find is that the majority of the audits do make some adjustments to what they have claimed. And they're-- and while most of them are down, they're not all down incidentally. Sometimes there's a little more than what they thought there was. About 10 to 15 percent of the projects did not-- did not actually attain in the year that they believe that they did. And so often, those just carry over to another year. This is another aspect that is different in Imagine in that the company can assert that they have-- that they have attained, claimed the credits, and then the department's review is after the fact and would result in-- in assessment for recapture benefits as opposed to proving in advance that they have the benefits.

McCOLLISTER: Question. On what basis are the audits challenged or when you do challenge them? What are the primary reasons that-- that adjustments are-- are made?

GEORGE KILPATRICK: Employment, generally. It's generally an issue with the employment; whether they have the number of jobs and if the salaries are where they need to be, generally speaking. There are exceptions, but normally companies have little trouble making the investment. It tends to be the employment.

McCOLLISTER: How about the amount of re-- investments required, do they--

GEORGE KILPATRICK: Again, that-- rarely that's an issue.

McCOLLISTER: OK.

GEORGE KILPATRICK: Rarely that's an issue.

McCOLLISTER: It's generally employment.

GEORGE KILPATRICK: It is generally the employment--

McCOLLISTER: Thank you.

GEORGE KILPATRICK: --that puts it off for a year or two.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Senator Groene.

GROENE: So I thought the ImagiNE Act was going to be tougher, but what you're telling me now is you audit them first and-- and then we-- they get their payments, their credits. Now we're going to give them the credits and then you're going to audit them?

GEORGE KILPATRICK: That's what's hap-- that's what will happen under ImagiNE, yes.

GROENE: And-- and the department audits every project?

GEORGE KILPATRICK: Well, we haven't determined exactly how much. In the early going when there's a smaller number, yes, probably. But at some point, what we're-- what we're asking for is more information through the-- through the attainment period so that we can essentially focus on audit targets, those that we believe are under as opposed to--

GROENE: What do you mean by-- you-- you expecting more projects now with the ImagiNE Act?

GEORGE KILPATRICK: No, no, I don't believe so.

GROENE: You said that-- when we have smaller amounts, you said.

GEORGE KILPATRICK: In the early years, there's only-- there will only be a handful that will be qualifying in any given year. It will ramp up similar to what we've seen with Advantage in the-- some of the earlier charts I showed and then decline, of course, when you, when you stop granting benefits or stop taking applications. What I'm suggesting-- it is the early years, there won't be that many qualifiers, so-- probably. But if you're thinking 10 years down the

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road or 15 down the-- years-- the road, what we intend to do is to examine information with Department of Labor and, and require them to put in the, the employment information at the location, specifically year after year after year. And incidentally, one, one of the reasons to go to the entire location as opposed to trying to carve pieces out is because the payroll records will work better and will be more reliable in terms of how many FTEs that really were paid, that, that has increased. And so there should be less conflict over that anyway, but what we can do is by checking what they're-- with the Department of Labor because there's a provision in there that allows us to exchange information with the Department of Labor. We-- and by, by requiring them to report their employment every year after application as opposed to waiting until they believe they're qualified to start reporting, we'll be able to track trends better. And we'll be able to match it against Department of Labor to see if, if somehow, it seems different. And so we'll be able to select audit targets as opposed to auditing every one, but again--

GROENE: Our-- the Advantage Act still exists, so you will be preauditing them--

GEORGE KILPATRICK: That's correct.

GROENE: --for the next ten years--

GEORGE KILPATRICK: Yes.

GROENE: --or whatever, until they run out?

GEORGE KILPATRICK: Yes, that's correct.

GROENE: So you'll have two sets. You'll be auditing it prior and after, depending on who--

GEORGE KILPATRICK: Just like we're doing right now with LB775 and Advantage. Actually, we'll be doing all three.

LINEHAN: Thank you, Senator Groene. Other questions, since we broke here a little bit? OK, please continue.

GEORGE KILPATRICK: Thank you. Again, not all projects end up qualifying. And again, we've, we've reported this for a number of years. Approximately half never do reach the levels that, that were promised in the agreement. And what they put in the agreement now is, is what they have planned for investment and employment. Often they just apply-- put in the minimum. I mentioned a 10 and 100. Maybe

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that's what they put in there, even if they think it's twice that size, because in terms of tier selection, it doesn't matter. So often they will, they will put in a smaller amount, but not all of them. Some of them will try and make an accurate estimate. But over the years that it takes, the five to seven years that it takes to attain, conditions change. And so it's an estimate at the time. Obviously, they don't hit it exactly the way they want. They don't exactly hit it in the year that they want. And so what we estimate is that 65 to 70 end up receiving more than what they actually put in their application as, as, as their estimate at the beginning. They-- again, they often state minimum levels and they're only required to meet the minimum levels in order to earn benefits. So that's-- there's no real advantage for them in saying I'm going to have 150 employees if I only need 100 to qualify. So that's what it-- that's what that amounts to. Senator Linehan?

LINEHAN: I'm sorry. Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. So when you talked about the fact-- on this slide here, there's outstanding credits. Are those, are those what you expect to pay or are some of those-- are they rolled off the books because they never reach that?

GEORGE KILPATRICK: A certain number of them will simply expire unused. We estimate that 90 percent ultimately are used.

KOLTERMAN: 90 percent?

GEORGE KILPATRICK: 90 percent, ultimately. That's our estimate that we use when we're doing fiscal notes and so forth. That's our experience. LB775 is somewhat lower than that, but because of greater utilization in Advantage, we've pushed the-- we, we estimated 90.

KOLTERMAN: Thank you.

LINEHAN: Thank you, Senator Kolterman. Senator McCollister.

McCOLLISTER: Yeah. Thank you, Senator. It shows Nebraska Advantage Act through 2019. When did the act actually start?

GEORGE KILPATRICK: It passed in 2006, commenced in 2007.

McCOLLISTER: Thank you, thank you.

LINEHAN: Thank you, Senator McCollister. Senator Groene.

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GROENE: So 179 qualified projects, but you've got listed in this report that total agreements are 476.

GEORGE KILPATRICK: Um-hum.

GROENE: Those-- the remainder hasn't qualified yet?

GEORGE KILPATRICK: They have not qualified at this point. And then remember we estimated that pretty close to half will not.

GROENE: Will that continue the way the Imagine Act is set up?

GEORGE KILPATRICK: Well, let me say-- well, of course we don't know, but there was-- would be no reason to expect it to be different. And again, when we did the fiscal note, we-- that, that is basically what we estimated, yes.

LINEHAN: Thank you, Senator Groene. Other questions? I, I have one. I'm trying to follow your math here. So on the-- page 23 slide, it says about half, about half do not follow through or do not reach their level, so they don't qualify. Then third bullet down says estimates; not a limit. So 65 to 70 percent of the 50 percent then exceeds their estimates?

GEORGE KILPATRICK: Correct.

LINEHAN: So how do you get to 90 percent?

GEORGE KILPATRICK: What that was referring to is the utilization of credits by those who qualify, and perhaps I should have clarified that.

LINEHAN: Oh, no, that's fine.

GEORGE KILPATRICK: We expect, once they qualify and are in the system and receiving credits, that approximately 90 percent of the credits that they earn by having employ-- by, by having enough employees, by having enough investment, to ultimately be utilized and only 10 percent will, will essentially expire unused.

LINEHAN: OK.

GEORGE KILPATRICK: Eventually.

LINEHAN: So the 90 percent require-- is talking about the, the 50 percent that do qualify?

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GEORGE KILPATRICK: Absolutely.

LINEHAN: OK, all right. Thank you. That's helpful. Any other questions? Senator Hilkemann.

HILKEMANN: So when I look at this, it says the total credits used were \$595 million-- some million [INAUDIBLE]. Increased employment was 22,000. So it's-- so we're giving \$26,775 of credit for each job?

GEORGE KILPATRICK: Well, there are investment credits, Senator.

HILKEMANN: Yeah.

GEORGE KILPATRICK: There are investment credits also. So no. I think later, there may be a breakdown of how much are investment credits versus how much are employment credits. But my recollection is that investment credits are the larger portion of the earned benefits than the employment credits. Your counsel is nodding yes, so I believe that's correct.

LINEHAN: I can, but are you having difficulty hearing him?

HILKEMANN: Pardon?

LINEHAN: Are you having difficulty hearing?

HILKEMANN: Yeah, I can't hear well.

LINEHAN: OK. Can you make sure--

GEORGE KILPATRICK: OK--

LINEHAN: --you're speaking--

GEORGE KILPATRICK: --I apologize.

LINEHAN: That's OK.

GEORGE KILPATRICK: I will, I will speak louder.

LINEHAN: OK.

GEORGE KILPATRICK: The credits earned are both in-- credits for investment and credits for employment. The investment credits are a larger portion of the credits earned so you can't divide the employment by the total credits to get an amount per, per employment

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credit. Most of them are actually for investment rather than adding employees.

LINEHAN: Thank you, Senator Hilkemann. Senator Dorn.

DORN: Yeah, I have a question and maybe I-- maybe, maybe it's too early yet with-- but-- with the Imagine Act. With, with this Advantage Act in, in here, so many apply. With the Imagine Act-- and I don't know if we'll reach it or how that will play out here, but in, like, two or three years, we have a cap of \$125 million. Looking at this, you have so many qualifying or so many projects that applied, explain how that cap is going to work or how you're going to look at that, I guess. Is it the first \$125 million that apply and then you're going to take more because you know you won't reach that level or, or is it too early?

GEORGE KILPATRICK: Well, that's a difficult-- well, I'm going to-- maybe, maybe the easy thing is to say it's too early. That's a difficult question to answer and I--- and, and we have started thinking about that. But there are two credits in-- there are two caps in there. There's the application credit and the utilization credit both. And so the first, first break ends up being the application credit that-- when the estimates that they have put in as their estimated amounts exceed what the cap-- what their cap would be. And so at that point, you stop taking applications or defer-- what I should say is defer them into some other year in which they can now apply. And of course, the credit utilization, as we know, is a number of years down the road, a number of years down the road. And how that works, I, I will confess, I'm not very clear.

DORN: OK.

LINEHAN: I thought it was-- I thought we made that clear, but maybe it's not. Senator Briese. Excuse me, thank you, Senator Dorn. Senator Briese.

BRIESE: Thanks for presenting here today and to follow up on Senator Hilkemann's question a little bit, should we be alarmed by the amount of credits we're talking about here for FTE created? I mean, you combine the two here assuming 100 percent of, of the current credits will be used, which you say is not entirely accurate, but close to that. I mean, we're talking, what, \$76,000 worth of credits per job created? Is that a number that we, as policymakers, should be concerned about?

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GEORGE KILPATRICK: I, I think that's up to you. Certainly, there are, there are states and programs that, that give a lot more, at least for certain, at least for certain benefits.

LINEHAN: So let me-- I'm sorry, Senator Briese, did you-- follow up? So let me maybe jump ahead here. So when it's investment, it's like they're building a building or they're doing-- so that has jobs that it creates that don't show up on their employee counts.

GEORGE KILPATRICK: They may show up on their employee counts, but often there is investment to, to increase production at the same level of employees. And they may be adding employees also, so I suppose it could be tripling production and, and only increasing the employees by 20 percent or something like that. So yes, that, that occurs.

LINEHAN: OK, so why don't we wait-- you think there's a slide in here that goes into how much is investment and how much are employees?

GEORGE KILPATRICK: I think so, but I'm not 100 percent sure, Senator. I'll have to--

LINEHAN: OK, why don't we, unless somebody has got another immediate follow-up question, get to that slide and then we'll dig deeper into this. Would that be OK with everybody? OK, go ahead.

GEORGE KILPATRICK: So I, I guess have we covered this? People have noticed it so I suppose we've covered it.

LINEHAN: I think so.

GEORGE KILPATRICK: Considering 2019 at all-- only as opposed to cumulative from the beginning, those, those are the-- that's the same things that was-- were on the "li" side. Only-- there's only one year included there out of the, the entire time of the program. This-- and, and this is one of the questions that Senator Groene asked, which is how much is, is corporate income tax versus individual? As he correctly pointed out in his question, a certain amount of this is pay-- is earned by LLCs and sole proprietorships and partnerships and S corporations and so forth. And a certain percentage of it is-- approximately 3 percent of all the benefits are-- actually shows up on an individual income tax return rather than a corporate income tax return, whereas the corporate income tax return is approximately 20 percent. And then this is sort of that breakdown of, of benefits by its type. And as we noted earlier, again, this is not investment versus employment credits. I was hoping that there was a slide today-- a similar slide like that, but it's probably not there.

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LINEHAN: OK, is this just for 2019?

GEORGE KILPATRICK: That is, that is through 2019.

LINEHAN: Through.

GEORGE KILPATRICK: That's from the inception of the program through 2019.

GROENE: So--

LINEHAN: I see, yes, that makes sense.

GEORGE KILPATRICK: Senator Groene.

LINEHAN: Senator Groene.

GROENE: So looking at this pie chart and off to the side, the, the corporate income tax is through 2019 at \$208 million; individual, which would be LLCs, there's only \$34 million, so it's about 15 percent or less of it?

GEORGE KILPATRICK: Yeah.

GROENE: So it's corporations?

GEORGE KILPATRICK: It tends to be corporations, yes, but there are, there are-- there is utilization by some smaller-- well, not only is there some utilization by smaller businesses because there are some smaller tiers, but at the same time, some surprisingly large businesses are organized that way too, so--

GROENE: [INAUDIBLE]

GEORGE KILPATRICK: It's, it's a little bit of both, but--

GROENE: Like Cargill, which is--

GEORGE KILPATRICK: Exactly.

GROENE: --private, but it's still a corporation, right?

GEORGE KILPATRICK: It's, it's an--

GROENE: Is it an S corp?

GEORGE KILPATRICK: It's a partnership, I think.

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GROENE: So it would have been in the \$34 million?

GEORGE KILPATRICK: Correct.

GROENE: All right. And then the sales and use taxes would be-- the windmill companies get a lot of it-- jobs, but, but that would be all-- the \$160--

GEORGE KILPATRICK: Sure, absolutely. That's regardless of business form-- formation.

GROENE: So between the sales tax, is the total-- it's-- it dwarfs the income tax credits doesn't it, \$318 million plus 166--

GEORGE KILPATRICK: Well, I don't know about dwarfs. It's larger--

GROENE: It's larger.

GEORGE KILPATRICK: --than the credits, yes.

GROENE: So they get the sales tax back plus they also get a credit for investment?

GEORGE KILPATRICK: They get a credit for investment and they will get the sales tax back on qualified property, which is manufacturing machinery and, and some other lists and some buildings and so forth.

GROENE: So, like, Facebook, the billions they spent--

GEORGE KILPATRICK: Sure.

GROENE: --on that-- they'll get all that sales tax?

GEORGE KILPATRICK: Absolutely.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Senator Friesen.

FRIESEN: Thank you, Chairwoman Linehan. So does the sales tax-- does that include the city's portion too or is that just the state's?

GEORGE KILPATRICK: That is the city's portion also, yes.

FRIESEN: It includes all of it?

GEORGE KILPATRICK: Yes.

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FRIESEN: OK. When you look-- and if I-- my memory serves me right, looking back to last year's when we anticipate credits are going to be paid out, I thought LB775 credits were-- we were about finished there. I know it was going to sunset in 2025, but--

GEORGE KILPATRICK: It's probably my fault. I probably said that, Senator Friesen.

FRIESEN: Well, I mean it- I mean we forecast and I, I get that. But does it look like-- I mean, I noticed now that there are going to be pretty hefty credits yet in LB775. Is that-- what does that look like to the end of the year or why is that happening?

GEORGE KILPATRICK: The carryover period was seven years after the end of entitlement and the entitlement period was seven years after attainment and the attainment was seven years. So it was a 21-year program that went away in 2006. So if, if someone applied in 2006, the last year that could possibly be used is 21 years later, which would be 2027. What we're talking about primarily, at least, is, is carryovers, utilization of credits in the carryover period, but also some things that, that we have been unable to verify that they may have claimed that we've been able to verify to date.

FRIESEN: So those, those credits could be redeemed yet until 2027?

GEORGE KILPATRICK: Sure, it's possible.

FRIESEN: And we were-- I guess I was under the assumption that it would be done in 2025, but--

GEORGE KILPATRICK: Well, it-- that might have been Invest Nebraska, which is-- which has an earlier sunset date.

FRIESEN: OK.

GEORGE KILPATRICK: That's also in this report.

FRIESEN: So then the Nebraska Advantage Act, if it sunseted now I mean, when is the last year that credits there could be--

GEORGE KILPATRICK: It's a little shorter on, on carryover because it's-- oh, gosh, someone will have to correct me. I don't remember what the, what the carryover period is on, on Advantage and all the tiers.

_____: [INAUDIBLE]

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GEORGE KILPATRICK: OK, it's limited to-- at least most of the, the tiers are limited to 15 years.

FRIESEN: And so the one-- tier six is 30 years?

GEORGE KILPATRICK: Yeah, something like that.

FRIESEN: OK. So are we-- when we do these forecasts-- and that's one thing that I think kind of bothers a lot of people, you forecast how much maybe revenue is going to be forgone in that next year. It seems to be jumping. Is there a reason for that? Is that-- numbers appear to be going higher.

GEORGE KILPATRICK: They will go higher as more and more companies attain because they're, they're able to-- their entitlement period could last anywhere from, from five to seven years or so.

FRIESEN: But we don't know when a company might redeem those credits. They've got them earned, they might just be sitting there on their books, right?

GEORGE KILPATRICK: That's correct.

FRIESEN: And so how do you do-- how are you forecasting whether or not they'll use them? Because if they don't care if they're just sitting there and that's one thing we heard, I think, in the past, is that some of these companies look at them like a-- it's a credit on their books. They're just carrying that amount. They don't care to redeem them. They just leave them there, but then we have no way of knowing when they might decide to redeem.

GEORGE KILPATRICK: Well, it will expire at some point. Some companies do that. It's-- as I mentioned earlier, it tends to vary based upon corporate profit. So if corporate profits are down, they're not able to utilize them. They're not refundable credits so they have to have liability to use it on that side of things.

FRIESEN: They can also take some of those against their payroll withholding, is that correct?

GEORGE KILPATRICK: Only the employment credits. They cannot take investment credits against their withholding.

FRIESEN: OK, so certain credits can be used for that only?

GEORGE KILPATRICK: Correct.

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FRIESEN: OK. OK, thank you.

LINEHAN: Thank you, Senator Friesen. Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. So on-- if you go back to page 24 and, and you look at the qualified capital investment, which \$11,934,000,000-- is that-- that's, that's qualified projects. In other words, they've qualified and they've made the investment and that's a proven investment. So that stays ongoing, whether it's personal property tax or whether it's property tax, would that be accurate?

GEORGE KILPATRICK: Yes, the investment-- that is, that is cumulative investment and yes, it is, it is retained or it's, it's credited investment. I'm-- I take it back, it's not cumulative, it's credited investment. And yes, it stays. As you know, property like that depreciates and sometimes is taken out of service. If it's taken out of service during, during the entitlement period, then we would recapture some. But other than that, it is-- the, the capital investment is more. And economists would tell you that capital is less mobile than labor.

KOLTERMAN: So some-- I guess my question is, do you-- can you definitively break down how much of that is personal property and how much is property?

GEORGE KILPATRICK: Is real estate?

KOLTERMAN: Real estate, yeah.

GEORGE KILPATRICK: Well, I can't as we sit here. It's probably--

KOLTERMAN: Do you have access to that information?

GEORGE KILPATRICK: --knowable. It's probably knowable. As I turn around-- oh, he's shaking-- I'm, I'm getting a, a-- head shakes behind me so I'm going to say no, I don't think we know that. The personal property that is exempted we would know by county and that's in the report. The breakdown between the real-- basically the real estate and the machinery, we do not have avail-- we do not have available to report to you.

KOLTERMAN: With-- under the, under the Imagine Nebraska Act, are we going to be collecting more of that data on a more broken-down basis?

GEORGE KILPATRICK: Not of those two items, no.

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LINEHAN: OK. Do you have a follow-up, Senator Kolterman?

KOLTERMAN: That's good.

LINEHAN: OK, other questions? Senator Friesen.

FRIESEN: One more question, kind of-- I mean, personal property is-- they-- you get a refund on that.

GEORGE KILPATRICK: You can get an exemption.

FRIESEN: Exemption or a sales tax exemption, right?

GEORGE KILPATRICK: You can get a sales tax refund.

FRIESEN: OK.

GEORGE KILPATRICK: We're talking about Advantage now, right?

FRIESEN: Yes, in the Advantage Act. And so if a-- computer equipment, you know, you know how fast it gets obsolete.

GEORGE KILPATRICK: Um-hum.

FRIESEN: So if they're replacing computer equipment that was already qualified, does the new equipment also meet that qualification [INAUDIBLE]?

GEORGE KILPATRICK: The new equipment will qualify during the entitlement period so long as the cumulative investment remains over the threshold. When you take property out of commission, we do track cumulative investment. So we will subtract and so-- and they have to maintain a new investment that is over the threshold. But assuming they are doing that, then yes.

FRIESEN: But if-- yeah, the equipment gets older and they have to take it out of service and replace it with new-- they can come and replace that?

GEORGE KILPATRICK: That's correct.

FRIESEN: OK, thank you.

LINEHAN: Thank you, Senator Friesen. Other questions? OK, I'm going to have one and maybe I'm just really thick today, but on your slide 24 was qualified projects, qualified capital investment, \$11 billion. And then we go to this summary of qualified projects on 26. So are-- is

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the 24 what, what has been applied for? It's not paid out, right?
What, what is paid out and what is applied for?

GEORGE KILPATRICK: Well, the, the slide 24, the top line talked about the amount of investment that the company makes. The amount of credit that might be attributable of that varies from 5 to 10 percent, depending on tier.

LINEHAN: OK. OK, so this is the total--

GEORGE KILPATRICK: So it's a smaller number anyway.

LINEHAN: --this is the total number of, of investments that have been made--

GEORGE KILPATRICK: Correct.

LINEHAN: --by the company.

GEORGE KILPATRICK: That's what the company--

LINEHAN: I got it, OK.

GEORGE KILPATRICK: --has claimed as investment.

LINEHAN: OK, and then this is?

GEORGE KILPATRICK: The benefits, actually--

LINEHAN: All right.

GEORGE KILPATRICK: --attributable here too.

LINEHAN: That's very helpful. OK, I was confused. Thank you.

GEORGE KILPATRICK: Are we ready?

LINEHAN: Yes.

GEORGE KILPATRICK: There, there is some description of the benefits by industry. We don't have any detail in the slideshow presentation on it. It is in the report on pages 29 through 36 by, by industry. It's one of the requirements and, and we present it. But again, I don't really have a, a slide for that. I will note that sometimes we end up doing some combining, particularly in some of the older programs. And then, you know, as we start a new program, that may occur too, because we do follow the IRS guidelines on what is confidential and what is

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not in terms of revealing the names of these companies prior to when they, they are, they are detailed individually. So if it's no fewer than three companies in a group ever and if it's some-- if it's a measure of less than the statewide, it's no fewer than ten so we do do some combining sometimes in that part of the report.

LINEHAN: OK, thank you.

GEORGE KILPATRICK: This, this is simply a, a snapshot of manufacturing, which is going to be the largest amount of benefits and so forth. So it's a snapshot of one particular industry.

LINEHAN: And this is for 2019?

GEORGE KILPATRICK: Well, there's 2019 in the left column and cumulative in the right.

LINEHAN: OK.

GEORGE KILPATRICK: So it's both, actually. And then nonmanufacturing, the same slide or the same information, I should say. There is some specific taxpayer information under Nebraska Advantage Act and, and Imagine I will add, but unlike LB775 and the earlier projects, there is some disclosure of individual company information. It is a total amount of benefits earned over a two-year period. So it's for-- each company is reported every other year with a two-year cumulative total. And then, of course, there are other projects in between those two years because they're on a two-year cycle, too, and that's essentially how that works. And we don't have them specifically, but it is on pages 38 to 40 in the report.

LINEHAN: Senator Vargas, I'm sorry.

VARGAS: So question: so page 28, benefits approved by industry, manufacturing; qualified capital investment, we're comparing 2019 to cumulative. Can you tell me a little bit more-- it seems like 2019 was a really big--

GEORGE KILPATRICK: Sure.

VARGAS: It was a lot, you know, in comparison to the cumulative 2006 to 2019. Can-- any explanation as to why that represents--

GEORGE KILPATRICK: Well again, Advantage is still ramping up.

VARGAS: Yeah.

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GEORGE KILPATRICK: And people-- and the companies have had a number of years to qualify. And, and again, we do audit them before we allow any benefit. So this is who, this is who, who we have determined has, has in fact qualified, who went-- before they go in the report, so, so it is an accelerating aspect.

VARGAS: And then-- OK, I mean, well, that's helpful. And then also, if in 2019, the estimated average wage of jobs is at \$39,000 for cumulative-- I mean, some of these earlier years, the, the average wage of jobs was probably somewhere close to \$42,000, \$43,000. Any reason why these job wages may be a little bit lower-- you know, \$2,000, \$3,000 lower, on average is significantly lower.

GEORGE KILPATRICK: I do not have an answer for you. If I had to speculate, it probably is just a function of who might have qualified in 2019 and what that type of industry that might have been.

VARGAS: OK. Thank you.

LINEHAN: Other questions? All right, thank you, go ahead.

GEORGE KILPATRICK: OK. Again, I don't necessarily-- I don't remember exactly why this slide is in here, but again, that's something about the-- those that are recorded individually as benefits by company. Among the other things that was in-- that are in the report is the personal property value exempted by county. When we estimate the amount of benefit that is, it tends to be a county average rate, incidentally, because we don't necessarily know what the actual rate would have been on that property, particularly if it had been in the base and recalculated considering it was a base. So it is an estimate of what that value is, but that's the value reported that is exempted and that is all personal property. Again, industry sector is reported on pages 27 and 28. There is a comparison of other incentive programs.

CLEMENTS: Excuse me.

LINEHAN: Oh, I'm sorry. Excuse me. Senator Clements.

CLEMENTS: Thank you, Chairwoman Linehan. On page 32, the personal property value exempted, when the personal property tax is exempted, does the state reimburse the county that didn't get the tax?

GEORGE KILPATRICK: No.

CLEMENTS: OK.

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GEORGE KILPATRICK: No, it's, it's-- it is all done. They have to apply in the spring. It is part of the base levied against when the calculation of the rate is made in November. And it is already out of the base. It is not reimbursed.

CLEMENTS: All right, so that is not an expense to the state?

GEORGE KILPATRICK: It is not.

CLEMENTS: Thank you.

GEORGE KILPATRICK: There, there-- again, the reporting requirement asks that we report it. And that's sort of why I explained the-- we have a precise number in terms of value that the-- in terms of the value exempted. The value of the benefit to the company is a bit of an estimate because it's not in the base. And if it were in the base, actually, the rate would be a little bit-- just a little bit lower if it were being taxed as opposed to not being taxed.

CLEMENTS: Thank you.

LINEHAN: Thank you, Senator Clements. Senator McCollister.

McCOLLISTER: George, on page 33, 162 are qualified projects, but yet 211 have not requested a qualification. You don't pay any money out until they have completed the qualification audit, correct?

GEORGE KILPATRICK: That is correct.

McCOLLISTER: OK, thank you.

LINEHAN: Thank you, Senator McCollister. Senator Vargas and then Senator Groene.

VARGAS: Just a follow-up to that question. Thank you very much, Chairwoman Linehan. Talk to me about these self-reported amounts. So they don't qualify-- these 211 don't qualify if they haven't requested a qualification audit, but they can self-report amounts?

GEORGE KILPATRICK: What we're talking about generally is what, what they have put in their application.

VARGAS: OK. Oh, OK. But that's not enough, obviously for--

GEORGE KILPATRICK: No, it is not.

VARGAS: OK.

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GEORGE KILPATRICK: Again, that's one of the things we hope to improve with, with Imagine is to have a little more tracking as they proceed as opposed to waiting until they claim they've qualified.

VARGAS: OK, thank you.

LINEHAN: Senator Groene. Thank you, Senator Vargas.

GROENE: A couple of statutory questions: is the reason we can do personal property taxes because the uniform and proportional only, only applies to real property?

GEORGE KILPATRICK: Well, uniform and proportionate may apply to both, to both real and personal, but as classes. The Constitution specifically allows exempting classes, as defined by the Legislature, of personal property and not so much real estate. The real estate exemptions are limited and all constitutional, not statutory.

GROENE: So we can do that on personal property.

GEORGE KILPATRICK: That's why it's only personal property, yes.

GROENE: And then back to your confidentiality thing about we can't disclose details on each project, is that a state statute on--

GEORGE KILPATRICK: It is, yes.

GROENE: It's not a constitutional-- not a federal because--

GEORGE KILPATRICK: It's not a constitutional--

GROENE: --I can go in and see how much money Senator Friesen got on farm programs, but I can't find out, in the state of Nebraska, some company that got-- didn't have to pay taxes?

GEORGE KILPATRICK: To the extent it might inform-- I'm going to be a little bit careful by pointing out that if an individual's income tax return in Nebraska or a company's income tax return in Nebraska begins with federal tax information-- and there is a federal law that protects federal tax information. So to the extent we're talking about things that are just specific to Nebraska, it's, it's protected by confidential-- confidentiality statutes, generally, and within the act, in the Advantage Act and in LB775 and in Imagine, for that matter.

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GROENE: I'm not asking for how much taxes they paid or how much they paid for federal. I just want to know what credit they got.

GEORGE KILPATRICK: The credit?

GROENE: I don't know-- when I check up Senator-- I don't have it-- I've never done it, never been to that website, but when I look at a farmer, if I wanted to, I find out how much payments he got. I didn't find out how much--

GEORGE KILPATRICK: Um-hum.

GROENE: --income he made.

GEORGE KILPATRICK: That's correct.

GROENE: So are-- you-- you're tying that I just want to know what his credit was to this confidentiality?

GEORGE KILPATRICK: If, if I gave that impression, I was mistaken. I was talking about the whole of the return. To my knowledge, there-- to my knowledge, there would be nothing prohibiting us other than our state statute from disclosing the credits earned by particular companies or individuals, for that matter.

GROENE: So you'll just stick to present state statutes and--

GEORGE KILPATRICK: Correct.

GROENE: --get that information out? If you don't want people to know, then don't take the money, right?

LINEHAN: Thank you, Senator Groene. Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. George, on that-- on that slide that you have up there right now, there's 100-- out of the 373 companies, 162 are already qualified. So they're eligible to get their, their credits--

GEORGE KILPATRICK: Yes.

KOLTERMAN: --or whatever. The 211 that have not requested that qualification audit, do you have an estimate of how many of those will actually receive money? Is that where the 50 percent comes in?

GEORGE KILPATRICK: Basically, yes. What we would predict is about half will not qualify. So half of 373 is what, 166?

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LINEHAN: Very close.

GEORGE KILPATRICK: So that would mean that probably 50 of those will end up qualifying and, and-- but most of them will not.

KOLTERMAN: OK, thank you.

LINEHAN: Thank you, Senator Kolterman. Senator McCollister.

McCOLLISTER: Did I misunderstand, George, that 211 have not requested a qualification audit? You told me, if I heard correctly, that they won't receive any money until that is completed.

GEORGE KILPATRICK: That's correct.

McCOLLISTER: OK. All right, thank you.

LINEHAN: Other questions? So just-- I'm going to ask one. I'm looking at the full report here, so I'm looking at all the people who-- or corporations, businesses that applied-- is this just 2019, they applied or is this a-- is this the two-year thing you were talking about?

GEORGE KILPATRICK: They, they, they have to earn credits for two-- or benefits for two years in order to be in the report, but it would be every other year after that. And so it's, it's likely to be either they receive benefits in 2018, but it also could be 2016 or 2014 like that because it's-- it gets reported every two years.

LINEHAN: So these companies received benefits?

GEORGE KILPATRICK: Correct.

LINEHAN: So to Senator Groene's point, if the Legislature so decided to, you could, on the same chart, say how much their benefits were?

GEORGE KILPATRICK: Yeah, it does give a two-year benefit. He asked specifically about credits as opposed to benefits in general. And so what I, what I assumed the question was is separating that information out into refunds versus credits and so forth.

LINEHAN: OK. OK, other questions?

GEORGE KILPATRICK: I may have misinterpreted him, I suppose.

LINEHAN: No. No, I could be misinterpreting, but you're fine. You're doing great. Other questions? All right.

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GEORGE KILPATRICK: You're about done with me.

LINEHAN: OK.

GEORGE KILPATRICK: This is when Dr. Tran is going to talk about how the, the really confusing chart works.

LINEHAN: OK, thank you very much.

HOAPHU TRAN: Hello. Good evening. My name is HoaPhu, that's H-o-a-P-h-u, last name, Tran--

LINEHAN: OK.

HOAPHU TRAN: --T-r-a-n, and I'm here to present just two slide here. So we-- one of the requirement in the reporting is the Revenue Department to do a simulation of the projected revenue gain and loss due to the incentive program. So we go out ten years and-- so tax incentive affect state revenue in two way. First, this positive impact is because now you have incentive, hence, the cost of capital decrease. When the cost of capital decrease, you will get more investment, more investment, more hiring of people, which enhance economic growth. The second impact is the negative effect, which is the direct fall of tax revenue that we pay to those company to do, to do those investment and hiring. So the department used, like, what we call a computable general equilibrium model that-- basically, checking the dynamic impact of, of, you know, different economic agent like the firm, which is the company they hire people with, we call, household. And household get money, they go out and spend-- the circle-- basically circulate. And then the government get in-- also get the factor on the taxes. So what I want to be careful here is that this result of a table on the next slide will be what we call a simulation, whereas we do one for the base, given the economy, and then the second one, we put a decrease in the price of capital to see what the increase in investment and then look at the difference. We don't talk about label in the next chart. So here it is. So the first row is the revenue generated by income tax-- by incentive tax credit. This is where we see increase in economic activity. Consumer go out and buy, that increases sales tax. If they get more income, they pay more income tax. If corporate get more income, they make more corporate income tax, things like that. So that's what we call the revenue generated by economic incentive cost of revenue. The second line is the credit usage. That is what we pay out to those company, those individual-- whatever the case may be, the amount. So the net revenue gain and loss is the red line there. For 2020 specifically, we see

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70-- we estimate \$70 million of increase in revenue, about \$230 million in credit paying out and usage, which results in \$160 million net revenue loss. The next number there is-- which is the company estimate new job for qualifying tax credit, we put that number there. That's, that's more of a counting number. That is-- so 2,980 jobs that were put on the application of those companies who qualify, right? So if company A hire ten people, that ten people is in here. We just added up those number throughout all the company that is qualified for that. The, the, the next job number is where we tried to estimate the impact of those hiring that is due to the incentive by itself because technically, that company A who hired ten people without the incentive. They might still hire a few people. Maybe not ten, but there will be a certain number of people that they were hire just because of the growth of the economy. And they need to keep up with the demand, the supply, so they will hire people regardless of what happen. So that's why you see that job number, due to the dynamic impact, is much smaller than the job that the company claim to get the credit. You see throughout the horizon from 2020 to 2029, that direct job will be getting smaller and smaller and so as the job for qualifying credit, just because the program is sunseting. Less investment, less credit, hence, less employment added to the number. And as you can see, the revenue gain and loss gets smaller down to the tailend of the program just because it's not-- the people applying wind down and are picked up by other programs.

LINEHAN: Are there questions? I have one. So with all of this, do you ever do a projection that-- some other state has a program that's better than ours or we don't have one and other states have one, if our companies would leave?

HOAPHU TRAN: In-- we don't do-- if analysis-- if else, like, if you got an incentive, we don't-- so basically, we don't have a Nebraska act with two systems. So we, we don't do-- let's say if-- without incentive, this company will leave or without the-- things like that. We, we don't do that. But in term of other state comparison, in the report itself, we have a comparison for-- of all the state, what kind of incentive program they have. We actually went out to the web of all those 48 or 50 states to see what, what kind of incentive program they have, which is a long list in the report itself and we don't have it here.

LINEHAN: OK, all right. Other questions? Yes, Senator Briese.

BRIESE: Thank you, Chairwoman Linehan. Thank you for presenting this here today. So regarding the employment increases, are you suggesting

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that companies oversee the employment increase or-- I didn't quite understand what the difference is between--

HOAPHU TRAN: No.

BRIESE: --the [INAUDIBLE] and the, the dynamic estimate.

HOAPHU TRAN: So let's say the-- let's pick 2020, for example, 2,980. That's what the company-- let's say ten different company-- one company hire-- put on their form that they hire 100 people. So that's what we pay them, the credit, for those kind of employees after increase, all right? But if you own a company like that, even without incentive itself, you would still hire some people just because the economy is growing. But some of that job in that 100 will be created regardless of the incentive or not. So that also takes place. The second line, then, we tried to isolate that.

BRIESE: OK. So your dynamic estimate kind of addresses the causation issue. What job increased or potentially caused by their participation in this--

HOAPHU TRAN: Yes, by the level of the private capital.

BRIESE: Then we would divide-- state revenue loss divided by the dynamic estimated net job increase, a pretty sizable number.

HOAPHU TRAN: But then keep in mind that the, the revenue loss is-- like the company may not qualify in one year. They might make the investment or hire those people over the last four or five years. So when they report the numbers, only underqualified wouldn't qualify. So it's a one point in time, but some of those jobs might-- some of those credits might accumulate over three, four years.

LINEHAN: Thank you, Senator Briese. Senator McCollister.

McCOLLISTER: Thank you, Senator Linehan. Just, just so I understand, estimated--

LINEHAN: Somebody is making a lot of noise on their phone.

McCOLLISTER: --dynamic, can you define dynamic for me?

HOAPHU TRAN: Dynamic, what it is meaning is let's say a company A hire-- that get incentive. They went out and they hire ten people and invest \$10 million. So to accomplish that, they have to pay through the household, which the household would then spend the money, that

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income, all right? They have more income, they have more spending. That's one thing. The second thing is those-- company A will contract with company B who might not get incentive. But then in response to increase in demand from company A, company B will also hire people and make more investment to meet the demand of company A.

McCOLLISTER: So you're saying there's a multiplier effect?

HOAPHU TRAN: Yes.

McCOLLISTER: OK, thank you.

LINEHAN: I understand that kind of dynamic scoring, but this seems to be going in the opposite direction. Dynamic scoring is-- so a company hires 200 new jobs.

McCOLLISTER: Yeah.

LINEHAN: They-- new stores open, new restaurant, all that-- that's what I understand as being dynamic. Like, it multiplies--

HOAPHU TRAN: Yes.

LINEHAN: --as Senator McCollister said. But here, you're saying your dynamic scoring is-- goes down because you're saying these jobs would get created anyway, is that what you're saying?

HOAPHU TRAN: Yes.

LINEHAN: So is that called dynamic scoring too? I thought dynamic scoring was when it went up.

HOAPHU TRAN: Dynamic meaning we and-- we incorporate the entire economic structure, which is-- the goal-- the, the firm hire the people, the people who were [INAUDIBLE]. But then when you look at the job number here, even without incentive, that's what happened anyway, all right?

LINEHAN: Well, I don't know. That's a judgment you're making.

HOAPHU TRAN: Right, but the economy grows. GDP always grows, employment--

LINEHAN: Well, not-- just because the economy grows doesn't mean every business is growing.

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HOAPHU TRAN: Right, but we're looking at a whole, at the Nebraska-- so, so what, what we do in the simulation is we do one for the base, all right? Checking the economy as it is right now, but checked it out ten years, nothing changed. Then we estimate the amount of credit that we'll use over the next ten years. We lower the cost of capital by that much and then see where the new level of employment will be and then we take the difference. That's why-- that's how we come up with this net estimated job. As long as the economy growing, overall, the economy, in, in its entirety, will hire people, will make more investment.

LINEHAN: OK, thank you. Did I, did I see a hand over here? Senator Groene.

GROENE: OK. I don't remember anybody handling page 43. You got the projections and losses, but, but you've got also on page 43 of the actual report, you have the fiscal analysis of the Nebraska Advantage Act.

LINEHAN: Wait-- we haven't gotten there yet, so--

GROENE: Oh, I thought we were done.

LINEHAN: No, no, no. Well, I've got a lot more slides here, are we--

HOAPHU TRAN: Yeah, we have more.

GROENE: Oh, all right. I'm sorry.

LINEHAN: Yeah. That's OK.

LINEHAN: OK, any more, any more questions up to this point in the slides? I'm on 36, is that what-- or 30--

HOAPHU TRAN: Yeah, slide 35.

LINEHAN: OK. So before page 36, do we have questions? OK, go ahead.

HOAPHU TRAN: That's actually-- I'm going to--

LINEHAN: Thank you very much. You'll still be here at the end if we have questions for you, right?

HOAPHU TRAN: Yes.

LINEHAN: OK.

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GEORGE KILPATRICK: Thank you, Senator Linehan. I guess I forgot that I-- that there's actually more to this afterwards. These tend to be other programs that get-- receive a lot less attention from the press and from others. And they're, they're smaller, but the, the reporting requirement does, again, require us to, to report on these sorts of programs too. And those are going to include the Rural-- Nebraska Advantage Rural Development Act, Micro-- Nebraska Advantage Microenterprise Tax Credit Act, and the R&D Act. Rural Development Act has sort of two aspects, one of which is livestock modernization, which doesn't require new jobs. The other is either level one or level two, depending on the population in the county. It varies a little about the number of required jobs. And what the benefits are is in the next slide, which is \$3,000 for each new FTE and \$2,700 for each \$50,000 of new investment for the level one or level two projects and then \$150,000 maximum for a, a livestock modernization program. This program has a cap of about-- of \$1 million on each of those, on livestock modernization and the other aspect and has not been fully subscribed for at least a few years now, I would note. Though, I think that's-- I guess that's the next-- oh, the next slide moves to the Microenterprise Tax Credit Act.

LINEHAN: OK, let's stay on this one for a second.

GEORGE KILPATRICK: Sure.

LINEHAN: Did I see a hand? Just my imagination. So how many entities apply under the Nebraska Advantage Rural Development Act? Is there, like, a list in here of those too?

GEORGE KILPATRICK: Oh, gosh.

_____ : Twelve.

GEORGE KILPATRICK: In 2019? Twelve in 2019.

LINEHAN: OK. All right, thank you. Other questions? OK, go ahead, I'm sorry.

GEORGE KILPATRICK: Microenterprise is also a small program and, and in order to qualify, you have to have five or fewer employees at the time of applications. It can be pretty much any business, but one of the things that the department does look at in approving, in approving credits under this is that there be some, some new developments, something new happening in this community that was not there before. So again, I don't know-- do you want to-- well, there's one more slide on micro, I see. The credit's equal to 20 percent of the new

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employment or investment and it includes purchase of services and some stuff like that. So the things that they can receive credit for is a little bit broader. There is a lifetime limit of \$10,000 for any, any person or, or a relative. But again, it's, it's-- there's about \$2 million authorized and \$331,000 in credits distributed. One thing I might suggest is if you have a lot of questions about microenterprise or rural, Legislative Audit prepared reports on those within the last two years--

LINEHAN: Yep, I've seen them.

GEORGE KILPATRICK: --that you might find interesting.

LINEHAN: Did you have a question? OK, go ahead.

GEORGE KILPATRICK: R&D is a little bit different program because you don't apply. It's simply if you have the federal credit or you have expenditures that qualify for the federal credit, you also get a Nebraska credit if the research takes place in Nebraska. And it's a higher credit if it takes place on the campus of a-- of a college or university or some, someplace owned by a college or university. That's about \$7 million in credit so it is larger than the other two programs. And it's designed, obviously, to stimulate R-- research and development, especially in connection with higher-- institutions of higher education. Any questions on that particular program?

LINEHAN: So-- OK, I'm-- are there other questions? So they're at the universities, but they're private companies because obviously--

GEORGE KILPATRICK: That's correct.

LINEHAN: --universities don't pay taxes. OK.

GEORGE KILPATRICK: That's correct, but, but, you know, you-- there are-- you do see some that occur there. Certain companies specifically locate there for this purpose, for example. But on the other hand, R-- R&D that happens in a private company just a mile from your house would qualify if it's getting federal credit and if that research is taking place in that location--

LINEHAN: OK.

GEORGE KILPATRICK: --in Nebraska.

LINEHAN: OK. It's just higher at a university?

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GEORGE KILPATRICK: It is higher.

LINEHAN: Per--

GEORGE KILPATRICK: It's 35 percent credit instead of 15--

LINEHAN: OK.

GEORGE KILPATRICK: --of the federal credit, of the federal credit amount.

LINEHAN: I got it. That is quite a bit higher. Did you have a question, Senator? OK.

GEORGE KILPATRICK: Real quickly, I'll have a couple of programs that are no longer accepting application-- applications. We have already talked a little bit about LB775. The Employment and Investment Growth Act is actually the official name of that. The Invest Nebraska Act was a relatively short-term program and so a lot of this information ends up combined, again, because there aren't that many benefit anymore. But that is the number for LB775, just the summary, the recap number and we saw the same slide for Advantage a while ago. But that's the amount of, of-- the qualified activity from the beginning of the program in 1980 to present, what is claimed, what is claimed by the companies, and what they earned benefits for that was verified throughout the life of the program. The 462 qualified projects are described on page 84 and there are 85 of these remaining, I guess, to, to finish, so to speak. And so we did talk about that a little bit earlier. The reported increase in, in employment is 91,000. Invest Nebraska Act was a smaller act, a, a shorter-lived act. There were five remaining agreements. Again, it's difficult to report this information because we're to the point where it's fewer of the three companies reporting so the detail simply isn't there.

LINEHAN: When could you no longer apply for LB775?

GEORGE KILPATRICK: Not 2000-- January 1, 2007.

LINEHAN: OK. Do we have other questions?

TONY FULTON: 2006.

GEORGE KILPATRICK: Oh, 2006, I'm sorry.

TONY FULTON: It passed in '05.

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GEORGE KILPATRICK: It passed in '05-- 2000-- effective in 2006. I, I misspoke earlier incidentally--

LINEHAN: That's OK.

GEORGE KILPATRICK: --because I believe I rep-- I said the same thing when it came up earlier.

LINEHAN: Senator Friesen.

FRIESEN: So you have here the, the total outstanding credits that could be used yet of one hundred eighty-one million three hundred sixty--

GEORGE KILPATRICK: Correct.

FRIESEN: What is, what is the total of the Advantage Act in-- as of this last fiscal year, 2019, how many outstanding credits are out there yet?

GEORGE KILPATRICK: Well, this one would be \$181 million. The earlier slide had about-- what was it? Five hundred or something--

FRIESEN: \$480--

GEORGE KILPATRICK: \$481 million, I'm hearing from behind me.

FRIESEN: 600--

GEORGE KILPATRICK: So \$760 million [SIC].

FRIESEN: 700-and-some million dollars [SIC]--

GEORGE KILPATRICK: \$760 million [SIC], roughly.

FRIESEN: --outstanding credits that have been earned--

GEORGE KILPATRICK: That have been earned, yes.

FRIESEN: --and not redeemed?

GEORGE KILPATRICK: That's correct.

FRIESEN: OK.

TONY FULTON: 486 plus 181.

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GEORGE KILPATRICK: \$486 million plus \$181 million-- \$767 million [SIC] or-- yeah.

FRIESEN: That was quick. OK.

GEORGE KILPATRICK: All right. Well, the next slide or the last slide just has a big question mark on it, so I'm going to surrender-- unless you have something for me, I'm going to surrender that. The Tax Commissioner has been keeping at least some notes and maybe able to answer some questions that I, that I was not able to answer.

KOLTERMAN: I, I--

LINEHAN: Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. George, how many states have programs similar to ours where you have to apply and you have to make the investment and create the jobs and prove that you made the investment, create jobs before you get reimbursed? How many other states do it that way?

GEORGE KILPATRICK: I do not know that answer. It may be in the information-- because there is a summary of other states' programs, although it tends to be broken up by investment credits, employment credits, and so forth so I don't know how many of them-- generally speaking, I think all of those would be examples of things we have to apply for. Whether you have to attain in order to receive, I'm not sure. And I assume that's really the more significant part of your question?

KOLTERMAN: Yeah, I'd, I'd like-- you know, if other states are just giving them the money, that's one thing--

GEORGE KILPATRICK: As we know, that happens sometimes.

KOLTERMAN: --that's one thing. We don't do that. We--

GEORGE KILPATRICK: That's one thing we do not do.

KOLTERMAN: You have to apply here, you have to make the investment, you have to create jobs before you get a nickel, is that accurate?

GEORGE KILPATRICK: There are, there are instances where businesses have been given money by other states prior to attainment or prior to having proven anything. And yes, we do not do that here.

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LINEHAN: Senator-- thank you, Senator Kolterman. Senator McCollister.

McCOLLISTER: Yeah, thank you, Chairwoman Linehan. When I served on the Economic Development Committee, I know there are groups that help grade out or classify incentive programs for all the states. Maybe it would be helpful if we started asking you to provide that information to us.

GEORGE KILPATRICK: There is some summary of other info-- of other incentive programs in other states in the report on page-- toward the end. I don't remember the page numbers, exactly. Again, whether they're broken down exactly the way that Senator Kolterman wanted it, I'm, I'm not really sure.

McCOLLISTER: Oh.

GEORGE KILPATRICK: But there is a-- at least a summary of the types of things that exist.

McCOLLISTER: I see it, thank you.

LINEHAN: Are there other questions? Senator Dorn.

DORN: Thank you, Senator Linehan, and, and thank you for being here and explaining some of this. And just a little bit ago, we talked about \$181 million in credits in LB775, \$480-some million in the Advantage Act. What percent of those-- is that the 90 percent that you talked about earlier that probably will--

GEORGE KILPATRICK: Well, we would predict 90 percent on Advantage, not LB775.

DORN: Not LB775.

GEORGE KILPATRICK: And particularly, since most of those have already run through. So many, many of that \$181 million is-- will be amongst that, what we would estimate to be 20 percent for LB775 that will expire.

DORN: OK.

GEORGE KILPATRICK: So-- but--

DORN: So, so-- but those are, those are amounts out there that the state-- that, that they have earned, that they could collect on.

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GEORGE KILPATRICK: They can collect on them if they've-- if they earn income that--

DORN: If they earn income.

GEORGE KILPATRICK: --elect-- enables them to, to use that, yes.

DORN: And it's probably been in the report and I think you may be doing it, what, what in the Advantage Act is out there facing us that they have not-- basically have not earned? What-- in the Advantage Act, what are-- what have they applied for that we have-- that they haven't earned?

GEORGE KILPATRICK: I don't know if that's in the report or not.

DORN: OK, it's just an estimate.

GEORGE KILPATRICK: As we know, it's-- the, the number who have attained is well less than half, those who applied, so--

DORN: OK.

GEORGE KILPATRICK: I don't-- the only way to do that would be to as-- well, I'm not sure what we would assume. We would assume that about-- that most of those who haven't attained-- well, again, we assume that half won't attain, so--

DORN: You're assuming that half of them that apply-- if, if we have 200 million apply in 2020, that's just an estimate, only half of those at some point in time will ever be used?

GEORGE KILPATRICK: Half of the companies will qualify. If they qualify, they tend to attain-- they tend to earn more than what they put in their initial application.

DORN: OK.

GEORGE KILPATRICK: So there's, there's a, there's a cut each way.

DORN: There's a cut each way, so if 200 million-- use that number-- that would apply this year, you're, you're looking at somewhere between 100-plus, then, million that would probably at some--

GEORGE KILPATRICK: Sure.

DORN: --time-- OK, thank you.

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LINEHAN: Thank you, Senator Dorn. Senator Clements.

CLEMENTS: Thank you, Chairman Linehan. Thank you, Mr. Kilpatrick. I had a question in general with the Advantage Act sunset in 2020. Have we seen an increase in claims in 2020?

GEORGE KILPATRICK: Well, not yet. We-- what we would anticipate is an increase in applications--

CLEMENTS: Yes.

GEORGE KILPATRICK: --toward the end of the year.

CLEMENTS: Yeah.

GEORGE KILPATRICK: The sunset is on applications.

CLEMENTS: Oh, you are thinking-- expecting some increase in applications?

GEORGE KILPATRICK: Sure.

CLEMENTS: All right and when I add 181 and 486, I get 667.

GEORGE KILPATRICK: Oh, see, I'm, I'm not as smart as you thought I was, Senator Friesen.

CLEMENTS: OK, thank you.

LINEHAN: Thank you, Senator Clements. Senator Groene.

GROENE: So now you're done with your presentation, I can ask my question?

GEORGE KILPATRICK: I believe that I am.

GROENE: Page 43 of your report, of the annual report, that's the one that interests me. We didn't discuss it. That's a summation of the expectations of, of what we will pay out in the future years. If I read this right, you're at \$152 million, \$153 million this year.

LINEHAN: What, what page?

GROENE: 43 of the actual report.

LINEHAN: Oh.

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GEORGE KILPATRICK: I don't have it in front of me, Senator, so--

GROENE: But it seems to jump--

LINEHAN: Here, take him this.

GROENE: Report page 43.

GEORGE KILPATRICK: OK.

GROENE: It jumps from-- it's going to be estimated at 230 next year and 233 in '21 and 236 in '22.

GEORGE KILPATRICK: So this is-- OK, so this is part of the--

GROENE: I figured it would be with the one that did the estimate. 2019, it correlates with what you got in your report here, in slide number 7, that about 153, \$154 million in 2019.

GEORGE KILPATRICK: [INAUDIBLE]

GROENE: Total tax credits plus the direct sales and use tax, I'm assuming that's what your total comes from. For the next year-- next year it jumps to \$230 million and you estimate \$233 million in '21 and \$236 million--

GEORGE KILPATRICK: What, what line is it on?

LINEHAN: Yeah, what line are you on? I can't--

GROENE: I'm on the first subset of numbers up here.

HOAPHU TRAN: OK.

GROENE: 2019, the total tax credit used in, in bold, \$101 million, then you've got the direct sales tax, 53, so you add that to it.

GEORGE KILPATRICK: Um-hum.

GROENE: You're talk-- expecting a huge jump the next few years, is that correct?

GEORGE KILPATRICK: Well, there was a jump--

GROENE: A spike?

GEORGE KILPATRICK: --in credits used.

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HOAPHU TRAN: Yes.

GROENE: 177 plus 52 and then 183 in '21 plus 50-- you see where I'm following?

GEORGE KILPATRICK: Um-hum.

GROENE: So you're expecting a spike--

HOAPHU TRAN: Yes.

GROENE: --in the Advantage Act.

HOAPHU TRAN: Yes.

GROENE: Well, that-- I wonder if the Forecasting Board took that into consideration. But then 2023, it jumps-- it drops again, why is that?

HOAPHU TRAN: Well, because that-- that's a few big projects now-- that are right now that we anticipate. And especially now, as the program comes to an end, we shouldn't have any more big-- at least right now, we don't anticipate any more big projects coming down the line. Some of those numbers for the next two years, too, because of some information that we gather that we anticipate some of the legal payment we roll out--

GROENE: Could-- is that because on the direct sales tax-- but that doesn't drop that much. No new project will be starting in, in the first couple years of the project. While they're building is, is when they get the direct sales tax, isn't it? When they're buying materials--

HOAPHU TRAN: Yes.

GROENE: --to build their--

HOAPHU TRAN: Yes.

GROENE: So those will drop off quickly, the direct sales tax on your--

HOAPHU TRAN: In the outyear--

GROENE: --payments once it sunsets, the Advantage Act. Then it-- they'll drop off quicker than any of the others.

HOAPHU TRAN: Some of this-- we do in this trial [INAUDIBLE]. But to answer your question on the Forecasting Board, we-- every time when we

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do a forecast, in the month that we do the forecast, we try our best to come up with the three years for the credit usage, which incorporate into the forecast for three-forecasting-year horizon that we do. Of course, we and the Fiscal Office do that.

GROENE: But just last-- but what I'm seeing here is that you're predicting that 2020, '21, '22 will be the peak years of the Advantage Act.

HOAPHU TRAN: Yes, based on this number, based on the cumulative information right now.

GROENE: Then the ImagiNE Act will start filling in and by 2024, it's up to \$100-some million, so we might be over 3 to \$400 million in credit combination.

HOAPHU TRAN: I think the fiscal note on the ImagiNE Act is sitting at \$50, \$60 million in three or four years from now, something like that, yes.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Are there other questions? I have one-- I think it's Senator Groene's only it's a simpler-- on chart-- it's page 8, this chart, but that very same reason is why that jumps up like it does?

TONY FULTON: Page 8?

LINEHAN: Page 8 of your slideshow.

TONY FULTON: Slideshow?

LINEHAN: So-- because it's-- I mean, that's a huge increase--

TONY FULTON: Yeah.

LINEHAN: --because what Senator Groene was talking about.

TONY FULTON: Yeah.

LINEHAN: So-- and I think what he said is there's a couple of big projects you're expecting to qualify so that-- you know enough-- even though you can't tell us because--

TONY FULTON: Yeah, we have enough knowledge to justify what we're seeing-- what you see here.

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LINEHAN: OK. And then that is included-- again, to Senator Groene's question-- the Forecasting Board, when you show the numbers to the Forecasting Board, do you have that in--

HOAPHU TRAN: Yes [INAUDIBLE]

LINEHAN: OK, excellent. Other questions? Oh, Senator Friesen.

FRIESEN: So if I go back two, three, four years and look at your forecasts and compare them to today's, how, how, how accurate are you? Do you-- I mean, do you feel you're within 20 percent, 30 percent-- what--

TONY FULTON: Go ahead if you want to answer. I mean, it's his work.

HOAPHU TRAN: What I, what I generally say is when you look at this number, it's giving us a sense of direction and magnitude. The dollars and cents may not be exactly, but the magnitude and the trend of the forecast is pretty accurate. But like, like I said, it's [INAUDIBLE]. We think it will [INAUDIBLE] but if the tax credit that we believe to be in the forecast might not submit-- or whatever happens with-- the corporations are accounting, they might not have planned to do this, then [INAUDIBLE] the law of human behavior [INAUDIBLE] plan to do this.

TONY FULTON: Yeah, to answer your question, are we comfortable with the forecasts? Yes. I, I-- so in the business world, I'll get forecasts. And if someone gives me a forecast that nails it to the penny, then I'm-- you know, who-- wow. You know, who are you? But generally, what I'll use forecasts for is to get a sense of trending. If I want to invest in the future, then I have a sense that this industry is the one that's trending upward. That's being captured here. The things that we can't catch-- some business, like Dr. Tran is referring to, didn't claim a credit until just before it expires, you know? So I-- do we, do we make the assumption that, well, if they haven't used them, like these LB775 credits, they haven't used them now, they're probably not going to use them going forward.

FRIESEN: So-- but you, you do know how many they've earned.

TONY FULTON: Earned.

FRIESEN: Is that a pretty accurate number? You just don't know when they're going to redeem them or if they will.

TONY FULTON: Correct.

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FRIESEN: But you know how many--

TONY FULTON: Yeah, that, that which has been earned is a much more-- that's a, that's a hard number. That's something that's been earned. It's-- we've gone through audits. We've gone through procedure--

FRIESEN: So you now, you know what those numbers are--

TONY FULTON: Right.

FRIESEN: --and you're, you're trying to make a trend. And if you're saying 90 percent of them will be redeemed--

TONY FULTON: Yeah and I should-- I do want to say-- this is something I wanted to interject into the record here; that 90 percent there, there is a lot of momentum in the years past. I-- as policymakers, you should take those-- take this 90 percent with a grain of salt going forward. We've seen bigger projects. So in my time, when I was in the Legislature, when we talked about a big project, it was, you know, \$100 million project, you know, something like that. There were some bigger ones, but that, that was a big project. Nowadays, I mean, there are nine zeros behind some of these projects. They're, they're just bigger and there's a, there's a lot of things to take into account. So I just-- I caution you and future senators, 90 percent, you know, take it with a grain of salt. In other words, you can't hold the department to 90 percent going forward.

FRIESEN: But would, would you say the trend is that a higher percentage of them will be redeemed or would the trend say that less of them will be redeemed as the projects get bigger?

TONY FULTON: It's hard to say. I, I don't want to-- on the one hand, if someone's going to invest that kind of money, you'd think they would be attentive such that they can claim whatever credits they earned. I mean, that's the business guy in me saying-- right? That's, that's what you're-- that's one of the reasons why you're investing. But history has shown that that's-- they're not always used. Sometimes a company doesn't have a liability against which to use it. You know, they're not planning for that either, so it's just hard to say.

FRIESEN: OK, thank you.

LINEHAN: Senator, Senator-- thank you, Senator Friesen. Senator Kolterman.

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KOLTERMAN: Thank you, Senator Linehan. So do you have any way of estimating what ancillary benefits are from these companies that, that set up next to one of these corporations and files for the--

TONY FULTON: Yeah.

KOLTERMAN: So, so let's use an example. In my town, we've got a school agreeing to set up Petsource. I don't know if they applied or didn't apply, it doesn't matter. Trucking company comes in, sets up right next to them. Do we have any way of knowing what kind of revenue that generates as a result of that first project?

TONY FULTON: Well, there would be a way to ascertain the information. But the short answer is Dr. Tran makes his projection, whatever slide that was that goes out ten years, that type of dynamic projection is to account for what you're referring to. I also know, with due-- with respect to Dr. Tran and his group, they're making educated assumptions. And you don't know what's going to happen in the future. You don't know. So for instance, back in the late '60s, the idea was folks in your seats were trying to incentivize financial-- the financial sector and so insurance, banking, that type of thing. I'm, I'm sure there was an idea by policymakers of what incentivizing that type of activity was, but I don't think anyone could have guessed what's happened in Omaha, for instance, they're-- just the insurance industry in general. Did someone's dynamic forecast, granted that they didn't do a TRAIN model or dynamic forecast probably in the late 1960s, but could someone's economic-- dynamic economic forecast envision-- if some economists told me that, oh, yeah, we can catch all that, I'd say no, probably not. So there, there are just-- there are a lot of secondary, tertiary effects to the decisions you have to make with respect to incentives, that they are-- we try to capture them predictively, but no one can predict the future. You just can't. And then there are a lot of things that you probably don't consider are part of Nebraska Advantage. The thing that I always used to use when I was in your seat was OK, if you have a low unemployment rate, you've got a lot of people who are working. They're actively engaged. The contra of that is that when you have a higher unemployment rate, you have a number of people who aren't employed. The people who aren't employed are more likely to get into trouble. They're more likely to show up on the expenditure of the Appropriations Committee ten years down the road because they're in trouble with the law or because they're just not occupied. You don't measure that, OK? We don't measure that in the department, but that's the type of thing that you all have to consider. That's just one example. I mean, there-- I can-- you know, as great as the imagination is, there are a lot of

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee and Appropriations Committee August 25, 2020

Rough Draft

advantages to having your people gainfully employed. So I'm-- kind of going down your line of questioning, it's hard to say, but there are a lot of things that don't get captured in our data.

LINEHAN: Thank you very much-- and your team. Any more questions?
Thank you very much. That's helpful, that's very helpful.

TONY FULTON: You did a good job.