

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

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

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

LB 604 would create the High-Wage Jobs and Capital Investment Creation Fund. The fund would be administered by the Department of Economic Development (DED) and the agency would also be directed to accept and review applications entities to become an approved investment fund entity. The fiscal impact to the Department of Economic Development would include:

Program administrative costs – DED would experience costs to develop and implement an application process for entities seeking to become approved funds and would collect the \$10,000 application fee. The investment authority for approved applicants would be capped at \$30,000,000 annually. DED would have 60 days from the time an application is received to approve or deny the application. DED would also be responsible ensuring that fund investment benchmarks as established in LB 604 are met. In the event of noncompliance, DED would be responsible for recovering any grants, loans or assistance provided to an investment entity. The agency would also provide an annual report to the Legislature.

Because LB 604 does not allow funds deposited in the High-Wage Jobs and Capital Investment Creation Fund to be used for administrative expenses, it is estimated that costs would come from the General Fund. DED estimates that it would hire 5 FTE to carry out the administrative and monitoring duties described in LB 604. Administrative cost estimates assume that there would be an ongoing source of revenue to the High-Wage Jobs and Capital Investment Creation Fund that would create a significant workload. If fully funded, DED estimates costs of \$300,000 to \$400,000 General Funds annually.

High-Wage Jobs and Capital Investment Creation Fund – LB 604 provides that the \$10,000 initial application fee would be deposited in the Fund, along with an annual fee charged to approved entities equal to ½ of 1% of the entity’s investment authority. DED is allowed to make grants, loans or assistance to investment entities from the Fund, although an initial source of revenue for the Fund is not created in LB 604. The amount of distributions would depend upon the amount of money deposited in the fund. Absent another funding source, it is assumed that General Fund transfers would be the initial revenue source.

Investment entities approved under the act would exit the program after 6 years and would be required to repay 50% of the fund investment, less a calculation based upon the number of new employees reported over a 6-year time span. Repayment revenue deposited in the Fund would depend upon initial investments, the success of the investment entities, and the per-position reduction factor applied to each entity. As a result, the timing and amount of repayment revenue cannot be estimated at this time.

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

2019

LB⁽¹⁾ 604

FISCAL NOTE

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

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ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2019-20</u>		<u>FY 2020-21</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>(See below)</u>	<u></u>	<u>(See below)</u>	<u></u>
CASH FUNDS	<u>(See below)</u>	<u></u>	<u>(See below)</u>	<u></u>
FEDERAL FUNDS	<u></u>	<u></u>	<u></u>	<u></u>
OTHER FUNDS	<u></u>	<u></u>	<u></u>	<u></u>
TOTAL FUNDS	<u>(See below)</u>	<u></u>	<u>(See below)</u>	<u></u>

Explanation of Estimate:

LB 604 creates the High-Wage Jobs and Capital Investment Creation Fund within the Department of Economic Development (DED).

The High-Wage Jobs and Capital Investment Creation Fund will be administered by the Department, and it will be used to award grants, loans, or other types of economic assistances to High-Wage Jobs and Capital Investment Creation Fund Entities in order to spur investment in qualified locations and generate high paying jobs. DED will approve High-Wage Jobs and Capital Investment Creation Fund entity applications between October 1, 2019 and October 1, 2029. The approved fund entities will make growth investments, which include any capital or equity investment in a qualified business or any loan to a qualified business with a stated maturity of at least one year after the date of issuances. Qualified businesses that may receive growth investments include those with fewer than 150 employees and those who are engaged in industries with selected NAICS codes. The qualified businesses must also be located in either: a census tract with a poverty rate of 20 percent or higher, a census tract with a median family income of 80 percent or less of the area's median family income, a designated opportunity zone, or a county with fewer than 200,000 inhabitants.

DED can award up to \$30 million per calendar year through this fund. Each applicant is charged a \$10,000 application fee, and if accepted, an annual fee of 0.5% of the investment authority. The approved fund entities have three years in which to ramp-up their growth investments to 100 percent and then a 3-year retention period to maintain that investment level. After the 6th anniversary of the closing date, the entity must apply to exit and will be responsible for repaying fifty percent of the investment authority less the product of the number of new FTE employees reported over the 6-year period and the earned job factor.

LB 604 provides reporting requirements for both fund entities and for the department. Also, the bill outlines provisions for repayment of the investment funds in the case of the funded entity not disbursing funds during the allocated time periods, failing to maintain growth investment levels, or investing in a qualified business that directly or indirectly has the right to acquire an ownership interest, make a loan or make an investment to an approved fund entity or its affiliate.

There are few restrictions on the types of investment companies that can access the High-Wage Jobs and Capital Investment Creation Fund, except that they must be a rural business investment company (7 U.S.C. 2099cc) or a small business investment company (15 U.S.C. 681) with equity investments of at least \$75 million. The number of potential applicants is unknown. The only grounds for the Department to deny an application is if the entity does not meet the qualification criteria or if the maximum amount of investment authority has already been approved.

The Department would need to evaluate applications and eligibility, write contracts and monitor the accepted funded entities. Furthermore, with the Department's statutory responsibility to audit the employment and wages

in the businesses awarded growth investments by the funded entities, monitor the continued eligibility of those businesses and the funded entities, and track the entity's investment levels, the Department would need to add several staff positions. These include an Economic Development Manager, Economic Development Business Consultant, Economic Development Financial Packager, Senior Auditor, and Attorney II.

LB604 contains no beginning balance for the High-Wage Jobs and Capital Investment Creation Fund. Assuming that DED is able to allocate \$30 million to the fund in FY2019-20 and in FY2020-21. Also assuming that in each fiscal year one entity applied for \$30 million and was accepted. For the entity that was accepted in FY19-20, the application and annual fees would be \$160,000 in FY2019-20 and \$150,000 in FY2020-21, for a total of \$310,000. For the entity accepted in FY2020-21, the application and annual fees would be \$160,000. Over these two fiscal years, there would be an expenditure of \$59.5 million. In FY2025-26 and FY2026-27, each funded entity would exit the program and would owe DED repayment fees. At this time, we are unable to estimate the repayment fees because they will depend on how successful the funded entities are in loaning to businesses with high wages and fast job growth.

Note that there is no mechanism for the Department to enforce that the funded entities be Nebraska businesses or lend to Nebraska businesses. The location criteria do not specify Nebraska counties or opportunity zones. Furthermore, there is no mechanism for the Department to prioritize or select funded entities who plan to invest in companies with high job growth.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2019-20</u>	<u>2020-21</u>
	<u>19-20</u>	<u>20-21</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Economic Development Manger	.75	1.0	\$48,446	\$64,594
Economic Development Business Consultant	.75	1.0	\$36,746	\$48,994
Economic Development Financial Packager	.75	1.0	\$34,995	\$46,661
Senior Auditor	.75	1.0	\$35,574	\$47,432
Attorney II	.75	1.0	\$42,469	\$56,626
Benefits.....			\$79,292	\$105,723
Operating.....			\$19,823	\$26,431
Travel.....			\$4,821	\$9,643
Capital outlay.....			\$8,500	
Aid.....				
Capital improvements.....				
TOTAL.....			\$310,667	\$406,104