

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

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES</b> (See narrative for political subdivision estimates)				
	<b>FY 2021-22</b>		<b>FY 2022-23</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$545,160	(\$1,400,000)	\$397,010	(\$3,500,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$545,160</b>	<b>(\$1,400,000)</b>	<b>\$397,010</b>	<b>(\$3,500,000)</b>

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

LB 544 seeks to adopt the Urban Redevelopment Act (the Act). Sections 3 through 18 define various terms, including types of employees, economic redevelopment areas, performance period, and qualifying locations and property.

Section 19 requires taxpayers to apply with the Director of Economic Development to receive incentives under the Act. Applicants must pay \$500 to be credited to the Nebraska Incentives Fund. The Director of Economic Development is limited to approving incentives up to \$8 million total. Section 19 requires the Director to utilize various selection processes, and further requires an agreement including details of the project once an applicant is approved. The deadline for applications is December 31, 2031.

Section 20 allows for a tax credit for approved applicants under the Act. Qualification for this tax credit depends on the level of cumulative investment into qualified property and the required minimum wage paid to new employees. Taxpayers may not receive a tax credit for both classifications. Furthermore, a taxpayer cannot receive the tax credit if they already receive credits under a different Nebraska tax incentive program. The tax credit for taxpayers is divided into two classifications, described in subsections 1 and 2. They are as following.

<b>Section 20</b>	<b>Subsection 1</b>	<b>Subsection 2</b>
<b>Requirements</b>	Qualified property investment of at least \$150,000; and Payment of a minimum qualifying wage to new equivalent employees	Qualified property investment of at least \$50,000
<b>Tax Credit</b>	\$2,750 for each \$50,000 of qualifying investment; and \$3,000 for each new equivalent employee, and \$1000 for each employee living in an economic redevelopment area.	5% of the qualified investment amount

Section 21 details procedures to be followed if a taxpayer purchases, reorganizes, moves, or makes any other significant changes to a business.

Section 22 allows for the credits under Section 20 to be used to offset sales and use tax, income tax, or real property taxes due in the relevant time period.

Section 23 requires taxpayers to repay taxes that were underpaid in the event that the taxpayer was unable to maintain the required employment and investment levels in the performance period. The amount due for repayment is calculated based on the number of years the taxpayer failed to meet the required levels.

Section 24 requires satisfactory evidence of work eligibility for the Director of Economic Development to approve or grant a tax incentive under the Act.

Section 25-26 identifies the tax credit as non-transferable and to be paid without interest.

Section 27 allows taxpayers to request the Tax Commissioner to review and certify the taxpayer's base year employment levels. This review must be completed within 90 days of the request, either approving or amending the base year employment level

Section 28 requires the Director of Economic Development to prepare and present a report to the Appropriations Committee detailing various details on the incentives granted under the Act.

LB 544 becomes operative January 1, 2022.

**Revenue:**

The Department of Revenue estimates the following impact to General Fund revenues, based on expected utilization of the tax credit available under the Act:

- FY20-21: \$0
- FY21-22: (\$1,400,000)
- FY22-23: (\$3,500,000)
- FY23-24: (\$3,700,000)
- FY24-25: (\$3,900,000)

There is no basis to disagree with this estimate.

**Expenditures:**

The Department of Revenue estimates the need for 1.0 FTE Auditor to carry out responsibilities under the Act. This is expected to cost \$63,900 in FY21-22 and \$60,200 in FY22-23. There is no basis to disagree with these estimates.

The Department of Economic Development estimates a one-time OCIO programming charge of \$200,000 to implement LB 544. Additionally, DED estimates the need for various new personnel and associated costs to accommodate for the new responsibilities required by LB 544. This includes an Economic Development Manager, a Business Consultant, and an Attorney II. Total expenditures are estimated at \$481,260 and \$336,810 for FY21-22 and FY22-23, respectively. There is no basis to disagree with these estimates.

**Political Subdivisions:**

LB 544 could impact sales tax revenue for political subdivisions. The City of Lincoln estimates no fiscal impact. There is no basis to disagree with this estimate.



Credits may be used to 1) obtain a refund of sales or use tax, 2) obtain a refundable income tax credit, 3) reduce income tax withholding liability, or 4) obtain a payment from the state equal to the real property taxes due, after the year levels are met, for real property at a qualified location that is acquired by the taxpayer after the date of application. Credits may be distributed to a partner, limited liability member, shareholder, or beneficiary and used against the income tax liability of the recipient.

Employment and investment levels must be maintained through the third year following the year levels are met. A percentage of benefits will be recaptured if levels are not maintained for the required period.

For purposes of the act, base year is defined as the year prior to the year of application, except that a taxpayer with an application year in 2021 must use the larger of 2019 and 2020. Investment is equal to the value of qualified property incorporated into or used at the qualified location. Year means the taxable year of the taxpayer. Benefits may only be received for employees who are paid at least 70% of the Nebraska statewide average hourly wage.

DED will share application and agreement information with the Department of Revenue (DOR) so that DOR can carry out its responsibilities under this act.

The act requires DOR to notify each municipality of the amount and identity of the taxpayer for each refund of local option sales and use tax within 30 days after the refund is allowed or approved. Deduction of a refund of local option sales and use tax made pursuant to this act is delayed as required by 77-27,144. DOR will notify each municipality of a refund exceeding \$1,500 by March 1 of each year beginning in 2022. For municipalities with annual refunds exceeding \$1 million or 25% of the municipality's total sales and use tax receipts for the prior fiscal year, DOR will deduct the refund over a period of one year in equal monthly amounts beginning in January following the notification.

The taxpayer may request that DOR certify base-year employment levels. Upon request, DOR must complete its review within 90 days of the request plus tolling.

DED must submit an annual report of the activity under the act to the legislature.

The estimated fiscal impact to the General Fund revenues would be as follows:

FY20-21	\$ -
FY21-22	\$ (1,400,000)
FY22-23	\$ (3,500,000)
FY23-24	\$ (3,700,000)
FY24-25	\$ (3,900,000)

The bill is unclear about which agency is responsible for assuring that beneficiaries under the Act meet and maintain levels required for benefits. For purposes of this fiscal note, the Department assumes that this responsibility rests with DOR as is true for other incentive acts. Given this assumption, DOR will also need 1.0 FTE of Auditor to implement the bill.

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

2021

LB<sup>(1)</sup> 544

FISCAL NOTE

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

Prepared by: <sup>(3)</sup> Anthony Goins Date Prepared: <sup>(4)</sup> 2/6/2021 Phone: <sup>(5)</sup> 402-471-3777

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

	FY 2021-22		FY 2022-23	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	\$481,260		\$336,810	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<u>\$481,260</u>		<u>\$336,810</u>	

**Explanation of Estimate:**

LB544 adopts the Urban Redevelopment Act. Under the act, a tax credit is allowed if a taxpayer attains a cumulative investment in qualified property of at least \$150,000 and hires at least 5 new employees at a qualified location and pays a minimum qualifying wage of 70% of the Nebraska statewide hourly wage. A tax credit is also allowed to any taxpayer who attains cumulative investment in qualified property of at least \$50,000 at a qualified location. Qualified location means any location in a city of the metropolitan class or a city of the primary class that is located in an Economic Redevelopment Area (ERA). ERAs are defined as an area in which the average unemployment rate in the area is at least 150% of the average for the state, and the average poverty rate is 20% or more in the census tract in the area.

A taxpayer at a qualified location may earn a \$3,000 tax credit per each new equivalent employee, with an additional \$1,000 credit if the employee resides in an ERA. In addition an investment credit is available of \$2,750 for every \$50,000 of increased investment at a qualified location. If the taxpayer at a qualified location uses the second level and attains cumulative investment of \$50,000 the tax credit available is 5% of the increased investment. A taxpayer cannot qualify for both levels. The credits shall not exceed \$50,000.

To earn incentives set forth in the Urban Redevelopment Act, the taxpayer shall file an agreement with DED. The application fee is \$500. All but one hundred dollars of the application fee shall be refunded if the application is not approved. The director shall not approve any further applications once the expected incentives from the approved projects total \$8 million. There shall be no new application after December 31, 2031. The bill does not appear to allow DED to exchange taxpayer information about credits earned with the Department of Revenue (DOR). The application fee is deposited into the Nebraska Incentives Fund, a cash fund administrated by the DOR. It is unclear which agency is responsible for auditing taxpayers for compliance and recapture. DED also has no estimate at this time for when the \$8 million in tax credits will be awarded. DED does not have an estimate of the timing of the General Fund impacts due to the issuing of the tax credits.

LB544 creates several new responsibilities for DED. Besides taking and approving applications from qualified taxpayers, the Department is required to review the work eligibility status of all new employees, grant permissions to use a 50% estimate of sales taxes paid on building materials, track estimates of credits to be awarded, and complete reporting requirements for the program. DED will need the services of an Economic Development Manager and a Business Consultant to manage the day to day operation of the program, answer questions, review applications, and complete the required reporting. An Attorney II will also be needed to prepare agreements and work on rules and regulations. There will also be a one-time cost with the OCIO for programming an online application and collecting data necessary to provide tax credit information to DOR, estimated to be \$200,000. We also assume additional office rent of \$9,000 per year for one of the staff to work in Omaha.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2021-22</u>	<u>2022-23</u>
	<u>21-22</u>	<u>22-23</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
G49550 Econ Dev Manager	0.75	1.00	\$49,660	\$67,860
A49310 Econ Dev. Bus Consultant	0.75	1.00	44,570	60,910
A31112 Attorney II	0.75	1.00	50,750	69,350
<b>Benefits</b> .....			57,990	79,250
<b>Operating</b> .....			237,990	39,630
<b>Travel</b> .....			14,500	19,810
<b>Capital outlay</b> .....			25,800	0
<b>Aid</b> .....				
<b>Capital improvements</b> .....				

TOTAL.....

\$481,260

\$336,810

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**2021**

**LB<sup>(1)</sup> 544**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Lancaster County Assessor/ROD

Prepared by: <sup>(3)</sup> Scott Gaines Date Prepared: <sup>(4)</sup> 1/22/21 Phone: <sup>(5)</sup> 402-441-6580

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

	<u>FY 2021-22</u>		<u>FY 2022-23</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

No fiscal impact to the Lancaster County Assessor's Office.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2021-22</u>	<u>2022-23</u>
	<u>21-22</u>	<u>22-23</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____



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

2021

LB<sup>(1)</sup> 544

FISCAL NOTE

State Agency OR Political Subdivision Name: <sup>(2)</sup> City of Lincoln

Prepared by: <sup>(3)</sup> James Van Bruggen Date Prepared: <sup>(4)</sup> 1/27/21 Phone: <sup>(5)</sup> 402-441-8301

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2021-22</u>		<u>FY 2022-23</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

No fiscal impact.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2021-22</u>	<u>2022-23</u>
	<u>21-22</u>	<u>22-23</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____