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Revenue Committee
March 08, 2017

[LB443 LB557 LB561 LB616]

The Committee on Revenue met at 1:30 p.m. on Wednesday, March 8, 2017, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB443, LB561, LB557, and LB616. Senators present: Jim Smith, Chairperson; Curt Friesen, Vice Chairperson; Lydia Brasch; Mike Groene; Burke Harr; Tyson Larson; Brett Lindstrom; and Paul Schumacher. Senators absent: None.

SENATOR SMITH: Good afternoon, everyone, we're going to get started. Welcome to the Revenue Committee public hearing. My name is Jim Smith, I represent the 14th Legislative District in Sarpy County and I serve as Chair of the committee. The committee will take up the bills in the order posted on the outside of the room. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. To better facilitate today's proceedings, I ask that you abide by the following procedures. First, if you would please turn off your cell phones and other electronic devices or put them in a vibrate mode so as not to interfere with the person testifying. The order of testimony will be introducer of the bill, proponents, then opponents, then those in a neutral capacity, and then there will be closing remarks by the introducer of the bill. If you will be testifying, please complete the green form and hand that to the committee clerk when you come up to testify. If you have written testimony or exhibits for the committee and you would like to have those distributed, please hand those to the page when you come up to the testifier's table. We will need 11 copies for all committee members and staff. If you need help making those copies please let us know and we can help you with that. When you testify, we will need you to both state and spell your name for the record. We will use the light system for five minutes today. The green light will be on for four minutes. It will then turn to an amber color for the remaining one minute. If you could use that time to wrap up your testimony we'd greatly appreciate it. If you would like to have your position known but you do not wish to testify, please sign the white form at the back of the room and it will be included in the official record. The microphone on the testifier's table is not to amplify your voice, it is simply to record your voice for the transcriber, so you will need to speak loudly enough for folks to hear you. Let me introduce you to the committee staff today. To my immediate right is legal counsel, Mary Jane Egr Edson. To my immediate left is research analyst, Kay Bergquist. And then to my left at the end of the table is Krissa Delka. The committee members with us today will introduce themselves with the exception...to begin with, Senator Larson and Senator Groene I believe are going to join us later. Next.

SENATOR LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

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

SENATOR SMITH: Senator Brasch I believe is in another committee and will be joining us here shortly.

SENATOR SCHUMACHER: Paul Schumacher, District 22, that's Platte and part of Colfax and Stanton Counties.

SENATOR HARR: Burke Harr, Legislative District 8, which represents midtown Omaha.

SENATOR SMITH: And we are now joined by Senator Brasch. Senator Brasch represents District 16 and is from Bancroft. We have pages with us today to assist you and to assist us. They are Alexi Richmond from Milwaukee, Wisconsin, and Sarah Wearne from Topeka, Kansas. We appreciate them being with us and assisting us. Senators may come and go during the hearing. They do have obligations in other committees, so we appreciate your patience with us on that. And I think with that we're going to get started on our first bill, LB443 to be introduced by Senator Bolz. Relates to adopting the Student Loan Repayment Tax Credit Act. Welcome, Senator Bolz. [LB443]

SENATOR BOLZ: (Exhibit 1) Thank you. Good afternoon, members of the Revenue Committee. I am Kate Bolz, that's K-a-t-e B-o-l-z, and I represent District 29 in south-central Lincoln. I'm here to introduce LB443. Knowledge, talent, and skill are essential components of creating a competitive, twenty-first century global economy. In order for Nebraska to compete on an international stage economically, we must build a strong, well-educated work force. Work force quality and availability is a top concern of Nebraska business and organizations, according to the Nebraska Chamber of Commerce Annual Study. Brain drain has long been a concern of our state and annually we lose approximately 2,300 educated Nebraskans to opportunities in other states. And while I'm personally convinced that Nebraska is the center of the universe, it seems to me that we need more robust policy in order to build and retain the work force we need for the future. So LB443 is a targeted and strategic tool to help Nebraska's best and brightest to stay here in The Cornhusker State. The bill would create a tax incentive for businesses that choose to provide student loan repayment as a part of their employment benefit package. Businesses would pick up half the cost of the benefit and the tax incentive would cover the other half, not to exceed \$1,800 per employee or half of the average cost of a student loan payment over a year. Each business could claim the nonrefundable credit for up to 20 employees per year and 25 percent of all credits would go to small businesses or businesses located outside of Lincoln and Omaha. The program overall is capped at \$1.5 million. Companies would preregister to receive the credits and employees would need to be employed for at least 12 weeks

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

before the business could qualify for the credit. This strategy in addition to providing another tool in the employer recruitment and retention toolbox will benefit employees. The state already invests a significant sum in incentives for businesses to create jobs, but our recent Performance Audit report from November of 2016 raised questions as to how effective those programs are. The Performance Audit report showed that only 9 of the 78 companies with a project were new to Nebraska. And the cost per full-time equivalent employee ranged from \$24,000 to over \$300,000. I think we can do more to help existing companies and I think LB443 is a part of that vision. Nebraska families do work hard to save for college and as a member of the Appropriations Committee we do work hard to ensure that tuition rates are kept low and that we are investing in scholarship dollars. However, the cost of college tuition and mandatory fees has increased significantly over the last ten years. On the average, student loan debt of a 2016 graduate from a Nebraska public or private four-year institution was \$26,473. So these are the reasons that I bring this bill forward to you. And I want to comment before I wrap up here just to say that as a member of the Appropriations Committee, I'm dealing on a daily basis with our budget deficit. And so the fact that this is an expenditure bill is not lost on me. But what I would hope that you would consider is that as you look at the bills relating to economic development that come to your committee and if this year or next year you think about an economic development package or a new approach to our Nebraska Advantage initiatives that you consider this as a part of such a package, that you consider this strategy as something that could be a great benefit to employees and to employers. So with that, I'd be happy to answer any questions. [LB443]

SENATOR SMITH: Thank you, Senator Bolz, for your opening on LB443. Do we have questions from the committee? Senator Harr, then Senator Schumacher. [LB443]

SENATOR HARR: Thank you, Chairman Smith. Thank you, Senator Bolz, for bringing this. Have you read the fiscal note on this? [LB443]

SENATOR BOLZ: I have. [LB443]

SENATOR HARR: Okay. So were you able to talk to Mr. Gibbs about this? [LB443]

SENATOR BOLZ: I have talked to him about...so this is a reintroduction of legislation that I brought last year. So when he was correcting the fiscal note on last year's bill... [LB443]

SENATOR HARR: Okay. [LB443]

SENATOR BOLZ: ...I spent a significant amount of time with him. [LB443]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR HARR: Okay. Do you know there's a charge of...what the 200...it says, the department indicates--department being Department of Revenue--implementation will require a one-time programming charge of \$251,000. Do you know how I can get that contract? [LB443]

SENATOR BOLZ: I don't...I can't speak to detail on the one-time program charge, but I'm happy to follow up and try to understand it better. [LB443]

SENATOR HARR: Okay. [LB443]

SENATOR BOLZ: I assume it has to do with the employer reporting side. [LB443]

SENATOR HARR: And then I see you have it needs a half-time revenue tax specialist and a half fiscal compliance analyst. So this would apparently require a one-time FTE person with the department to implement this program. Do you think that's adequate or do you think that's too much or appropriate, I should ask? [LB443]

SENATOR BOLZ: I mean, I think that they certainly would need additional staff in order to respond to the applications and setting up the program and all of those responsibilities. But I also think that this is the responsibility of the Department of Revenue and so they should be able to manage at least some of the responsibilities with their existing staff. [LB443]

SENATOR HARR: Okay. Thank you very much. [LB443]

SENATOR SMITH: Senator Schumacher. [LB443]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you for bringing this bill, Senator Bolz. If we're looking for high-paying jobs and if we have only a very limited revenue and it looked to me like these credits would be snapped up really quick by very few people, why not focus just on graduate expenses rather than undergraduate? [LB443]

SENATOR BOLZ: It's a fair question. I think that there is a variety of economic needs across the state. So my favorite example is that manufacturing companies can't hire welders quickly enough. And so this would apply to a welder just as much as it might apply to an engineer. And that welder might be incentivized by a student loan repayment package just like the engineer. In fact, he may have a slightly lower income in spite of his contribution to the economy. And so I think it's applicable to multiple types of positions. [LB443]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR SCHUMACHER: Thank you. [LB443]

SENATOR SMITH: I see no further questions. Thank you, Senator Bolz, for your opening on LB443. [LB443]

SENATOR BOLZ: Thank you. [LB443]

SENATOR SMITH: We now invite proponents to come forward, those wishing to testify in support of LB443. Welcome. [LB443]

FREDERIK OHLES: (Exhibit 2) Good afternoon, Chairman Smith and members of the Committee. My name is Frederik Ohles, spelled F-r-e-d-e-r-i-k O-h-l-e-s. I am testifying today on behalf of Nebraska Independent Institutions of Higher Education in support of LB443. I am president of Nebraska Wesleyan University here in Lincoln. Other institutions on whose behalf I am testifying include: College of Saint Mary in Omaha, Concordia University in Seward, and Hastings College in Hastings. Each year, Nebraska's universities and colleges graduate more than 30,000 students with either a bachelor's degree or an advanced degree. Happily, 40 percent of those graduates finish their degrees without college debt. For the other 60 percent of students who graduate from one of Nebraska's public or private nonprofit four-year institutions, the average amount of debt--as you've heard from Senator Bolz--is now somewhat more than \$26,000. While the average repayment amount in the United States is \$300 per month, it can vary widely and for some graduates it takes many years to repay the full amount. I do believe that for most college graduates some debt is a good investment in terms of the return it brings through enhanced lifetime earnings, just as some debt to buy a house makes sense for people with sufficient incomes. Some debt has become a very common way to pay for the cost of higher education, most of all through established student loan programs. Nationally, 81 percent of graduates who have debt use repayment plans with a set monthly fee, a predetermined length of loan, and a fixed interest rate. Based on a ten-year loan and a 6 percent interest rate, the average Nebraska graduate will make monthly payments of \$290, right at the national average. There is also an option with federal loans to repay based on income. Although not used frequently, this method helps people who have lower earnings. A downside to that plan is that repayments can take much longer, as much as 25 years. Either way, graduates who are repaying student loans need an income. And if they cannot find that in Nebraska, they quickly look to opportunities in other states. New Census Bureau statistics show that in Nebraska we lose more highly educated students than we attract each year, an estimated imbalance of 2,300 graduates per year. In a state with a population as modest as ours, that is a significant loss. It amounts to a 2 percent annual deterioration of the entire Nebraska work force. What can we do to encourage these well prepared folks to stay? I believe we need to offer Nebraska graduates a readily understood incentive to stay in this wonderful state. LB443 moves us in the right direction. It gives Nebraska

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

employers a meaningful benefit to offer their employees, potentially making the difference when a prospective employee has job offers here and elsewhere. One of the things that I believe is especially sensible about this proposal is that it offers a benefit to people of widely varied circumstances in all sorts of occupations. It lets employers and employees work together to undergird the value of work supported by a strong education earned here in Nebraska. To sum up, Nebraska has a trend of exporting more educated people than we import. Passing LB443 will help alleviate this problem and keep more graduates of Nebraska's higher education institutions working productively in our state. Thank you for your time. I would be happy to answer any questions that you have. [LB443]

SENATOR SMITH: Thank you, Mr. Ohles, for your testimony. Do we have questions from the committee? Senator Schumacher. [LB443]

SENATOR SCHUMACHER: Thank you, Chairman Smith. And thank you for your testimony. The average figure you threw out was \$300 a month. [LB443]

FREDERIK OHLES: Yes, sir. [LB443]

SENATOR SCHUMACHER: Where has the system failed that \$300 a month for a college educated person is consequential. It's a car payment. What...shouldn't that degree be worth so much more in the job market that the \$300 is easily absorbed and not a question of controversy? And I realize this is a national problem. [LB443]

FREDERIK OHLES: Yes. [LB443]

SENATOR SCHUMACHER: Where are we wrong? How come the college degree doesn't translate into money? [LB443]

FREDERIK OHLES: I believe, Senator, that for most graduates it does translate into money. And most graduate stories don't involve the headlines that we read about. The persons who have difficulty paying loans are typically persons who have taken high-cost, for-profit, technical training in areas where there aren't actually jobs when they finish. So I believe that's what the headlines are mostly about. And the average person can pay the loans, does pay the loans, and doesn't become newsworthy. [LB443]

SENATOR SCHUMACHER: Thank you. [LB443]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR SMITH: I see no further questions. Thank you, Mr. Ohles, for your testimony. [LB443]

FREDERIK OHLES: Thank you. [LB443]

SENATOR SMITH: Next proponent of LB443. Proponent of LB443. Welcome. [LB443]

HUNTER TRAYNOR: (Exhibit 3) Thanks so much. Good afternoon, Senators. My name is Hunter Traynor, spelled H-u-n-t-e-r T-r-a-y-n-o-r. I'm currently a sophomore at the University of Nebraska-Lincoln. I'm here today to speak on behalf of my fellow peers and the Association of Students at the University of Nebraska regarding LB443. I want to provide some anecdotal insight regarding my story, why I'm studying here at UNL, and then relate that to the good this legislation could bring. I come from an average Nebraska family. Nearly all of my extended family lives here in-state. My great-grandfather served in the state Legislature during the 1930s. However, college education is generally sporadic going back through both of my family lines. I was raised in a modest, middle-class home by a school teacher and a construction worker. My high school Friday nights were spent playing Class-B football for a majority of fans I knew by first name. My upbringing is not unique in any way. It mirrors the background of many students studying at the University of Nebraska. Throughout high school I was astutely aware that all my college expenses would fall to my responsibility. I have two young sisters, age 12 and 6. My parents were clear from the beginning that our family's finances couldn't necessarily accommodate lofty tuition prices and extravagant dorm costs. I worked very, very hard in high school, and thanks to excellent support from teachers and my family, graduated with strong grades and stellar test scores. At the end of my junior year, I began my college search. Notre Dame, Northwestern, and a handful of Ivy League institutions piqued my interest and for the longest time I imagined my future at a far-off, private university. However, as the sun set on my senior year, the reality of finances became much clearer. I couldn't justify taking on \$100,000 in debt for just a bachelor's degree. Fortunately, the University of Nebraska-Lincoln offered me a very generous tuition package. I could study closer to my family, earn a degree from a prestigious university, all while avoiding massive debt. Here I am, without regret, loving my experience at Lincoln. While I was offered help with tuition, life at a university away from home demands costs that have forced me to take out student loans. I can't imagine the financial anxiety placed on someone less academically fortunate, a student pressed to take out more loans in their quest for a degree. Fifty-seven percent of students in Nebraska exit college with an average of just around \$23,000 in debt. Given my calculations, I'm right on pace for those numbers. I believe it to be imperative that we support education, at all levels, but especially at our colleges. There's no question this legislation will yield huge benefits, not only for businesses, but especially for students like myself. The benefit it brings to students is twofold. It not only encourages students like myself to attend our excellent university, but it incentivizes them to stick around after graduation. Seventy-one point five percent of University of Nebraska-Lincoln

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

graduates stay in state after receiving their diploma. While this is a large number, sure, more can be done. If this legislation passes I can say unequivocally that the state of Nebraska would be a far more appealing place of residence for myself. After my schooling is completed and my cap has been tossed, any assistance offered to help combat onerous student loans will draw me and others to settle here in-state. There is no greater endorsement of our state's uniquely welcoming environment than support of our most recent graduates. From the University of Nebraska-Lincoln, the Association of Students, and myself, an ordinary Nebraska story, we urge you to support LB443. Thank you. [LB443]

SENATOR SMITH: Thank you, Mr. Traynor, for your testimony. [LB443]

HUNTER TRAYNOR: Yes, of course. Any questions? [LB443]

SENATOR SMITH: Yes, questions from the committee? So you're a sophomore at UNL? [LB443]

HUNTER TRAYNOR: Yes. Yes, just studying down the road. [LB443]

SENATOR SMITH: And what's your course of study? [LB443]

HUNTER TRAYNOR: I'm a pre-law student, studying political science, fittingly. Yes. [LB443]

SENATOR SMITH: Well, very good. Good to have you here in Nebraska for your studies. [LB443]

HUNTER TRAYNOR: Yes. Thank you so much for hearing me out. I appreciate it. [LB443]

SENATOR SMITH: Thank you again for coming. All right. Next proponent of LB443. Welcome. [LB443]

BRUCE BOHRER: (Exhibit 4) Yeah, thank you. Good afternoon, Chairman Smith. Members of the Revenue Committee, my name is Bruce Bohrer, with the Lincoln Chamber of Commerce. For the record, the spelling is B-r-u-c-e B-o-h-r-e-r. I'm here this afternoon representing the Lincoln Chamber of Commerce in support of Senator Bolz's LB443. And I'm also representing the Lincoln Young Professionals Group as well as the Greater Omaha Chamber of Commerce. I think about right now you're getting a letter from our Young Professionals Group explaining their support. And as noted in the letter, we view this as conveying our state's strong desire to have

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

young talent stay here and build a career and life in Nebraska. We support the concepts within LB443 because we're looking for new policy ideas for how to keep and attract talent, work force. Work force retention is probably the number one issue facing most of our businesses. And LB443 certainly could help attract young people to the state and also to take a look at Nebraska, as Hunter just mentioned. We're looking for something unique. We like the idea of thinking outside the box, if you will, to say especially about the young people that are thinking about going somewhere else or thinking about coming here. And we value your education. We value the fact that you put an effort and financial resources toward your education. As I was looking at this issue, too, a lot of companies--larger companies in particular--it seems like a lot of tech companies are putting these types of plans together to attract young talent. And in this case, we as a state could have a financial incentive built into our tax laws that could prompt companies to provide this benefit. It is limited, as it's already been mentioned. And you're going to try to have something unique, it's probably not such a bad idea to limit it and see how it works and then maybe we could expand it later if it's merited. I talked with a senior vice president at Ameritas earlier this week prior to my testimony and she noted that they are supportive and allowed me to mention that to the committee. You may have received a letter from them. Also, I know we had an HR person from Spreetail, which is a e-commerce company that's over at Innovation Campus that was set to be here to testify. Emily sent me a note this morning about 6:30 and said business took her elsewhere today, so she wasn't able to. But she also said, mention our support as well. So with that, I'll close and answer any questions you might have. [LB443]

SENATOR SMITH: Thank you, Mr. Bohrer. I see no questions from the committee. [LB443]

BRUCE BOHRER: All right. Thank you. [LB443]

SENATOR SMITH: Thank you for your testimony. Next proponent of LB443. Welcome. [LB443]

NICK DEVINE: (Exhibit 5) Thank you. Senator Smith, members of the Revenue Committee, good afternoon. My name is Nick Devine, and I am a recent graduate of the University of Nebraska. I come today as a private citizen. I'd like to start by confessing that if all goes well, I will... [LB443]

SENATOR SMITH: And let me stop you. Mr. Devine, if you would spell your name for us. [LB443]

NICK DEVINE: Sorry, sir. N-i-c-k D-e-v-i-n-e. [LB443]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR SMITH: Thank you. [LB443]

NICK DEVINE: I would like to start by confessing that if all goes well I will soon leave the state, either to conduct research or continue my education. That being said, it has always been a priority for me that after I finish my studies I return home here to Nebraska. However, like many of my fellow students, student debt may inhibit my choices when planning out my future. Depending on how much debt I've accrued by the time I finish, it is possible that I will have to take a job outside of Nebraska that nevertheless is willing to help me pay for my student loans. This model has become popular around the country. In a 2015 survey done by the American Student Assistance survey, 76 percent of graduates said they would be more likely to take a job if the employer offered a student loan repayment program. However, since these loan contributions are still considered taxable income, few businesses are able to offer such a program. And while I forgot to include it in my written testimony, according to a Wall Street Journal article, only about 4 percent of companies around the country are able to offer a program like this. Nebraska would be one of the first, if not the first, to offer a solution to this problem by providing a tax credit to employers that are just trying to help their employees. This tax credit will be a boon not only to students of four-year colleges but anyone seeking higher education. By covering both college graduates and certificate holders, it encourages businesses large and small to invest in their human capital. A better educated work force will result in higher profits and stronger growth, keeping Nebraska's economy competitive. In recent years, Nebraska has made a fantastic effort to keep students from leaving. We have repeatedly been named one of the best state's to raise a family in. Our public schools are drawing in new parents, and projects such as the Lincoln Haymarket are attracting students drawn to the cities. Local venture capital efforts are drawing in more and more entrepreneurs and creating more jobs that need to be filled with highly educated workers. These efforts are commendable, but they cannot halt the drain alone. They need help from our state government, and LB443 is a step in the right direction. I want to be able to return to Nebraska after I am finished and there are countless other students like me ready to come home. Thank you for your time. And I can answer any questions if you have them. [LB443]

SENATOR SMITH: Thank you, Mr. Devine. Senator Schumacher. [LB443]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Thank you for your testimony, Mr. Devine. Are you in graduate school right now? [LB443]

NICK DEVINE: No, sir. Right now I'm waiting to hear back from a Fulbright Research Fellowship that would take me to Taiwan for ten months, but I am starting to study for the GRE and I plan on trying to enroll in an economics doctoral program when I finish. [LB443]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR SCHUMACHER: Okay. Just out of curiosity, can you tell us what Nebraska's top tax rate is, tax bracket? [LB443]

NICK DEVINE: I cannot. [LB443]

SENATOR SCHUMACHER: Thank you. [LB443]

SENATOR SMITH: Thank you, Mr. Devine, for your testimony. [LB443]

NICK DEVINE: Thank you. [LB443]

SENATOR SMITH: Next proponent of LB443. [LB443]

WILLIAM MUELLER: Chairman Smith, members of the committee, my name is Bill Mueller, M-u-e-l-l-e-r, I appear here today on behalf of the Nebraska State Bar Association, the Nebraska Dental Association, Nebraska Machinery Company, and Dr. Ohles from Wesleyan was here on behalf of the Nebraska Independent Institutions of Higher Education, another of our clients. I do appear before you on behalf of these clients in support of LB443. When we discussed these bills with our clients, candidly we were somewhat surprised that there was as much interest in the bill as we found and that the people, as you can imagine, who were around the table looking at these bills are primarily employers. And I can tell you from their standpoint, student debt is a huge issue when it comes to employing young people. And if this benefit were available, it would be very attractive, employers think, for young people. You've heard from young people much younger than I before me today, but I do think that this is a very interesting idea that could serve Nebraska well. And I do believe that any young person you talk to, in all likelihood...what, we heard 60 percent have substantial debt. And that is a very large consideration, a major consideration, that a young person has when they're deciding where they're going to go to work. And I think this is something that our state should adopt and we would support LB443. Be happy to answer any questions. [LB443]

SENATOR SMITH: Thank you, Mr. Mueller. Questions from the committee? Senator Friesen. [LB443]

SENATOR FRIESEN: Thank you, Chairman Smith. My question, I guess, for businesses is if they would ramp up their wages, those are deductible also. How does the tax credit versus just higher pay levels...you know, and I guess then we have to assume that the responsible adult will pay off his student debt. [LB443]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

WILLIAM MUELLER: Senator, you're right. I think that financially the student ends up in the same place. I do think that offering a specific loan repayment program incentive to an employer has more impact than to pay them more money. I just think that it is a concrete benefit that I think matters. [LB443]

SENATOR FRIESEN: Okay. Thank you. [LB443]

SENATOR SMITH: Senator Schumacher. [LB443]

SENATOR SCHUMACHER: Thank you, Chairman Smith and thank you, Mr. Mueller, for appearing today. Would this...when an employer paid off the student's debt to get this credit, would that pay off the taxable income to the students? [LB443]

WILLIAM MUELLER: That's a good question and I think I heard a prior witness talk about that. And I'm looking at your legal counsel who knows much more about tax than I do who's indicating that it probably would. [LB443]

SENATOR SCHUMACHER: Okay, thank you. [LB443]

SENATOR SMITH: I see no further questions. Thank you, Mr. Mueller, for your testimony. [LB443]

WILLIAM MUELLER: Thank you. [LB443]

SENATOR SMITH: (Exhibit 6) Any other proponents of LB443? Proponents. We now move to opponents, those wishing to testify in opposition to LB443. Seeing none, anyone wishing to testify in a neutral capacity on LB443? Seeing none, Senator Bolz, you're invited...and Senator Bolz waives closing on LB443 and that concludes...oh, we do have...I'm sorry...one...yes, we do have one letter for the record for LB443. This was a letter in support, a proponent, David Williams, representing Ameritas. And with that, we will close our hearing on LB443. Thank you, Senator Bolz. We now move to our next bill, LB561. Senator Schumacher will be introducing this. It relates to creating the Taxpayer Investment Program. Welcome to your committee, Senator Schumacher. [LB443]

SENATOR SCHUMACHER: Thank you, Chairman Smith, members of the Revenue Committee. My name is Paul Schumacher, S-c-h-u-m-a-c-h-e-r, representing District 22 in the Legislature, here today to introduce LB561. And I just about left this bill in the grave because it was on the floor once, we got 23 votes, or 24 votes, if I remember right, late at night. And I introduced it

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

last year and the bankers appeared in opposition because they were middleman that were taken out of the picture and I figured maybe this one should just stay in the grave. But on the last day we could refer something up for bill introduction, we got some bad news about money. Looks like we might be just a tab bit short this year. And I called out Lazarus to come forth. And so Lazarus is here today as a tool that the committee might find useful, that the Legislature might find useful. In fact, it was so hastily called forth from the grave that it still has in last year's provisions, or maybe the provisions that were initially drafted before the increase in the gas tax, it says the money goes to the highway fund. It doesn't necessarily have to go there. But the concept is pretty decent. If...if you believe that our current financial problem is short-term. Now I personally don't believe that. I think our current financial problem is long-term and chronic and going to get worse. But I might be wrong. Maybe it's a short-term problem. I know that we have a few short-term fixes being proposed; one of which juggles around whether we have 2 percent or 3 percent to 7 percent extra projected out over what our appropriations are, all kinds of different ways to push something in the future, two or three years, for expenses to just make things work and float on the presumption that this is a short-term problem and everything will be great again in just a little while. So this is what this bill does, okay? It's pretty simple, pretty easy to administer. And what it says is if you got any extra money at the end of the year, you can send it in with your taxes or some amount and, naturally, just as when you overpay your taxes, you can apply that to your next year's taxes if you like. Not terribly creative, it's done all the time. But this has just a little bit of incentive for you to make that overpayment. And the little bit of incentive is that when you apply it to your taxes down the road, we'll let it lay there for five years and then we'll apply it to your taxes, not much more complicated wrinkle than that, you get to take a credit equal to the amount you left lay around for the five years plus T-bill...ten-year T-bill rate of interest, about 2 percent right now, plus an adjustment for inflation; so roughly 3.5 percent, 4 percent return on your money. And that's the credit you get to take. A bit larger than what you put in. That's a pretty decent five-year bridge if you're thinking in terms that this is all going to fix itself in five years through growth or because the federal government is going to shower us with some type of stimulus program or defense contracts or whoever is going to come and bail us out. Ag prices are going to go back up to \$6, \$7 a bushel of corn, whatever is going to turn the thing around. If you believe that, this is a much sounder way to generate that bridge money than just putting off something into the future that we should be doing today in any one of the many budgets that we're trying to pare back. It's not borrowing money, because it is a credit against your tax, not an obligation of the state. And that's why it's not borrowing money. It's no more a commitment or borrowing the money than any of the other tax credits that are out there. Essentially, you're buy a future tax credit. And it could work. And just as we heard the contractors say, you know, it really wouldn't be a good idea to cut back on road funding because we got things in the pipeline and things have got to happen. And if you break that stride, it's really hard to pick up again. Well, that's true for a whole lot of things. It's true for schools; it's true for a prison system; it's true for a lot of the expenses of government that we are now trying to defer off into the future and breaking the stride. You can't go back and say, oh well, those kids

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

that we probably could have done something with in preschool or something like that, we can recycle them back through now that we're rich again in three, four years. We don't have to, necessarily, break the stride. And there's enough variables in the bill that we can tinker with the amount of principle, how much we use this; we can fiddle with the inflation adjustment or anything. But it is a structure, and a structure that might be better than what we're planning on doing. So I introduce the bill, happy to answer any questions. It's remarkably a simple concept. [LB561]

SENATOR SMITH: Thank you, Senator Schumacher. Do you have...thank you for the introduction on LB561. Any other states doing anything near to this? [LB561]

SENATOR SCHUMACHER: This is a screwy idea. It's a drive back from Columbus or to Columbus or maybe back and forth a few times from Columbus, but it's just remarkably simple. And there's no bonding fees, no bankers in the middle of it. It's all done at Revenue Department level. It is simple. And it will be opposed by the bankers, I'm sure. But it's simple, it works. You get some short-term funding. Now, in the end, you do end up paying what amounts to 3 percent, 4 percent interest. And depending on how much that it will be, a few million, ten, fifteen million dollars a year down the road; if you were going to recycle the money, Senator Chambers, I think, one time called it a Ponzi scheme because at some point you're cycling money. But for a short-term purpose, this works; long-term, it's like any other problem, real hard to work your way out. But short-term, if you believe that, this works. [LB561]

SENATOR SMITH: You looked at the fiscal note. I mean, what do you think of that and the assumptions made there? [LB561]

SENATOR SCHUMACHER: I don't know. It looks to me like fairly early on we'll be able to generate somewhere approximating the \$100 million mark if it's consistent with the one from a couple of years ago. And that lays there for five years before it starts being...come out of it. Now, it suffers from the same defect of a lot of credits and that is, you know, it's not...at least the way it's worded now, not mandatory you take it out in five years, so it's...it may be a little unpredictable, but so is the Advantage Act. We don't know when that money is going to be claimed. And so there's some protections, I suppose, could be written into it if it's taken seriously. [LB561]

SENATOR SMITH: All right, very good. Thank you, Senator Schumacher, for your opening on LB561. And we're going to go to proponents. Anyone wishing to testify in support of LB561? Seeing none, anyone wishing to testify in opposition to LB561? You must be representing the bankers. Welcome. [LB561]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

ROBERT J. HALLSTROM: (Exhibit 1) That would be correct, sir. Chairman Smith, members of the committee, my name is Robert J. Hallstrom, H-a-l-l-s-t-r-o-m, and I do, in fact, appear on behalf of the Nebraska Bankers Association today in opposition to LB561. My written testimony is brief and my comments will probably be more brief. Community banks already provide a location or a place for individuals to deposit their money. We're in competition with other financial institutions on a regular basis. We welcome that competition, but we think those deposits should be kept in the community banks who are paying taxes, making a difference in their communities, and making loans to individuals and small businesses to encourage economic growth and we don't believe that we should have to be in competition with the state government. When you look at the system that is set up under this bill, it provides ten-year rates on five-year money, plus the inflation factor, which is something that is a rate that I would not think most financial institutions would be able to compete with because it's different than what they are able to offer to their clientele. In closing, Senator Schumacher had mentioned in his opening that he almost didn't introduce this bill; and a lot of times it's probably a good idea to go with your initial instincts. (Laughter) We would hope that the committee would look unfavorably upon LB561. I'd be happy to address any questions. [LB561]

SENATOR SMITH: Thank you, Mr. Hallstrom. Senator Harr. [LB561]

SENATOR HARR: Thank you. Thanks for coming in, Mr. Hallstrom. So I see that it assumes there would be approximately \$83 million, for lack of a better term, that the state borrows from its taxpayers. If the state were to borrow \$83 million from a bank, would there be closing costs? [LB561]

ROBERT J. HALLSTROM: There would be expenses associated with that type of activity. [LB561]

SENATOR HARR: Do you know what those, generally, closing costs are as a percentage of a loan? [LB561]

ROBERT J. HALLSTROM: I wouldn't be able to venture a guess today. [LB561]

SENATOR HARR: Okay, but there probably would be closing costs on this, if LB561 went through, there wouldn't be closing costs? [LB561]

ROBERT J. HALLSTROM: I don't believe so. [LB561]

SENATOR HARR: And most bonds, I think, have insurance as well, is that right? [LB561]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

ROBERT J. HALLSTROM: There's costs associated with those as well. [LB561]

SENATOR HARR: Okay, thank you. I have no other questions. [LB561]

SENATOR SMITH: I see no other questions. Thank you, Mr. Hallstrom,... [LB561]

ROBERT J. HALLSTROM: Thank you. [LB561]

SENATOR SMITH: ...for your testimony. And for those that are visiting with us today, there's a friendly relationship here between Mr. Hallstrom and Senator Schumacher, so I don't think Senator Schumacher took offense at that. Next opponent of LB561? Seeing none, anyone wishing to testify in a neutral capacity on LB561? Seeing none, Senator Schumacher is invited to close on LB561. [LB561]

SENATOR SCHUMACHER: Thank you, Chairman Smith. Members of the committee, Lazarus may have a pulse, particularly if this next fiscal report looks...continues on the downhill track and the problems that we're going to face with where do we come up with the money to pay the bills and the Appropriations Committee scratching its head as to how we can masquerade and smoke and mirrors around to make it look like we're balancing the budget. So, any questions I'll be happy to answer. [LB561]

SENATOR SMITH: Yes, Senator Brasch. [LB561]

SENATOR BRASCH: Thank you, Senator Schumacher. How many years have you served in the Legislature? [LB561]

SENATOR SCHUMACHER: As many as you have, Senator. [LB561]

SENATOR BRASCH: I realize that. And how many on this committee? [LB561]

SENATOR SCHUMACHER: Um, what is this? The first year I was on General Affairs and then I lost my affairs and I came here, so I guess this is year seven, so it's been five full years, I think; maybe this is my sixth year, I think, on the committee. [LB561]

SENATOR BRASCH: And would you say your bills are getting more creative with each year? [LB561]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR SCHUMACHER: Actually, they're not. [LB561]

SENATOR BRASCH: They're not? [LB561]

SENATOR SCHUMACHER: This is one of the early ones. [LB561]

SENATOR BRASCH: The early one. [LB561]

SENATOR SCHUMACHER: This was when I could still think. (Laughter) [LB561]

SENATOR BRASCH: Well, I have a foreign exchange student from Germany who is visiting my office this afternoon and attending this hearing briefly and I wanted to note to her how senators with experience, like yourself, are either progressing or regressing, and I think we heard the answer. [LB561]

SENATOR SCHUMACHER: I think you did too. [LB561]

SENATOR BRASCH: I have no other questions. Thank you. [LB561]

SENATOR SCHUMACHER: Thank you to my comrade in regression. [LB561]

SENATOR SMITH: Thank you, Senator Schumacher. I don't see any further questions. Thank you for the closing on LB561. We now move to LB557. Senator Harr, who by the way, has been as many years here as Senator Schumacher, and he has a bill relating to adopting the Great Opportunities Nebraska Act. [LB561]

SENATOR HARR: Thank you, Chairman Smith, members of the Revenue Committee. I am here on LB557. And I'll try to speak as extemporaneously as Senator Schumacher, but that is often difficult to do. I'm here on a tax policy bill. And this is kind of going along with everything we've been talking about this whole session about what is the role of Revenue and what we should and should not be doing. Professor John Anderson at the University of Nebraska had an article where he said there are four types...tax policy is made four different ways. Number one is innovation; you try something new and you have an idea and you try it. Number two is intimidation meaning everyone else is doing it, if we don't do it we're going to miss the bus, i.e. why we sometimes have a little bit of an incentive to try to compete with Kansas. Number three is intelligence, and that is, hey, there was an action and there was a consequences and there was analysis and based on that, you know what, another state has tried it and we think it's a good idea

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

and we should do it, too. And the fourth is income deficiency, and what that means is kind of what we're in right now, we don't have any other choice, we got to find a way to get some money. I am here today on Great Opportunities Nebraska, which is a bill to replace Nebraska Advantage Act. And this is, what I say, these are incentive acts that we do for our state to encourage growth. And we're going to have a little debate about this, now...well, how we should grow the state and what we should be doing. I would contend, we got in the incentive business, maybe, for the wrong reason. We got in here probably on LB775 and when you think about what was going on at the time, Nebraska had just...or Omaha had just lost a couple of businesses and ConAgra was threatening to leave. And so I would argue maybe a little innovation, but a lot of intimidation went into passing LB775. And there was a fear that if we didn't pass it, we'd lose another big employer. So...and the state was in an unstable time at that time as well. And what we saw was businesses in Nebraska expanding. And we brought in a few businesses, not a lot. We tried to bring in a car manufacturer, it didn't work. And so we put a sunset on it. And so when the sunset came time to redo it, we now analyzed it and, lo and behold, we went from intimidation/innovation to intelligence. And we said, okay, there is an action, there is a consequence, and there was analysis. And based on that, we changed with the Nebraska Advantage Act. And what we said was: number one, businesses--you can't have the money upfront; you got to earn it. So we gave tax credits, which was a revolutionary idea at the time, is you can't...we're just not going to vomit money at you. You say you're going to do this, great, we're going to hold you to it. And as you do it, we will give you tax credits. And if you don't make enough of your tax credits, well, too bad, they're gone. And that was something that really hadn't been tried before. The other thing we did is we took an emphasis away from being, I'll call it hunters, which is going to another state and trying to bring a business to us, to being gatherers, meaning let's look at what businesses we have in this state and how do we grow those businesses and how do we encourage...sure, we want businesses from other states, but we don't want to go take headquarters anymore, we want, as a business expands, they look at Nebraska and they say, that's a great place, we should look into that. They have a great work force. I think we have some of the greatest workers in the country here. So we had to make a tax advantageous for them to do that. So that's what we did. And now, again, we're looking at how do we grow as a state? How do we become better and what do we need to fine tune those tax incentives that we have? So the Governor, last year, initiated the SRI and had to do a study, Stanford Research Institute, on what to do with tax incentives. And what we found was that as our economy changes, so must our tax incentives. So what we're looking to do is to realize there is an importance to investment. And those may not always create jobs right away, but they create high-paying jobs and those jobs pay taxes, and investments lead to jobs eventually. And that also, as we invest in new industry and we create efficiencies, because isn't that what we're really all about--cheaper, faster, better? So as we invest in capital and may not create new jobs, what it does do is it creates new money into the state which then flows through through higher taxes, through profits and that help our state and to, hopefully, as more people pay higher taxes, we can lower the rate. So we're looking at how to do that. We also had another problem with Nebraska Advantage Act in that we had...we have,

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

currently, DED, Department of Economic Development out there selling, saying--come to Nebraska, grow in Nebraska, we have these great tax credits for you, you are pie in the sky. And we get these big banner headlines, they have signed a contract for \$34 million...made up number, but let's say it's \$34 million. What we're finding is, they're not able to use those whole \$34 million in tax credits. They can only really use probably \$17 million. And that's a problem because we have a Department of Revenue...well, Department of Revenue is doing what they're supposed to do. Right? Department of Economic Development is supposed to be out there pumping, promoting. Department of Revenue is supposed to be making sure that they collect every dollar that's due them and not to give away anything they shouldn't. The problem is we have some rules and regulations that don't necessarily fit with what the law says or more detailed than what the law says. And so DED is over here saying--well, here's what the law says, here's what you should do. And then we have rules and regs, and more importantly, letters, IRS rulings, but they are department rulings through letters, which aren't rules and regs but carry the weight of law saying, nope, here's something else, or here's our interpretation of it. And it's very difficult to challenge that because you have to then say, hey, I think I'm owed it, I'm not going to pay it, and you have to sue. You pay it actually, and then...well, there are two ways of doing it, but anyway, generally you either pay it or you don't pay and you pay a high amount of interest. So what this bill is meant to do is to provide clarity and consistency so that when a business is promoted to come here, they know what they should and shouldn't do and they know what is expected of them. That's what we're trying to do. And we're trying to incentivize high-wage jobs. We have a lot of jobs out there and they're good jobs, but they aren't necessarily high-wage jobs. And so if we're going to limit how we use that money, we need to focus it like a laser and say this is what will grow the state and looking at what our competitive advantages and how can we build on those competitive advantages. That's what this bill does. So I want to thank the people coming in to testify after me. I'm going to let you in on a little secret, I have absolutely no pride of authorship in this because I did not write this bill. This bill, surprise, I know, is above my pay grade. I've done a little work in this area, I know a little bit about it, but I think it's a good thing. We have to show businesses that we are open to business, that we want them to come here. In an ideal world, maybe we could take the amount of business incentives and cut them in half and use the other part to pay education so we have a great work force. But the world we want to live in and the world we live in are two different places. And these incentives are on par with what other states are doing. We have to look, finally...and another reason we need high-wage jobs is because we are near full employment right now and we are running at a large deficit and that's a problem. And so we have two ways we can fix this problem: we can raise taxes or we can incentivize high-wage jobs, and those high-wage jobs will incentivize people to take higher jobs. Right? Either your current employer will promote you, because we have underemployment...and maybe we have a little unemployment, and maybe, just maybe someone will come to Nebraska because they know there are good high-wage jobs here. That's what we're trying to do. I'm going to address the fiscal note. If you look at the first page from Doug Gibbs, on the bottom it says--we have no basis to disagree with the Department of Revenue's estimate of fiscal impact or cost. I

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

wish it would say--comma, we have no basis to agree with it either; because I don't know how they came up with these numbers. This is the age-old problem that we have. They have the cost in fiscal year '18-19 as \$9,600,000. If you read the fiscal note, I have absolutely no idea how they come up with that. What tier they think each tier is going to cost, how they think it's going to cost that; it's not in there. In addition, the Department of Revenue...this bill replaces the Nebraska Advantage Act. It says the department estimates that it will require four FTE, full-time auditors; two fiscal compliance analysts, one IT application developer, half-time IT database analyst, half-time revenue operating clerk, and two attorneys to administer the provisions. Maybe you do. But where is the savings for the elimination of the Nebraska Advantage Act? How do we know? Is this in addition to? Because this is not an addition to; you're not going to need that many new people. If you go to page two of it, it says the bill increases the administrative complexities of the program. That's a conclusion, folks. This is written by our Department of Revenue. I have no idea how they came up with that conclusion, nor do they tell us how they came up with that conclusion. This is the exact opposite. It goes on to say--while dramatically reducing the amount of time the department has to process applications...dramatically. That's neutral? That's not an analysis, that's an opinion. Okay? So that tells you and gets in your head a little bit of sense of where the department is and how they feel about this bill. So while the department and, vis-a-vis, the Fiscal Office is the voice of God and we have to honor what they say, take it with a grain of salt, look at it carefully, and ask yourself--are they really unbiased or are they projecting a result that they want? And then think about what do we want to do and how do we want to grow the state. This is why...and I'm going to go off on a tangent, I think we in our Fiscal Office that has access to this raw data so that there is a difference of opinion, we can go to them. And I'll work on that; I'm trying to get it out of Exec, but that's a side note. But this tells you, again, I have no idea how they came up with that it's going to cost \$31 million...\$67 million, absolutely none. And how are we supposed to make policy and how are we supposed to amend this if we don't know what everything costs? This is not how we should operate as a Legislature. And I want to hold our Fiscal Office and I want to hold the Department of Revenue to a higher standard. And I think it starts by us holding them to a higher standard, holding ourselves to a higher standard. So, with that I would entertain any questions you may have on LB557. [LB557]

SENATOR SMITH: Questions from the committee? Senator Groene. [LB557]

SENATOR GROENE: I would think this fiscal note is positive. [LB557]

SENATOR HARR: Well... [LB557]

SENATOR GROENE: You're going to keep attracting so much business, you keep giving away more taxes. [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR HARR: You can't give away the credits unless you earn them. [LB557]

SENATOR GROENE: Well, that's what I mean, but it's positive. [LB557]

SENATOR HARR: In a way you're right, yeah, that's correct, it is positive on the state. It incentivizes those businesses we want. [LB557]

SENATOR GROENE: The fiscal note is positive to your bill. They expect business to grow here that you're giving away more and more tax dollars a year, that means more businesses here and more and more... [LB557]

SENATOR HARR: More and more employees paying income tax, that's correct. [LB557]

SENATOR GROENE: All right, so it's a positive note for your fiscal note. [LB557]

SENATOR HARR: I like your thought...train of thought. Thank you. [LB557]

SENATOR GROENE: But at the end of the day, this replaces the Advantage Act? [LB557]

SENATOR HARR: Yes. [LB557]

SENATOR GROENE: Does it grandfather everybody in the past into the new system or do they have to live by the old rule? [LB557]

SENATOR HARR: There would still be a tail from both LB775 and Nebraska Advantage. It would be those programs starting from that day going forward. They wouldn't eliminate what they had in the past, because we have a contract with them so we can't. But what we can do is say starting from the date of this bill...effective date of this bill going forward, this would be the new way of incentivizing the state. [LB557]

SENATOR GROENE: So you said other states are doing this, we got to catch up. I think the Tax Foundation is the third or the fifth or something in the nation with tax incentives right now. [LB557]

SENATOR HARR: Yeah, I wouldn't say we need to catch up. Well, let me restate that, let me clarify that... [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR GROENE: So if this is what other states are doing, we're going to go backwards because we're already third or so with... [LB557]

SENATOR HARR: Right. So let me clarify this. We need to...I don't want to throw money at a problem, right? That's not the goal and that's not where we're behind is in throwing money at a problem. What we need to do is have an incentive program that is more efficient and effective. Because right now, we...one of the reasons it no longer updates the Nebraska Advantage Act, but something with a new name is because there are conferences across the country where we go to try to get businesses to move here or to talk to them about expanding in Nebraska. Nebraska Advantage Act has a bad name. It has a...I'll use the term "stink" to it; because it has a reputation of being a bait and switch. And that it is near darn near impossible to get that money away from the state. Now, maybe that's just our Revenue Department doing a nice job, or maybe it's we need to write something more specific so that we don't give as much leeway to our Department of Revenue so that businesses and the Department of Revenue know what is expected of them. [LB557]

SENATOR GROENE: Thank you. [LB557]

SENATOR HARR: And that goes to why we're changing the name is because it does have some problems with it. And this addresses a lot of those issues. [LB557]

SENATOR GROENE: Thank you. [LB557]

SENATOR SMITH: Senator Friesen. [LB557]

SENATOR FRIESEN: Thank you, Chairman Smith. I mean, not being real familiar with the Nebraska Advantage Act, I mean I've heard that the application process is long and arduous and they don't like to actually even do it because it's too difficult. So I take it...looking at this process would be a lot simpler? [LB557]

SENATOR HARR: That's the idea. [LB557]

SENATOR FRIESEN: Or a lot easier and more companies would probably look at it as something that would work for them. [LB557]

SENATOR HARR: Right. Tax incentives are no different than anything else. They need to be...you know, we...the process needs to be cheaper, faster, better. And that's what we're trying to do is to streamline that process both in the application period and how long it takes for an

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

applicant to know whether they qualify or not. And then once they know they qualify, in being able to receive...if I do X, I will receive Y. Well, if they do X, they should receive Y. And so we're trying to streamline that not to say, well, I did X; yeah, you did, but we're going to...you know what, we actually interpreted X to mean X plus Z, even though it's nowhere in the statute. And that's what is occurring a lot of times. [LB557]

SENATOR FRIESEN: And so you're also targeting the size of companies that would apply to these or...? [LB557]

SENATOR HARR: Targeting what? [LB557]

SENATOR FRIESEN: Are you trying to target the size of companies also? I mean,... [LB557]

SENATOR HARR: Well, there are different incentives for different size companies, yeah. I wouldn't say we're trying specifically to target one size company. We're looking...some require almost no new employees, but a large amount of capital investment. [LB557]

SENATOR FRIESEN: You still have all the different tiers to the Advantage Act, you'll add one tier to what's currently... [LB557]

SENATOR HARR: Yeah. So the...yeah, so this...yeah. [LB557]

SENATOR FRIESEN: Okay, thank you. [LB557]

SENATOR SMITH: Senator Groene. [LB557]

SENATOR GROENE: Does it add more transparency to the incentives then? [LB557]

SENATOR HARR: That's the hope. I can't tell you how the Department of Revenue is going to interpret this, but that is part of the hope is to provide clarity and transparency. [LB557]

SENATOR GROENE: Looking at the audit on the...the report on the Advantage Act, we've had more increase and increase every year of applicants and individuals and companies that have taken advantage of it. It hasn't been a lack of interest. If you look at the number of companies and the dollars they're building, incentive dollars they're building...the credit, what I call an incentive, the credits. [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR HARR: Don't...yeah, and I don't think you're drawing a correlation between a good program and the number of applicants. And I don't think there is that correlation. I think we have a way to improve this and that's what we're trying to do. [LB557]

SENATOR GROENE: Are you extending the length of time that they can recapture...you said something about they only get about half? [LB557]

SENATOR HARR: No, actually, no, and I can't get specific. [LB557]

SENATOR GROENE: It looks like you were, with this nine years and some... [LB557]

SENATOR HARR: And some of it is, actually no, it's decreasing the recapture period because you want that recapture period closer to the investment. If you have something that you recapture 18 years from today, you're probably not using it to finance that current project, which is the idea is we're trying to incentivize these projects. And so we're providing a little pump, right? And if you're getting reimbursed 18 years from now, you're probably lining someone's pocket or, hopefully, it's being used to reinvest. But there isn't the connection to the payment of that project. [LB557]

SENATOR GROENE: Thank you. [LB557]

SENATOR SMITH: Senator Schumacher. [LB557]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you, Senator Harr. Was this bill inspired or anyway the result or of whatever action you have with the rather mediocre, some would say poor, report card that the Advantage Act got from the Performance Audit Committee? [LB557]

SENATOR HARR: I would say it was in the works before then, but it took into account the deficiencies that were brought up in the report, yes. [LB557]

SENATOR SCHUMACHER: Now, it's beginning to look like that a good chunk of our current fiscal mess is due to claims...credits being made under the Advantage Act, that we have no control over the timing over those claims and a lot of them seem to come in. Is there anything in here that gives us some budgetary control over when these credits could build up just like the hundreds of millions that are laying out there under the Advantage Act yet, could be claimed so that they don't exacerbate our fiscals woes? Well, you and I don't care, you know, we're going to be... [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR HARR: Off the committee, yeah. [LB557]

SENATOR SCHUMACHER: Right. But for some of the people who are going to be here? [LB557]

SENATOR HARR: Well, let me begin by saying I would probably reject the contention of the first part of the argument that Nebraska is causing our budgetary problems. I think it's much more complex than that. I wish it were that simple. I like to blame agriculture. And by that, what I mean is ag prices are down and they supported us in our last economic downturn...or economic...our agricultural buddies and friends and sisters and brothers, but now that corn is no longer at \$7 but at \$3, I think that's what's leading to a lot of our agricultural and our state problems. But the second part of your question, which was the question, which is, are there anything that controls when it can be refunded? Not to my...no, I don't think so. There are people coming up after me, but this is, again, it's meant to incentivize business not to...we receive the benefit on the state level from the additional workers, from the higher tax returns that the business has from the investment in capital. That's how we get our money. It goes back to what Senator Halloran said, these credits don't work unless we receive...these companies make money and that means they have employees or they have made a profit. And it's about keeping some of the wealth in Nebraska or at least bringing some new wealth into Nebraska or expanding those companies that are already here or they're looking at places across the country to expand. Remember, at the end of the day, no company is going to come here just because of our tax incentives. Let me be very clear about that. Tax incentives are something that tip the scale to our advantage, where all other things being equal, as far as a company coming in from somewhere else, all other things being equal, they're going to say, okay, well this tips us in the advantage of Nebraska, let's invest there. Right? That's part of it. But the other part is, I want to invest in Nebraska; I want to grow my business in Nebraska, but I don't have the capital, I need some help. If I make this investment, I'll receive this tax credit which lowers my tax liability which then allows me to borrow almost against my future tax credits, right, so that I can pay off my capital investments. [LB557]

SENATOR SCHUMACHER: Under this--and I know I won't get in the weeds under the bill or 30 pages of over lining there--but can you double dip under the Advantage Act and come back and double dip under this bill? While you still got Advantage Act project going, can you start claiming under this? [LB557]

SENATOR HARR: There are those after me who can answer that better than I. But my understanding is, it would be a case by case depending on what your business does and how interdependent they are. [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR SCHUMACHER: Anything under this bill you have several simultaneous or sequential projects you could qualify. [LB557]

SENATOR HARR: You, could, yes. [LB557]

SENATOR SCHUMACHER: Is that the same answer, someone else maybe who drafted it could probably... [LB557]

SENATOR HARR: Yeah. Thank you. [LB557]

SENATOR SMITH: I see no further questions. Thank you, Senator Harr, for your opening on LB557. [LB557]

SENATOR HARR: Thank you. [LB557]

SENATOR SMITH: We now invite those wishing to testify in support of LB557; proponents of LB557. Welcome. [LB557]

RANDY THELEN: (Exhibit 1) Thank you. Good afternoon. Chairman Smith, members of the Revenue Committee, thank you for hearing me today. My name is Randy Thelen, R-a-n-d-y T-h-e-l-e-n. I'm senior vice president of economic development at the Greater Omaha Chamber and I'm here today testifying on behalf of the Greater Omaha Chamber, Nebraska Chamber of Commerce and Industry, as well as the Nebraska Bankers Association. The bill before you is all about competition. How do we compete for the best projects across the country and around the world? Economic development is an awfully unique competition where there clearly is no second place...there's certainly no prize for second place. We find ourselves competing for projects across this state and too often coming up on the short end. What we have in front of you is an opportunity to really change the game and tilt the competitive balance back in our favor by going after high investment, high wage, high technology opportunities. In this process, the bill before you has been put together by nearly 200 economic development and business leaders across the state over the past year and a half. Companies have been consistently talking to us about challenges they see with the current program, the processes and procedures in particular. The benefits are very intriguing and attractive to companies certainly. The process and procedure to get to those benefits has become time consuming, costly, and ultimately giving the name, the brand, the Nebraska Advantage a bad name. We need to tilt the competitive balance back in our favor. This effort that included so many from across the state really was supported and buoyed by the work or the report produced by SRI offered by the Department of Economic Developed that was released last summer. In that report, again, it talked about the need for high innovation, high

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

investment, high wage kind of opportunities. That same SRI report took the time to critique the Nebraska Advantage Act and offered a few pointed critiques. First it offers a low-net present value. The way we process this program ultimately leads to extended time frames to receive the credits. And as we compete for projects and they compare our state against others, the discount that they apply to Nebraska Advantage is substantial. I have seen an estimated \$60 million of value over 15 years discounted below \$20 million. It puts us at a competitive disadvantage. The second critique of Nebraska Advantage was the complexity...the complex criteria included in the act. As the Legislative Performance Audit discovered as well, the complexity inherent within the program ultimately drives challenges to the process, drives challenges to the department, and a challenge to the companies trying to adhere to the criteria outlined in the act making it a very difficult process to entertain. And the third piece, the third critique, and maybe my favorite, and I quote, the summary does not do justice to the complexity of the program. This is SRI, Stanford Research Institute, one of the most prominent economic consulting firms in the country, if not the world, reaching this conclusion. This is on top of 38 companies approaching my organization over the last three years offering their critique and their challenges that they face with the program. It is time for change. It is necessary that we advance some change and improvements to the program. It's ten years in the making. We need to find a way to get more competitive once again. Maybe to illustrate this point, I handed out or asked to be handed out the Nebraska Advantage marketing piece, and maybe I'd ask you to just open up that for a moment. This is the marketing piece for Nebraska Advantage. In front and back it's six pages. I would estimate it's type 6 font size. There are what...6 plus tiers, an almost infinite number of sub-tiers. This is the marketing piece for our sales arm for the state of Nebraska. This is what we go to market with. You compare this with the business community where it's buy one, get one free; or no interest no payments for six months. Simplicity sells; this is a complex program for us to sell. We need to find a way to address that level of complexity and make it a simpler process, frankly, for both business and the Department of Revenue who administers this program. We, along with the findings of the SRI report, support a program that achieves the following: high-wage, high-technology, high-innovation projects; support a program that addresses transparency that were raised in the Performance Audit this past summer; simplifies the process for both our client, the business, and the department. Importantly, to stay current with the merging trends, the economy is moving faster than we can. As an incentive tool we need to adjust and be more flexible. And finally, as we've talked about the budget challenges here, support a more diverse and growing economy. I'd ask...I've been doing economic development now for about 25 years. When I started the jokes about the south were running rampant. Textile plants were closing, furniture plants were closing, the low educational attainment were a bit of a joke across economic development circles, and today it is a new south. They were aggressive; they went after what they wanted, they found a way to attract some of the best projects across the country and today you have Toyota in Mississippi and Kentucky, you have BMW in South Carolina. And not for one moment would any of those states regret their decision to invest by way of incentives to change their economy, to change the trajectory of their economy, and, frankly, not face some of the fiscal challenges that

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

we do today. Just in closing, we have a saying around our office as we compete for projects, do we want what we're getting or are we going to go out and get what we want? And as we approach incentives in a new way, we want to go get what we want. We want the best projects in the county to come and move and grow in Nebraska. Thank you. [LB557]

SENATOR SMITH: Thank you, Mr. Thelen. Do we have questions for Mr. Thelen? Senator Schumacher. [LB557]

SENATOR SCHUMACHER: Thank you, Chairman Smith, and thank you, Mr. Thelen. Are you the person who is poised to answer the technical questions? [LB557]

RANDY THELEN: Fire away. I'm not an accountant or an attorney, but I can pretend to be today. No, fire away. We had a heavy hand in drafting this. [LB557]

SENATOR SCHUMACHER: Did you stay at a...what's the hotel last night? [LB557]

RANDY THELEN: The Holiday Inn Express. [LB557]

SENATOR SCHUMACHER: Holiday Inn Express. Page 35, reflects a question...this is about line 26, reflects a problem that we've had, quite frankly, there's a lot of old incentive programs, because they have embedded in them confidentiality provisions which prevent us from really getting down and knowing what is happening and being able to understand what's happening so we can make a judgment whether they're working or not. Now this line says: no information shall be provided in the report that's made by the Department of Revenue, I guess, that is protected by state or federal confidentiality laws. What is this basically saying? I mean, what can't we know if we institute this? [LB557]

RANDY THELEN: Essentially, and this is true in any state in the country, it's true at the federal level, there is a very clear line of what is to be shared and what can be shared, and, essentially, information that can provide access to ultimately show the profitability or the sales level of a privately-held company. So the detailed dollars of tax savings for a company are shielded because that would...somebody could extrapolate from that what the sales and profitability of that particular company which would put them at a competitively disadvantage. And that is a standard practice across the country. [LB557]

SENATOR SCHUMACHER: It's practice, but we...how much of that is state, how much is federal? How much can we say, no, we're going to create a mechanism so that we can get the inside...just like they can over at the Revenue Department... [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

RANDY THELEN: Sure. [LB557]

SENATOR SCHUMACHER: ...or the executive branch of government, get the inside scoop as to what's going on as some way or another the Revenue Committee or an executive group of the Revenue Committee or somebody can get the inside story. [LB557]

RANDY THELEN: So one of the challenges outlined in the Performance Audit was how to count employees. And if you read that Performance Audit carefully, they really struggled with what is an employee; which seems strange, I think all of us here can define that pretty straightforward. But the history of Nebraska Advantage and how it's been deployed makes it more difficult than it should be. This addresses and clarifies that. If we propose to use the Department of Labor reporting system, which every company of every size reports each quarter, and now we're going to have consistent apples-to-apples comparison on employment by company. So there would be one cleanup, if you will, to make it more transparent for the state to understand how many jobs at what wage level are we getting for that Nebraska Advantage or this bill? [LB557]

SENATOR SCHUMACHER: But for us to know whether or not these deals are good deals or just giveaways, we need to get down to the nitty-gritty of the question--are they the reason why the company is here or are we just playing Santa Claus? And we can't do that with the available information in any reasonable way. We can't get the inside scoop. [LB557]

RANDY THELEN: Yeah. [LB557]

SENATOR SCHUMACHER: How do we make judgments? [LB557]

RANDY THELEN: So how do we make judgments? So let me walk you...sure, sure. [LB557]

SENATOR SCHUMACHER: Without adding...and why are we different in the legislative branch than they are over in the executive? They can get the inside scoop. They claim they can't tell us often. But why the difference? [LB557]

RANDY THELEN: So the...so I don't know the answer, sir, on legislative versus executive difference, that's something beyond where I'm...my skill set is at. [LB557]

SENATOR SCHUMACHER: Okay. [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

RANDY THELEN: But I can tell you, how do we make choices or how do we have confidence that these companies are choosing Nebraska as a result of these incentives? The way...and it's the classic sales funnel, sir. So at the top, the company has got to decide, frankly, what hemisphere do they want to be in; do they want to be in the East or the West, where are their markets, where are their customers, where are their suppliers? They narrow it down, do they want to be in North America or South America? Where is their competitive advantage as it relates to their particular industry, continue to narrow it down to which country, which region. Ultimately, they look at what states. And, frankly, more often than not, which regions do they want to be in or subregions they want to be in? By the time it gets to my office, a client is often...or a business is often making a decision between greater Omaha, Salt Lake City, Denver, Des Moines. At that point is when we can make a difference on their decision. Incentives drive that decision. They know they want to be in this geography or they could operate in this geography. Incentives are that last piece that really pushes it across the table. So can I sit here and say, sir, that every single project require that level of push, I can't. The way we have Nebraska Advantage structured today, if you do A, B, and C, you get X, Y, and Z. It's a statutory thing, no different than any of us in this room taking a mortgage interest deduction. That's the way we've historically done our incentives here. But without question, when companies are making their final analysis, they do factor in what is their total cost of doing business here? What does the incentive mix look like? And that does tip the scales in one direction or the other. And I would tell you with current Nebraska Advantage, too often we come up on the short end of that because of the way they interpret our program, the way they understand it. As Senator Harr said, the way the reputation of this program across the country has earned a reputation as a bait and switch situation, we too often come on the short end of that. [LB557]

SENATOR SCHUMACHER: Is there anything we can do to turn the tables on it? Say we...we don't have an unlimited number of this to give away. I mean it may be unlimited under the bill, but that's one of the problems we have. But okay, we've got four companies that want, let's say, a limited...access to a limited number of things that we could turn around and say, okay, one of you is going to get this prize and make them bid against each other for the prize or are they just 100 percent in control and we're just the not-so-good-looking gal whose is offering up her dowry? [LB557]

RANDY THELEN: So, I'm not even going to comment on the last part of your question, Senator, but I will say we need to grow as a state. I think before, Senator, you made the comment that we have a budget problem that is chronic and long term if we don't grow. If we don't accelerate our growth and change the trajectory of the growth, much like the southern states have been able to accomplish, we have to compete better. And if those four projects you're referencing are of a high-quality, high-wage, high-investment, high-technology opportunity, we should be so lucky to have them come into our market. And as Senator Groene said, there is a way to look at this fiscal note and suggest that this is a benefit; this suggests there is going to be robust growth. Yes, we're

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

putting back some by way of an investment bank and incentives, but if we don't attract these type of firms, we're going to find ourselves having lots of budget conversations that are not fun and enjoyable. [LB557]

SENATOR SCHUMACHER: Well, I don't want to consume much more of the committee's time, but there is a lot of technical issues, some of them...page 24 and 25 of the bill, it looks to me like we're creating one, two, three, four, five new ways to consume this credit. We're letting them do...moving--a credit of \$10,000; a job training credit that you can take it against your job training costs; another refundable credit--I guess these are all refundable--for search firm recruiting costs, another refundable credit for premiums and assessments." The credits may be used to reduce the taxpayers' tax on premiums and assessments"--I think this must be a premium credit--"25 percent of the credits earned in the project can go toward payment of public...from the state for public infrastructure costs." We've got a lot of refundable credits that it seems we've built into this thing. [LB557]

RANDY THELEN: We have. Although a couple of things, they are not refundable. So it is a use of credits, but not refundable credits, which would...certainly if they were refundable the fiscal note would be substantially larger, but they are not refundable. What we came to discover in working with the Department of Revenue was their forecast suggests that 90 percent utilization of credits. So as we talked...and so there's virtually full utilization as we sit today, in their opinion. So as we assess and meet with businesses, the common themes we hear that are constraints to growth in Nebraska--we need more people, we need more educated people, we need more talent. We have a population challenge; and a growth challenge, we need to get better there. How do we address the business talent needs? And so we gave them the opportunity to utilize some of these credits, if they choose, towards talent-related items. The other issue, the other constraint we hear consistently is infrastructure. And this doesn't matter if you're in Scottsbluff or if you're in Sarpy County, there are infrastructure challenges throughout the state and if companies can utilize their credits to invest in that infrastructure that can free up the opportunity to grow and invest in the state, we want to provide that opportunity. But again, they're not refundable. I would also suggest, too, this has been an interesting process as we've proceeded over the last year and a half. And some of these ideas that you outlined, Senator, were instituted or contemplated before the current fiscal situation. I think we're in a position where we had pulled back those programmatic changes, if we can see some progress on the process side. [LB557]

SENATOR SCHUMACHER: If some...just finally winding this up, even though I've got 20 pages of questions, but can you...if you got a Nebraska Advantage Act project going, can you pick up and dig into this one too? [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

RANDY THELEN: You could if you have a new distinct growth opportunity. So if you have a company that is...maybe invested 10 years ago and had a Nebraska Advantage opportunity and now you've got a new substantial project that would meet these new thresholds, it is potential to do that. But, again, I would argue that's what we need. We need that kind of investment; we need this kind of growth. And, Senator, I would offer to spend any amount of time you'd like to, to go over this. We need to make some changes to our competitive landscape. [LB557]

SENATOR SCHUMACHER: Under the Advantage Act, can you run more than one project at a time or sequential projects under the Advantage Act? [LB557]

RANDY THELEN: So, I believe it's one at a time. [LB557]

SENATOR SCHUMACHER: And when you finish it, you can start a new one? [LB557]

RANDY THELEN: Correct. If you have a project that will trigger the new...you still have to meet those thresholds, you can't just say I'm going to take these credits. You have to invest, you got to hire, you got to pay the wages. [LB557]

SENATOR SCHUMACHER: And under...and arguably then you could also one under Advantage Act, under this act, and under this act you could have... [LB557]

RANDY THELEN: Sequential. [LB557]

SENATOR SCHUMACHER: ...concurrent projects or... [LB557]

RANDY THELEN: Sequential. [LB557]

SENATOR SCHUMACHER: They all have to be sequential? [LB557]

RANDY THELEN: Correct. [LB557]

SENATOR SCHUMACHER: Okay, thank you. [LB557]

RANDY THELEN: Thank you. And again, sir, I would offer any time you want to talk further about this, I'd be happy to. [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR FRIESEN: Thank you, Senator Schumacher. Senator Groene. [LB557]

SENATOR GROENE: Thank you, Chairman. The Advantage Act locally the complaint was you got...we took their local sales tax. Do you still do that? [LB557]

RANDY THELEN: There is a provision in there, yes, it's consistent with the current Nebraska Advantage. [LB557]

SENATOR GROENE: So you continue to confiscate under local city's...the state does. [LB557]

RANDY THELEN: Yes. [LB557]

SENATOR GROENE: What about property taxes? I see here there's one statement in here, page 24, "credits earned for a tier 6 project may be used to obtain a payment" this isn't a credit, a payment "from the state equal to the real property taxes." [LB557]

RANDY THELEN: On that tier only. And again, that's consistent. So we...as we went through this process, Senator... [LB557]

SENATOR GROENE: Well, payment is different than a credit. Are we paying them to come here with other people's taxes? [LB557]

RANDY THELEN: Yeah, so the mechanism there is the company pays their property taxes and that payment, as you described, is the refund of those property taxes back, so it's... [LB557]

SENATOR GROENE: From the state though, not from the local government. [LB557]

RANDY THELEN: Correct. [LB557]

SENATOR GROENE: So the state is paying... [LB557]

RANDY THELEN: And that's consistent with the current law. [LB557]

SENATOR GROENE: ...is paying more. But when I've looked at the audits on the Advantage Act, that doesn't happen very often...property (inaudible). [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

RANDY THELEN: It does not. In fact, I think there's only two companies in the 10-year history that are even eligible for that (inaudible). [LB557]

SENATOR GROENE: Does this make it easier? [LB557]

RANDY THELEN: No, same threshold, same criteria. [LB557]

SENATOR GROENE: And let's say somebody builds a skyscraper in town, HDR. A contractor comes to town and says I'm hiring 500 people to build this building, can they apply for this? [LB557]

RANDY THELEN: Contractor? If you look at the eligible businesses, sir, a building contractor construction itself is not eligible. [LB557]

SENATOR GROENE: Good. [LB557]

RANDY THELEN: I mean, the premise of these incentives, we want to go after high-wage jobs. Right? That's the drive. And part of our proposal here is to take the wage threshold that's currently in the act of Nebraska Advantage and increase it 36 percent. So we're going to get a much higher wage out of this program than we currently have, which we think is a big right move. If you look at our economy, we don't have a job shortage. [LB557]

SENATOR GROENE: What's the lowest level of wage? [LB557]

RANDY THELEN: Currently it's a six...I'm sorry, currently it's \$11.88 across the state, and then in the bill here it's \$14.55 in the rural areas. [LB557]

SENATOR GROENE: Just the lowest level of a job that would qualify. [LB557]

RANDY THELEN: In rural and in urban, which is Lancaster, Douglas, and Sarpy County, would be \$16.10. It's a 36 percent increase over where we're at today. [LB557]

SENATOR GROENE: All right. I'm no...I'm a black and white guy, just make it simple. Wouldn't it be just easier to say, all right, here's what the employee payroll income taxes you paid last year. Here's what you pay next year because you created jobs. The difference we credit towards your income tax...corporate income tax, wouldn't that be just black and white? [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

RANDY THELEN: Any suggestions to make it simpler I'd be open to. [LB557]

SENATOR GROENE: It would be just so simple. You got the proof, the state does, that they actually hired some more people because they withheld more payroll taxes, and that amount can be credited towards your corporate income tax and let's all go home. [LB557]

RANDY THELEN: Similar approach, I mean I think similar concepts are using Department of Labor data that is regularly reported...consistently reported and has been for years, gets to the same end game, a simpler process. [LB557]

SENATOR GROENE: But all of this stuff in here, who's going to keep track of this? Is it self reporting? [LB557]

RANDY THELEN: I mean there's auditing processes that follow this, sir. [LB557]

SENATOR GROENE: The Revenue Department can go into the business and audit the numbers and stuff? [LB557]

RANDY THELEN: Correct. Correct. [LB557]

SENATOR GROENE: All right. Thank you. [LB557]

RANDY THELEN: Thank you. [LB557]

SENATOR FRIESEN: Thank you, Senator Groene. Any other questions from the committee? In the old (Nebraska) Advantage Act, I know there's a lot of credits still laying out there that they're unable to use, because they didn't make enough money or whatever, so I mean, would you say that the old system was designed intentionally that way or is it, you know, that there would be credits left over that they knew they couldn't use? [LB557]

RANDY THELEN: Yeah, and I certainly wasn't here when those bills were developed, but I've had plenty of conversations around that history. So at that time and even today, there was a push to get reductions in taxes for companies that are doing major projects, major sort of economy-moving projects. And so the math, I think at the time, was let's generate some credits, maybe exceeding the tax liability so companies can have some confidence that their tax rates will come down dramatically. I think there was a design to maybe generate more credits than could be used, yes. [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR FRIESEN: So do you feel the new system here, you've made it easier to make sure that you'll be able to use all the credits, you put a few more things in there that they could use it on? [LB557]

RANDY THELEN: We have, we have. And again, that's part of the dynamic. On one hand, we have companies suggesting they won't use the credits, and on the other hand we have a department that's suggesting that 90 percent of the credits are going to be utilized. So there's a little bit of a disconnect there. But, ultimately, if you look at how do we compete with other states? Other states are pouring significant money into tax incentives, certainly, and supporting that with infrastructure, and supporting that with job training and talent attraction kind of activities. We want to make sure we're on par in competing with that. [LB557]

SENATOR FRIESEN: Okay. Thank you, Mr. Thelen. Senator Schumacher. [LB557]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Does this set a date for terminating applications under the old Advantage Act? A cutoff? [LB557]

RANDY THELEN: So the current Nebraska Advantage Act is set to expire in a couple of years. This does not have a sunset embedded in it. And it's important not to, frankly. We can always bring this back. We can always revisit it. But to signal to the business community that there's a pending end to the program creates uncertainty which then creates indecision on their part. We want to eliminate that concern. [LB557]

SENATOR SCHUMACHER: So if we were to adopt this this year, we could have two incentives programs parallel running at the same time? [LB557]

RANDY THELEN: I'm sorry, no, I'm sorry, I must have misunderstood your question. This would...if passed, this would immediately end Nebraska Advantage...or at the end of this year, end Nebraska Advantage and on 1/1/18 would start the GO Nebraska program. [LB557]

SENATOR SCHUMACHER: Well, wouldn't that disrupt somebody who is in the pipeline already thinking they're going to land a Nebraska Advantage Act thing? [LB557]

RANDY THELEN: So they would have until the end of the year to make that application or live by the new rules. [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR SCHUMACHER: Well, you know, last year we were told we had to extend out that expiration date, whatever it was, two or three years because it would just be terrible if somebody was in the pipeline. How do we get by cutting it off now real quick and shifting gears. [LB557]

RANDY THELEN: It won't be simple. Right? Companies will have to make choices and make decisions as to which will be the program that will drive their decision and help move that project forward. But for us to make the changes and to make that competitive move, we have to go through this kind of this transition. [LB557]

SENATOR SCHUMACHER: So we could be granting applications... [LB557]

RANDY THELEN: In theory on the 31st of December for Nebraska Advantage and on the 1st for GO Nebraska. Yes. [LB557]

SENATOR SCHUMACHER: Thank you. [LB557]

SENATOR FRIESEN: Thank you, Senator Schumacher. Senator Groene. [LB557]

SENATOR GROENE: Back to making sure they recapture their credits, are you lengthening the time? There's two ways to do it--is one, is...because you got...if it's credit, they got to create the tax...the income and the tax to take the credit, but they're running out of time now. All right? Have you lengthened the time? The other way to make sure they get the credit is I pay taxes and the state gives them my tax dollars as a bonus to pay the credit. Which does this do? [LB557]

RANDY THELEN: Not sure I fully understand the second part of that. [LB557]

SENATOR GROENE: Well, Senator Harr...your answer to Senator Friesen is the reason they're not recapturing all their credits now is they're not creating enough income, therefore not paying enough taxes to credit against...to use against their credits in a certain amount of time. Is that not true? [LB557]

RANDY THELEN: I mean there...are there...I think there are two ways to think of that. Right? They could be generating more credits than they anticipated that exceeds their liability, that's one. I don't know that it's necessarily an indication whether or not their profitability... [LB557]

SENATOR GROENE: But then they would use it up if they created more credits. [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

RANDY THELEN: Correct. [LB557]

SENATOR GROENE: But they're not using it up. They're not creating as much tax liability to use up the credit now. [LB557]

RANDY THELEN: So this is where...but this is where, sir, so I think today the utilization is somewhere around 50 percent. The Department of Revenue is forecasting the utilization of 90 percent. So the department, who has the most insight of anybody, suggesting over time as these years build or these years go by, these companies will be utilizing those credits to a higher (inaudible) percentage. [LB557]

SENATOR GROENE: Before the time line? [LB557]

RANDY THELEN: Before the time line. Not all, there are going to be cases, and this is true in any state, there are going to be cases where some companies paid more taxes than they expected because their credits weren't as big, and there are companies that have more credits than their taxes so they can't use them. So there's going to be that... [LB557]

SENATOR GROENE: It issues them quicker. [LB557]

RANDY THELEN: They could. They could. [LB557]

SENATOR GROENE: If they have more income, create more taxes. How does this bill make it that they are able to use the credits and not lose any even in a...if their income doesn't generate enough...or their employment doesn't generate enough payroll taxes that they can use it? [LB557]

RANDY THELEN: So as Senator Schumacher had mentioned, there are new provisions that are proposed in this. If we proceed with this bill as is and include the program changes, it allows for utilization of credits to be applied toward infrastructure, to be applied toward job training and talent attraction kind of activities. So we'll use beyond typical...we'll allow for that. [LB557]

RANDY THELEN: Yeah, but credit against what? If they haven't paid many taxes, they...they use the credit on their income tax statement. Are they going to get a refund? [LB557]

RANDY THELEN: Well, they have sales and use taxes, property...on some levels, property taxes and ultimately corporate income tax. [LB557]

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Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR GROENE: Well, it can only be credited against the taxes they've paid. They will not receive like an earned income tax credit for large corporations. [LB557]

RANDY THELEN: So to your point, we could still be in a situation where companies have credits greater than their (inaudible). [LB557]

SENATOR GROENE: And we write them a check, the state of Nebraska. [LB557]

RANDY THELEN: No, not necessarily. No, not the...this is the same pay-for-performance, pay-as-you-go kind of process. So I think we're saying the same thing, just different ways, sir. Companies would have the option to use it against their credit, against their tax liability, or towards these other purposes. But, ultimately, they can only spend the liability that they've built up. [LB557]

SENATOR GROENE: But if they paid local sales tax or they paid local property taxes, if that's part of the credit, the local entity who collected that sales tax, property tax is not paying that credit, the state of Nebraska is. Is that not correct? [LB557]

RANDY THELEN: Well, property taxes, there's only the one tier, that that's eligible, and it's been a pretty rare case for that to be triggered, the sales taxes, both the state tax and the local tax. [LB557]

SENATOR GROENE: That's right. Maybe some clarify... [LB557]

RANDY THELEN: Okay, we can talk later, sir. [LB557]

SENATOR GROENE: Yes. [LB557]

SENATOR FRIESEN: Thank you, Senator Groene. Senator Schumacher. [LB557]

SENATOR SCHUMACHER: Thank you, Senator Friesen. But in response to Senator Groene's question, they may have earned the credit, but it's not against their tax because we're going to write them a check, essentially, if this passes to cover job training expenses, employee moving expenses, and that will come out of Senator Groene's taxes. [LB557]

RANDY THELEN: It could. Now the key though is, remember, the Department of Revenue is currently suggesting 90 percent utilization. So at one point or another, those dollars will be

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Transcriber's Office

Revenue Committee
March 08, 2017

utilized whether it is to reduce corporate tax liability or, in this case, the job training or infrastructure. [LB557]

SENATOR SCHUMACHER: But if that company goes belly up and after we've stuck money into their infrastructure, then we... [LB557]

RANDY THELEN: I mean, that's true. I mean that's true of virtually anything like this. Right? There's always that risk. [LB557]

SENATOR SCHUMACHER: Thank you. [LB557]

SENATOR FRIESEN: Thank you, Senator Schumacher. Any other questions from the committee? Seeing none, thank you for your testimony, Mr. Thelen. [LB557]

RANDY THELEN: Thank you. [LB557]

SENATOR FRIESEN: Other proponents for LB557? Welcome. [LB557]

JASON ESSER: Good afternoon. My name is Jason Esser, E-s-s-e-r; I'm here representing the Nebraska Economic Developers Association. Thank you...oh, Senator Smith isn't here, but Senator Friesen and members of the Revenue Committee, and Senator Harr for introducing this bill, LB557. As president of Economic Developers Association, I represent more than 300 economic development professionals across the state of Nebraska. These professionals are charged with creating employment and capital investment opportunities within their regions and communities. My organization's board of directors and legislative committee fully support the Great Opportunities Nebraska Act, also known as LB557, while fundamentally similar to the current Nebraska Advantage Act, this new programs strives to implement strategic identified goals from the Nebraska's next economy report authored by SRI International. Those strategic goals were to create high-wage, high-skilled positions; technology intensive investment; innovation; and high-quality communities. The state of Nebraska's business incentive programs, coupled with local economic development programs enables Nebraska's communities to be competitive. You have seen the reports on how incentives have directly created thousands of jobs and hundreds of millions of dollars in investment into the state of Nebraska. Incentives are a common and necessary tool to attract and grow business. These tools allow us to compete on a global scale for investment into our great state. Fundamentally, NEDA supports tools and programs which create growth opportunities for our great state. We need the tools that will raise wages, increase investment, and expand the tax base. My testimony here focuses on the need to grow quality jobs, increase that investment, raise the wages, and if all these things come together,

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

we should develop a stronger economy for Nebraska's future. The Nebraska Advantage Act is over ten years old and needs some modernization to capitalize on new opportunities. NEDA has worked with a variety of entities across...or to enhance the program. We have worked with many economic developers, business leaders, Department of Economic Development, Department of Revenue, the Lincoln and Omaha and state chambers of commerce. Overall, Nebraska Advantage has benefited the state. Companies who have utilized the program in many of the sectors have generated jobs and paid higher wages than their industry counterparts. But SRI noted that the average annual pay in Nebraska is 21 percent below the national level and Nebraskans are compensating for the low wages by working multiple jobs which has kept household incomes close to the national average. Also, in interviews with SRI conducted with employers across the state, the employers indicated finding and keeping employees is a constant concern. Essentially, Nebraska does not have a jobs problem, but rather a population problem. The working group assembled, and which came up with the Great Opportunities Nebraska Act, acknowledges the issue, and Nebraska's long-term economic development efforts can no longer be based on growth that creates just any job. Other changes within the proposed legislation, such as defining ineligible business industries will reduce the need for legislative revision in the future as new industries emerge. Creating tier 7 encourages technology innovation investment by small firms with high wages. This segment is a large growth opportunity we have not fully capitalized on to support advanced technology companies and jobs ranging from software and advanced ag technology and biotechnology. There are some creative enhancements in the program as well. One highlight is the infrastructure program...provides a way for communities to fund improvements, thus thereby ability, and ability to attract additional future investment. As with any program, in order to remain competitive, relevant, and to achieve new objectives, change is often necessary. The Great Opportunities Nebraska Act provides, at a minimum, a platform for discussing the next generation of Nebraska's tax incentive program. I urge the committee to think about how we can invest in Nebraska's future and modernize our programs to streamline the cumbersome process and ensure that we compete in the global economy to create jobs, investment, and to broaden the tax base. This concludes my testimony. Thank you for the opportunity. [LB557]

SENATOR FRIESEN: Thank you, Mr. Esser. Any questions from the committee? Senator Schumacher. [LB557]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Thank you for your testimony. So there's 300 economic developers in this state now. [LB557]

JASON ESSER: Members. [LB557]

SENATOR SCHUMACHER: Members. [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

JASON ESSER: Economic Development members...between community, utilities, and engineering firms, sir. [LB557]

SENATOR SCHUMACHER: I think the report I saw, I think 2011, there was 147 then; you've doubled the number of people? [LB557]

JASON ESSER: Well, we have members, not necessarily economic developers. [LB557]

SENATOR SCHUMACHER: I think that was members, too. I think that might have been members too...or agencies, or something then. So we've doubled the number of agencies doing economic development in, whatever its been, six years? [LB557]

JASON ESSER: I would question that number that you saw in a report. But all I know now is we have 300 members. Those members are not just economic developers; they could be utility professionals, they could be bankers...some bankers are members, some lawyers are members, and so forth. Again, to be a member of the organization, you don't have to necessarily be just an economic developer. [LB557]

SENATOR SCHUMACHER: And you indicated this was a population problem. How does this fix that? [LB557]

JASON ESSER: How does...well,... [LB557]

SENATOR SCHUMACHER: Where are we going to get the additional people from? How does this drag in any number of...any meaningful number of change in population? [LB557]

JASON ESSER: That's a great question, sir. The statement goes to the fact that our businesses have a difficult time in finding enough employees, that reason they find is a population issue. [LB557]

SENATOR SCHUMACHER: Okay. [LB557]

JASON ESSER: We simply don't have enough people. This bill, you know, will hopefully bring more people to our state through attraction and expansions of our industries. How many of those people will come? I do not know, I cannot anticipate that or even make a guess on that. [LB557]

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Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR SCHUMACHER: We've seen any number of projections in the Legislature's Planning Committee that basically indicate that unless you have some, usually international migration, your population is a function of babies born in the geographical area, and it's easily traceable, and that I've seen nothing which would suggest that you're going to have meaningful movement in population numbers as a result of a business incentive program. [LB557]

JASON ESSER: I would agree with that, Senator. It is an issue. There's not...it is an issue that faces our state and this is not a solution to that issue in particular. [LB557]

SENATOR SCHUMACHER: Thank you. [LB557]

SENATOR FRIESEN: Thank you, Senator Schumacher. Senator Groene. [LB557]

SENATOR GROENE: If present employers that pay well can't find employees, what makes you think new employers are going to find employees? You just said employers in the state now can't find good employees, which I agree with. So because you give incentive to somebody and you also then a work force housing, you build somebody a house, how do you get them to move here? [LB557]

JASON ESSER: Hopefully, those jobs that are created by our existing industries or new industries will attract individuals. [LB557]

SENATOR GROENE: I'll give you personal experience. I had a young man in North Platte, came from West Virginia because of high-paying rail jobs. I welcomed him. He just lit on me that he's moving back out because of the property taxes on the house his wife bought and his first paycheck and the income taxes. That is why they don't come here for high-paying jobs. So if you give these credits to everybody, who is going to relieve the income taxes and property taxes for that worker that doesn't want to live here because of the tax burden? [LB557]

JASON ESSER: Well, Senator, that is an issue that you gentlemen and ladies of this body get to address. We have no say in what those limits are or (inaudible)... [LB557]

SENATOR GROENE: I understand. [LB557]

JASON ESSER: Individual income tax rate is approaching 7 percent; business top tier is approaching 8 percent, so those are high. [LB557]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR GROENE: I understand. [LB557]

JASON ESSER: You make movements, some as, perhaps the Governor's Office has looked at doing. May not be the correct time to do that, but that's a move in the right direction, fiscally it's tough to do that. [LB557]

SENATOR GROENE: These new businesses come...the old business theory was, new business come to town, they pay taxes, they pay sales tax, the new employees pay taxes and pay sales taxes and property taxes, but you're saying we're going to give the business taxes away and then we're going to turn around and give the employee tax...who is left to pay taxes besides Mike Groene and Paul Schumacher? The loyal people to this state, seem they kind of get the shaft. [LB557]

JASON ESSER: I understand the direction you're going, and that's a very difficult question to answer. But it all comes...and again, Nebraska is a state that has a low population and lots of needs for revenue to take care of our responsibilities to our citizens, and hopefully growing...trying to grow our base...our business base will move that in a positive direction. No guarantees, as there are no guarantees in life. [LB557]

SENATOR GROENE: I applaud your effort, but you're in a rock and a hard place, I think. We spend too much. [LB557]

JASON ESSER: I would agree with that. [LB557]

SENATOR GROENE: Thank you. [LB557]

JASON ESSER: Thank you. [LB557]

SENATOR FRIESEN: Thank you, Senator Groene. I feel a little bit left out in that I pay taxes, too. Any other questions from the committee? [LB557]

SENATOR GROENE: You weren't in the conversation. [LB557]

SENATOR FRIESEN: Seeing none, thank you, Mr. Esser, for your testimony. [LB557]

JASON ESSER: Thank you very much. [LB557]

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Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR FRIESEN: Any other proponents wish to testify? Welcome. [LB557]

PHIL KOZERA: Hello. Senator Friesen, members of the committee, my name is Phil Kozera, it's P-h-i-l K-o-z-e-r-a, and my testimony is in reference to tier 7 of LB557. I'm the executive director of Bio Nebraska and we are the trade association for the life sciences industry. And we have over 70 members working on innovative products and services focused on human health, animal health, medical device, renewable products, biofuels. Some of our members are household names like ADM, Monsanto, Merck, Zoetis. Others are not, like LI-COR, GeneSeek, Novozymes. And at the Governor's summit in July, the report conducted by SRI International referenced that Nebraska's biotechnology sector could be a driving force behind a new innovative economy that provides the states' workers with high-wage, high-skilled jobs. It also noted that the average wages in the sector are much higher than the statewide average. So the average wage within our industry is \$68,000. I can attest personally because of my relationships and my involvement in the industry that we're well positioned to be a national leader in biosciences, specifically in the areas of renewable chemicals and products, animal health, medical device, targeted therapeutics, really due to our strong industry base, our work ethic, and also the quality and the significance of the research coming out of the universities. In addition, Nebraska, I believe, has a strong opportunity to grow high-wage jobs in rural and urban areas with our value-added ag footprint. And this opportunity lies in the fact that we have abundant feed stocks. We have competitive energy costs; a really significant and strong transportation infrastructure, and then also at our foundation is our agricultural expertise. So when we look at the competitive advantages that we have, that final piece, I believe, that's missing in our expansion and recruitment of these types of companies is a competitive incentive package to attract bioscience businesses. When bioscience companies consider growing or locating here in Nebraska, they bring high investments, higher wages, but the challenge is lower number of jobs. And the current Nebraska Advantage, ten new employee threshold is out of reach for many of our companies. So typically they'll come in and make a significant investment in infrastructure, but...and they'll have high wages, but they won't employ the number of jobs that allows them to qualify for the current Nebraska Advantage. And for that reason, Bio Nebraska is supportive of this GO Nebraska package that includes the new tier 7 which would recognize the investment companies make and high-skilled and high-wage jobs. On page 16 of the bill, tier 7 businesses are those businesses with a \$1 million of investment and at least five new jobs at 150 percent of the Nebraska statewide median hourly wage or the hiring of ten new employees paid at 150 percent of the Nebraska statewide median hourly wage. As you, the committee, considers (inaudible) of this bill or to the underlying Nebraska Advantage Act, we think it's important that you include provisions that make incentives available to employers offering new innovative and high-wage jobs. And that concludes my testimony. [LB557]

SENATOR FRIESEN: Thank you, Mr. Kozera. Any questions from the committee? Seeing none, thank you for your testimony. [LB557]

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Transcriber's Office

Revenue Committee
March 08, 2017

PHIL KOZERA: Thank you very much. [LB557]

PAT HAVERTY: Good afternoon, Senator Friesen and members of the committee. My name is Pat Haverty; I'm the vice president of economic development with the Lincoln Chamber of Commerce. My colleagues have done an excellent... [LB557]

SENATOR FRIESEN: Could you please spell your name. [LB557]

PAT HAVERTY: Oh, I'm sorry. H-a-v-e-r-t-y. My colleagues have done an excellent job of bringing out a number of points about the need to modernize Nebraska incentives and the reasons behind the Great Opportunities Nebraska Act. So to be respectful of your time, I just wanted to make just a couple of points and I'll condense my testimony quite a bit here. It has been a collaborative effort amongst economic developers from across the state. As Mr. Thelen indicated in his testimony, we've been working on this piece for probably over a year and a half now and we think that it's been important to bring together a number of economic developers. A group of us actually went across the state and we looked to get input from business and community leaders. We went to Scottsbluff, North Platte, Kearney, Norfolk, Lincoln, Omaha; held meetings with current Nebraska Advantage participants and as I said, also business and community leaders in those communities. We wanted to get their input as we put together this bill to try and find a workable incentive program for as many people as we could. We received a lot of feedback from companies about the application and qualification process. You've heard about that in testimony already. And additionally, we believe it's important that we look to accelerate Nebraska's growth, increase our competitiveness with those H-3 jobs and Department of Labor references those as high demand, high wage, high skill jobs. So we believe that the bill that we have proposed does present opportunities for those types of jobs to grow here in the state. So in closing, I would just say that the Lincoln Chamber of Commerce fully supports LB557. I'd be happy to answer any questions you might have. [LB557]

SENATOR FRIESEN: Thank you, Mr. Haverty. Any questions from the committee? Senator Schumacher. [LB557]

SENATOR SCHUMACHER: Thank you, Senator Friesen. Thank you for your testimony. Did these economic developers ever get together with their counterparts in other states and discuss these kind of programs and issues? [LB557]

PAT HAVERTY: Yes, we do. A great number of us belong to the International Economic Development Council, which is the...really it's really more national economic development group and we do meet with those folks and discuss that. As part of our process we went through, we researched a number of state programs and to see what was successful, what where they doing,

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Transcriber's Office

Revenue Committee
March 08, 2017

what do the tax credits look like, what were thresholds and all of those things, as we look to...we also want to do it from a competitive position. Are we competitive with those states? But also, what is working in those states and should we tailor what we're trying to do after that? [LB557]

SENATOR SCHUMACHER: And so what we do as a result of this project is we go to the state governments and we try to make them competitive, each trying to be more creative than the other with some type of bonus program. And in doing so, doesn't that inherently distort the marketing...or the market where the business should go where it's most efficient, where it's best situated? If you're in ethanol, you should show up at a place that has a lot of corn and a good rail line, whether or not somebody throws an armful of incentives at you to try to get you to build an ethanol plant in downtown Manhattan and call it economic development. How do we unwind this anomaly that we've created. We don't look at the market. We don't look at where reality is. We don't look at merit. But we look at these artificial things that puts states...I'm sorry, this...our incentives here are a good factor in our problems that we're having this year, and other states are having. How do we get away from that so that we don't...so they aren't distorting the market? [LB557]

PAT HAVERTY: I don't think that there's an easy way to get away from that, because all the other states are doing that. And I will tell you, there are a number of factors that go into this and it's not just the incentive piece. I mean, they look at regions, they look at time zones, they look at cost of occupation, cost of operations, and they work down through all of those factors. [LB557]

SENATOR SCHUMACHER: And they should. [LB557]

PAT HAVERTY: And then the incentives are this piece which makes a difference on whether or not they go to the one...or the last two or three places. [LB557]

SENATOR SCHUMACHER: But we should cut it off where the markets stops, not with these artificial things which are creating financial distortions, but then our state is in a competition that, quite frankly, states can't afford anymore. [LB557]

PAT HAVERTY: I don't believe that there are financial distortions. I believe that companies are creating jobs and they are making quality investment in this state. And so they are being rewarded for that and that is decreasing their costs of operations in this state. [LB557]

SENATOR SCHUMACHER: But if this state is the right place to be, it will be the place where the market would have their cost of operations be less rather than some taxing program that all of a sudden throws a tax burden on. Well, on this one, on Senator Friesen, and so he's got to ante up

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

to create...to keep...to get a business here that might be better situated for Kansas or might be better situated for Florida, and Florida is doing vice versa. We are creating an artificial situation, at war with other states, creating an artificial situation, creating market distortions, and we're compelled to do it because everybody is jumping off the bridge too. So how do we get out of this? I mean, that should be a legitimate discussion at these economic developer things unless it's just a way that they make their living. [LB557]

PAT HAVERTY: Well, that's...there's no one making a living off of providing incentives to companies. We work with companies to help them to make a decision that they're going to locate in Nebraska. The incentives is this piece here at the end. We've got all these other factors that are going into this. [LB557]

SENATOR SCHUMACHER: Thank you. [LB557]

SENATOR FRIESEN: Thank you, Senator Schumacher. Any other questions from the committee? Seeing none, thank you for your testimony, Mr. Haverty. [LB557]

PAT HAVERTY: Thank you. [LB557]

SENATOR FRIESEN: Other proponents for LB557? Seeing none, any wish to testify in opposition to LB557? Welcome. [LB557]

RENEE FRY: Thank you. Good afternoon members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y; I'm the executive director of OpenSky Policy Institute. I will tell you I did debate whether to testify neutral or in opposition today, but I would say that we do believe LB557 is an improvement over the current Nebraska Advantage Program, but at the end of the day we do have concerns about the level of incentives that we have in the state and the impact that they are currently having. So I'd start by saying LB557 is targeted at higher wages, which we think is a good thing. However, the threshold is...it's increased to 100 percent of the Nebraska median wage, and metro areas, which in Omaha, for example, would be \$42,630. So for a family of four, this would still qualify individuals for WICK benefits as CHIP and low income weatherization. So we do have concerns that it just isn't high enough. And we have general concerns about whether our tax incentives really do have a good bang for the buck. Dr. Bartik of the Upjohn Institute released a report and findings yesterday about a new database on tax incentives that he developed. The report's titled "A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States." I did send this out to committee members late this morning. And he had a Webinar last week and on that Webinar he mentioned that the biggest predictor of having high tax incentives in a state is not based on high business taxes or on regional attributes, but rather the biggest predictor of high

incentives were the level of incentives from the prior year, which he found were generally attributable to some political idiosyncrasy. So something happened at some point in time, some governor, and once you establish these incentives you continue to have these incentives and they're unlikely to go away. In general, Dr. Bartik of the...Dr. Bartik found that business incentives have little correlation with unemployment or future economic growth. The existing research on incentives is that in some cases it can affect business location decisions, but that in many cases they are excessively costly and do not have the promised effects. He indicates that the new research suggests that much of this consensus is justified. And he notes that if incentives mostly leave business location decisions unchanged, then they mainly serve to redistribute income from average taxpayers to capital owners. According to Dr. Bartik, Nebraska's business incentives are greater than the U.S. average by 79 percent and Nebraska could reduce its incentives by about 40 percent or \$80 million and still be competitive with the rest of the country. In his report, he notes that for export-based businesses, Nebraska incentives are considerably higher than our neighbors in Colorado and Missouri. And Iowa is just slightly higher, however when you take into account the ratio of incentives to gross business taxes, Nebraska is higher than all of our neighbors. Dr. Bartik notes that high incentives have been a hallmark of Nebraska tax policy going back to the 1990s. And business taxes have been reduced fairly substantially, but incentives have remained high even as taxes on businesses have decreased. Dr. Bartik concludes that incentives are still far too broadly provided to many firms that do not pay high wages, do not provide many jobs, and are unlikely to have research spinoffs. Too many incentives excessively sacrifice the long-term tax base of state and local economies, too many incentives are refundable, and without real budget limits. States devote relatively few resources to incentives that are services such as customized job training, which he finds may be more cost effective than cash in encouraging local job growth. So incentives came up quite a bit at the forecasting board meeting that was held recently and there were concerns mentioned about our future obligations. It also appears that utilization of tax incentives may be at a fairly high rate this year in contributing to our budget shortfalls. And we're just really concerned that LB557 may expand our obligations without having a clear benefit for the state. I would mention I would be concerned about this bill not having a sunset. The Pew Center and the states talk a lot about having caps on incentives programs, strongly recommends having caps, as well as having sunset so that there's an appropriate opportunity for review of those programs. Finally, I would mention that in the audit, the performance audit that was done here at the Legislature, it was interesting that 19 percent of FTE at Nebraska Advantage firms applied for unemployment within two years of hire. So...and this actually was slightly higher than non-Nebraska Advantage firms. And I think that's a consideration worth looking into. And with that, I see I'm out of time and I would be happy to answer any questions. Thank you. [LB557]

SENATOR FRIESEN: Thank you, Ms. Fry. Any questions? Senator Schumacher. [LB557]

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Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR SCHUMACHER: Thank you, Senator Friesen, and thank you, Ms. Fry. A number, the first time I heard it was today, that we're anticipating that 90 percent of the Advantage Act credits, and there are several hundred million dollars out there, are going to be claimed after all? Had you heard a number like that or done any research on that? What I heard up to this point, but that there was substantially lower than 90 percent. [LB557]

RENEE FRY: Yeah, I have not...I had not heard that number previously. [LB557]

SENATOR SCHUMACHER: Have you done any research to give us a handle on how much the Advantage Act has taken out of our revenues this budget cycle? [LB557]

RENEE FRY: Well, this budget cycle it's hard to know. So when I talked with Senator Stinner last, it looked like he was anticipating sales tax revenues...or refunds, excuse me, to be about \$90 million in the current year. And when we've looked at Nebraska Advantage and (LB)775 obligations, the sales tax refund portion is typically about a third, about 30 percent of total tax incentives in terms of the mix between property and income and sales tax. Now, I don't know if companies are just opting for more sales tax refunds this year, there's really no way to know, but that's part of the challenge of the program that I don't see LB557 really addressing is that there can be great fluctuation in the amount of tax incentives that are claimed in any given year. Two thousand thirteen was a particularly high year for Nebraska Advantage and claims were, I think, around \$118 million. It looks like we could be well above that this year, but we really won't know until the end of the fiscal year. But it was something that was mentioned several times by both the Fiscal Office, as well as the Department of Revenue that they were seeing that sales tax refunds were coming in at a higher rate than normal. [LB557]

SENATOR SCHUMACHER: Is there anything that you've been able to observe in your studies of this issue that would give us any hope that states are beginning to stand down in this war? [LB557]

RENEE FRY: Dr. Bartik in his report did mention that some states are starting to pull back while other states are doubling down. So there's a mix. There's not a clear consensus. As I said, the Pew Center on the states has done quite a bit of work in this area, did help fund Dr. Bartik's database and they strongly recommend that states look at utilizing caps and utilizing sunsets so that states can keep on top of the costs of these programs and make sure that they're really doing the type of analysis that was done by Performance Audit most recently to make sure that the costs aren't exceeding the benefits. But I will tell you based on the Performance Audit I think it's really unclear about what the benefits actually are and whether they warrant the cost of these programs. I think that question has not been clearly answered at this point which is a reason why

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

we think we really just need to get a handle on the cost of these programs because our future obligations is considerable. [LB557]

SENATOR SCHUMACHER: Thank you. [LB557]

SENATOR FRIESEN: Thank you, Senator Schumacher. Any other questions from the committee? One, when you look at the cost of these programs, and like you said, we're in a, basically Senator Schumacher said we're in a bidding war amongst states, amongst communities, amongst regions trying to attract businesses, sometimes from only one region to another and not really benefiting the state that much, so let's eliminate the whole program and take those tax savings, what could we do with that money? Could we take the corporate rate to zero and take our income tax rate down to something else and just make us a really tax friendly state and then we have a balanced budget, we don't have the debt that other states have, we are at an advantage at that point. [LB557]

RENEE FRY: So I would start by arguing that businesses and residents look at more than just taxes in terms of where they locate, and you would want to make sure that you have the proper investment. They look at roads, they look at quality of education, that sort of thing. Dr. Bartik in his research, as I indicated, really recommends very strong customized job training programs, but also talks about pre-K as being a really good, long-term investment for a state's economic development policy. And so I would say that I think it's important to have a well-rounded mix of things. So in terms of our corporate taxes, I'm not sure the answer to that. Our corporate income tax is paid about \$200 million-ish a year. And the incentive programs, again, it's really difficult because there's quite a bit of fluctuation from year to year to see how much is claimed. So I don't think that you could eliminate your corporate income tax. The other thing that I would flag is that if we eliminated our corporate income tax today, then we would expect, probably, that with our pending incentive programs that you would have higher utilization if you couldn't use it against your corporate income tax and you would have higher utilization in terms of other types of, you know, whether it's higher sales tax refunds or higher property tax collection or higher...using the payroll withholding provision and Nebraska Advantage. So I'd have to spend some time thinking about that and how that would work, but I think it's...I think you would have a period of time where because of the existing obligation... [LB557]

SENATOR FRIESEN: So we would have a phaseout? [LB557]

RENEE FRY: Yeah, you would need to do that, yes. [LB557]

SENATOR FRIESEN: So I mean, I've been told by certain CEOs at times that tax rates really don't matter so much as long as you have a stable tax policy in the state. They can build it into

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Transcriber's Office

Revenue Committee
March 08, 2017

their business model and it is...numerous other things they look at that give them the advantage or the disadvantage to that location. So when you look at the big picture, are we sometimes just trying to be like everybody else only offer something shinier and brighter and it's the same thing? But is there something we can do then that is better? What should our tax incentive program look like? If it's not going to look like this, what should it be? [LB557]

RENEE FRY: I really think that we need to improve customized job training, dedicate more resources to identifying where those gaps in employment are, and when we hear quite a bit that our... [LB557]

SENATOR FRIESEN: We have such a low unemployment rate, is it just...? [LB557]

RENEE FRY: Right. You have a lot of people who are underemployed here working multiple jobs and you have a lot of jobs that are going unfilled. And so I think you could spend some time really looking at trying to better match folks that are underemployed and unemployed and getting them into higher-paying jobs using customized job training. And again, I would say pre-K is a very long-term investment, but it does have a really high return on investment. And so I think we need to look at a multitude of strategies to get us there. But I actually have a...I don't have it in front of me...well, I do have it in front of me somewhere in this stack, but there are several types of programs that Dr. Bartik recommends in terms of what really low unemployment states should be looking at. And I'd be happy to follow up with that information. [LB557]

SENATOR FRIESEN: Thank you, Ms. Fry. Any further questions from the committee? Thank you for your testimony. [LB557]

RENEE FRY: Thank you. [LB557]

SENATOR FRIESEN: (Exhibits 2 and 3) Any other opponents? Seeing none, we have a proponent letter, Mayor Chris Beutler, city of Lincoln. And are there any who wish to testify in a neutral capacity? Seeing none, we have one letter from Crystal Larson from city of La Vista. Seeing no other people wishing to testify, you wish to close, Senator Harr. [LB557]

SENATOR HARR: Thank you, Senator Friesen. [LB557]

SENATOR FRIESEN: I'm sure you've got all the answers to the questions now. [LB557]

SENATOR HARR: Thank you, and thank you, members of the Revenue Committee, for listening to testimony today. I want to thank those who came and testified. We are at an

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

important state point in our state's history, similar to where we were in 1987. We have darn-near full employment, but we have a huge deficit and we have to figure out how are we going to get ourselves out of this? Are we going to raise taxes? Or are we going to invest in ourselves and in our businesses with the idea of growing the state? We have a problem right now, and what happens is we spend a whole heck of a lot of money educating our youth, K-12. Maybe some more through property tax dollars and then through state funding, but we spend a lot of money educating our kids. And our kids, for the most part, get a very good education. We have good public schools. We should be proud of that. We also have a very good university. The problem is, when those kids graduate, there aren't jobs for them. They leave this state. We invest a whole heck of a lot of money in a resource and then we just let them leave. You look at the SRI report and it talks about one of the problems we have as a state is these kids leave because there aren't high-wage jobs for them. There's actually a push down. So people with a college degree are doing jobs that don't require college degrees. And then those jobs that move...those people who could otherwise qualify for those jobs go into lower end jobs. And that's one of the problems we have right now, why our income tax revenue is so low, why are sales tax revenue is so low? So instead what we should be doing is, is kind of a chicken and an egg. We should be investing in our kids and making sure that we produce great kids. And we are and we should be proud of it and we should continue to do that and we should continue to fund that. But in addition, we should be incentivizing high-wage jobs so that those kids stay here or there is a job to come back to. I have young kids; I want them to be there. I don't want to go to Florida or Arizona because I have to chase my kids. If I'm going there, it's because our taxes are too high. Sorry, that's a joke. But we want our kids here and I want to be near my kids. And I want to make sure that there's a job here for them. Right now, it's almost a cliché, there are only three types of people that stay in Omaha...in Nebraska after they graduate: well, I'll say Omaha; I can't speak for the rest of the state. It's you either have a profession, you're a lawyer, a doctor, a teacher, or a nurse. Or it's mom and dad own a business and I think I'm going to take it over. And the third is someone who takes four or five...five or six years to graduate from college, probably has a job in the service sector waiting tables, bartending, and when they graduate they get a job in sales. And they stay in sales for a long time. And that job may or may not require a college degree. And maybe they progress to middle management. And it's not a bad thing, but those are it. We don't have individuals who say--I want to be an engineer, I'm going to move to Nebraska; even though that is a profession, we don't have businesses here to hire our college kids. That's what we're looking to do. And then from there you can build. You create that core and then we can build from there. That's what we're trying to do with this bill. And it is about making Nebraska great. I'll say it again, that's what we're trying to do here. Senator Schumacher, your argument about 90 percent from the Department of Revenue. I don't know if that's right or not. That's...you know, wouldn't that be great if it were. That means our economy was hitting on all cylinders. Unfortunately, as the tax modernization showed, it's closer to 48 percent. So I guess, you know, again, these are credits, for the most part. You don't get the money if you don't produce the jobs and if you don't

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Revenue Committee
March 08, 2017

do what you're required to do. So with that I would be willing to entertain any questions you may have. Looking at my notes, I think that's it. Yes. [LB557]

SENATOR FRIESEN: Thank you, Senator Harr. Any questions from the committee or comments? Thank you, Senator Harr. [LB557]

SENATOR HARR: Thank you. [LB557]

SENATOR FRIESEN: With that we'll close the hearing on LB557. And we will open the hearing on LB616. Senator Wayne, welcome. [LB557]

SENATOR WAYNE: (Exhibit 1) Good afternoon. My name is Justin Wayne, Senator Wayne, J-u-s-t-i-n W-a-y-n-e, and I am the senator from District 13 which is north Omaha and northeast Douglas County. And I'm proud to represent them and today I'm introducing a bill, LB616, that deals with creating a tax-free zone in east Omaha, primarily. And what I'm handing out is a map of the current HUBZone in Douglas County and this limits it to a metropolitan class city, which is the city of Omaha, so we are really talking about east Omaha. And the reason I'm so excited about this bill is because, as I was working on an amendment yesterday, I got the fiscal note. And I'm proud to say that today we are embarking on the most effective and efficient economic development plan ever made or ever in this world based off the number of the Fiscal Office. And the reason I can say that with a straight face is that I looked into the data, went down and talked to the Fiscal Office, talk to Department of Revenue, and the projections that you see in this fiscal note...or fiscal impact is something that I've never seen before in any economic development plan. And if we were to hit these numbers, we would actually, fundamentally change east Omaha and we can set a model for the rest of the country and the rest of the world for that matter. According to the fiscal note on year two, in order to reach that revenue lost, there would have to be \$1.7 billion of new businesses in order to reach that number that the Fiscal Office has said we would lose in revenue. That's \$1.7 billion. And that's assuming that there's a corporate tax rate of the max of 7.8 percent and sales tax of 5.5 percent in everything sold in this worst-case scenario of the businesses would be 100 percent taxable sales tax. According to their numbers, each company, about 60 companies, and they based this number off of the Advantage Act, 60 applicants a year, it seems extremely high, but we can use that number in order to lose about \$2 million per company, that company would have to have a gross revenue of almost \$28 million. If an incentive came to Omaha, Nebraska, to produce a company in its first year as a startup that can gross over \$20 million, that's the best incentive package in the world. And so I say that to say what we're trying to do is target jobs. East Omaha is an area where there's high poverty and we're looking for economic development. And this was a way in which we can start a conversation and start development with new jobs over the next three years by introducing a tax-free zone on income tax, sales tax, and use tax for three years. For every job they create, it was pointed out

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Transcriber's Office

Revenue Committee
March 08, 2017

that even if one new job would qualify for that, and I had an amendment working on that, but like I said, after I saw the fiscal note I thought it was more important not to change anything because if we can do this, according to their projections, this is the most efficient economic development plan ever. And I'm okay with trying that. And I think this committee would be okay with trying that because there's HUBZones actually across the entire state and we can go every three years and move them throughout the state and have this great prosper of economic development. The other thing that is interesting to note about this fiscal note is that the average salary for each job committed, if it's 10,000 jobs per year, which is what this is limited to, the average salary is \$119,000 in order to make the numbers work. I just have a hard time believing that in the first three years of a company, we're going to get \$25 million in gross revenue, and a \$119,000 job...10,000 jobs that pay \$119,000. But the purpose of this bill is to create jobs, to target in jobs in an area which has some of the highest unemployment and underemployment in the state and to start growing that economy organically. And what was really interesting about this bill is we made sure to exclude certain restaurants, that a law firm couldn't just pop up and qualify. That it wasn't based off of services, but it was based off of actually producing something, a manufacturing facility, producing something; because these are the jobs that are needed in our area. And I just think this is a great starting point to an overall economic conversation and how we can develop Omaha, particularly east Omaha, and use it as a model for, this case, the rest of the state. And with that I'll answer any questions. [LB616]

SENATOR FRIESEN: Thank you, Senator Wayne. Any questions from the committee? I don't see any. But I like your numbers, too. I look forward to spreading this out into the rural parts of the state. I think it would be an excellent program. [LB616]

SENATOR WAYNE: Thank you. [LB616]

SENATOR FRIESEN: So with that we'll...any proponents wish to testify in favor of LB616? [LB616]

SENATOR SMITH: I can take over. [LB616]

SENATOR FRIESEN: Oh, Senator Smith, nice to have you back. (Laughter) [LB616]

SENATOR SMITH: Okay. I think Senator Friesen is getting comfortable with the Revenue Committee chairmanship. [LB616]

SENATOR FRIESEN: Careful when you leave. [LB616]

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Transcriber's Office

Revenue Committee
March 08, 2017

SENATOR SMITH: (Exhibit 2) So, any proponents of LB616? Seeing none, anyone wishing to testify in opposition to LB616? Seeing none, we do have one letter that was sent for the record in support of LB616, Dell Gines of Omaha, Nebraska. Anyone wishing to testify in a neutral capacity? Seeing none, Senator Wayne waives closing on LB616. And that concludes the hearings for the day. Thank you, Senator Wayne. [LB616]