

Transcript Prepared by Clerk of the Legislature Transcribers Office
Revenue Committee March 6, 2019

LINEHAN: Good afternoon. Welcome to the Revenue Committee. My name is Lou Ann Linehan. I'm from Elkhorn, Nebraska, and represent the 39th Legislative District and serve as Chair of this committee. The committee will take up bills in the order posted. 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. If you are unable to attend the public hearing and you would like a position stated for the record, you must submit your read-- written testimony by 5:00 p.m. the day prior to the hearing. To better facilitate today's proceedings, I ask that you abide by the following procedures. Please turn off your cell phones and other electronic devices. Move to the chairs at the front of the room when you're ready to testify. The order of testimony is introducer, proponents, opponents, neutral, and then closing remarks. If you will be testifying, please complete the green form and hand it to the committee clerk when you come up to testify. If you have written materials that you would like to distribute to the committee, please hand them to the page to distribute. I'll introduce the pages in a second. We need 11 copies for all committee members and staff. If you need additional copies as soon as we introduce them, ask the page to make the copies for you now. When you begin to testify, please state and spell your name for the record. Please be concise. How many people here want to testify today? Let's go with three minutes and then if, you know, we'll give you some time for questioning. So we'll go with three minutes on green and then one minute-- you'll have another minute to wrap up on yellow. If there are a lot of-- well, I just decided that. If your remarks were reflected in the previous testimony or if you would like your position to be known but 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. Please speak directly into the microphones so our transcribers will be able to hear your testimony clearly. I'd like to introduce the committee staff. To my immediate right is legal counsel, Mary-- Mary Jane, excuse me, Egr Edson. And to my immediate left is Kay Bergquist. At the end on the left of the table is committee clerk, Grant Latimer. With that I would like the senators starting on my far right to introduce themselves.

KOLTERMAN: Senator Mark Kolterman, District 24, Seward, York, and Polk Counties.

GROENE: Senator Mike Groene, District 42, Lincoln County.

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LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

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

McCOLLISTER: John McCollister representing District 20, central Omaha.

BRIESE: Tom Briese, District 41.

LINEHAN: And if the pages could stand, please. Our pages today are Brigita Rasmussen, sophomore at UNL, major-- her major is agricultural education; and Kylie Cappellano who's a senior at UNL, prelaw, political science, and TV broadcasting. So they can help you if you need copies. Please remember that senators may come and go during our hearing-- and I'm going to do this today at some point too-- because we have other bills in other committees to introduce. Refrain from applause or other indications of support or opposition. I'd also like to remind our committee members to speak directly into the microphones. Also for our audience, the microphones in the room are not for amplification but for recording purposes only. Lastly, we are electronics equipped committee and information is provided electronically as well as in paper form. Therefore, you may see committee members referencing the information on their electronic devices. Be assured that your presence here today and your testimony are important to us and is critical to our state government. With that, we'll open the hearing on LB720. Welcome, Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Chairman Linehan, fellow members of the committee, I'm Mark Kolterman, M-a-r-k K-o-l-t-e-r-m-a-n. I represent Legislative District 24. I'm here today to introduce LB720. Before I talk about why I introduced this bill and made it my priority for 2019, I want to make sure that I thank the 22 cosponsors who have added their name to LB720. I know many of you have heard me ask questions of this committee as well as testifiers and other stakeholders on the kind of policies we need to grow our economy. When I first introduced LB720, many of the cosponsors did not have an opportunity to pore over every line of the bill. Instead they added their name to this bill because they recognized the long success our tax incentive programs have had in Nebraska and they've seen firsthand the growth in jobs investment infrastructure in their districts. But many of us here also know that just securing 22 cosponsors leaves us a long way from the finish line. Whether your top issue is to reduce high property taxes for farmers and ranchers or to reform school funding, I hope you recognize that a thriving business

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sector is a part of the solution. We've heard a number of times that jobs and wealth are more mobile than ever before and many businesses have a choice of where they want to locate and grow their business. Our businesses are listening and I hope this message-- the message this committee sends is that we have value for the commitment to Nebraska and we value the jobs that they bring to our communities, both border to border. Someone asked me why I decided to carry this piece of legislation. The reality is that I've been involved in economic development personally for more than 25 years in my hometown, Seward. I've worked together with many groups of businesspeople to develop our countywide economic development program and I've been engaged in that program as we expanded our toolbox in our community, implementing both TIF and LB840 programs. We partner with the Lincoln Area Partnership and have a great working relationship with them. We sought and received block grants, downtown revitalization funds. We are a certified Economic Development Community which means that we have the opportunity to court large projects in collaboration with the Nebraska Department of Education-- Department of Economic Development as large companies consider communities in Nebraska. I've also been involved specifically with helping to grow our rural agricultural programs in my district working to attract companies like Monsanto, Pioneer, Bayer CropSciences, and most recently working with efforts to grow our livestock opportunities through both the Costco project which has projected 15 poultry operations in my district alone in Seward/Polk Counties. I've had the opportunity to sit-- sit across the table from numerous executives who make the decision where to locate their companies. And I'm proud to say that we've attracted many of those companies in Seward, York, and Polk Counties where they thrive today. I've been involved in the Southeast Nebraska Development District serving on their board for many years and have also served as Nebraska dip-- diplomat. So I've worked hard to build my area through economic development efforts. And serving in the Nebraska Legislature, I'm excited to have this opportunity to work on this legislation so that we can continue to grow Nebraska communities through a statewide effort. The drafting of LB720 sets this bill apart from other proposals because it includes input and design of front-line economic development professionals. These are the people that our state depends on to represent us on recruiting visits, who participate in trade missions, who sit at the table with companies as they contemplate expansion programs and know exactly what they're looking for when they make decisions on where to locate their jobs, their investments, and the future. The overall tax burden in Nebraska is too high for our citizens and the need to grow our state has never been more important.

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In order to find resources to provide this tax relief, we need a competitive business climate that helps grow and strengthen Nebraska's economy with new jobs and investment. I'm, I'm pleased that we've had the opportunity to hear from dozens of Nebraska companies who came in this year to testify on other bills that we've heard, "homeground"-- homegrown companies like Kiewit, Tenaska, Firespring and from my district, Klute Steel. Each company shared with us many of the reasons that they've chosen to stay in Nebraska and we've heard loud and clear how vital a competitive business climate and tax incentive package has-- have played in the growth of their companies and their ability to retain and attract employees. To date, the Nebraska Advantage Act and LB775 and all the predecessor bills has created over 850 business expansions resulting in over \$30 billion capital investment and 100,000 new jobs. But there's more that happens-- there is more that happens that is not and it can't be measured in a fiscal note. When companies put roots in communities, exciting things happen. The private business community in Nebraska has a long and powerful track record of partnering with state/local governments to enact public/private partnerships that spur longtime economic growth. I think we need to take a moment to consider why it's critical for the Legislature to be laser-focused on a legislative agenda base-- agenda based on competitiveness. We have a demographic challenge in our state that could lead to even more challenges in times ahead. Many of our metro areas have seen population growth in the last eight years. But from 2010 until 2016, 63 of Nebraska's 93 counties experienced population loss. We hear from employers in every corner of the state that they have trouble with recruiting and retaining employees to work in their organizations. I've heard someone mention that the Chamber of Commerce number one, number two, and number three biggest concern in this state is work force. I couldn't agree more. But work force isn't the only challenge Nebraska faces, and I agree that our property tax burden is way too high. I hear that from my constituents just like each one of you. I've heard from previous testimony in this committee that the Nebraska Advantage program did not work, but I strongly disagree with that statement. I believe the Nebraska Advantage is one of the reasons that Nebraska's had a very stable economic climate in the past 15 years, even in the face of national recession. Having said that, the time to come-- time has come to create a new program that is responsive to a 2019 economy and beyond. It's critical that we send a strong message that Nebraska is a great place to do business and to raise a family and, more importantly, a great place to live. In drafting this proposal, the economic developers, the Chambers of Commerce worked in collaboration with the Nebraska Department of

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Economic Development, the Nebraska Department of Revenue to come up with a workable solution for an incentive program. This program is not just built for today but, but to take us into the future. The guiding principles of this work came from both the Stanford Research Institute or SRI study commissioned by the Department of Economic Development in 2015 as well as the Regional Economic Competitiveness Study conducted by the Legislature's Economic Development Task Force last fall. Both of those played a key role in getting us here today. The core principles for the drafting group have been simplicity, transparency, integrity, and competitiveness. Coupled with a focus on higher wages and a change in the administration of the program from the Department of Revenue to the Department of Economic Development, I believe we've constructed a solid foundation for the next generation of Nebraska incentives. Having said that, a bill of this magnitude requires continual revisions. We know that the bill that you have in front of you or the amendment that you have in front of you is a work in progress. So to that end, we've passed that amendment out to you that will replace the green copy for LB720. Although this amendment will replace the bill, the change in it-- the changes in the amendment are mostly technical in nature and they really don't change the substantive-- substantive concepts of the green copy. I also anticipate that after this hearing further changes will be needed as a result today of today. And we want your input and we want your feedback and we're listening. Finally, I'd like to address the issues that I've heard comments about pushing the consideration of this bill into 2020. Let me share with you why I think it's a bad idea. We have economic development developers who are working with projects this summer and fall and enter-- entering into negotiations with companies. I happen to have one of those in my own hometown. They will have to explain that the Nebraska Advantage sunsets next year, but there is no way to guarantee the Legislature will actually enact a new program prior to the program's expiration. How can we as Nebraskans expect to stay in the game for those projects? Let's not put our front-line economic development professionals in that situation. I'm looking forward to hearing the testimony this afternoon. We have a lot of testifiers that are in support of the bill. I hope that you will ask those representing the business community to share why LB70-- LB720 is so important to their future plans and growth in Nebraska. Like many of the testifiers we've heard from on needing to reduce property taxes, we cannot afford to wait on this bill either. Given the complexity of the subject matter, I think it's best for you to hear from members of the drafting group directly so they can share with you the overreaching goals of this new incentive proposal-- overarching

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goals of this new incentive proposal. Thank you for your time and I'm hoping-- I hope I can try and answer any questions you might have. But there are a lot of people coming behind me that can also ask [SIC] some of the more technical questions. So with that, I would try and answer any questions you might have.

FRIESEN: Thank you, Senator Kolterman. Are there any questions from the committee? Senator Crawford.

CRAWFORD: Thank you, Chairman-- Vice Chair Friesen. And thank you, Senator Kolterman. I appreciate you bringing this bill for us, this very complex bill. And I apologize. I wasn't here for your opening because I was presenting a bill in another committee so I apologize if you've already touched on these issues. One of my concerns is making sure that we're really targeting high-wage jobs. And so one of my concerns is the-- I guess the question is, is the bill really structured to provide an average wage or could the bill be structured to make sure that the lowest wage worker meets a high-wage criteria?

KOLTERMAN: Well, the bill's really struc-- structured to attract a starting wage somewhere in about \$19.50, \$19.50 an hour. If you were to put that over on an annual basis, we're looking at \$42,000, somewhere in that neighborhood. So I believe that we are structured in that regard. We've had-- that's been on a lot of discussion about that. We've heard from the industry that some people think that that's too-- too high. We've heard some think that that's too low. But you have to start somewhere. And so with that, I think that we're positioned in this legislation to attract a little bit better paying jobs that the Advantage Act maybe hasn't attracted or LB775.

CRAWFORD: That's a good target. I guess the question is if-- if it's an average wage then you could have some high-paying job and some low-paying job [INAUDIBLE].

KOLTERMAN: I understand. And I think I'll let-- I think I'll let Director Rippe--

CRAWFORD: Sure.

KOLTERMAN: --talk about that because he-- we talked about that a lot.

CRAWFORD: OK, great. Thank you.

FRIESEN: Thank you, Senator Crawford. Senator McCollister.

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McCOLLISTER: Yeah. Thank you, Senator Friesen. From what I understand, we have about \$480 million in obligations currently in place, both from LB775 and the Advantage Act. How do we-- how do we phase in a new program in order not burden the state budget in any one year?

KOLTERMAN: Well, I think if you look at the fiscal note, which Director Rippe will also talk about, it phases it in over a period of ten, I mean, it's got a ten-year sunset on it. So initially it starts out pretty low on average. It's well below what we're currently obligated to pay on an annual basis. And so I think that we'll be okay in that regard. We've intentionally tried to keep the fiscal mode as low as possible specifically because we do know that there are big obligations with both property taxes and our fiscal constraints right now.

McCOLLISTER: Well, in a typical budget year, the Advantage Act costs the state \$161 million. So I think your point is well taken.

KOLTERMAN: Yeah. We hoped-- well, and I'll let Director Rippe talk about that, but we've taken all that into account.

McCOLLISTER: Thank you, Senator.

KOLTERMAN: Some of it has to do with how we report and things of that nature.

McCOLLISTER: Thank you.

FRIESEN: Thank you, Senator McCollister. Any other questions? So-- Senator Crawford.

CRAWFORD: Thank you, Vice Chair Friesen. What discretion does this give the director to identify high-quality projects? Or is it you automatically qualify if you meet certain investment and, and employee requirements?

KOLTERMAN: Well, first of all, it's-- there's a-- there's a simplified application process which they're developing to go along with this bill or they will develop. It'll be done by the Department of Economic Development instead of the Department of Revenue simply because they're working with the front-line people. I would tell you that there-- there is a list of targets that we'd like to attract but I think there is some discretion built into the bill that allows them to move in a different direction if it comes along and it's a good opportunity for the state. Some of that will be left at the discretion

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of the department and some of it will be based in what we're proposing.

CRAWFORD: Thank you.

FRIESEN: Thank you, Senator Crawford. So you've got a-- I've got some questions and I guess these are probably questions I'm going to repeat from other people but this way they can be thinking about it. But, you know, the Advantage Act I think it was scheduled to cost around \$150 million or something and it pretty well doubled that in cost one year. What makes you think this one is-- you can hold it down to that level that you've set?

KOLTERMAN: I think some-- and again some of that can come from Dave when he gets up to talk.

FRIESEN: OK.

KOLTERMAN: But I think because of the way we're setting up the reporting reports we're going to have a pretty good handle on where we are throughout the year as we-- as we move forward. There's no question that there's been some challenges with the Advantage Act, but I would submit to you if you look at the total picture of what that's cost us over the years it's pretty low in relationship to the total budget we have in the state. But that's a problem that I think that they're trying to address with both between Revenue and the Department of Economic Development.

FRIESEN: Do you have a-- do you have a total of the revenue that we have forgone with LB775 and the Advantage Act? We've got a long-- a long history here. How much revenue have we-- have we spent?

KOLTERMAN: I don't know. I think you'll have to ask Director Rippe.

FRIESEN: I mean, I think the, the outstanding credits right now, I mean, they're getting pretty close to a billion dollars that I think are out there. And then with the applications we're seeing yet that still could be met under the terms of the old Advantage Act. I look at those obligations and I'm-- we've spent considerable money. And so I, I, I keep hearing the phrase over and over from the Governor and others that we're going to grow ourselves into fixing property tax relief. Well, we've had the Advantage Act and LB775 going for a lot of years. When are we going to grow ourselves into lowering taxes?

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KOLTERMAN: Well, Senator, I made it very clear to you that I'm supportive of lowering taxes. In fact, I think I'm on the record of that. But at the same time, we can't close our doors to potential business that wants to come to this state. One of the way-- we can't grow ourselves out of that business.

FRIESEN: That's, that's not what I asked though. I said when are we going to grow our ourselves into lowering taxes, whether it's income tax-- we call ourselves a high tax state. And the idea is to grow business, bring them in, and grow that. And this is for others following you. But how do we-- when-- at what point in time are we going to do that?

KOLTERMAN: Well, I think that's an ongoing process. But the point that I would make is we're not going backwards. I don't believe we're going backwards in this state as far as bringing new companies to this state, bringing-- creating new jobs, creating higher-paying jobs. That's what this is all about.

FRIESEN: How many companies have we brought to the state?

KOLTERMAN: I think I talked about that a little bit in my opening.

FRIESEN: Six, seven?

KOLTERMAN: No, no. There's been over 850 business expansions.

I know. How many have we attracted to the state?

KOLTERMAN: And 100,000 new jobs. I can't answer that.

FRIESEN: OK.

KOLTERMAN: They can probably answer that for you.

FRIESEN: I know there-- our businesses that we've attracted to the state is a pretty small number. So the majority of our investment has been in companies that are here and we've gotten them to grow.

KOLTERMAN: Well, but I think you have to look at that from the perspective of because we're such a mobile economy, because we're such a mobile country, if we didn't grow our homegrown businesses like the Tenaskas and the Kiewits, we'd be in a lot worse shape than we are today. Those are good-paying jobs that we want to keep here. And so by

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incenting them as well as new, we're doing a good job. Klute Steel in my own district--

FRIESEN: We've got-- we've got a lot of companies that have received no incentives and they're here and growing too. And I think small business create the most jobs over across the state.

KOLTERMAN: Well, the other thing that I think you need to think about is if you look at the Costco project, I'm very familiar with that because I have a daughter working for them. But the reality is in my district I'm going to have probably 15 new farm opportunities that wouldn't have been there had that not come to the state. And that's just in my district of three counties. So I don't know how you put a-- how do you put a dollar on that? That's an-- that's an added value that brings agriculture into the picture.

FRIESEN: It is, but I look also if you want to bring that topic up, I mean, I've talked to a couple of people that have put up barns and they didn't have access to any economic development package whatsoever. They, they laid out over a million dollars on their own; they received no benefits from the county. They, they just invested and, yes, Costco brought those jobs and opportunity here.

KOLTERMAN: The reason that they made that investment because it was a good business decision for them and it's-- and it's-- and it's going to pan out very well.

FRIESEN: And it was a good business decision for Costco too.

KOLTERMAN: Absolutely. But that's the point. If Costco hadn't been here, they wouldn't had that opportunity. So it's a win-win for everybody.

FRIESEN: Yes. One of them got incentives; one of them didn't.

KOLTERMAN: Well--

FRIESEN: Thank you, Senator Kolterman. Any other questions from the committee? Senator Groene.

GROENE: Would Costco-- they're [INAUDIBLE] high-paying job. Would that fit under this?

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KOLTERMAN: Yeah, they probably would. They're right at \$18 an hour so it's a little bit less than this plus benefits.

GROENE: It's-- it's a starting point and you get less benefit if you pay less than that. Is that [INAUDIBLE] ?

KOLTERMAN: Under this bill, we're trying to reach \$19.50 an hour minimum.

GROENE: One of the big complaints under the Advantage Act was you didn't have to get jobs. You just had to build something, investments. And it seems like you're really emphasizing investments again which is basically property tax. Why? It doesn't bring in, you know, construction jobs short term; they bring a term-- a crew in, they build it.

KOLTERMAN: Well, long term, long term those construction jobs build buildings; those buildings pay property taxes. That's how you grow the base.

GROENE: But why wouldn't we emphasize jobs at the-- when the buildings, after it's built?

KOLTERMAN: We're looking-- we're looking at 19.5, \$19.50 minimum jobs plus benefits in this package.

GROENE: Well, the old Advantage Act, the two-- are you tying the two together? The old Advantage Act, you did windmill farms. The windmills are built in Iowa and Kansas, brought in here by truck, a crew comes in from Iowa, puts them up and they leave and we gave millions away to windmill farms who'd already-- the only reason they build it is we have wind and they got a huge federal-- but I see you've included the damn things in here again this time with wind, solar.

KOLTERMAN: Well--

GROENE: I mean--

KOLTERMAN: I'm, I'm not going to get in an argument about windfarms here. You can do that on the floor with me if you want.

GROENE: All right.

KOLTERMAN: I'd like to challenge you there.

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GROENE: [INAUDIBLE] why they're even in here because that's a job creator.

KOLTERMAN: Well, it's-- it reduces property taxes considerably in your district.

GROENE: And it closes my Southern Power Plant.

KOLTERMAN: Nonsense.

GROENE: Anyway. No, I what is the main goal here, jobs?

KOLTERMAN: Create jobs, create wealth in the state so that they can pay income taxes, they can pay property taxes. Forty-two-thousand-dollar-a-year jobs are pretty good jobs, Mike, real good jobs.

GROENE: I'm all for economic development.

KOLTERMAN: I know you are.

GROENE: I'm all for an incentive program, but this thing goes a little too far.

KOLTERMAN: Well, appreciate your position.

GROENE: You asked for ideas. I'm going to give you a bunch of them.

KOLTERMAN: That's okay.

FRIESEN: Thank you, Senator Groene. Any other questions? Senator Crawford.

CRAWFORD: Thank you, Vice Chair Friesen. And thank you, Senator Kolterman. So I echo the concern Senator Friesen raised I think we need to consider in this bill which is figuring out how we're actually cap-- controlling the overall costs. But then one of the other issues is predictability as well. So I don't know, do you see this, this bill of having a mechanism to help us predict better what the expenses are gonna be each year?

KOLTERMAN: Yeah. I think if when-- and I hate to put all the burden on--

CRAWFORD: Sure. I hear you.

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KOLTERMAN: --Director Rippe, but when he comes up he's going to talk about the reporting and how that will be a much better position than we've had in the past. That was built into the bill intentionally because the Advantage Act didn't have that built in. This bill will have that built in. We'll be able to track more closely where we are, where we want to go. As far as caps are concerned, how can you put a cap on something that maybe is going to really grow this state? We don't know. I mean, by-- by knowing where we are from month to month and year to year, that will be very helpful. But to say that we should just cap it at a certain amount, what happens if at the end of the year some really good business comes along and they want to apply and we have to say to them well, sorry, we don't have any money for you? Go look at Iowa, go look at Kansas. We don't want that to happen.

CRAWFORD: Right. It's part of, yeah, requires discretion then--

KOLTERMAN: Absolutely.

CRAWFORD: --who gets funds. And if you have a limited amount which we--

KOLTERMAN: No question about that. But in the overall picture, it's really a limited amount what we're doing for the state if you really look at what we spent over the years, you average that out. It's pretty minimal.

CRAWFORD: Thank you.

FRIESEN: Thank you, Senator Crawford. Senator Groene.

GROENE: Senator Crawford brings up a good word "discretion." A lot of other states can pick and choose. But then with the Advantage Act if you came in with the right paperwork and the right numbers, you were automatically given the incentive even though you were going to build a new facility anyway. Does this one build in discretion that we can pick and choose which ones we--

KOLTERMAN: Yeah. We have a list of the target markets that we're trying to get. But there is some discretion with the Department of Economic Development to look at all aspects of the industry.

GROENE: Can they turn somebody down even though they fit the requirement?

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KOLTERMAN: Absolute-- well, if they if they meet the requirements, it would be hard to turn them down. But--

GROENE: They're gonna build it anyway because we--

KOLTERMAN: Not necessarily. They're not all-- they're not automatically just gonna flow in here and build a business. It doesn't happen that way.

GROENE: If the resources are here and ag is here, they're going to do it.

KOLTERMAN: Well--

GROENE: Certain things are related industry that they service they will do it. [INAUDIBLE]

KOLTERMAN: I can tell you some businesses I've worked with would not have been here had we not had incentives.

GROENE: That's where discretion comes in.

KOLTERMAN: Yeah.

GROENE: The Advantage Act, you showed up with the right paperwork and the right lawyer you've got it.

KOLTERMAN: Well, we're making this easy enough so that people can know right up-front whether or not they qualify or they don't qualify.

GROENE: But we can say no.

KOLTERMAN: We've always had that.

GROENE: We didn't. Thank you.

FRIESEN: Thank you, Senator Groene. Seeing no other questions, thank you, Senator Kolterman.

KOLTERMAN: Thank you.

DAVE RIPPE: We've got a lot of ground to cover.

FRIESEN: Welcome, Director Rippe.

DAVE RIPPE: Pleased to be here, Senator.

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FRIESEN: I knew you would be. We just warmed things up for you.

DAVE RIPPE: This seat is quite warm. Good afternoon, Chairman Friesen and members of the Revenue Committee. For the record, my name is Dave Rippe, last name spelled R-i-p-p-e. I'm the director of the Nebraska Department of Economic Development and I'm here today in support of LB720, the ImagiNE Nebraska Act. As a state, we utilize tax incentives as one of our primary means for competing for new and expanded job creation and capital investment. This allows us develop-- to develop new opportunities for Nebraskans and expand and diversify the overall tax base. By the end of 2017, Nebraska Advantage Act participants invested cumulatively through the history of the program over \$8 billion in qualifying capital investment into our state, translating into more than \$166 million in annual property taxes paid. Participants also paid nearly \$5 billion to Nebraskans in the form of wages and created more than 16,000 jobs generating spending power throughout our state and allowing people to buy homes and to do their part to build strong communities. The question now is how we go forward. Today's challenges dictate the necessity for a modernized and refocused incentive program, a program that allows us to more transparently understand our state's investments along with their outcomes, a program that better encourages net new growth in our state and that is accountable to Nebraska's taxpayers and that incents high-wage jobs. It must be focused on talented people, quality businesses, and the jobs of tomorrow while universally applicable from Omaha to Scottsbluff. Incentive programs exist in some capacity in every state. That being said, no two are alike. In Nebraska we are a pay-for-performance state. If you do what has been defined by our Legislature as outlined in statute, you receive a benefit. The process is completely transparent and there is no space for favoritism or discrimination. The ImagiNE Nebraska Act is focused on net new growth for our state and high-paying jobs. So one project at a time we can continue to encourage new investments into our state while continuing to raise the average wages paid to Nebraskans. Creating a more flexible program that responds to modern practices has also been a priority throughout this process. The bill presents new use of tax credits that are focused on talent attraction and retention and the needs of working families. The bill provides our agency the ability to fast forward to companies credits and invest in critical site infrastructure and improve job training programs for priority projects. The ImagiNE Nebraska Act is a vital piece of our state's ability to competitively recruit, grow, and expand opportunities in Nebraska. I'd like to thank Senator Kolterman for his leadership in

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introducing the bill and thank you for your time. I'm happy to answer your questions.

FRIESEN: Thank you, Director Rippe. Senator Kolterman.

KOLTERMAN: It's McCollister.

FRIESEN: Oh, sorry, McCollister. Yeah, go away. [LAUGHTER]

McCOLLISTER: Thank you, Director. Thank you for being here. I gave a number when I asked Senator Kolterman a question of \$454 million in current obligations from LB775 and the Advantage Act. Is that a correct number?

DAVE RIPPE: The number that I believe to be outstanding under the Nebraska Advantage Act is very close to that. Outstanding credits is what you might be referring to. Cumulatively to date 2007 through 2017, \$700 million in investment tax credits have been earned under Nebraska Advantage; \$195 million in wage credits so a total of about \$900 million is what we-- a number that was discussed earlier. Roughly half of those have been used, half of those are outstanding. And so it's about the number there, Senator McCollister.

McCOLLISTER: How do we deal with the challenge of funding those obligations but yet finance another Advantage Act that's going to cost in the neighborhood of \$150 million a year?

DAVE RIPPE: And so as we look to, to ramp up one program, it coincides with the ramping down of another. And so as you think about how a project occurs, a company will apply, they'll come in and build. And a ramp up period for a project could be three or four years while they-- while they build up their site before they actually start collecting credits. And so as we ramp up the utilization of a new program, you'll see the, the applications trail off and a ramp down of the existing program. And so we've really tried to shoot for a net neutral number, knowing that that number is dictated in two ways. A number is dictated by who's allowed to access credits. Some of those utilizations that we talked about before, Senator Groene, of who-- who can come in and who's been predefined in statute and then on the other side of that what the benefit levels are set at. And so A times B ultimately equals C, and we've tried to get C to a number where we're in a net neutral fiscal capacity.

McCOLLISTER: And what is that net neutral number?

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DAVE RIPPE: In the far out-years, that would be in the 10-year out-years as dictated or shown on the fiscal note, it's about \$150 million, understanding that there is a smoothing and that some years you're going to have bigger projects and some years not so many. And so it's going to roll from year to year.

McCOLLISTER: There's been a great deal of talk about revising the application process and I think early on that involved setting up your office in a way so you're more responsible for the projects than you have been in the past. Can you describe how that application process will be different in your office than previous years?

DAVE RIPPE: Correct. So as, as discussed with Senator Kolterman before, really when you look at incentive programs across the country there's two ways that states deal with this. You can either have an incentive program that's, that's an entitlement program. It's defined in statute. If you do A, you get B as we discussed or you can have a discretionary program. And certainly there's positives and negatives to both. There's no way that we, we win always all the time. And a discretionary program can lend itself to accusations of favoritism or special deals and you see that across the country. The governor did a special deal for this company or he had his director not do something for that company because they vote the wrong way. And so we believe that an entitlement program very clearly outlines the directives of our state and allows us to judge better the outcomes that we want to see. Now that being said, in the current program that we have, an entitlement program, you can come into the Department of Revenue and make your application; and it's a very transactional relationship with our state. A company decide, as Senator Groene mentioned, the company decides to do A, they file their application, they get B. We have no relationship with them. Of the 45 Nebraska Advantage applications file-- filed in quarter four of last year, I think that our department probably had a relationship with about one third of those companies. Any of you that have your own businesses understand that transactional relationships don't lend themselves to better business practices. We want meaningful relationships with our customer, whether we're a business or whether we're the state of Nebraska. So under the new program, we have applications coming into our office so that we work with every company that comes in. It gives us the opportunity to learn from those companies what their needs are, how they're making decisions, and to hopefully be in a much better position to develop this type of program the next time around or make modifications as we go. So that application process coming into our shop from there a more

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simple process in how we qualify businesses we believe serves a lot of ends. A, it helps us build more meaningful relationships with companies but, B, under this program and the more simplified process we believe we're pushing the benefit of the program forward by about 700 days and so significantly increasing the net present value of the program which helps to eliminate some of the future uncertainty that we deal with in current Nebraska Advantage-- big lumps of refunds coming up after four or five years of accumulation. And so by accelerating the net present value, we think that we decrease a lot of the variability or volatility in the program while being able to maybe scale back on the total credits we're putting out as a state but increase NPV, net present value, significantly to the end user. So a long-winded answer but.

McCOLLISTER: Under your transactional kind of process, that's not amenable to a cap of any kind, is it?

DAVE RIPPE: Very difficult to cap that type of a process. Because as a company comes in, they would-- they would file for the benefits that are outlined in statute. Right? And so they would-- but then as a project goes on, a company might come in and think, well, we're going to spend \$20 million to do this modernization project, whatever it might be. You get into the program and things are more expensive or you decide to bring in another project at the same time and things, things escalate. It's just like the analogy that I would use. It's like when we do a home improvement project. We were going to redo a bathroom but instead we decided to also redo the living room and maybe do something with our kitchen and so the project escalates. Unless you have a mechanism whereby the Department of Revenue or ourselves can realize that in real-time and adjust and budget accordingly or decide where to cut somebody off, tell them, hey, you've grown too much. There's no more benefits. We, we don't want you to add it-- add to your project. It can be difficult to try and implement a cap or to-- or to budget around that.

McCOLLISTER: Well, by saying that, aren't you saying you're going to grade the projects and perhaps you could put together some kind of a qualitative analysis on the projects and pick only the best ones versus the ones that will give you a lower rate of return?

DAVE RIPPE: That could be done. And there are states that engage in that type of discretion on a project. That, that is a practice that does occur in some states that where, where an application is graded, where there is a scoring mechanism to incentives. Our position is that

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that certainty that's in our statute is, is the most valuable currency that we have and it creates a level playing field for all applicants. And again, there's downsides to that. Maybe you can't grade out people that you wouldn't prefer to have in there otherwise. But at the same time across the board, you have transparency in who is allowed to get what. And there are no-- there's, there's no room for favoritism or, or no room for, for special deals.

McCOLLISTER: You attempt to do a rate of return for all the projects.

DAVE RIPPE: So currently that does not-- Nebraska Advantage program doesn't exist in our office. Right? And so, so that's not data that we have or that's not something that we perform. But I think that, that my position as the director of economic development with the programs that we have is that's an exercise that we're engaged in across the board. And in a different setting, we can-- we can cover how we grade our programs and the different ROI that we shoot for, whether it's in housing, community development, or our business development programs. Best practice in any state is grading that is setting your goals and then grading out your capital investment goals. For instance in the state of Iowa, they show that for every dollar of public investment they have that they leverage \$17.54 in capital investment. I think that as a state that's a best practice that we could look at to say we ought to have capital investment goals because we want to leverage property tax returns. We ought to have wage goals because we want to leverage income tax returns in order to broaden the tax base. That's our job as a department.

McCOLLISTER: Thank you, Director.

FRIESEN: Thank you, Senator McCollister. Senator Briese.

BRIESE: Thank you, Vice Chair Friesen. Thank you for your testimony here today. Do you have in your mind an acceptable level of tax expenditure for per job created that one should target? I mean how much is too much?

DAVE RIPPE: Great question. So in our current program there, there is-- there are a couple of different ways that you can measure this. A critique of Nebraska Advantage is that we spend too much per job and that our per job expenditures outpace national average. If you roll in the entire credits earned of our program and divide them over by jobs, that is probably not an unfair statement. But understand that 75 percent of the credits earned under Nebraska Advantage are, are built

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for the purpose of attracting capital investment to the state which ultimately generates a broadened property tax base. And so there's dual objectives that we have as a state as a-- and especially as a department. Our objectives are to grow jobs in the state that pay income tax and that pay a wage where people can spend here so that they can generate sales tax. But we also have an objective of encouraging capital investment that pays property tax because of the intricate nature of our relationship with the local municipalities and how we-- how we participate in school funding and other things and so dual objective. And so I don't know what an appropriate number is for dollars per job or how you'd want to measure that against which tax credit. What we look at though is on the input side saying are our wage tax credits competitive with those around us? And we believe that this program is set in such a capacity that they are.

BRIESE: You suggested earlier there is a national average per job created. What is that average ballpark?

DAVE RIPPE: Of incentives utilized?

BRIESE: Yes.

DAVE RIPPE: I'm not aware of what that average would be, Senator.

BRIESE: OK. You think ours is substantially higher than the average though. I think you said that we would be higher.

DAVE RIPPE: I think by, by some measures if you wrap in all credits used per job you could look at it that way. Understand, too, that-- that it's all a factor of how high your state's taxes are. And so an incentive here is not the same as an incentive in California or an incentive in a zero income tax state. The total value of your incentives is an in fact-- is a factor of how high your tax rates are. And so the value that your state assigns to that is only determined-- the cost of that is only determined by where you set your tax rates and that's different in every single state.

BRIESE: But that doesn't impact the tax expenditure really.

DAVE RIPPE: But the expenditure amounts a factor of, of how you predetermined the value with your other tax rates but I understand.

BRIESE: Has the Nebraska Advantage Act been successful in your view?

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DAVE RIPPE: I think that there are a number of ways that the act has been successful. And as you can see by the fact that we brought another bill here, there's a number of ways in which we can improve. When you look at total investment into our state over the last ten years, it's really hard to argue with \$8 billion of capital committed here and an additional-- of capital in place here and an additional at a minimum \$5 billion of, of capital that has been committed. It's also hard to argue with how intricately tied this program is with our agricultural industry in the state. One in four jobs in Nebraska is, is related to agriculture. In the program, 28 percent of the capital investment is directly tied to agricultural projects. There is corn and beans and all sorts of ag projects-- products in states all around us. And so we compete with Iowa. We compete with Missouri. We compete with Indiana. We compete with Illinois and Minnesota for processing projects. And this program, by the data, shows us that we've been put in a better position to bring those value-added processors into our state.

BRIESE: OK. Is it fair to say that we've had some areas with less than stellar economic performance? I believe 2016 we had growth less than 1 percent, correct?

DAVE RIPPE: Yes, completely fair to say that Nebraska, like any other state, has had less than desirable years of economic growth.

BRIESE: OK. Can we-- can we say that perhaps Nebraska Advantage failed us that year?

DAVE RIPPE: I think that you would have to look at what caused your low years and you'd probably look at lower commodity prices. And I think that if you were to look at the historical impact of low commodity prices on our state, our state's GDP was much more drastically impacted in the pre-1970s era when we did not have a diversified economy. The value of a diversified economy that has come to our state over the last 50 years has significantly lessened the impact of major swings in the agricultural economy. And so I think you would be hard-pressed to say that the Nebraska Advantage Act failed us in 2016. I think that you would say that our tax incentive programs mitigated historical damage.

BRIESE: OK. Fair to say from your testimony though that the agricultural economy drives this state?

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DAVE RIPPE: Completely fair to say.

BRIESE: OK. As agriculture goes, so does the economy of our state.

DAVE RIPPE: Yes, sir.

BRIESE: OK. We talked earlier out discretion and you talked about having a stable amount or level of certainty is important to you. But I think when you talk about any incentive plan, whether you're talking about Advantage, ImagiNE Nebraska, TIF whatever the case may be, it's important to determine-- to be able to demonstrate causation. Do these tax expenditures actually cause business growth? And how do we assure ourselves of that with this new plan?

DAVE RIPPE: I think my opinion would be, Senator, that elected officials in your seat across the country, because every state has an incentive program of some sort, ask themselves the exact same question: How do we assure ourselves that we're not poorly utilizing our state's resources? I don't think that there is any way that any one of us can understand the full intent of a company and why they make the decisions that they make. But what we can do is build a program that encourages the general behavior that we want to see. We can build a program that encourages jobs that pay more than 100 percent of the state average wage. We can build a program that encourages capital investment that direct-- that, that translates into property taxes paid. And we can build a program that's ultimately responsible to Nebraskans. And so whether or not we can answer the question would this company have done this either way, that's a difficult question to answer. But can we answer the question has this program produced the results that we want to see that help our state to advance, I think that's where we can have the most impact.

BRIESE: OK. So when we talk about jobs created, investment generated, economic growth generated, due to Nebraska Advantage and predicting what a Nebraska or ImagiNE Nebraska can do, some of those numbers reflect increased activity that would have occurred anyway. Correct?

DAVE RIPPE: Yeah. I think it's fair to say that, that certainly there's-- there is likely activity that's received an incentive that would have occurred without that incentive. But equally and perhaps more so, there is activity that occurred that would not have occurred. We talked about how many new companies have come to the state. Of a sampling of 72 in the audit, I believe that 9 were business attraction projects, a sampling of the 500-plus agreements that have been signed

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under Nebraska Advantage. Understand though that two thirds of those 72 were companies that have operations in other states, companies like, you know, for instance ADM that has operations everywhere. Is our state still economically better off because ADM chose to grow here? I would argue yes. And so would behavior, again, would behavior have or have not happened? I think the important question to ask is, is our state better off because that behavior happened?

BRIESE: Thank you.

FRIESEN: Thank you, Senator Briese. Senator Lindstrom.

LINDSTROM: Thank you, Senator Friesen. Welcome, Director Rippe.

DAVE RIPPE: Thank you,

LINDSTROM: And congrats on your third Governors Cup.

DAVE RIPPE: Hey, I appreciate that. Thank you very much.

LINDSTROM: You're welcome. You're welcome.

DAVE RIPPE: Great recognition of our state's efforts.

LINDSTROM: And that's-- can you remind me again, that's more economic development projects than South Dakota, North Dakota, and other--

DAVE RIPPE: And Kansas combined, yes, most projects per capita.

LINDSTROM: I think I heard the Governor talk about that.

DAVE RIPPE: I've heard the speech a couple of times too.

LINDSTROM: Do you think-- the first question I guess is do you think we would have received that award without an incentive program?

DAVE RIPPE: I think we would be hard-pressed to be competitive for that award but for a program that allows us to do so. If you look at the 160 projects that we submitted to Site Selection Magazine that met their criteria, the vast majority of those projects are, are applicants that have signed agreements in the Nebraska Advantage program.

LINDSTROM: And a couple of other questions. I just-- you know, being a part and listening to a lot of performance audit discussion the last couple of years. You know, the things that come up are what's already

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been pointed out-- transparency, the ROI, return on investment, accessibility for-- and this is my question-- the accessibility versus some rural versus urban. Can you talk a little bit about how Imagine Nebraska deals with that as opposed to maybe Nebraska Advantage in that urban versus rural discussion?

DAVE RIPPE: Right. And so under Nebraska Advantage I think you see-- you see a distribution of benefits that's happened across our state, fairly equal distribution, rural and urban areas. Where I believe-- where I believe we have room for improvement is as this committee takes a look at LB720 is, is certainly in that accessibility for rural areas. And so understand that the minimum threshold for job creation outside of modernization is ten jobs. And I know a lot of people will say, well, it's just ten jobs. But in 62 of our state's 93 counties, 10 jobs is the equivalent of 1,000 new jobs in Douglas County when you look at the size of the labor pools. And so I think as we go to work on a bill that still needs a little bit of massaging, admittedly, understanding how that bill is, is accessible for, for urban and rural alike and how it is truly applicable-- as applicable in Scottsbluff or Valentine as it is in Omaha or Lincoln, certainly that needs to be a priority of ours.

LINDSTROM: And to follow up with regards to massaging of the bill, one of the things I guess I've heard a little bit about is the manufacturing side of things. Do you believe that this bill addresses adequately some of those with the manufacturing in the state of Nebraska or do we need to improve on that within the bill?

DAVE RIPPE: I believe that there has been some great work done to understand where we want our manufacturers to be, not necessarily where we're at today but trying to understand what the future of manufacturing is. That being said, on a very targeted basis I believe there is room for improvement and input from our state's manufacturers yet. And I would-- I would certainly encourage this committee as we go forward to listen to the input that we hear today and what you-- what you see in written testimony as to what it means to automate manufacturing. Our, our state has room for improvement in productivity and in automation. And as we build a program that looks not at today but that looks at tomorrow, that should be a priority of ours.

LINDSTROM: OK. And last question and oftentimes the last couple of years we've talked about tax code and maybe more-- going down more predictable approach through income and other ways with incentives and then work force development is one of those things that always comes

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up. Can you touch on-- because we only have a finite amount of dollars to spend--

DAVE RIPPE: Right.

LINDSTROM: --either towards inventive, work force, taxation, property tax relief. Can you touch on a little bit of how work force development and incentives work together in an approach that helps grow Nebraska?

DAVE RIPPE: Right. And so a lot of times the way that we utilize our customized job training program in-house which is, is to-- is to provide the type of training that we need to up skill positions, understand that not every position starts out at \$40,000 a year. That a lot of people come in and need skills training. A lot of companies prefer to train in-house. And so there's, there's room for work force development programs to participate hand in hand with, with an incentive program. In fact, there's a necessity for it. Within the program though one of the features that I believe is key in LB720 is, is the opportunity for us to advance credits and create a tax liability or a loan in essence on the front end for companies to engage in qualifying job training projects or qualifying infrastructure and site development projects. It allows us some level of discretion in order to work with companies depending on how we format that to, to really help accelerate value for high-impact, high-priority projects. And, and so this is a feature that we've pulled that we've looked at that's occurred in a couple of other states in a different capacity. But it does allow us a little bit of discretion in targeting the type of behavior that we want to see. And so whether it is a job training program, whether it's a site development program, it gives our department that ability to target high-priority projects.

LINDSTROM: Thank you, Director.

FRIESEN: Thank you, Senator Lindstrom.

GROENE: Thank you, Vice Chair.

FRIESEN: Senator Groene.

GROENE: Is the qualifier jobs and then jobs and then you go to capital investment and then to the other benefits? You said the word capital investments way too many times for me over jobs. You've said that more

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than you said jobs. Your \$8 billion investment, the 800 windmills is \$2 billion. The railroad put two or three billion in and have no jobs so don't give me investment. It created no jobs, the windmills that we gave tax credits to but they had a lot of investment; same with the railroad-- no jobs. They just replaced. And I don't like the term "modernization." Modernization means you're looking for productivity and you're gonna give them a tax credit and you're going to have less jobs. So what did you mean when you said modernization projects? That to me means you already have an existing facility and you're going to modernize it and you're going to eliminate jobs to get productivity. So what do you mean by modernization?

DAVE RIPPE: I would say that in a way, Senator Groene, it depends on the employer. And so modernization if you are a data center could mean a refresh of new servers. Modernization if you're a manufacturer could be new equipment. I don't disagree with you on what that means for manufacturers. I will say though that, that the realization of where our economy is headed is fewer high-skilled positions running machines. If we want to be competitive with, with other states, if we want to be competitive with China or anywhere else, it's understanding that, that our work force problem in some-- in some aspects could be temporary as our economy transitions to fewer high-quality jobs running machines. And as we build a program, again, not for today but for tomorrow, it's a realization of that. And it's a realization that--

GROENE: You're telling me a business, a corporation is looking at the Case combine factory in Grand Island, looking at Nucor looking at their plant. They already got a skilled labor force. They're going to modernize it. They're going to lay off people and modernize it. You need to incentivize that? They already have two major incentives to do it. They got the skilled work force already. They have the existing facility. So why am I giving them a tax credit for-- for a commonsense business decision?

DAVE RIPPE: In many cases, Senator, our, our option is that-- is that in-- in the absence of modernizing the plant it's shuttered. And so what we're trying to do is give our state a competitive tool to allow Nebraska to be the choice for companies to modernize their facilities and to be the home to, to newer advanced manufacturing rather than shutter it. And so then what you see on the other side of that though--

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GROENE: [INAUDIBLE] assumption. I gave you two big reasons: they got a skilled work force and they already have existing facility. They already have their supplier, raw materials lined up; and you're telling me they're not going to spend the modernization, going to go to another state and build a brand new factory?

DAVE RIPPE: I would tell you that you probably saw that down the road from you in Cozad a few years back and we've seen it at other places in this country as well is that companies do make that decision. And so to say that that will not happen or that doesn't happen is not true.

GROENE: There's exceptions to every rule.

DAVE RIPPE: Exactly.

GROENE: But you also said you're not playing favorites so you're telling me you're just going to give it to everybody who walks in the door and qualifies again.

DAVE RIPPE: That is how the program is built, yes.

GROENE: The Advantage Act really didn't do a lot of refundable tax credits. I mean it was dollar for dollar. You pay wages, wage payroll tax that you paid, sales taxes you paid, corporate income taxes. It's the credit stop there. Are we going to give refundable tax credits here?

DAVE RIPPE: No, sir. The program is built in essence the same way. And even the fast forwarding of the credits is still under what we would say is behavior that our state wants to see: job training, site and building development. And so there is-- there's no case for a refundable credit above and beyond the tax liability of a company.

GROENE: Thank you.

FRIESEN: Thank you, Senator Groene. Any other questions? Senator Linehan.

LINEHAN: Thank you, Vice Chair Friesen. Thank you for being here very much, Director. Can you tell us because we hear-- I've heard, I think we've all heard that we have to do this because everybody else is doing it because states are competing for jobs. So how do we compare

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with the other states in the Midwest, our neighbors for instance? How will this compare to their, their--

DAVE RIPPE: Right.

LINEHAN: --incentive programs?

DAVE RIPPE: This, this incentive program compares I would say very competitively. We've, we've tried to take features of Iowa's program. We tried to understand what the-- what our competitive realm is and, and mold those into this understanding that, that-- I mean, we can-- we can make this out to be as complex as we want. But in essence a company pays income tax and they pay sales tax. And so it's understanding how we can work within that realm to help incent the type of behavior that we want to see. And it's basically figuring out what behavior is it that we want to see and then what benefit do we want to assign back to that sales and income tax. And so I would say that across the board we're very competitive with other states, equally competitive. Where we've tried to make improvements in this program consistent with what was outlined in the SRI report that we did a couple of years ago is, is in the net present value of the program. And so overall, this program, you-- by our calculations in-house, a company, an average company coming into the program will receive about 20 percent less benefit than what a average company would have received before. We've broadened the base of who can receive credits. We've tried to look at better net overall growth. And that on a company-by-company basis has impacted the total credits that could be potentially received by a company. What we have done though is accelerate the net present value of that or increase the net present value of that by accelerating the benefit by almost two years. And so by running a fairly, well, I would say it's a complex math calculation for a person like me, we can see that it becomes a good business case for a company. So again trying to be accountable to the taxpayers of Nebraska, trying to be competitive with states around us, and trying to deliver a strong value to those customers to keep our state competitive.

LINEHAN: To do so, I understand so you're saying it's 20 percent less but you get it sooner.

DAVE RIPPE: Yes. And so ultimately it's less that's on our books outstanding and we see that. Right now we have a program where companies are generating a number of credits that they can't use. And-- but it still shows up as a liability on our books. And so better

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aligning credit utilization and, and credit earning is in the best interest of our state.

LINEHAN: And they can't use those credits because why can't they use?

DAVE RIPPE: Again, it's the availability-- their level of income tax, their level of sales tax and so they're earning a benefit--

LINEHAN: More than they're paying.

DAVE RIPPE: --that's greater than their liability. And because we don't have an environment of refundable credits, that's where it's cut off and they become unusable.

LINEHAN: But those set on the books is liabilities, right?

DAVE RIPPE: Correct.

LINEHAN: Is there, but isn't there a end period where they can't get them back?

DAVE RIPPE: Yes.

LINEHAN: So does that change in this bill from the Advantage Act?

DAVE RIPPE: And so in this bill we see an acceleration of the compression of the time. And so a total time period, total time cap of 15 years which is a more compressed time period than, than under the Nebraska Advantage Act.

LINEHAN: Thank you very much.

FRIESEN: Thank you, Chairman Linehan. Senator Crawford.

CRAWFORD: Thank you, Vice Chair Friesen. And thank you, Director. I do appreciate you being here to help answer questions. I wondered if you'd talk about what in the bill improves our budget predictability for the state and then this has also been an issue with the Advantage Act in terms of the budget flexibility for our local governments.

DAVE RIPPE: Yeah. And so understanding that there is a great variability in year to year for corporate income tax receipts and sales tax receipts and within that there's variability of incentive program refunds. And so in the grand scope of a \$4.7 billion budget or whatever it is, there is some variability in our program that certainly is, is visible. And so the question is how do we help to

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mitigate that while still keeping a program that allows companies to earn benefits as they invest and grow? So what we've done is create a more robust and consistent reporting program that has companies filing on an annual basis and reporting exactly where they anticipate they will be. And so it allows us to more closely align what's actually occurring to what a company is telling us. And then it allows us to report that out on an annual basis through the filings that come in from the company: actual wage records, filings that are tied to their tax filings for their capital investment. So we will have a better idea of what those expenditures are. Now the other part that I would say most significantly helps the, the variability, the volatility and, and the-- the unpredictable nature of those refunds is the acceleration of benefit. And so right now imagine a company like Facebook is spending a billion dollars right now building, but they won't receive their benefit until they get their people hired and there's, there's a-- there's a long lag. And so three or four years from now when we've all forgotten about the construction period then that-- the bill comes due, right, all the sales tax that they spent over the last three years in our state. By accelerating that benefit time period we're more, we're bringing a whole lot closer the disbursement to the expenditure. And so we're keeping it, I would say, more small bites than one big bite. And so that will help out considerably. And so I would say twofold: It's in the duration of the reporting and the earning period and then just the, the value of the reporting that's coming in from the companies that will create a more transparent situation for us. And it will help us to forecast better.

CRAWFORD: So we have a-- we'll have a prediction a year ahead of time. Is that what you mean by the annual reports?

DAVE RIPPE: Yeah. And then on as we go to better understand what's been spent that year, correct.

CRAWFORD: And will that have projections that local governments could use in their budgeting?

DAVE RIPPE: Yeah. And so the team that's worked with the bill I know has worked closely with the League and hopefully the League can speak to that later as to how they anticipate better understanding-- better understanding the tax liability, the refund site that's out there.

CRAWFORD: Thank you.

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FRIESEN: Thank you, Senator Crawford. Senator McCollister.

McCOLLISTER: Yeah. Thank you, Senator Friesen. And thanks once again for being here. We talked about the time value of money and wondering if it would be in our best interests to offer companies some kind of reduced amount of money for immediate payback, 20 or 30 percent on the dollar, and try to extinguish some of that long-term liability that we have that you said this was nearly \$800 million. Would that be something we should incorporate into LB720?

DAVE RIPPE: So what we don't know as a state is what a company's tax liability is or will be. Right? We don't-- we don't know what your company might have for tax liability but a company knows. And, and so I would say that if you were to offer 20 to 30 percent on the dollar for a company for refunds you would probably get the companies that wouldn't otherwise be able to use the credits that we discussed earlier. If a company knew that they were going to be able to 100 percent use their credits over time, it's highly likely they would take a percent or highly unlikely they would take a percentage buyout. Again not knowing what the behavior of a company might be, one could predict though that the companies that would otherwise be leaving credits on the table unable to use them, so where our state would have a zero liability, would be the companies that would be most likely to come in and take that 20 to 30 percent buyout. Right? And the companies that knew they would use all of their credits would have no incentive to come in and take that buyout. And so certainly it would be a math equation worth exploring but conceptually as we sit here right now and discuss it I think that it would create the potential for our state to overpay in certain situations.

McCOLLISTER: Thank you very much.

FRIESEN: Thank you, Senator McCollister. Senator Linehan.

LINEHAN: So on the sales tax that local governments-- I'm sorry, thank you. On the-- they have to give up or give up I guess which you say their sales tax, but these would be the same people that were probably getting property taxes from these. So if you-- if you expand your property tax base by a billion dollars, then when the property tax comes in that would certainly probably help you refund the sales tax owed, right? Is that the way it works?

DAVE RIPPE: Yeah. I don't disagree with that statement. I think part of the-- part of the issue is that when a company comes in and

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invests, no-- right now we don't know like, for instance, a municipality has no way of knowing how much money they're spending. And so a municipality will see their sales tax receipts go up and that could be just because people are in the normal course of business spending more. They don't know what's directly attributable to the company. Then you take that over a four-year lag time and you allow that to build up and then it becomes quite a surprise when that comes due, whether or not they're receiving other benefits at that time or not.

LINEHAN: But wouldn't they be receiving property taxes by then from the investment? Because when you talk about getting property taxes we don't actually--

DAVE RIPPE: Right.

LINEHAN: --as you know, get property taxes. It goes to the local governments.

DAVE RIPPE: Yeah. And so, yes, you could say that-- that there would be other benefits of taxation by that time that a municipality would be receiving.

LINEHAN: OK. Thank you.

FRIESEN: Thank you, Chairman Linehan. I want to ask a couple questions. So I want to go back some of the comments clear from the opening till now. You know, agriculture carried us through that last recession so Nebraska really didn't suffer at all. So we didn't have to climb out of a big hole coming out of the recession that everybody else had to climb out of. Would you agree with that?

DAVE RIPPE: I would agree with the statement as we did with Senator Briese earlier that agriculture is the primary driver of our state's economy.

FRIESEN: So we've-- we've had the economic development package in place for how many years? LB775.

DAVE RIPPE: In various forms, the most recent one since 2007 and LB775 before that 1998, 19-- yeah, quite a while.

FRIESEN: Again, we've got almost a billion dollars invested. We have revenue that in 2015 we grew at 2.1 percent; 2016 we grew at .9 percent; 2017 we're growing at 1.9 percent; and we've got three

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trophies. We're better than every state around us, than all of them combined. We have a fantastic program it sounds like to me. And yet our economy is not really jumping. What is it? What are we doing? We've got 55,000 job openings that we can't fill. And we're going to incentivize companies to grow. Are we going to incentivize people to come? Where are they going to get the employees? We've invested a ton of money. I-- I look at a lot of times we talked about economic development on our-- the committee I was on earlier. But when we get into bidding wars with other states, we lose. We don't have the people or the resources or the, the economy to compete with them. They're bigger than we are. So sometimes maybe we have to do something that's different. So should we just lower our tax rates, get rid of the incentives, be a low-regulation, business-friendly, low-tax state? And maybe they come here because we have good employees, maybe our kids don't leave because they want to stay, and we operate on that aspect. Is that something everybody has looked at or? So what have we gotten for a billion dollars?

DAVE RIPPE: I think that what you would look at for the billion dollars is the measurables that come underneath the program. That's the, excuse me again, but it's the \$8 billion in capital investment. It's the \$5 billion in wages that have been paid to Nebraska. It's the facilities that have then become what I would call property tax annuities throughout this state that will consistently for the next however many years continue to pay property taxes.

FRIESEN: And property tax is the highest they've ever been.

DAVE RIPPE: Right. And so I think that when we look at this billion dollars we try and look at the return on investment that's being generated by that. There's a lot of ways we can spend a billion dollars. We can spend a billion dollars on coupons for property tax relief that go out. We can spend a billion dollars on incentives for businesses. What we try to look at and to the question earlier is that we try and look at what our return on investment is. Are we generating the types of jobs that allow people to buy homes and pay property taxes or allow people to help bolster our sales tax? Our charge as the department is to invest in the programs and to bring forward the ideas that help to broaden our tax base and mitigate the tax burden. I wish there were a silver bullet way to do that. We are trying to create a way that and modify a way that allows our state to be competitive in doing so with other states and to continue to earn a return on investment for our state's dollars. But certainly as we've seen

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throughout the history of these programs, there's no plain and easy way to do it.

FRIESEN: If we-- if we'd take our corporate tax rate down to zero, which \$300--some million and then everybody has the opportunity to come here with no tax. Be hard to use the Advantage Act. You couldn't redeem any credits.

DAVE RIPPE: Well, I would say that the states that we compete with that have no income tax, be it Wyoming or Texas or Florida or North Dakota, still have incentive programs of some sort. And they still-- they still have a program that they use to encourage the behavior that they want to see. And so when you open up the \$300 million in corporate income tax, that's for people that pay low-wage jobs, it's for people that are in the retail sphere, it's for everyone. And so I would say that the value of an incentive program even in an-- even in an entitlement capacity is you're still threading-- setting thresholds for what your state expects. It's still a 100 percent state average wage. It's still a certain amount of capital investment. You're really defining the behaviors that as a state we want to see.

FRIESEN: So we should-- we should raise our corporate taxes and then give the good companies incentives?

DAVE RIPPE: I'm not here to speculate on policy decisions, Senator Friesen.

FRIESEN: You're giving us advice. You mentioned the credits were going to be relatively like 20 percent less than Advantage Act and we're going to give them sooner. I've had companies come up to me and say, cut my credits by 40 percent and get them to me sooner and we'll call it even because we made it so burdensome they created a whole accounting departments trying to meet the criteria of the Advantage Act. Are we kind of meeting something in the middle here?

DAVE RIPPE: Yes. I would say that the focus of-- of our group in general is as we work to bring this bill forward has been that new growth in Nebraska and it's been a simplified process that encourages overall the behavior that we want to see. And so from the point that a company brings an application in to when-- to when and how they submit data into our Department of Revenue that validates so that we can be accountable to the taxpayer that they're doing what they said they were going to do, to the moment that they received benefit we believe that we've expedited that on average by 700 days. And so, yes,

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simplicity has been a great goal of this. Responsiveness to the customer is a-- is a priority of the administration and it's a feature that we've worked to build into this bill. And so we believe that through the Imagine Nebraska Act we're in a much better position to serve the customer than under Nebraska Advantage.

FRIESEN: There are companies waiting seven years to get their credits and you're taking 700 days off. It's still fairly long. So I have talked to smaller startup tech companies that start up and they have not used the Advantage Act. Are they going to start using something like this?

DAVE RIPPE: I would say that through, through some of the different features that we've built into this bill, whether it's a qualification on jobs only or-- or then again looking at where thresholds should be set on job creation or investment we've worked to make this program more accessible for a better variety of companies. That's why we've seen the overall benefit for an average company reduce because we've expanded that side A that we talked about who can qualify for the project. But I would also say that LB720, the state's tax incentive program, whatever it is, isn't responsible in total for all of the economic activity that occurs in this state. We have another bill that'll be up next week, LB334, that, that adds funding to the Business Innovation Act which is used by a number of our state's small companies. And so I would-- I would say that as we look at economic growth in this state, be it in ag or be it in industry, everything isn't solved for-- in the tax incentive bill. There's a number of programs that we look at to try and-- to try and encourage economic development.

FRIESEN: In your programs in the Advantage Act, I mean there was some real property taxes that were-- how was that handled or how do you handle it in yours? Is it a rebate of what they paid in property taxes or--

DAVE RIPPE: So in the current program, Nebraska Advantage, there-- there are real property tax exemptions for certain behaviors. And so there are real property tax exemptions at certain levels for data centers. Understand that if you have a-- if you're bringing one of these in, it's not like they have a huge impact on the local school system with their 20 employees but a billion dollars in investment. There are also real property tax exemptions for ag processing equipment which I would assume the policy position being that ag processing adds a great value to our state by increasing the basis for

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our farmers. And so there is a benefit there to, to exempt real property taxes or personal property taxes. Same way in this bill, we've, we've looked at some of the thresholds at which that can qualify, recognizing that ag processing equipment is a priority and that-- and that expanding our state's tech sector is also a priority. And so those features are built into the existing bill as well. I would also say that on the real property tax side at a certain level there's-- it's an allowance to use your credits for real property taxes. But that, that project is-- those are pretty unique projects of a certain level of investment and employment.

FRIESEN: So you're saying there's businesses that don't have an impact so to speak on school systems, things like that, that you feel comfortable not letting them pay property taxes.

DAVE RIPPE: I would say that that's a policy position that was taken by a previous Legislature that we've adopted into this bill as well.

FRIESEN: And so it would be easy to migrate that to ag land which brings no kids to the system either, right?

DAVE RIPPE: Again, we're-- we're migrating into policy waters that I'm probably not safe in, Senator.

FRIESEN: Just putting it on the record to look at. So-- so you're-- all of these investments they do pay property taxes and then the state refunds some of that or they're just exempt from paying it? So property taxes are a very local issue.

DAVE RIPPE: Yeah. So certain personal property taxes are exempted, just outright exempted for ag processing and for data centers. And then for projects of a certain size, they are-- they're an allowed use of credits as a refund.

FRIESEN: So the city collects no real property taxes, so to speak, or they're just given a credit for what they pay.

DAVE RIPPE: They would get it via the refund.

FRIESEN: OK. So the city--

DAVE RIPPE: But not on the personal side.

FRIESEN: The personal side is exempt.

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DAVE RIPPE: Right.

FRIESEN: I get that. But-- so the real property is what I was concerned about because there is tremendous investment in buildings. And so they are getting that. They're just getting it rebated back to--

DAVE RIPPE: Correct.

FRIESEN: OK. If a company is operating under the Nebraska Advantage Act and those credits extend out a long time, can they also be into the new Imagine Act?

DAVE RIPPE: My recollection is that it's a-- it's a one or the other. And, and so there is not crossover into that program. I would want to verify that with the amended copy of the bill though, Senator.

FRIESEN: OK. Because there's I take it there's probably going to be a lot of applications put in these last two years just in case. The fiscal note of mine showed that. So you're, you're saying you don't think they can have one in each program.

DAVE RIPPE: One bite of the apple.

FRIESEN: OK, fair enough. Under the Imagine Act the way I understand it, if an employee spends more than 50 percent of the time here then their credit is a new job. So let's say they spend 51 percent of their time here but then go work out of state the other 49 percent. They're still considered a new job creation here?

DAVE RIPPE: Yes. And so the preponderance of time must be spent in state. And the best way for me to understand how this position or how this works, Senator Friesen, I was up at the-- at the Cargill campus in Blair to visit [INAUDIBLE] and they have a young lady up there that lives in Omaha. But she's a global safety inspector for Cargill. And so while she bases in Blair or Omaha and she-- and that plant is her base of operations, she also spends considerable time on the road out of country or in other facilities. And I think that we see that with a number of companies that might have folks that are-- that are based here that go to do custom installations for other companies or that travel for could be a week or two a month. And so what we want are those employees obviously that are based here with an understanding that we live in a very mobile economy.

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FRIESEN: Would you-- yeah, but in reverse, I mean, you have companies that have operations in numerous states. So they, they could create the job in Texas, have them come work up here for 51 percent of their time in the facility here, and then they're considered a new job hire and then they go home. Is that--

DAVE RIPPE: I'm not certain if that would work or not. I don't know the answer.

FRIESEN: I mean we have companies that have multiple locations. I'll give it a rest for now. Senator Groene.

GROENE: The Advantage Act didn't do real property. It only did personal property. Under Tier 6, real property.

DAVE RIPPE: Yes, sir.

GROENE: It was a real property?

DAVE RIPPE: Yeah.

GROENE: And you're expanding real property property taxes?

DAVE RIPPE: I would-- I believe that the, the parameters for the megaprojects now are more constrictive than what they were. The thresholds are higher than what they were under Nebraska Advantage. And so it would be a more restrictive use of real property tax refund.

GROENE: They can get when you say refunds. That's--

DAVE RIPPE: A refund shift-- a refund--

GROENE: Income and sales taxes will refund it.

DAVE RIPPE: Of their credits, yes.

GROENE: Not the local government.

DAVE RIPPE: Right.

GROENE: Local governments still reaped the--

DAVE RIPPE: Yes.

GROENE: --new property taxes.

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DAVE RIPPE: Correct.

GROENE: So but me, out in North Platte helps Omaha with their property taxes by paying my income and sales tax. Is that correct? Because you can use my income and sales taxes in your pool and credit Douglas County or Sarpy County.

DAVE RIPPE: On a case-by-case scenario.

GROENE: And then do you know what we-- personal property that's-- that's a new-- [INAUDIBLE] operated [INAUDIBLE], the equipment, the computers and everything that go into the factory or the plant, right?

DAVE RIPPE: Yes. So it would be, you know, anything that would be taxable personal property, machinery and equipment at a facility.

GROENE: When they're building a new plant or even when they replace it. Do you know what we collect on that from-- that type of equipment on sales tax in the state of Nebraska?

DAVE RIPPE: The, the total personal property tax collection for commercial industrial, would that be your question?

GROENE: Yeah.

DAVE RIPPE: I don't know what that number is for the state, but it's available on Department of Revenue's Web site. I can look it up for you and get that to you.

GROENE: I was wondering why don't we just get rid of that and [INAUDIBLE] talk about another exemption. And as Senator Friesen said, why don't we just lower the corporate income tax rate? Why don't we just do something simple and say if you build a new factory for the next ten years you don't pay corporate income taxes? Just simple. Why do we have to get into such detail on all these little niches and nooks and-- or just give them so much tax credit for every job? But you make it seem like it's complicated. I don't see why it has to be. But who made this up about how great the Advantage Act was for every legislative district?

DAVE RIPPE: I'm not certain where you would have received that from.

GROENE: Just wondered this packet that was handed out.

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KOLTERMAN: It came from the Chamber.

GROENE: You got mine. I understand. I looked at the Advantage Act. What they do is they say Cabela's had 300 jobs because they list every location they have at Cabela's. But the 300 jobs are in Omaha. No, we didn't get 300 jobs when we put that call center in North Platte. Farmers Mutual Insurance Company, we didn't get 30 jobs. They have different locations; and when they list a tier, they list all of their locations across the state. TierOne Bank, 210 bank jobs. H'm, I have an account there. I thought there were a lot of people in that little building. First National Bank, 100 jobs? I never seen them. [INAUDIBLE], yeah maybe. So this thing-- I don't know who says we're getting a lot of jobs from the Advantage Act. It's not happening in rural Nebraska. First National will say they got a bank here and a bank branch here and bank branch here and they did 300 jobs. That's not in North Platte. That's in their headquarters. So I've never seen the Advantage Act show up much in my county. How is this new? Are you going to split it up one third, one third, one third that it-- that it has to be equal between each Congressional District investment?

DAVE RIPPE: No, sir.

GROENE: Why not? Equal population, a third of the population in each one of the Congressional Districts. Let's spread the wealth around.

DAVE RIPPE: We've taken the position of not discriminating economic growth on geography.

GROENE: Well, you are. You're helping three counties where most of it happens. And I'm helping this-- I'm helping to fund it out in Congressional District 3. We're not getting our share. So that's what really bothers me about these economic development plans. Give me a third of it, I'll sign on. Thank you.

FRIESEN: Thank you, Senator Groene. Senator McCollister.

McCOLLISTER: Yeah. Thank you, Senator Friesen. Senator Groene brings up an interesting point and that's the audit function. Is that going to revert back or stay with the Revenue Department or with the tax department? Or is that going to reside in your department?

DAVE RIPPE: No. So that capacity, Senator, is built up at Department of Revenue. This is a tax program and that's where it makes the most accep-- makes the most sense for that capacity to exist. What we've

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done though is work to simplify that audit function by using preexisting data sources. And so now allowing companies to submit their payroll records to the Department of Revenue in order to help them verify employment, tying in their property tax filings as part of their capital investment report to Department of Revenue. And so what we've looked to do is significantly simplify the application, the qualifying audit, and then also the asset and capital investment audit employment audits. And so that's where we see a lot of our time savings that is the simplification on the qualification and audit functions. And it mainly comes through how we approach a project and that is by net new growth, either at a location or statewide, but defining a location and the net activity that happens at that location as a project. Previously you might have seen a company on one floor of a building have a growth project while simultaneously on another floor having a maybe a layoff or a contraction or on one side of a manufacturing aisle adding a project but on the other side eliminating something. What we look to do under the new program is eliminate the ability to do that and focus on net new growth in whole at a location. And so a greater focus on investment in our state.

McCOLLISTER: So it's going to be your department's discretionary authority to approve the projects in whole or will Revenue still have a part in that?

DAVE RIPPE: Our department will approve applications and then we will submit that approval to the Department of Revenue to carry out the actual transactional part and audit and compliance function.

McCOLLISTER: OK. Thank you, Director.

DAVE RIPPE: Yep.

FRIESEN: Thank you, Senator McCollister. Senator Briese.

BRIESE: Thank you, Chairman Friesen. Thank you again for your testimony. We talked earlier about the wage threshold. This-- the wage threshold in this bill is going to be higher than the average wage threshold in Advantage?

DAVE RIPPE: Yes.

BRIESE: OK. Fair to say from that that the tax expenditure per job created under this proposal would be higher than the tax expenditure per job created under Advantage?

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DAVE RIPPE: I'm not certain that I-- that I understand the question, Senator. Currently under the Nebraska Advantage Act, a company that pays 60, 70, 80, 90 percent of the state average wage can receive a wage credit. Under the new program, we've, we've eliminated that lower percentage and set a new floor.

BRIESE: OK.

DAVE RIPPE: There's still a wage credit percentage that a company can receive. But in general, I mean, you should see employees that are being retained at a higher level of pay and that are ultimately paying more income tax into the state.

BRIESE: OK. But we talked earlier about the tax expenditure per job created under Advantage you said is higher than the average state. And so would this bill increase that tax expenditure per every job created?

DAVE RIPPE: Because of the fiscal constraint on the overall program, the budget number we've tried to shoot for, I think that where you might see an increase is if you see fewer jobs created. And so if your-- if your numerator stays the same but your denominator changes, you would technically see an increase per, right? And so to the extent that we are incenting fewer jobs under the new program than we currently are, you would under-- with the same fiscal constraints, you would see a higher per job, potentially see a higher per job number.

BRIESE: Tax expenditure.

DAVE RIPPE: Correct.

BRIESE: And what was the tax expenditure, what has been the tax expenditure per job created under Nebraska Advantage? See if your math equal mine.

DAVE RIPPE: Well, my quick math would be on credits earned to date for wage credits which would be \$195 million divided by the 16,000 jobs created to date under Nebraska Advantage. And so without pulling out my phone--

BRIESE: But earlier we talked about \$900 million. What's been--

DAVE RIPPE: Yeah.

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BRIESE: --what's been generated to date plus what's on the books and divide that by 16,000 jobs.

DAVE RIPPE: If you counted your investment tax credits, correct.

BRIESE: Fifty-six thousand dollars per job created, correct?

DAVE RIPPE: OK.

BRIESE: And it could be a higher amount under this bill going forward.

DAVE RIPPE: To the extent that fewer better jobs are created, yes.

BRIESE: OK. Very good. The fiscal note we see here, do you trust that? You know, I think we talked earlier with-- talking about not having much of a cap in place. Do we trust those amounts or we're not going to exceed that substantial? I think Senator Friesen asked-- mentioned earlier under Advantage we far exceeded projections of the tax expenditure under the Advantage Act. But possibly, very possible we could exceed these numbers by quite a margin?

DAVE RIPPE: If the question is do I trust the forecasting ability of the Department of Revenue, the answer is yes.

BRIESE: Sure.

DAVE RIPPE: I also believe that through this process working hand in hand with Department of Revenue they've learned a great deal from the Nebraska Advantage program and that has informed their ability to forecast this bill. So I do have a great deal of trust in the abilities of the Department of Revenue with the data that they have to work with.

BRIESE: OK. Thank you. And earlier we talked about full-- activity that would have been-- would have occurred without this program but folks are qualifying for this program or under Advantage anyway. You know, some [INAUDIBLE] you know, it doesn't necessarily cause everything or attributing to the program. In your profession in your industry among your peers, is there a percentage that's typically given as folks along essentially for the ride that basically profit and benefit from a program like this that were going to expand and build anyway?

DAVE RIPPE: If there is, I'm not aware of it, Senator.

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BRIESE: OK. OK. Thank you.

FRIESEN: Thank you, Senator Briese. Any other questions from the committee? Senator Crawford.

CRAWFORD: Thank you, Vice Chair Friesen. Thank you, Director. I wonder-- so the basic incentives are our statutory entitlements. But then it sounds-- I think in the program you have some discretion in terms of fast forwarding benefits or allowing loans for companies.

DAVE RIPPE: Correct.

CRAWFORD: Do you have-- and so is that a discretion-- are those-- are those both discretionary in terms of who gets those incentives?

DAVE RIPPE: Yeah. I do believe and so the proposal in the bill is, is an advancement, some seed funding of \$5 million to help with this type of a loan program. It's a different use of their tax liability, but there would be discretion in how those are awarded, no different than the discretion that our department has today with site and building development funds or customized job training funds. This just gives us a perpetual source or a source with a defined funding source to be able to engage in those activities, correct.

CRAWFORD: And then their performance would pay for those loans--

DAVE RIPPE: Yes.

CRAWFORD: --and investments [INAUDIBLE].

DAVE RIPPE: Replenishing the pool and allowing us to repeat, correct.

CRAWFORD: Thank you.

FRIESEN: Thank you, Senator Crawford. Any other questions from the committee? So the, the performance audit that happened on the Nebraska Advantage Act pointed out a lot of flaws in our ability to monitor and measure the performance of it. Have you corrected all those in this bill?

LINDSTROM: [RECORDER MALFUNCTION] Imagine they, too, have similar issues, problems in their states in workforce and taxation, but they also have incentive programs, right? You just alluded to North Carolina doing it [INAUDIBLE] lot of sense in having a program.

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DAVID BROWN: Yeah. Every state in the union has incentives, whether they have an income tax or--

LINDSTROM: And so when you-- you have similar cities, if we were to get rid of it, to-- to your point, it would be troublesome, to say the least.

DAVID BROWN: Yeah. So we-- we just won a project that we competed with Portland and Phoenix. We wouldn't have been in the running if-- if the incentives and all the rest of the things they look-- look-- look at weren't competitive. And ultimately a place with the collective package was something that they wanted more than other places. So, yeah, all those cities have the same kind of challenges we have in high-- or low unemployment, tax rates some cases more competitive than ours or in some cases less competitive than ours. The whole mix of everything together ultimately ends up being a decision that companies have to make of where they can be the most successful with their investment.

LINDSTROM: And Mr. Walker [SIC] touched on this a little bit. When the-- when the companies are looking at new site selection, he alluded to the fact that if we don't have an incentive program, that's first and foremost going to take us right out of the running. Would you say that that is something you would run across?

DAVID BROWN: Oh, absolutely. I think he was exactly right in the notion that economic development is a game of how long can you stay on the list.

LINDSTROM: I think I said "Mr. Walker." Walker Zulkoski.

DAVID BROWN: Walker Zulkoski, right.

LINDSTROM: Excuse me, sir.

DAVID BROWN: You know, companies are-- frankly, their real estate folks and their consultants are paid to limit the number of companies that-- communities that they consider. And so they're trying to find those fatal flaws or those uncompetitive pieces that-- that will make it easy for them to take us or any of our other community in Nebraska off the list. And so if incentives go away and if they do the math and realize that the-- we're not going to be competitive, the project will go away. And I'm-- I'm convinced of it and we've got-- I've got 30

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years of experience telling me that would happen if indeed the incentives disappeared.

LINDSTROM: Thank you, Mr. Brown.

LINEHAN: Thank you, Senator Lindstrom. Senator Groene.

GROENE: Thank you. You mentioned cities and some mentioned, very honest, it's about Omaha, it's about Lincoln. Do other states have-- allow their cities to come up with some of the incentive themselves with their sales tax base, with their property tax base, instead of a farmer out in the Panhandle in Nebraska, his taxes helping the city of Omaha?

DAVID BROWN: I would say that that's a two bladed-sword, Senator, that the taxes that are generated in Omaha and Lincoln in large measure support most of the communities across the state as well. And so if we're growing, the state is growing. If the rest of the state is growing, so are we. So there is this-- this dependency that we have across the state. So I would say if taxes from Beatrice there-- a beneficial project there support a project in Omaha, one can look the other way as well. Do other states have the ability for cities to create incentives? Absolutely. In this day we have LB84 where smaller towns can actually pass through a vote of the people an opportunity to actually create funds that can create and support economic development organizations or be used for infrastructure or for site development or for spec buildings, as Walker talked about earlier. We have those in our region. Lincoln has those in their region. They're all across the state. In our community, the city of Papillion has been particularly aggressive about coming up with-- with public dollars to support major public infrastructure that will help for these great big data centers, as an example, to come in.

GROENE: What about private dollars?

DAVID BROWN: We have actually, our foundation at the Chamber have actually replaced incentive dollars that were no longer available at the state level for a couple of projects because the state coffers had run dry, and we've had to go to the private sector to do that. It's not something that we believe is the purview of the private sector to pay for incentives for companies to come except through growth in the taxes that they pay in the community and to the state.

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GROENE: You said-- I've heard this story before that it helps the whole state. We're depopulating out there. Our main streets are drying up. Tumbleweeds are blowing down the streets. Sidney has got empty buildings. We don't get any of your tax dollars from Omaha to fund our schools, very little, because we get no equalization aid. Our kids go to you to go to school and spend dollars in your cities. I'm at a loss for words. You say when you get a big project in Omaha and they don't pay any taxes, you don't care because the employees work there, they buy a house, they pay property taxes, they go to your Main Street and buy their goods. I can understand why you'd want the rest of the state to help pay for these projects, because of the multiplication of the economic dollar. That doesn't happen in North Platte. That happens in Omaha. You're better off to have the state do a refundable tax credit because what do you care? If it costs the state more money, you get all that-- all of that multiplication of the economic dollar on Main Street, a home, kids in your school. You see the frustration with rural Nebraska? Well, we're wondering, how does this help us?

DAVID BROWN: I understand the frustration, Senator. It's one of the reasons that we as a chamber and why business leaders across the state are involved in Blueprint Nebraska to try and figure out how the two sides of the state, urban and rural, can work more closely together. I know of the companies in-- in Omaha that are growing that have facilities all across the state that continue to employ people across the state. And I continue to believe that the percentage of income taxes that are paid in this state by businesses that do support state governments and a variety of different services, the predominance of those are coming from where all the-- all the jobs are, and that means Lincoln and Omaha. That doesn't mean that there isn't a significant contribution by folks across the state, but-- but you've got to admit that if income taxes are a third of what the state budget is, the vast majority those income taxes are not coming from agriculture. They're not coming from farmers. They're coming from businesses and individuals who are working in those jobs, and that means Omaha and Lincoln, where the predominance of the jobs are. So we can help the state grow. Rural communities can help us grow too. We need to figure out a way that the state is balanced.

GROENE: We do. We've sent you our kids for years and they're the engineers at HDR and at the other businesses in town.

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DAVID BROWN: And, you know, with 2.5 percent unemployment, Senator, you know, we continue to try and find ways that we can develop our own, that we can attract people from the outside.

GROENE: But you see, the problem that I have is you won't help us with property tax. It's been-- the Chamber is one of the biggest hurdles to get property tax relief. But your economic development is based on high taxes. If we can lower taxes, they come. But it doesn't seem to bother you guys that rural Nebraska is hurting big time because property taxes don't bother us out there.

DAVID BROWN: Senator, we signed onto a bill last year for property tax relief that just didn't make it through the Legislature. And we understand the role that property tax plays in the agricultural economy here. We continue to work on the process of how do taxes across the state become more competitive for both folks in rural Nebraska as well as folks in my city, in my region. My assessed value for my house went up 40 percent this year. Now one could make the case that the assessor wasn't keeping up and, therefore, they should have been doing this long, long time ago. But for anybody, that's the tax bite, and I know it's happening not just to me but to a lot of other places around the state too. We have a challenge on the cost side in the state that basically is covered by property taxes, I agree with you, and we also have a problem with the revenue side that there is-- it's an unequal process right now and that has to be fixed and we've been a proponent of that.

GROENE: Well, good. It's nice to hear you--

LINEHAN: Thank you.

GROENE: --think you'll help rural Nebraska.

LINEHAN: Thank you, Senator Groene. Thank you. Senator Briese.

BRIESE: Thank you, Madam Chair, and thank you for your testimony. Thank you for being here today.

DAVID BROWN: Thank you, Senator.

BRIESE: I read an article in The World-Herald here recently about housing costs in Omaha. How much of a concern are housing costs to you and your organization relative to economic growth and development and attracting workers and attracting a work force to your community?

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DAVID BROWN: That's a great question, Senator. So with 2.5 percent unemployment and our population only growing by about 1-1.5 percent a year, that population growth isn't sufficient to meet what we think job growth would probably be over the next 15 to 20 years. So when we start looking at how do we attract people to the state, the one thing we need to be is an affordable location for them. And we are not as affordable as a-- as a region as we were even 15 years ago. I think when I first got here, Senator, we were about 85 percent of the national average. Now we're closer to 92 to 93 percent of the national average.

BRIESE: OK.

DAVID BROWN: And the-- the biggest increase in that cost was the cost of housing. Housing was the-- the 800-pound gorilla in the room that was always really, really affordable. And what we've found is, as supply and demand applies, as the housing stock shrinks, the value of that housing goes up. And so everybody is having to pay more for housing. Now the good news in that is that if you look at the big package of what it costs to buy food and to buy utilities and to pay for insurance and a whole the whole long list of what it costs, the companies, the communities that we tend to compete with in our region are higher than 92 percent of the national average. And so we're still able to be competitive. I think our real challenge frankly is that our wages for the longest time have been depressed based on our cost of living being lowered, and the market isn't allowing that to happen anymore. If a company in any town that you represent is looking to hire somebody, they got to pay what the market rate for that job is. And they're not just looking in the region now. They're looking at states all around them. And so we're seeing a much faster escalation of wages than we've seen before. And companies are having to adjust to that. So I think Nebraska-- this LB720, expecting higher wages in the markets around us, it is expected because that's what the market demands to get the kind of people that you need.

BRIESE: OK. I-- I would anticipate or assume, let's say, a 5 percent reduction in housing costs would be significant?

DAVID BROWN: A 5 percent reduction in housing costs in our market?

BRIESE: Yes.

DAVID BROWN: I don't see it happening anytime soon but sure.

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BRIESE: You don't see it? OK.

DAVID BROWN: I don't see housing costs dropping in Omaha anytime soon, short some kind of a major economic dislocation, which we're
[INAUDIBLE]

BRIESE: Seems like the tax expenditure for Nebraska Advantage is about \$200 million, and I would anticipate the tax expenditure for this bill is going to grow to \$200 million before we know it. And dedicate \$200 million to property tax relief, and you've got about a 5 percent reduction.

DAVID BROWN: Well, if you're-- if you're talking about a reduction in property tax rates in exchange for not doing incentives, I think the negative impact of not having incentives will be far greater than a \$200 million hit.

BRIESE: OK.

DAVID BROWN: It will be significant because projects, Senator, will not happen without incentives.

BRIESE: OK. OK. Thank you.

LINEHAN: Thank you, Senator Briese. Senator Groene.

GROENE: So you're saying high taxation is not a reason an employee would move here? It's just how much they make?

DAVID BROWN: It's what their net take-home is going to be, but most importantly combined with the career opportunity that they have, the salary or wages that they get, and the quality of life in the community that they will live in. Any more, Senator, we're finding that-- that particularly in the millennial generation, they choose where they want to live because of the way-- the quality of life they want to have. If they're skiers, they're probably not going to come to Omaha. If they're-- if they like to surf, they're probably not going to come to Omaha. But if there are attributes in our community that-- that they do want to support, then they will say Omaha is a place I'll consider, now let's see what kind of career might be available there, what that pay is going to be--

GROENE: So--

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DAVID BROWN: --what my overall cost of living and quality of life will be.

GROENE: So you don't think when come-- when Bass Pro Shop decided between Sidney and Springfield, Missouri, they don't look at a \$250,000 house in Sydney was \$5,600 property taxes, in Springfield, \$2,600, and that the income tax rate was 3 percent versus 6.84? You don't think they looked at that for the 2,500 employees and said, we can give them a raise, boom, just like that?

DAVID BROWN: Oh, I don't doubt it at all. Companies make those kind of decisions all the time. It-- it's not just about the kind of bottom line the company might have. It's also what's the potential ability to maintain or keep my work force. And if they can show, at least in that particular case, that they think their work force will get a better deal and have a quality of life in another, place they'll make that decision. I don't happen to agree with that decision. I didn't agree with the decision for us losing a corporate headquarters recently. But-- but in the end, you know, the community's got to figure out how to manage through that process.

GROENE: Do you think a young person in New York might look at a tourism advertisement in Nebraska that says Nebraska is not for everyone and then say maybe I'm that-- not that everyone?

DAVID BROWN: I think I'm glad we don't use that slogan for economic development purposes.

GROENE: Would you use that slogan for that?

DAVID BROWN: No, we would not, sir.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Could you-- the number I heard earlier was we've attracted nine companies from outside the state using the Advantage Act. Does that--

DAVID BROWN: I-- I have no idea what town that is for. We-- we have attracted-- let me use the LB775 and Nebraska Advantage because I--

FRIESEN: Yeah.

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DAVID BROWN: --we've pulled those numbers recently.

FRIESEN: Sure.

DAVID BROWN: Nine hundred and forty projects, 48 percent of those are new companies from the outside.

FRIESEN: Forty-eight percent of them?

DAVID BROWN: Forty-eight percent of them--

FRIESEN: New companies?

DAVID BROWN: --so 470--some companies were actually new companies that had never invested in Nebraska before.

FRIESEN: OK. We didn't hear those numbers earlier.

DAVID BROWN: No. And I'm-- I'm not sure where the numbers come from. Our-- our crack business-intelligent team went back and looked at statewide the LB775 and Nebraska Advantage numbers, and our numbers show \$3.6 billion in credits being offered against \$33 billion in capital investment commitments and more than 900,000 jobs. So if you look at the numbers that come over the last-- well, that's nice since 1986, so they-- it's a long time. I think the numbers are-- are very different maybe than what you've heard.

FRIESEN: Well, the Performance Audit, I know those numbers were relatively low. They were not anywhere close to what you're saying. So I'm-- there's a little discrepancy we'll have to look into.

DAVID BROWN: I understand.

LINEHAN: Thank you, Senator Friesen. Other questions?

DAVID BROWN: Senators, thank you so much, for your consideration.

LINEHAN: Oh, oh, hold on. I get to ask.

DAVID BROWN: Oh, good. Madam Chairman, good. I-- see, I thought you were turning the heat down a little bit [INAUDIBLE]

LINEHAN: I'm going to try.

DAVID BROWN: I appreciate that.

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LINEHAN: You do understand our concerns about benefits and why-- well, if we're going to have Medicaid expansion and we-- so can-- do you have a problem with the \$19 or the-- so we get them above qualifying for Medicaid? I mean that's--

DAVID BROWN: Well, I think the wage threshold was far too low on Nebraska Advantage. And I realize the impact that has on our rural employers, so I get that debate. But incenting low-wage jobs is just counter to every philosophy that you could think of in economic development. What we're seeing Senator is that companies have to compete for every single person that they get, and today a benefits package is on the list of required. And so I can't think of a project that we've worked in since I've been in Nebraska with a company who didn't offer benefits. And so I understand your concern, but I think in-- particularly in this very tight labor market and with the wages we're talking about, companies are going to be providing benefits in addition to the higher wage.

LINEHAN: Now here's a harder question.

DAVID BROWN: Yes, Senator. Yes, ma'am.

LINEHAN: So if we-- if we do the Advantage Act, we try to address our high income tax-- because there is no argument from me we are a very high-tax state. As I told everybody, when I moved back here I was like, whoa, what's the deal? We've got to control our spending too.

DAVID BROWN: Absolutely.

LINEHAN: So I guess I would ask the chambers to kind of help us work through that side of the equation, too, because we cannot reduce taxes, whether it's property taxes, any of them, if we can't control our spending

DAVID BROWN: We agree wholeheartedly. And the control of local spending and even-- we've said all along that lower taxes require actually less incentives because if taxes are right now a Band-Aid for higher taxes, if the taxes get to be more competitive, we can actually use incentives in a real targeted-- more targeted way than we are now. And so it means you probably can spend less on incentives because we have a more competitive tax rate. I'm not suggesting that's easy, and the calculations for that and the calculus you have to do to make all

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those things balance is challenging. But I'll-- I'll pledge our support to help it happen.

LINEHAN: Thank you very much. Senator Groene.

GROENE: I've come up with another question and had to say it. You made a good point. You lower your taxes, then you have to spend less on incentives. When you come up against Texas, when they're-- when they start at zero corporate income taxes, you got to get to zero and then start competing with them?

DAVID BROWN: No, sir, I don't believe so. Matter of fact, I think getting to zero is a-- is-- would be a mistake. I think in every state that has no income taxes, they have a much higher sales tax, they have a much higher franchise fee, just fill in the blanks, so-- so they're-- they're able to say we don't have an income tax, but there are other things that they do have to make up the difference. I think a balanced approach to income tax, sales tax makes perfect sense. I think the-- the desire to do something locally to make sure property taxes don't get out of whack needs to be part of that mix, and incentives is something that should be looked at to say how do we enhance the rest of those things to happen the way we need them to.

GROENE: But you do understand-- you guys keep talking about local property taxes. The big one, public education, is not a local decision. It's the state.

DAVID BROWN: Well, the state's asked to-- to contribute to that-- to that fund. Yes, I get that. And of course the sources of those funds are sales tax and income tax. And so it impacts the entire budget in some way or another. Well, we understand that. And frankly I think the formula for education funding, it isn't working for everybody in the state. Matter of fact, it's not working for many people in the state. And so it needs to be fixed, too, as part of this process.

GROENE: Thank you.

DAVID BROWN: So I don't envy you the position that you all have found ourselves in for the huge pay that you guys get to do what you do.

LINEHAN: Thank you. We're all having a great time.

DAVID BROWN: I'm sure you are.

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LINEHAN: Thank you for being with us today. Anybody else?

DAVID BROWN: Thank you.

LINEHAN: Thank you very much.

DAVID ARNOLD: Madam Chair, members of the committee, thank you for having me. My name is David Arnold, D-a-v-i-d A-r-n-o-l-d. I'm the vice president of corporate development for a 400-person software company in Omaha named Buildertrend. Before I tell you why we are supporting LB720, I have to reflect on a couple things. As I look across the committee, I see a senator I've got to know personally, a senator in the chair whose daughter I went to law school with, I own a home in District 20 and I was born and raised in District 42, so it tells me a couple things. One, it's a really small state, and, two, maybe I'm not the wrong person for Buildertrend to send on their behalf. So we are supporting-- well, let me tell you a little about who Buildertrend is. Buildertrend, as I mentioned, is a 400-person software company in Omaha, Nebraska. We provide the nation's top project management software to the residential construction industry. We have clients in every state the nation, 60 additional countries, and do all of that from Omaha, Nebraska. We were founded by three Omaha residents who were educated across the state of Nebraska and chose to build their company here and employ people here. A lot of our competitors have offshore development, have employees in other states. We've chosen a different route. All of our employees, as I mentioned, are in the state of Nebraska. We were founded in 2006, so we've been around awhile, not exactly a young pup anymore and in the technology world. As you can imagine, our clientele was hit very hard by the Great Recession but because we're a bootstrap company, we've never taken outside capital, we were able to tighten our belt, make it through that time, and every year since 2010, grow our revenue by 50 percent year over year. Doing that without any outside capital is not easy and I can say unequivocally that we have been aided by the Nebraska Advantage Act, so I want to talk through a couple of things and how that's helped our business and how we believe moving forward with an improved bill will help future of Buildertrends. So Buildertrend applied for tax credits in 2014. It went into effect on January 1, 2015. Since that time, we have hired 610 employees and now find ourselves employing around 400. Some of the turnover is due to, you know, normal turnover as well as interns. We've bought two additional offices since that time, including our current campus which is former Vatterott College. It's 110,000 square feet. So on top of

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the job growth, we-- we've also invested in two additional offices since applying to the program. So why does this matter? Companies like Buildertrend prove that you can build a first-class software company in the state of Nebraska. You can compete with everybody across the nation. For example, as I mentioned, we have clients in every state, 60 additional countries. Our software has helped facilitate over \$116 trillion worth of projects. And because we haven't taken outside capital, all benefits of ownership stay in the state. If that ownership ever did change, it would not only benefit our founders but obviously-- but also our employees because of some of the perks that we have. So it's important to note that all of that activity is happening here. That matters from a talent perspective because it keeps students and employer-- and employees in the state. You know, they-- we provide a unique--

LINEHAN: I-- somebody will-- I've got-- Senator Lindstrom will ask you a question, even though you're out of time.

DAVID ARNOLD: Fair enough.

LINDSTROM: Just as I raised my hand.

DAVID ARNOLD: Yeah.

LINEHAN: Yes, just as you-- Senator Lindstrom.

LINDSTROM: Thank you, Madam Chair, and thank you Mr. Arnold, for being here.

DAVID ARNOLD: Of course.

LINDSTROM: You mentioned the company you founded in 2006 and it's grown significantly over that time period. You mentioned that Nebraska Advantage has played a role in that. Can you talk a little bit about the-- say the demographic or the-- what-- what the average employee looks like at Buildertrend?

DAVID ARNOLD: Yeah. It ranges a bit based on the role. We have three primary roles we hire for: sales, customer success, and then engineering. The wages obviously change a little bit. Engineering, for example, is a higher wage position. But on average we have paid \$42,000 annually, which equates to about \$22 per hour, which is well above the minimum in the previous bill and even above the minimum in the current bill. So these are good high-growth jobs from a career perspective. In terms of the folks that were hiring, it ranges

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everything from kids fresh out of school, from education-- educational institutions across the state all the way to very advanced programmers who have, you know, had careers. So it really runs the gamut.

LINDSTROM: How do you-- how do you recruit? You know, we talk about work force development--

DAVID ARNOLD: Yeah.

LINDSTROM: --and we talk about unemployment 2 point--- was it 1 percent, I think, or 2.5 percent? Very low and you're competing with the likes of some of the software companies and Googles of the world and things like that.

DAVID ARNOLD: Yeah.

LINDSTROM: How hard is that and how-- where do you-- where do you go to recruit? And when you talk about work force development, you know, how do we address that?

DAVID ARNOLD: Yeah.

LINDSTROM: How do we focus in on some of those things?

DAVID ARNOLD: Yeah, you know, talent attraction and retention are different for every business. What's worked for us is to get into the higher educational institutions, get them to our campus. As I mentioned, with a very unique work environment. If you walk through some of our older counterparts in terms of employers in the state and then you walk through our office, it looks, feels different. Also, we're very quick to promote, we're very quick to, you know, create and fill new roles. What's worked for us is going direct to those-- those people, those potential employees, showing them that they can have a really unique environment, a really unique job in Nebraska, they don't have to go to Silicon Valley, they don't have to go to Chicago. And it works. We are absolutely keeping people in the state, myself included, that may not be here otherwise.

LINDSTROM: Is there a particular aspect of the Advantage Act that's helped grow or--

DAVID ARNOLD: Yeah.

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LINDSTROM: What-- what has been the most significant part of that to help take it--

DAVID ARNOLD: Yeah, the provisions that relate to job creation. So as I mentioned, we've hired 610 folks since we applied and were accepted. Would we have hired a lot of people otherwise? Probably. Would we have hired as many? It's very unlikely. So the Advantage Act-- Act is-- acted as an accelerant to our growth and will continue to do so. We are slated to hire another 300 people this year. We're still, you know, taking part in the Advantage Act and-- and it will absolutely allow us to continue to grow, continue to be the top provider across the nation, as I mentioned, and, you know, become a company that puts Nebraska even further on the map than it already is.

LINDSTROM: Can-- last question, Madam Chair?

LINEHAN: Yeah, certainly.

LINDSTROM: How often do you have other recruiters approaching you? Is it particular states that-- that Buildertrend has looked at? Are there-- when you look at the criteria, because we heard--

DAVID ARNOLD: Yeah.

LINDSTROM: --we heard incentives, if incentives aren't there, that's the number-one thing that might potentially take that off the table or-- or potentially looking at a particular state, taxes come-- has come up, a lot of different factors. Tell me about that experience or certain states that might have approached you.

DAVID ARNOLD: Yeah, it's a great question. As I mentioned, we have a dedication to the state. The founding team is from here. The leadership team is primarily from Omaha. We have a West Point resident, we have a Sutherland, Nebraska, resident, but we're all-- we have a personal connection to the state. That being said, we will outgrow our current office, 110,000 square feet, likely in about a year and a half and we'll have to make a decision on where we go. We're not the type of company to, you know, make threat-- idle threats or, you know, make false claims, but the reality is we will absolutely look at where we can, you know, build the type of company we want to be and we will-- we will and have had states approach us. And the reality is when it comes to things like incentives, when it comes to things like the S-- the "S corp" bill, those do affect our decision. You know, we have less than 3 percent of our revenue that happens in

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state. So all of these factors, all of these bills do come into play and will come into play. We want to stay here. We want to continue to hire people. We want to have 1,000-plus employees all in state that are representative from across the state. But like any other business, we have to make sure that we look at the facts on the ground and make decisions accordingly.

LINDSTROM: Thank you, Mr. Arnold.

LINEHAN: Thank you, Senator Lindstrom. Senator Groene.

GROENE: So I think you answered my question. You're an S corp, so that's big for you guys.

DAVID ARNOLD: That's correct.

GROENE: But the one thing you can't buy is that Nebraska bred. I mean Cabela's, you guys--

DAVID ARNOLD: The Nebraska what?

GROENE: --ConAgra, you were bred and raised here, all right?

DAVID ARNOLD: In the 42nd District, sir.

GROENE: Yeah. Sutherland?

DAVID ARNOLD: That's right.

GROENE: Good school. And your honesty, can't be anything but honest when you come from my district. But Cabela's, ConAgra, you guys, HDR, Peter Kiewit, you can't buy that.

DAVID ARNOLD: Yeah.

GROENE: I mean you can't buy-- buy that state loyalty that-- because once they do, like Bass Pro, Cabela's is gone, when the Founding Fathers are gone, that, you know, is scary, too, but eventually you got-- the owners are going to bail out, take the golden parachute and go IPO and sell the darn thing and go to Morocco for the rest of their lives, or wherever they want to go, because that's the American dream. Then what happens?

DAVID ARNOLD: Yeah. The reality is we're building this company to last. It is the type of company that attracts attention. You know, a-- a privately held, quickly growing startup company of our size does

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attract attention. But the reality is, because of that dedication you mentioned, we want to make sure that our company is sustainable, continues to have a presence in Nebraska if possible, regardless of who is, you know, running the company. So we are investing in a leadership team that we are grooming to be able to take the helm if the founders ever decide they don't want to be there day to day. We have--

GROENE: Just make sure they grew up in Nebraska.

DAVID ARNOLD: We have, you know, rolled out perks that make sure that all employees win if there ever is a liquidation moment, and that's because we want to make sure that all the benefits were down to the state and that we maintain the connection here. That being said--

GROENE: So--

DAVID ARNOLD: --you know, we're-- like I said, we're not the type of company that makes idle threats. We're not the type of company that-- that is going to create false leverage. But the reality is, if we can go-- if we're put in a position where we have to go across the river to Council Bluffs and it will make a meaningful impact on our business, that's something we have to consider. We hope that never happens. And the reality is we have an opportunity to improve an already good bill, a bill that's literally helped our company become the nation's top product. And it's our belief that we should do exactly that and we should also look at everything else that affects businesses like ours.

GROENE: Is-- the S corp is very important though.

DAVID ARNOLD: It is. It is. And you have to-- as you put yourself in our shoes and you realize that we have 3 percent of revenue that comes from the state, we would be looking at a major shift and adjustment if--

GROENE: Taxes.

DAVID ARNOLD: --if things changed.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? Senator Friesen.

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FRIESEN: Thank you, Chairwoman Linehan. So you-- you said you're growing your revenue at 50 percent a year?

DAVID ARNOLD: We have every year since 2010.

FRIESEN: It's pretty impressive even without the Advantage Act.

DAVID ARNOLD: You know, I-- the reality is our growth, our most valuable asset are our employees, and we are absolutely constrained by the number of people that we can hire. So you can directly tie the Advantage Act's acceleration of our ability to hire to our ability to hit that growth rate. Now is 40 percent growth, is 30 percent growth good? Of course. It's not as good as 50 and-- and the reality is, you know, we'd love that to be 75. And if we could hire 600 people this year, we would.

FRIESEN: Well, that's kind of my point though. I mean you-- you are a very successful company. So when you were doing the startup, could you have used some incentives then to get you going? I mean, because I would assume you're like any other startup, you struggled the first three, four, five years?

DAVID ARNOLD: Yeah. And in a former life, I actually ran an accelerator for tech companies where we-- we got-- we invested in them when they were first getting going, we put them through three months of mentorship, and help them grow. I will echo Director Rippe's comments about the prototyping grant, Intern Nebraska. There are effective programs. This one is a program that helps companies like Buildertrend. We had about 40 employees, still a small business at the time that we applied. If you have zero employees, it's probably not going to help you. But we have other tools and other arrows in the quiver that can help. So it's my position that we should have effective tools that help every stage of a company's life, whether that's, you know, a spinoff out of Cabela's or a high-tech-- high-growth tech company. And I think we do. I think the Intern Nebraska, the prototyping grant, those things help early stage companies, and the Nebraska Advantage Act can help the ones that have succeeded and, frankly, the ones that we should double down on in the state.

FRIESEN: Well, when you-- when you say you're growing at that kind of rate, too, I mean, we could-- there's companies that would love to

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have your growth rate. I mean they're-- they're growing at a 10 to 15 percent a year sometimes. I mean, they're struggling.

DAVID ARNOLD: Yeah.

FRIESEN: Incentives for them, you could say, well, you guys didn't need any incentives, you would have grown at some rate regardless--

DAVID ARNOLD: Yeah.

FRIESEN: --you were doing really well. Now those companies that are struggling, do we help them to speed them up?

DAVID ARNOLD: Yeah.

FRIESEN: Do we target? That's kind of what we talked I think right at the beginning, do we start targeting certain businesses, the winners and losers.

DAVID ARNOLD: Yeah. I have full faith in Director Rippe and his-- his team's ability to-- to improve the application process and help the companies that need it most. But I do think it's--- I don't think we should just look at the tax expenditure when it comes to incentives. You have to look at what that creates. So if we create 150 jobs versus 300 in a year, and maybe we could only create 150 on our own, 300 with incentives, that's another 150 jobs at a rate that's far above, you know, what we're-- what we have to do. There are homes being built, bought. There are cars being acquired, their income tax being paid. In my opinion, humbly, I think we have to look at the full benefit. And while I don't disagree that we should help the companies that need it the most, I don't think it's fair to say that the-- the state gets nothing back by helping us get from 150 jobs to 300.

FRIESEN: I didn't insinuate that. I'm-- you know, with the subchapter S exclusion and the Advantage Act--

DAVID ARNOLD: Yeah.

FRIESEN: --there's some real dollars there. As Senator Groene has brought up numerous times, Cabela's was a great company--

DAVID ARNOLD: Yep.

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FRIESEN: --grew, started locally, born here, and then suddenly it gets so big that it-- it's gone.

DAVID ARNOLD: Yeah.

FRIESEN: And so we-- we incentivize companies and-- and owners change or things change and suddenly they're gone. And that-- that was the struggle I think that Sydney had. Built a huge complex and it was a great company.

DAVID ARNOLD: Yeah.

FRIESEN: But in the end, it gets so big sometimes we-- we lose it.

DAVID ARNOLD: While that's a high-profile example, I think, you know, if you took ten businesses that were, you know, born and grown here, nine out of ten would still be here, probably still run by the family. So you've talked a lot about attracting companies. My position personally has always been that attracting companies can be viewed as a silver bullet and we're far better likely-- we're-- we're far better off growing companies from within. While some do end in-- end with chapters we don't love, most of them don't and most of them are still paying taxes, still being run by the family, or they're sold to other Nebraskans. So I think, yeah, there are-- there are examples that are not great, but there are also some great examples.

FRIESEN: I think we should focus more on startup companies like what you do.

DAVID ARNOLD: Yeah. Well, you're not going to get disagreement from me there.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: Did you say you're at 400 employees and you're-- and you're hiring 600 more?

DAVID ARNOLD: We are looking-- we are a budgeted to hire another 300 this year.

McCOLLISTER: Jeez.

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GROENE: So it took you from 2006 till now to get to 400 and you're going to jump to 700?

DAVID ARNOLD: Well, there was a Great Recession in there that kind of hurt the housing industry, which is what-- the industry we serve. Since 2010, our growth has-- has been pretty substantial. I had--

GROENE: Did-- are you-- do you have fond memories of Sutherland and western Nebraska?

DAVID ARNOLD: I do. It was a great place to grow up. That being said, I-- I--

GROENE: There's a place in Sidney that infrastructure is sitting there, high-tech infrastructure.

DAVID ARNOLD: You know, we-- we actually toured--

GROENE: It would be a nice place to come out and--

DAVID ARNOLD: We actually-- we actually took a trip with--

GROENE: --put 300 jobs.

DAVID ARNOLD: Yeah, we actually took a nice-- a tour with Director Rippe, myself-- we went out there on the rickety state plane and looked at some-- some opportunities out there. And I think, you know, as we think about expanding the company, we would love to do that in state and--

GROENE: You could recruit those people that like to ski, go in [INAUDIBLE] the ones that like to hunt and fish.

DAVID ARNOLD: No, and-- and in all seriousness, that's-- all those things are on the table. We employ Nebraskans now. We want to keep doing it.

GROENE: And Sidney is for everybody.

DAVID ARNOLD: Yep.

LINEHAN: Yes, thank you, Senator Groene. Senator Crawford.

CRAWFORD: Thank you, Madam Chair, and thank you for being here and--

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DAVID ARNOLD: Of course.

CRAWFORD: --Mr. Arnold. Did I hear you correctly that you applied for the Advantage Act in 2014?

DAVID ARNOLD: Yes. It was December of '14.

CRAWFORD: OK. So--

DAVID ARNOLD: I wasn't with the company at the time but that's--

CRAWFORD: So are you still in the attainment period, though, you're proving payment?

DAVID ARNOLD: We are still on a contract, yes, correct.

CRAWFORD: OK. OK. So-- so we're keeping track of how many jobs you're creating--

DAVID ARNOLD: Yep.

CRAWFORD: --and we're incentivizing you to create jobs.

DAVID ARNOLD: Yep.

CRAWFORD: There any benefits that you're getting from the state right now in this period?

DAVID ARNOLD: Yeah, the-- we are still on a contract and our benefits are primarily tied to the jobs that we are creating. Because we had around 40 employees at the time that we applied, that's primarily been where the benefit has come from. As you go from 40 to 400, there's a lot-- there's a-- obviously a big spread in between the two. But as I mentioned, we did also buy two separate properties. We did not apply for an adjustment for that purpose, but we're going to continue to need to house all those employees and as we, you know, look to-- as we shift from the current program to ideally this new program, it will affect us and that's why we care a lot about what it looks like.

CRAWFORD: Thank you.

DAVID ARNOLD: Yep.

LINEHAN: Thank you, Senator Crawford. Other questions from the committee?

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DAVID ARNOLD: All right. Thank you.

LINEHAN: Thank you. Other proponents?

PAM MILLER: Good afternoon, Senators. My name is Pam Miller, P-a-m M-i-l-l-e-r. I'm the chair of the board of directors for Siouxland Ethanol, a locally owned ethanol plant in Jackson. I'm testifying in support of LB720 on behalf of the Renewable Fuels Nebraska, our trade association for Nebraska's ethanol industry. Nebraska is the number-two ethanol producer in the country, producing more than 2.5 billion gallons annually at 25 facilities across the state. That's 700,000 semis of corn being hauled from Nebraska fields to local ethanol plants. In fact, plants across Nebraska use more than one third of Nebraska's corn crop. Nebraska's ethanol industry has been-- has been an economic success story that continues to make a positive impact on our state, and it started with incentive legislation focused on building ethanol plants in Nebraska. We are an industry that reflects the statewide importance of legislation meant to grow and attract businesses in our state. In 2016, the total-- total labor income impact of Nebraska's ethanol industry, including direct and indirect jobs, was \$275 million earned from an estimated 3,509 jobs, for an average annual earnings of \$78,300. Ethanol plant jobs provide significantly higher wages compared to other manufacturing positions and are uniquely located in rural communities. These positive economics also occur in the local corn market due to higher demand from nearby ethanol plants. Between 2015 and 2017, Nebraska's value of production for ethanol and coproducts averaged \$3.8 billion. That's a big impact in the state of Nebraska. Ethanol plants continue to add technology that increases efficiency and diversifies their production portfolio to take advantage of new market opportunities. This growth, both in jobs and in investments across the state, will be spurred by LB720. We are excited about the opportunities ahead and appreciate that LB720 would strengthen Nebraska's economic incentives and provide a tool for growth in our industry that helps to grow our entire state. Thank you very much.

LINEHAN: Thank you very much. Are there questions from the committee? So you're part of the-- what-- when they say the agricultural industry, you're part of the ag--

PAM MILLER: [INAUDIBLE] does. We are.

LINEHAN: It's not just ranchers and farmers.

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PAM MILLER: Yep.

LINEHAN: So can I just-- can you tell me the numbers again? You started at \$275--

PAM MILLER: Two hundred and seventy-five million dollars, that was the labor impact, and that includes direct and indirect jobs--

LINEHAN: OK.

PAM MILLER: --\$275 million.

LINEHAN: And then you said 3,909 jobs?

PAM MILLER: Three thousand five hundred and nine jobs.

LINEHAN: Five hundred and nine. And your average wage?

PAM MILLER: \$78,300.

LINEHAN: So I assume if that's the average, you've got some significantly higher.

PAM MILLER: We do have some, yes, but our starting wages at our ethanol plants are typically close to your dollar amount labor wage mentioned here in the bill.

LINEHAN: Forty thousand, that would be starting.

PAM MILLER: That would be starting, um-hum.

LINEHAN: So all those people pay income taxes, right?

PAM MILLER: Yes, they do.

LINEHAN: OK. All right. Other questions? Thank you. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So I know most of the ethanol plants took advantage of the Advantage Act and there was also a-- an ethanol checkoff that the corn industry helped with incentives, is that right?

PAM MILLER: There was. Back in the early 2000s, there was an Ethanol Development Act that some of the early plants took advantage of. We weren't one of them. We started in 2007 grinding corn and producing ethanol. We actually were a recipient applicant and recipient of

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LB775, as most plants probably were. A lot of our plants were built prior to 2005, so if there--

FRIESEN: Is there-- do you know if there's any been built under the Advantage Act?

PAM MILLER: I couldn't say that for sure. There could be, but I would say it would be minor. I'd say most of them went under LB775--

FRIESEN: OK. Thank you.

PAM MILLER: --just the timing.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Thank you very much for being here. Other proponents? How many more do we have wanting-- waiting, proponents? I should have gone back and forth a little bit. OK. How many opponents? OK.

RICHARD LOMBARDI: Evening, members of the committee. My name is Richard Lombardi, R-i-c-h-a-r-d L-o-m-b-a-r-d-i. I'm appearing on behalf of the Advanced Power Alliance which is a 12-- 14-state group of individuals-- excuse me, companies that work in the areas of renewable energy, specifically wind, solar, and battery storage. And what I've done here is-- if I could just walk through some data for you, first I'd like to say that renewable energy development in the state in Nebraska is totally a product of the legislative branch of government. It's your leadership and design, passage of these pieces of legislation. If you go to the first page, it shows kind of a wind energy investment timeline, specific pieces of legislation that had impact to move us towards-- now we're about ready to cross over into about \$3 billion of investment. If you look in June 2013, LB104 was passed. LB104 provided a sales tax rebate. And I'm speaking to-- and the way we did that, that was created in Tier 5 in the Advantage Act. And you have in both-- in your amendment here a \$50 million investment level that would provide a sales tax rebate. Would like just to point out that if you were-- this is a-- really an input situation. Nuclear, butane, oil, coal, all are exempt, all are sales tax exempt because of their inputs into the production of a product. And so in this case, the Legislature provided a sales tax rebate and that's what we're certainly supportive of in the proposal. The next page has to do with the increased generation capacity that has happened through the state. Third page there is just the methodology we used to calculate the numbers that you will see on the next page, which talks about the number of jobs: in just the construction phase, 5,395 jobs;

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construction phase wage-- wages paid, \$306 million; construction phase, local spending in the economy, \$557 million, 910 operational phase jobs, \$56 million in operational phase wages paid. And then going down, the nameplate-- nameplate capacity tax is a-- is basically what used to be the personal property tax. Those are property tax payments of \$19.9 million, \$17.1 million in landowner lease payments. Every project in the state of Nebraska is on private property and no company owns any land, so it's all lease payments. And then there is the real property tax payments. This goes-- this-- I break it-- we have it broken down by year end category. Actually, Senator Briese, 2016 was a very good year, about \$770 million of total investment that-- that particular year.

LINEHAN: Somebody will probably ask you a question here. You've got a red light.

RICHARD LOMBARDI: Oh, man, I'm sorry.

LINEHAN: That's OK. I was-- I was busy.

RICHARD LOMBARDI: I was talking as fast as I--

LINEHAN: You do that-- they've learned to me. I look at your charts and forget the light.

RICHARD LOMBARDI: I'm sorry.

LINEHAN: Yes, Senator McCollister.

McCOLLISTER: Yeah. Mr. Lombardi, if you could finish up, that would be great.

RICHARD LOMBARDI: OK. Very quickly, the next page just shows the property taxes paid by county. Following page is a picture with a little greater depth into the map as to the local spending, the economy, and the property taxes paid in lease payments. Finally, there's a comparison of surrounding states with regard to the types of incentives they have, just for your edification. And then finally, at the back page are the members of our-- our Advanced Power Alliance that are certainly watching this piece of legislation. [INAUDIBLE]

LINEHAN: Thank you very much for your--

RICHARD LOMBARDI: Thank you.

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LINEHAN: This is helpful information.

RICHARD LOMBARDI: I hope so.

LINEHAN: Thank you. Other questions from the committee? Senator Brieese and then Senator Crawford.

BRIESE: Thank-- thank you, Chairman Linehan. Thank you for your testimony.

RICHARD LOMBARDI: Thank you, Senator.

BRIESE: So I don't think I heard you say that this legislation is necessary to the future development of wind energy-- energy in Nebraska.

RICHARD LOMBARDI: It was one of several components that helped grow the industry, Senator, and probably the net impact of this is with the power purchase agreements that are entered into between the public power districts and the others. The-- the net impact on that would be just higher, higher ratepayer cost, because that's--

BRIESE: OK.

RICHARD LOMBARDI: So.--

BRIESE: OK, but one-- one-- one--

RICHARD LOMBARDI: --it's not the only thing that can--

BRIESE: --one of several components though.

RICHARD LOMBARDI: Yes, absolutely. Yes.

BRIESE: Probably didn't swing the deal or make the difference?

RICHARD LOMBARDI: No. I think where it comes problematic and why we had to pass LB104 is that all the surrounding states treated renewable energy, those types of expenditures, as inputs--

BRIESE: OK.

RICHARD LOMBARDI: --so that when-- when we're competing amongst states, that's probably where it comes in, in those types of decisions, yes.

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BRIESE: Thank you.

LINEHAN: Thank you, Senator Briese. Senator Crawford.

CRAWFORD: Thank you, Madam Chair. Thank you, Mr. Lombardi, for being here. You have-- you've laid out the incentives in various states. How does this bill, LB720, compare in terms of our competitiveness with other states if we were to pass it?

RICHARD LOMBARDI: All the other components? I couldn't talk to all the other components. I can tell you just about renewable energy and that's why we--

CRAWFORD: That's what I meant. That's what I meant, just for your industry.

RICHARD LOMBARDI: That's why we passed LB104 is just that-- that that was a-- a variable that was significant when-- when companies were looking at where they were going to build the projects, that-- and putting together their particular financial packages, the fact that we treated-- that we didn't treat it as an input, that was a factor and we-- we think that that helped in-- in attracting some-- some other investment. But as you can see, those incentives in other states are quite generous. Our big advantage is, is we have great wind, great sun, and that helps a lot. And in fact, the-- the efficiency capacity of our-- we-- we-- we knock the socks off around the country with regard to the efficiency of the wind that we have in the state. So that's-- that's obviously the major attraction. But a lot of states were developing before when we were-- we were thought to be late to the game, but as you can see, we have rapidly, rapidly grown the industry. And 40-50 percent of the energy that's coming in from this light in-- in Lincoln and Omaha through the public power districts are now renewable. And I really would invite everybody to come to a number of different locations. Broken Bow is just a great example of a place that has meshed both solar and wind. And they're-- I don't think I'm breaking any promises, but they're-- they're about ready to incorporate some battery storage in some of their work, so they're very, very innovative community and you can really see the impact in that community of the land lease payments that come back into town that have helped grow the downtown. So that's a-- that's a great example there. But there's a lot of-- lot of places around. But if you haven't gone to visit some of these communities, we would be really help-- be happy to help.

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CRAWFORD: So we've talked about the change in policy about inputs. Is there something in particular in LB720 that will be useful for further growth?

RICHARD LOMBARDI: Well, I think the continuation of the-- of the-- of the --the sales tax rebate, just to keep us-- in comparisons of other states when people are making decisions, so that's-- that's the-- that's the only component I can speak to and that's-- that's the \$50 million level of investment. I think under LB104 it was a \$20 million investment. So there is no other property tax or anything else in-- in this, so I'm just focused on the sales tax rebate and-- and in fact, I think next week you may hear a bill on-- on just the sales tax exemption issue as it associates with-- with that.

CRAWFORD: Thank you.

LINEHAN: Thank you, Senator Crawford. Senator McCollister and then we're going to go to Senator Friesen.

McCOLLISTER: OK. The sales tax rebate, Mr. Lombardi, wasn't that an offset by the nameplate capacity fee that-- that is currently being levied?

RICHARD LOMBARDI: No, the nameplate capacity fee is 35-18 [SIC] and what that was is that was we-- it was a personal property tax that was changed to a nameplate capacity tax to allow for the local communities to receive a consistent amount of money through the life of the-- of the project. Now the sales tax is-- the sales tax is, like I said, is-- is an input cost that, before LB104, was a tax on the cost of putting together the financials for-- for wind projects. So it was a-- it was a sales tax on all those expenses that are associated with construction.

McCOLLISTER: Isn't that very similar to what other companies do when they buy production machinery? Don't they get a tax rebate on-- on that as well?

RICHARD LOMBARDI: Yeah. In fact, if they-- if they were powering through coal or oil or nuclear, under Nebraska law since 1967, I think, that-- that they are sales tax exempt.

McCOLLISTER: The machinery or the commodities themselves?

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RICHARD LOMBARDI: The sales tax on the-- on the-- on the power and the manufacturing of-- of-- of energy to-- to produce an end product.

McCOLLISTER: Thank you.

RICHARD LOMBARDI: Yep.

LINEHAN: Thank you, Senator McCollister. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Do you know how many dollars in the Advantage Act that the wind industry has collected over the past--

RICHARD LOMBARDI: On the sales tax rebate?

FRIESEN: Sales tax rebate or any other credits that you've qualified for.

RICHARD LOMBARDI: The sales tax rebate, I don't know if I-- I would-- I would have to-- I would-- may or may not be in here, but I can-- I'll find that.

FRIESEN: OK. Was that the only thing you qualified for in the Advantage Act or were there some other investments?

RICHARD LOMBARDI: I think with the-- with the previous Advantage Act, there were some employment thresholds that most, even though we have a lot of employment in construction, the final employment thresholds were such that not a lot of projects became eligible under that.

FRIESEN: Right.

RICHARD LOMBARDI: So, I mean, it's primarily the investment.

FRIESEN: I was-- because I was looking through a lot of those recently and they listed zero employees as far as-- so is-- it would--

RICHARD LOMBARDI: I mean we do have employees and all our employees-- I mean, excuse me, not our employees.

FRIESEN: But you weren't qualifying under creating jobs, from that aspect.

RICHARD LOMBARDI: No, no. It was only-- it was only the sales tax rebate issue that was the-- that was the only-- that's what LB104 provided. There may be some bigger projects, Senator, I'm not aware

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of, that may, but-- but almost you will see zero employees, which is not true.

FRIESEN: Yes.

RICHARD LOMBARDI: I mean we-- we do have employment and I mean I would have to say almost all of them are-- are above 100 percent of wages and hopefully higher.

FRIESEN: So you're-- you're saying all the dollars were only the sales tax portion, there's nothing else that will qualify.

RICHARD LOMBARDI: Yes.

FRIESEN: OK.

RICHARD LOMBARDI: Now there may be a project out there that's-- but-- but that's-- that's-- and that's what I'm speaking to you here, Senator.

FRIESEN: OK. Thank you.

RICHARD LOMBARDI: Thanks.

LINEHAN: Thank you very much, Senator Friesen. Other questions? Can you tell me about the average wages, we've heard from the ethanol people--

RICHARD LOMBARDI: Sure.

LINEHAN: --average wages in your industry?

RICHARD LOMBARDI: Well, you got-- you got the construction jobs, which that's one of the things that in looking at the bill, try-- we try to formulate because-- when we're doing the building of the construction jobs. But the-- basically for about every 10, 15 megawatts of-- of wind there's an employee, and all of them are from \$45,000 to \$65,000, \$75,000 and higher wages. So the-- some of the benchmarks that you have is not-- are not problematic to the industry. These are good paying jobs in-- in-- in communities--

LINEHAN: Which create income taxes and property taxes.

RICHARD LOMBARDI: Yes. Now I have to say I did not put any of those-- I mean I-- you have some numbers in here that talks about the wages

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overall. There is no multipliers in any of these numbers I've given you.

LINEHAN: These are just your straight-up numbers.

RICHARD LOMBARDI: Straight up and down.

LINEHAN: OK. That's important to know.

RICHARD LOMBARDI: OK. OK.

LINEHAN: Thank you very much. Other questions? Thank you for being here.

RICHARD LOMBARDI: Thank you, Senator.

KEVIN ANDERSEN: Good afternoon, Madam Chair, members of the committee. My name is Kevin Andersen, K-e-v-i-n A-n-d-e-r-s-e-n, here representing the city of Omaha where I serve as deputy chief of staff of economic development and development services within the mayor's office. This afternoon you've heard and will hear the tremendous benefit that an effective and transparent state incentive program can have for the state of Nebraska and its-- and its municipalities and communities. I won't belabor that point out of respect for your time. I-- I will say that on the other side of the ledger, LB720 goes a long way in correcting some of the local concerns the city of Omaha and other municipalities have had with the existing Nebraska Advantage program, concern not being with incentives but with the difficulty in estimating the amount of refunds during the city's budgeting process. The current bill as amended improves on this transparency of the city's responsibility to refund sales tax awarded for businesses. However, the city of Omaha supports even greater reporting of its sales tax liability so that we may properly budget for these refunds. City of Omaha has a yearlong-- yearlong budgeting process, so the more that we have an understanding and the sooner that we have an understanding of what those obligations are going to be, the better we can accommodate that within our budgeting process. So again, we do not have concern with the incentive side of the legislation as proposed. We're just simply asking for a better opportunity to incorporate those obligations into our budgeting process. In recent years, the city has experienced year-to-year variances of these refunds upwards of \$3 to \$4 million. Already in 2019, the city has allocated 98 percent of its \$8.5 million budget-- budgeted refunds for the calendar year. With sales-- with sales tax receipts being our largest general fund source,

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accounting for over 42 percent of general fund revenues and 16.2 percent of total fund revenues, this can obviously create a tremendous burden for the city if not budgeted appropriately. So in summation, city of Omaha is here to support LB720, especially as amended, and we'll continue to work with Bill Drafters and legislators to really improve the back-end operation of the program.

LINEHAN: Thank you very much, Mr. Andersen. Are there questions from the committee? Yes, Senator Crawford.

CRAWFORD: Thank you, Madam Chair. And thank you, Mr. Andersen. Can you speak to what specifically you would see as a need to improve the-- your budget ability? You said it's improved but there's still room to improve it.

KEVIN ANDERSEN: Yes. Where we could see the most benefit is what those annual obligations are going to be and reported preferably by-- by March 1 of each calendar year on the sales tax refund side of the ledger.

CRAWFORD: So you'd like your annual report March 1.

KEVIN ANDERSEN: Correct.

CRAWFORD: All right. Anything else? That's-- that's [INAUDIBLE]

KEVIN ANDERSEN: Well, and-- and-- and, you know, transparency of-- of, you know, who those recipient businesses are, as Director Rippe had alluded to, on the transactional side of the process oftentimes that, you know, those are going straight towards currently Nebraska Department of Revenue without some of the economic development kind of front-load work that we're able to recognize who those businesses are and provide that, you know, better customer relationship approach to those businesses within-- within the jurisdiction.

CRAWFORD: So you want to know who is getting Advantage Act, this-- I mean this new Imagine Nebraska [INAUDIBLE]

KEVIN ANDERSEN: Yeah. And like I said, we will continue to work on-- on the legislation with Drafters and things like that, but those are a couple-- couple of items that could benefit the city of Omaha and I think other municipalities as well.

CRAWFORD: Thank you.

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LINEHAN: Thank you, Senator Crawford. Other questions from the committee? If they do, do investment, if they spend a billion dollars or build a new building, the city has a huge advantage there in property taxes, right, as do the schools and everybody else that's--

KEVIN ANDERSEN: Absolutely.

LINEHAN: OK. So your income in the end goes up.

KEVIN ANDERSEN: Yeah, and again--

LINEHAN: Revenues-- I don't mean income, I'm sorry-- revenues go up.

KEVIN ANDERSEN: Yeah. We're not here trying to correct, you know, the overall or determine what-- the benefit of the city of Omaha, because that's very real. What we're trying to do is-- is as those, you know, property receipts are increased, we just need to be able to better budget for when they come off the books on the sales tax side.

LINEHAN: Okay. Thank you very much for being here. Other questions? Seeing none, thank you.

KEVIN ANDERSEN: Thank you.

LYNN REX: Senator Linehan, members of committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. First I'd like to thank Jen Creager for amazing patience and her legal team in working with us. In addition, also like to thank Dave-- Mayor Dave-- Doug Kindig, not Dave Kindig but Mayor Doug Kindig of La Vista, because he has spent an inordinate amount of time working with our municipal team on transparency over a period of years. And I know, Senator Crawford, you introduced and passed a number of bills over the years. That being said, I'd be remiss if I didn't thank Senator Kolterman for his tremendous efforts on this bill as well. That being said, this bill, the ImagiNE Nebraska Act, goes light years ahead of providing transparency for municipalities across the state of Nebraska. That has been one of our biggest issues with respect to the Nebraska Advantage Act. Again, I'm here today not to comment on the particular incentive but, rather, the back end of the responsibility the municipality would have. And for example, I think one of the very most important elements of this bill is in Section 54 in your last amendment. And this was-- is an amendment to 77-27,144. It provides as follows, and this is a sea change for municipalities for-- for which we are most appreciative. Every qualifying business that has filed an

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application to receive tax incentives under LB775, the Nebraska Advantage Act, and the Imagine Nebraska Act "shall, with respect to such acts, provide annually to each municipality, in aggregate data, the maximum amount the qualifying business is eligible to receive in local sales and use tax refunds and exemptions for the previous year," and this is the huge part, "and the estimate of local sales and use tax refunds and exemptions such business intends to claim." That information will "be kept confidential by the municipality." That is extremely important so a municipality would have a sense of what they need to set aside to budget, so in other words, they can put aside what the estimate would be on the sales tax amounts, and that's very important in addition to that, because right now basically what we get is a notification when there will be a refund coming exceeding \$1,500. For the most part, that's it. So this is just huge for us to be able to do that. In addition, there's another provision that I think is extremely important, and that relates to another amendment to 77-27,144. It indicates as follows: The Department of Revenue shall notify every municipality liable for a refund exceeding \$1,500, which is the current amount, of the pending refund, the name-- the amount of the refund claimed under the Imagine Act, and, as you pointed out, the company as well needs to be notified-- not notified but also indicated to the municipality. "The notification shall be made by March 1," and it goes through the process by which that will happen. In addition, it also indicates that this subsection indicates that any total annual refunds exceeding \$1 million, or 25 percent of the municipality's total sales and use tax receipts for the prior fiscal year, whichever is the lesser amount, basically that will be deducted in one-twelfth increments in the upcoming year. Right now under current law, the--

LINEHAN: OK. You've got a--

LYNN REX: Oh, I'm sorry.

LINEHAN: No, that's OK. We'll see if somebody--

LYNN REX: I'll finish up very quickly then.

LINEHAN: Well, let me--

LYNN REX: OK.

LINEHAN: --let somebody ask you a question.

LYNN REX: OK. Thank you.

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LINEHAN: Senator Crawford.

CRAWFORD: Thank you, Madam Chair. And thank you for being here, Ms. Rex. So currently-- this will be 12 increments instead of what happens currently, and what happens currently is?

LYNN REX: So currently under Nebraska law, thank you for asking, it's only for first-class cities, second-class cities and villages, and it's only 25 percent if they-- if the refund amount exceeds that, then they would be in fact-- the state of Nebraska would carry them for the next-- for one budget cycle so that they could in fact deal with that and budget for that. This says it would involve all municipalities in the state with a threshold of 25 percent of sales tax from the prior year \$1 million, whichever is the lesser, and that would apply to all municipalities in this state. That's extremely important. And to give you some-- some-- a little bit of background in terms of what that would mean is we asked, which I appreciate George Kilpatrick providing us, the number of staggered refunds over the years and the number of cities, in 2014, there were two staggered refunds, one city; 2015, one staggered refund, one city; 2016, three staggered refunds, one city; 2017, five staggered refunds, two cities; 2018, three with one city; and in 2019, thus far, one and one, so a total of 15 staggered refunds over the years with four separate cities. The importance of that is this is not going to be a burden on the state of Nebraska. But this is extremely important. The Nebraska-- League of Nebraska municipalities certainly recognizes the critical importance of having an effective incentive program. We have to have an effective incentive program. This bill and the way in which it's structured really enables municipalities to be an effective partner and not be caught off guard in terms of not being able to have the funds there because what happens, of course, is now that amount is deducted from future sales tax refunds. Municipalities can just find out that you're just not going to get this kind of local-option sales tax dollars you had anticipated to pay for an LB840 program or other programs. So we really appreciate your patience and your work on this important bill. We're happy to continue working with Senator Kolterman and of course the committee and others. So thank you very much for your courtesy this afternoon.

LINEHAN: Thank you very much for being here. Other questions? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So, I mean, we've-- we've been to the-- I realize the impact it has on cities with the old Advantage

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Act, but you're going to be dealing with that the next 15 years regardless, right?

LYNN REX: Until 2034 is my understanding.

FRIESEN: And so this will at least help going forward. But you're going to have to deal with two programs now, one you'll have notification on, one not so much, and one that's a year lag yet, right?

LYNN REX: That's true. But it still is a huge step forward. There's just no way to under-- to underestimate the importance of this measure in terms of how this bill is drafted.

FRIESEN: So but the cities are also, with the tremendous investment that a lot of these companies are making, you are getting more property taxes, right?

LYNN REX: That is true. But on the flip side of that, municipalities, in addition to the Nebraska Advantage Act-- or, pardon me, the Nebraska Imagine-- Imagine Act, just as it is, I guess it's Imagine Nebraska Act, just as it is with the Nebraska Advantage Act and with-- and also with LB775, which I think we have another year left on that, that in addition to that, we are also as municipalities the ones that are providing the streets, the roads, other infrastructure. So it's not just the property tax dollars, the increased property tax dollars and valuation that's being created for everyone, schools, counties, all political subdivisions, but also the monies that municipalities have to put out to partner effectively with the state of Nebraska on these important programs.

FRIESEN: So municipalities are still struggling to keep up with their infrastructure with this growth.

LYNN REX: We are struggling, which has a lot to do with levy limits and the lid on restricted funds, and I'm more than happy to review that because that is one of the most important things that cities are facing. I've already indicated to this committee before, 213 of the 529 cities and villages in this state are up against their maximum levy limit. Of those, half can't even raise the money to get the 2.5 percent of restricted funds. So this kind of a bill just has a huge impact overall because I think that with our municipalities involved

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in this, they will be able to help grow Nebraska in the way that they have been.

FRIESEN: Could you-- could you tell me what size cities are the most likely to be up against their lid, or is it right across all?

LYNN REX: I actually-- we have prepared-- I have not-- I wish I could take credit for it but I have not-- one of our staff members put that together and I'd be happy to provide you a copy of that. Certainly, the smaller communities are, almost all of them, up against--

FRIESEN: Right.

LYNN REX: --almost all of them, Senator, and that's because of what happened in 1996 when the Legislature said second-class cities and villages will have to reduce their levy limit from \$1.05 per \$100 valuation to \$0.45 plus \$0.05 in a-- in a matter of two years, from 1996 to 1998. So almost all of them are up against that, Senator.

FRIESEN: So are there-- are there cities now that-- I mean, and there are some cities that are growing considerably.

LYNN REX: Yes.

FRIESEN: Have they been able to lower their property tax collections because of growth?

LYNN REX: Many have because of the sales tax and that's obviously directly related to growth, so the short answer is yes.

FRIESEN: But we've created shopping hubs where a lot of my sales tax dollars come to.

LYNN REX: No question, yes, sir.

FRIESEN: OK. Thank you.

LYNN REX: Yes, sir.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Thank you very much.

LYNN REX: Thank you very much. I appreciate it.

LINEHAN: Thank you very much. Next proponent.

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ANDY HUNZEKER: Good afternoon, Senator. Excuse-- and, Senators, excuse my chicken scratch. I wasn't planning on testifying today, but there was a lot of questions that came up that I thought I'd answer. My name is Andy Hunzeker. I'm the chief financial-- financial officer at Lincoln Industries here in Lincoln, Nebraska. We employ about 600 people. Average wage is somewhere between about \$55,000 a year. We have 600,000 square foot. We've added hundreds of jobs in the last ten years. And so Nebraska Advantage Act has had a direct impact on us. We also have facilities in other states. We have a facility in Minnesota with a little over 100 people. We have facilities in Wisconsin with over 200 people. And we have a facility in Mexico with 400 people. So we have a wide swath of operations. Your-- you-- Senator Crawford, you asked specific questions about the wage rate was it high enough and what are good-paying jobs. For a manufacturing facility, it's about \$3 too high an hour. Our wage rate is much higher than that and of the-- of the Nebraska Advantage that we've received, about half of it would have applied, looking with this new one versus the past one. So our wage rate is very close to that, but with the blended rate we would be-- we're over that-- we're-- half the time, so we'd still apply because of the amount of jobs we have. We'd still work. But for a company smaller than us, it could be an issue if you're globally competitive. The entire management team graduated from University of Nebraska. The most majority of us left the-- left the state for years. I was gone for 16 years. I've lived in Chicago, North Carolina, Alabama, Detroit, came back here, and I've been here 15 years and absolutely love it. We want to be here. We will be in Lincoln. Our-- we're privately held. Our company was started by the owner's father in 1952. He runs it now and his two daughters are in management positions. We will be in Nebraska. It's just a matter of the decision we'll make where we'll grow. I'm not saying the total Nebraska Advantage Act or the ImagiNE Act will totally define where we grow, but it will have an impact on it if large projects come in. So that's all I have.

LINEHAN: Thank you very much, Mr. Hunzeker.

ANDY HUNZEKER: Yes.

LINEHAN: Questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So, you know, I-- Lincoln Industries, they're a good company. They've been around for a long time there. They're growing regardless, right?

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ANDY HUNZEKER: Absolutely.

FRIESEN: But we have sped up that growth, kind of like the other gentleman was talking about. We-- we-- -we--

ANDY HUNZEKER: Yes.

FRIESEN: We've ramped it up.

ANDY HUNZEKER: The-- the Advantage Act has allowed us to buy equipment, to add jobs, long story short.

FRIESEN: But you're a good company. You would have been here regardless. You would have been adding some jobs.

ANDY HUNZEKER: In all likelihood, yes--

FRIESEN: OK.

ANDY HUNZEKER: --because we're growing. We've grown-- we grew 15 percent a year, compound annual, for about 10 or 15 years before the recession. We went down because of Harley's dramatic reduction. For those who don't know them, our largest customer is Harley-Davidson. So if it's shiny on a Harley-Davidson, it came through there. The exhaust stacks on Kenworth and Peterbilt trucks come through Lincoln Industries. So, yes, we would grow. But our ability to invest capital using some of the funds from the Nebraska Advantage Act allowed us to get into tube bending, which got us into Kenworth and Peterbilt, which is growing dramatically.

FRIESEN: You ever think there would have been a problem with, you know, because some of the customers you attract are big--

ANDY HUNZEKER: Um-hum.

FRIESEN: --and so would there have been a growth problem trying to attract those customers without using the Advantage Act?

ANDY HUNZEKER: I don't know that our capacity would have been able to expand fast enough to meet their needs. They require a certain amount of capacity and we're-- you know, internal capital is only so much. We have grown dramatically both in square footage used as well as capital we're-- we're putting in, and the Nebraska Advantage Act has significant impact on ability to grow.

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FRIESEN: OK. Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Thank you very much for being here.

ANDY HUNZEKER: Absolutely.

LINEHAN: Good evening.

RICHARD BAIER: Is it evening? Starting to feel that way, isn't it, Senator?

LINEHAN: We're used to it.

RICHARD BAIER: Good afternoon, Chairman Linehan, members of the committee. For the record, my name is Richard Baier, R-i-c-h-a-r-d, last name is B-a-i-e-r. I appear before you today as president and CEO of the Bankers Association in support of LB720. I also want to thank Senator Kolterman for his willingness to shepherd this complicated but essential legislative bill. I was sitting back here thinking, man, it was I think about 14 years ago I was sitting in this same chair talking about the importance and the need for Nebraska Advantage, and in 2010 in the same chair to talk about innovation and support for startups in the state, so I must be getting old. My true-- and I'm going to keep this very brief. My comments today really were focused on what our bankers see across the state as a result of the projects that are occurring. And what we see firsthand in our 179 member institutions, and whether you're at Henningsen Foods in David City or you're in Becton, Dickinson in Broken Bow, you begin to see the impact that goes beyond dollars and cents and taxes and credits. What's going on in our communities is we see families who are relocating to Nebraska. They are opening bank accounts, they are taking out mortgages, they are saving for college for their kids, and they really become the fabric of our communities. And that's really my message. I think our state and I would agree Nebraska Advantage was not perfect when we wrote it. We knew that going in. I do think it needs to be updated and modernized. But I do think we're also in a position in light of where technology and innovation is driving business in today's world. I think we have-- we're sort of at a crossroads. We can continue to partner with business as a state and to help those businesses grow, or we can do nothing at all and take a chance on what may or may not happen. Personally, I know which choice I'm going to make, but I think I'm not one of the 49 that gets to vote at the end of the day, red or green. So I'm going to dispense with any other

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comments I know a few of you had some questions that I thought I might address if I have time in my allotted timeframe. One of those, Senator, you had asked Senator Friesen about, you know, the ag economy carrying us through '06, '07, '08, and '09, as I look at the numbers, I actually think we had the best of both worlds in Nebraska, one of the few states in the country that did. As a result of some things related to Advantage and other activities, we had great growth in our urban corridor. We also had record profits in our farming communities. I think we had the best of both worlds. And obviously that is not the case today, and we understand and recognize that. A couple of other things, Senator Briese, you'd asked about the GDP question, and if you look at those GDP-- GDP calculations, many of those are driven by our ag economy. But I would also tell you, if you take a look what happened, our GDP did not go down by 50 percent like the corn price. So part of that is still being uplifted by what's going on in our urban communities. And quite frankly, if we could get back to where we have a great ag economy and great urban economy at the same time, our state would continue to thrive and you'd all be sitting here trying to figure out how to say no to people because everybody would want more money in the process. A couple of other things just brief--

LINEHAN: Can-- can I--

RICHARD BAIER: Thank you.

LINEHAN: I will-- Senator Lindstrom would like to ask you a question.

RICHARD BAIER: Thanks.

LINEHAN: This is-- go ahead-- good.

LINDSTROM: Yep. Thank you, Madam Chair, and thank you, Mr. Baier. If you could put your former DED hat on, your director hat on for a sec--

RICHARD BAIER: Sure.

LINDSTROM: --two of the things that have been brought up, one has been caps on the program itself, and then the others is-- is the benefit versus cost.

RICHARD BAIER: Um-hum.

LINDSTROM: And would you care to elaborate on those two?

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RICHARD BAIER: Sure. You know, I think in theory caps make sense. I mean they-- if you talk about it from a theoretical perspective, great. But I could tell you from a practical perspective it's probably one of the worst things you could do, especially for those of you sitting around this table, because soon as we hit the cap, the next big face projects-- Facebook project is coming into Bellevue and Senator Crawford is going to be jumping up and down and wanting to know why they didn't qualify. So I think you set a precedent that creates a real problem for you. I think the other reality is, and-- and Senator Friesen mentioned the cost of Nebraska Advantage, and there's some reasons for that that we could discuss, but what I would tell you is in many ways the cost has been a result of the success of the program and the jobs and the investment that have come with it. So as you look at caps, they really do create some problematic challenges for Nebraska. They create a real sales challenge as you're out on the road because you're going to have a company look at it and say, what if you run out of money? That instantly throws you out of competition. And I don't want to see Mr. Rippe in that-- and his team in that position. In terms of cost versus benefits, Senator McCollister, when you hear referenced the cost to the state, I would tell you my personal belief is that it-- those aren't costs to the state of Nebraska as many people portray them. I believe that a lot of those projects would not have happened or the growth would not have happened, so you wouldn't see those costs escalating, so they're really more of a benefit than they are a cost. It really depends on your perspective. Senator Friesen's question before was about existing companies. Quite frankly, we-- first thing we should be doing is taking care of our existing customers and helping them grow and be successful. So the fact that we have a whole list of folks who are growing in our state, like Lincoln Industries or like Buildertrend that are being able to grow and prosper in our state, I think bodes well for the future of Nebraska.

LINDSTROM: Thank you, Mr. Baier.

LINEHAN: Thank you, Senator Lindstrom. Other questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Goes back to the beginning of when we started back at 1:30, and I think it was still the same day.

RICHARD BAIER: Seems like it. I was beginning to wonder. I brought a cot, Senator.

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FRIESEN: We've expended almost a billion dollars in the Advantage Act with credits that may or may not be used, but round numbers. We always talk about growing our economy so we can solve our property tax problem. But our revenue is still drifting lower, we're struggling to meet the needs that we have, we have not been able to solve our property tax problem, and yet when are we going to grow our way out of this?

RICHARD BAIER: Well, Senator, I've been thinking a lot about that as I was listening to your question all afternoon, and I guess my answer to that is there's a lot of factors that go into that.

FRIESEN: There are.

RICHARD BAIER: There is expense side of that component. There's a lot of other factors that go into that. I do think right now that I believe, and this is Richard's personal opinion, it's not the NBA, it's not anybody else in this room, but I honestly believe right now we would be in a much worse position if we weren't being buoyed by what's going on in Lincoln and Omaha.

FRIESEN: Ag couldn't be in much of a worse position right now.

RICHARD BAIER: I agree. Oh, I-- I-- I have 100 banks who primarily Bank ag every day. I get that completely.

FRIESEN: So I have a-- the one thing about Internet is you can find anything you want.

RICHARD BAIER: Sure.

FRIESEN: Here's a study done. Timothy Bartik, Upjohn Institute for Employment Research, he's supposedly the leading student of incentives in economic development, and he's got a new report out here. And I'm not going to-- you know, like I said, I found it quickly on the Internet. I don't put much stock in it yet. But what he says is basically-- conclusion is, is there's a wide body of research on the wastefulness of business incentives. A 2002 study of 350 companies found incentives found a negative effect on their ability to create jobs. Companies that received incentives expanded more slowly than others and the overall effect of-- effect of incentives was a reduction of 10.5 jobs per establishment. But he says there's no connection between growth and incentives. I'll read the report a little closer, but--

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RICHARD BAIER: Yeah. I can't comment, Senator, without looking at it.
I--

FRIESEN: Can't-- can't tie the two together.

RICHARD BAIER: Yeah, I would tell you, coming from the Performance Audit perspective that's been brought up several times today, the first time the Performance Audit Committee looked at this issue, I was sitting in my DED chair at the time and it was pretty clear that the process we went through, even the staff conducting the performance audit, didn't understand our programs in Nebraska because they're complicated and they didn't understand the long-term consequences. They didn't calculate in, for example, the taxes being paid by the new hires into the benefit. So some of those things factor into all of that. Every study is different. I could probably-- for that one, I could probably find a hundred that says that they would benefit. So--

FRIESEN: I won't disagree with you.

RICHARD BAIER: --again, until I get a chance to look at it, I'd be happy to sit down and visit with you. You and I have talked about this issue for years and I'd be happy to sit down and visit with you.

FRIESEN: I would love to too.

RICHARD BAIER: Perfect.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Are there other questions from the committee? Yes, Senator Crawford.

CRAWFORD: Thank you, Madam Chairwoman. Thank you. So thank you for being here, Mr. Baier.

RICHARD BAIER: Thank you.

CRAWFORD: So I was just coming back to your point about we would have more-- we have more revenue even though we're losing revenue, so when we provide incentives we forego revenue, but then there are revenues that come back.

RICHARD BAIER: Yeah.

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CRAWFORD: Now, according to our Department of Revenue, they have a model where they estimate the amount of incentives that we give and that cost and they try to estimate--

RICHARD BAIER: They do.

CRAWFORD: --the revenue coming back in.

RICHARD BAIER: They do.

CRAWFORD: And it's still-- like for 2018, it would show a negative \$39 million in-- in terms of state revenues. So I don't know if you would care to comment on that.

RICHARD BAIER: Senator, I haven't looked-- I don't-- it's not something I dig into anymore. I used to. It used to be the first thing I read when it came out. I do think there's some things missing in a lot of those formulas and that's the taxes paid by the new hires. It's also the cost of doing nothing. That maybe is the other thing to me. And I see that in our rural communities. That's one of my struggles, those communities that aren't seeing any economic activity. I see the schools struggling. I see loss of student population. So there's an inherent cost in doing nothing as a state or as a community. So I think that's the other piece that needs to be part of that conversation.

CRAWFORD: Thank you.

LINEHAN: Thank you, Senator Crawford. Other questions? Senator Groene.

GROENE: I was listening while I had to get something else done. You represent an awful lot of rural banks, don't you?

RICHARD BAIER: I do.

GROENE: Is ag situation a concern for them?

RICHARD BAIER: Obviously it's a-- it's an ongoing concern for our members every day. I would tell you, most recently in talking to a group of ag bankers, about eight of them, as recently as yesterday at lunch, they were-- they felt like many of their lenders or their borrowers actually did better last year than anticipated.

GROENE: See, and I--

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RICHARD BAIER: So it's still hit and miss. And I don't disagree, Senator, that it's a huge issue of concern for us.

GROENE: But I never seen you testifying in favor of any of the property tax relief bills.

RICHARD BAIER: Well, Senator, I haven't testified-- this is my first time in two years, so they don't let me out of the cage very often anymore. But, you know, I think part of the challenge is it needs to be part of a very big conversation because Nebraska is not just high in property tax, they're high on income and they're high on a variety of other taxes. There also is a need to like take a look at how do we control spending long term as part of that strategy.

GROENE: But that's been part of the package of some of these property tax and it's been an emphasis by the Chairman of this committee. But I still didn't see you guys coming in and helping us with this spending or with the property tax issue.

RICHARD BAIER: I think we've been part of some coalitions trying to find a solution, Senator. We still haven't found one. I think all of us can look with--

GROENE: Now you-- you gave more taxes away last year, pushed hard for TIF expansion, but that's not helping ag when you-- when you make the base, the property tax base smaller. But, no, I just wondered where you guys have been. I mean, you know, my town is building TIF projects right now, thanks to you, and housing. And I did the analogy the other day with an individual that it's like the young couple that's trying to have a baby and having a hard time and if they think they buy a bigger house and paint a room blue and put a baby carriage in there, maybe they'll have a baby. That's-- that's the way I feel about building these houses without any economic development prior to building the work force housing. Do you think we ought to put something in the package that gives a bigger boost to rural Nebraska, a multiplier if you do something in a town or a county that's showed depopulation in the last 20 years or 30 years?

RICHARD BAIER: You know, Senator, I think there's-- there's clearly some ways to look at that. As you mentioned, I have an awful lot of banks. And I really kind of live in a world now that has three different sets of economies. We sort of have Omaha, Lincoln, we have North Platte, Kearney, Grand Island, Norfolk, Columbus kind of a scenario, and then we have those other even more rural counties. I

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think that ought to be part of your ongoing conversation as a committee because working in all of them, their economies are very different and the challenges and opportunities are very, very different. I think somebody previously--

GROENE: Now you can't-- you used to live in North Platte.

RICHARD BAIER: I did.

GROENE: We met each other there.

RICHARD BAIER: Yep.

GROENE: It's where you got your start in this business. But anyway-- well [INAUDIBLE]

RICHARD BAIER: Don't tell the guys in York that. I think I was there seven years there first.

GROENE: What's that?

RICHARD BAIER: I was in York seven years before I came to North Platte, so--

GROENE: Then you went to-- or came from-- came from Kansas. but anyway, whatever, I mean, just concerning the rural Nebraska.

RICHARD BAIER: Yeah.

GROENE: And we get told that it's one Nebraska but, you know, we're starting to feel like Nebraska ain't for everybody either, or eastern Nebraska isn't, or eastern Nebraska doesn't think it's for everybody. But anyway, thank you.

RICHARD BAIER: Yes.

LINEHAN: Thank you, Senator Groene. Other questions? Actually, I think I did hear you two or three times in your testimony talk about spending might be need to be looked that. Did I not hear you say that?

RICHARD BAIER: Senator, I'm-- I'm not an expert in state or local spending. What I would tell you is, and it's dated now, several years ago I, in the things, twisted things that I do at night, I went back and worked with the Department of Education and actually took a look at total education spending in Nebraska.

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LINEHAN: Thank you for doing that.

RICHARD BAIER: I believe it was-- I think it was from 2000 or 2012 or 2013. It's getting dated so I apologize. But what we did is actually went out through the Department of Ed and looked at federal funds, state funds, property taxes, all the funding that goes into schools. Now this isn't district by district, and recognizing some lose and some don't, if you look at total spending over that 12- or 13-year period, it was growing at about three times the rate of inflation. That's a formula for disaster long term as a state, and I think that's an issue not just in education. But I think we need to have a prioritization question because we have a lot of local government and a lot of government and I think it's a challenge for us long term to understand how do we deliver government services more efficiently.

LINEHAN: So what would happen? You're a banker, so a lot of people come to you for loans for business and for ag, and what would happen to a business or ag if their expenses were exceeding their revenue by 3 percent a year? Or even if they were exceeding inflation by 3 percent a year, what would happen to those businesses?

RICHARD BAIER: Maybe for a year or two, much like our-- some of our ag customers are dealing with now, we'd find a way to work through it.

LINEHAN: Then what happens?

RICHARD BAIER: Long term, that is not a positive business strategy and they'd probably be encouraged to find a new lender.

LINEHAN: Thank you very much. Other questions? Thank you very much for being here.

RICHARD BAIER: You bet. Thank you.

LINEHAN: Other proponents? OK, opponents?

RENEE FRY: Good afternoon, Senator Linehan, members of the Revenue Committee. My name is Renee R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. Actually, we had Timothy Bartik here a couple of years ago. According to research that he did at the Upjohn Institute, he looked at a study of over 30 states and he found that Nebraska's incentives were about 80 percent more expensive as a percent of gross taxes than the national average but that our business taxes were average. According to the fiscal note on LB720, it's projected to reduce revenue by \$197 million by FY '29 and the

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Department of Revenue projects that we will have \$1 billion in outstanding Nebraska Advantage credits by 2027. Given that Nebraska Advantage was originally projected to reduce revenue by \$24-60 million per year but reduced revenue by \$161 million in FY '17 and \$154 million in FY '18, we believe we should be thoughtful and carefully consider what any new incentive program should look like and whether that money could be better used to help with our work force shortage issues or with other state priorities. Legislative Performance Audit has done tremendous work around tax incentives and we think LB720 misses the mark on addressing many of the lessons learned and best practices that have been gleaned over the years. We've put together a checklist which I've handed out to the committee. It's compiled from a host of sources, SRI International's report for the Governor, the report from the Center for Regional Economic Competitiveness, the Legislature's Economic Development Task Force, and research from the Pew Charitable Trusts, as well as issues that have come up before this committee for the last several years. I've also handed out several charts that-- that show Department of Revenue data because those questions or those issues have come up several times during this hearing. I wanted to go through the checklist but in the interest of time, I'm just going to highlight a couple of things. One-- one piece on the checklist is, does a program provide predictability for the state budget? We'll talk more about best practices on the hearing on LB419 but our incentives have been incredibly volatile, which you can see in those charts. Other states have taken steps to lessen volatility with their tax incentives by using caps, like what we do with many of our smaller tax incentive programs, and shortening the time in which credits can be earned. In terms of the high-wage jobs with benefits, LB720 falls short in several ways here. It does allow for pooling of-- of part-time employees, and we have seen companies do this before, which I can speak to more. LB720 does not incentivize jobs with benefits, as we established, and all eligible jobs do not have to meet a minimum wage. Instead, the average wage is used. In other words, a company can pay one employee \$500,000 and the other 19 employees \$20,867 and still receive a credit. There were several questions that have come up. The 2016 Performance Audit report, Senator Friesen, found that 9 companies out of the 78 that Nebraska Advantage--

LINEHAN: Ms. Fry, red light. Probably somebody will ask you. Senator Friesen.

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FRIESEN: Thank you, Chairman Linehan. I was just reading through these and I'm-- I'm-- just continue on and--

RENEE FRY: Great. Thank you. So--

LINEHAN: I have to pretend. We're trying to-- OK.

RENEE FRY: --the 2016 performance audit of Nebraska Advantage found 9 out of the 78 new-- 9 out of the 78 businesses were new to Nebraska, only looked at Nebraska Advantage during the time frame, and that would have been through 2014 because that was a 2016 performance audit report. So the numbers that you heard that included LB775, Nebraska-- or, excuse me, Performance Audit was only looking at Nebraska Advantage. There have also been questions about the number of credits that have been taken. My understanding is that 85 to 90 percent of credits are being used under LB775. Under Nebraska Advantage they added the withholding piece where you can keep an employee's withholding. My understanding is that was done so that more credits or higher percentage of credits could be used under Nebraska Advantage.

FRIESEN: So you're-- you're saying with those changes now, those credits, more of them will be used because there were--

RENEE FRY: That's my understanding, yes.

FRIESEN: --there were a number of them that were unable to use them, but as they've changed things, they can.

RENEE FRY: Yes, that is my understanding.

FRIESEN: So does the new program do that too?

RENEE FRY: I, you know, I don't know the answer to that.

FRIESEN: OK.

RENEE FRY: I think the issue-- so Nebraska Advantage utilized withholding to allow companies to utilize more of their credits or 100 percent of their credits. So because the new program, because LB720 allows for the company to keep their employee withholding, I think that would be the same. My question about the refundability came up a few times. So a company under LB720, just like they can under Nebraska Advantage, can zero out their income tax liability but then can also keep their employee withholding. So it seems like that would take your income tax liability to a negative level. My question would be, if

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that's not the case, why we have the ability to reduce your income tax liability and keep the withholding. I don't know that for certain, but it's a red flag.

FRIESEN: So it's not necessarily a refundable credit, but you're able to use it on something else to make it--

RENEE FRY: Yes, that's--

FRIESEN: --act like one.

RENEE FRY: Right.

FRIESEN: So when you've looked through this, do you think companies can double dip in both programs? Because they're going to be obviously involved in one for the next 15 years and we're going to ramp into this one, is there potential crossover?

RENEE FRY: I think so. I mean I think that's a valid question that the committee should explore how that will be used. We did hear someone, a former testifier, talk about how they would transition from Nebraska Advantage to this program. The Performance Audit Committee also did find that most companies that utilize Nebraska Advantage are utilizing multiple incentive programs as well. So I think those are all valid questions for the committee to explore.

FRIESEN: That's all.

LINEHAN: Thank you, Senator Friesen. Senator Groene.

GROENE: Thank you, Chairman. The Nebraska Advantage Act is out there for another 15 years, right? And there's an awful lot of credits hanging out there yet?

RENEE FRY: Yeah, a billion dollars.

GROENE: So we're going to ramp up this new program to pay earlier, and I see a fiscal note of \$29 million, in 2021, \$49 million. So now we're going to have a compounding effect here, aren't we?

RENEE FRY: Yeah.

GROENE: We're going to have to pay for the Advantage Act and then we're going to have this new one on top of it. So our fiscal liability is going to not be \$160 million, it's going to be one plus one, right?

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RENEE FRY: So what Director Rippe talked about earlier, about how you'd have one program phasing out as another program is phasing in, which would have happened with LB775, the Nebraska Advantage, as well, if you look at the charts that I handed out, you see some pretty significant spikes when both of those programs are full-- in full effect. And, yes, it got-- it has been pretty expensive.

GROENE: But this new one is front loaded so it's going to-- it's going to add cost right on top of the peak of-- of--

RENEE FRY: There's still a pretty long tail on the program under LB720, so it is a little bit more front loaded. Ideally, actually, you want your program to even be a shorter time frame than under LB720, but I think that is a valid point, definitely. And I think Josh Goodman from the Pew is here. You might want to ask him a little bit more about how states have tried to adjust that, but there are buy-out programs that states have used.

GROENE: Is-- see, this one stays at 15 years. That's quite a long time.

RENEE FRY: Yes, it's a very long tail.

GROENE: How does that match up to other states' programs, do you know [INAUDIBLE]

RENEE FRY: It's long. It is not recommended that you have such a long tail for an incentive program. You do want a much shorter time frame. It's much more predictable for the state. It's a better value for the utilizer of those tax incentives, so you do want a much shorter time frame. It's just more valuable and not as--

GROENE: OK.

RENEE FRY: --as volatile.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Senator McCollister.

McCOLLISTER: Yeah. Thank you, Madam Chair. And thank you, Mrs. Fry, for being here-- Ms. Fry, sorry. In answering Senator Groene's question, when we talked about the long-term liability that we have plus the front loading of-- of-- this-- this new statute, what would be the best way for us to deal with that?

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RENEE FRY: So I think we'll have more conversation about that on the next bill, LB419, so definitely using caps. States have done that, and Josh can provide even more detail on what that looks like, but caps do provide that ability for more predictability for your state budget. And if you keep them short, you keep it shorter, too, that helps with the predictability. And then other states have utilized buyback programs. So if you had a company who had Nebraska Advantage credits that were outstanding, you-- if they wanted to utilize ImagiNE, then you would have a system where you would be able to buy back their Advantage-- Nebraska Advantage credits to be able to use ImagiNE at a-- at a lower rate than the worth of their outstanding-- this-- the amount that's outstanding, excuse me.

McCOLLISTER: Would it be proper for the state of Nebraska to limit participation in ImagiNE unless there was a buyback period in which we extinguish those other obligations?

RENEE FRY: Yeah, I think absolutely that's reasonable. And that is the state's prerogative to make sure that we don't have these-- I mean we're still paying out on LB775, right?

McCOLLISTER: Correct.

RENEE FRY: And we will through 2025, so we're still paying out on 20-- LB775. Now we have Nebraska Advantage which we'll be paying out for a long time and then starting a new program. So I absolutely think that the state should look, if you're looking at a new incentive program, to look at how do you minimize the impact of Nebraska Advantage for sure, if not even LB775, those outstanding credits there.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Other questions? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Looking back a couple of years ago, we've had some other property tax proposals that were based on future growth, and it was going to provide property tax relief and solve our problem. When look at this and I look forward, I don't see that there will be any growth. It wouldn't have--

RENEE FRY: Growth in revenue?

FRIESEN: In revenue.

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RENEE FRY: No, it could be eaten up by these programs, right.

FRIESEN: So we're giving it all away. So it was something kind of a-- a bird in the hand is when you're hoping for ten years down the road to see growth, to provide our relief, that wasn't going to happen, was it?

RENEE FRY: I think it's a fair question. I don't have a crystal ball, but if you look at the numbers and the amount of outstanding credits, I think that's a legitimate concern.

FRIESEN: It concerns me.

RENEE FRY: Yeah.

FRIESEN: Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions? I have a couple. I think what-- if I heard Senator-- and maybe I just didn't answer-- hear your answer. Senator Groene said if you knew other states that have shorter tails, like do you actually know states that have shorter tails?

RENEE FRY: I will defer to Josh at Pew. I know that there are states that are. I cannot name them off the top of my head, but it is a best practice. So Dr. Bartik, when he will talk about how you design--

LINEHAN: OK.

RENEE FRY: --an incentive program--

LINEHAN: OK.

RENEE FRY: --you want to--

LINEHAN: OK.

RENEE FRY: --you want to shorten the time frame.

LINEHAN: OK. Were you here when Director Rippe talked about what he thought would happen if we did buybacks?

RENEE FRY: Yes, and I'm trying to remember what she said, which was several hours ago.

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LINEHAN: What he said was, which makes, to me, common sense, the people who are not going to hit their mark will let you buy it back--

RENEE FRY: Sure, so--

LINEHAN: --because they know they're-- they don't-- they're holding on false paper. So if you go out and offer to buy it back for half of what-- and they know for sure they're never going to get there, they'll let you buy it back. But the companies who know their papers good are not going to sell it for a discount.

RENEE FRY: So again, my understanding is with the addition of the withholding provision, that that is not a concern. There are not very many outstanding credits that will not be utilized. That is my understanding, in contrast to LB775, but still, even under LB775, they're anticipating 85-- 85 to 95 percent-- or, excuse me, 85 to 90 percent of those credits being used.

LINEHAN: But participating, nobody knows.

RENEE FRY: Of outstanding--

LINEHAN: Yeah, we don't know. We don't know.

RENEE FRY: --85 to 90 percent of outstanding credits. On LB775 we would have a pretty good idea. I mean they have to be utilized by 2025, so there's still time. But-- but the addition of the withholding was brought into-- into Nebraska Advantage to alleviate that concern about not being able-- able to utilize credits. And my understanding is that it will-- is likely to be pretty well full take-up of those outstanding credits.

LINEHAN: All the charts you passed out--

RENEE FRY: Yes.

LINEHAN: --this is law, currently law. There's--

RENEE FRY: Those are Nebraska Advantage. Those are all data from Department of--

LINEHAN: History, it's not about the future, about the new bill.

RENEE FRY: No.

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LINEHAN: This is all history.

RENEE FRY: Right. I was planning on handing it out on the next bill, but several questions have come up in this hearing and so I thought it would be useful but--

LINEHAN: But it's history, it's not--

RENEE FRY: Correct.

LINEHAN: Right. Have you ever done any studies at OpenSky about what would happen if we do all the things you have suggest-- that you have suggested do away with? LLCs, S corps, capital gains, we do away with our economic development package, we don't-- we raise income taxes on the rich. Have you done a study about what happens to Nebraska we do all that?

RENEE FRY: So I'm not suggesting we do away with all of our incentive programs. That is not what I said. I will be here in support of the next bill. So we are not saying get rid of all of our incentive programs.

LINEHAN: But have you ever done a study to study--

RENEE FRY: So--

LINEHAN: --all the suggestions that you have been in front of this committee this year for all the programs, if we did away with all the programs that you have said we should do away with, OpenSky, not you personally, have you done a study to see what would happen to the economy of Nebraska?

RENEE FRY: There's no way to know. But if you look at the data, the-- the percentage of people, particularly the elite who--

LINEHAN: Have you done a study?

RENEE FRY: I can tell you that people-- the percentage of people who move because of taxes is less than 2 percent for the elite, so--

LINEHAN: OK, thank you. Any other questions? Thank you for being here.

RENEE FRY: Thank you.

DAN WATERMEIER: Madam Chair.

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LINEHAN: Surprise.

DAN WATERMEIER: Well, thank you for having me. Revenue Committee members, I appreciate that. I want to send a thank-you out to Senator Kolterman for the hard work that he's done on LB720, but I am here today to speak in opposition to LB720. And kind of not-- keep it up at the real high level and not get down in the weeds too awful far, but there's three specific things that bother me about the bill. The one thing, thinking back to the SRI study that Governor had the economic symposium about four years ago, and clearly the SRI study said you've got to invest in your people, you've got to quit investing in companies, because they don't stick around, but you start investing in your people, you'll get them to stay. And I appreciate the effort that's been made in LB720, but it's not a direct investment in the people, it's still an investment in those companies. So that on the high level is the reason I have concerns about it. The other level is the-- a slight concern I have about changing the-- who's going to actually administer the up-front program as far as application, moving that over to DED. Remember, the DED people are the ones that are selling the program and now they're also going to carry an application with them. I'm a little bit concerned about that I appreciate the fact that the audits are still going to go back to the Department of Revenue, but that very much concerns me. The third thing, really the biggest piece, about the transparency of the bill, and I don't want to really pigeonhole this bill as saying it's just the Nebraska Advantage with a bigger-- not a bigger price tag--

LINEHAN: [LAUGH] I'm sorry--

DAN WATERMEIER: I'm sorry, Dan Watermeier--

LINEHAN: No, thank you.

DAN WATERMEIER: --W-a-t-e-r-m-e-i-e-r.

LINEHAN: We all knew, so we all forgot.

DAN WATERMEIER: I saw that look in the-- in counsel's eyes there. I saw right away what I needed to do. So-- but the biggest concern I have is with the transparency. And all the work that this Legislature has done in the Performance Audit should not be ignored, and if I could really encourage all of the Revenue Committee members and the entire Legislature to spend some time studying that work that the Performance Audit has done. And I looked back this morning at what--

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the committee had released a report and Senator Kuehn's name was on it, on a press release, and right in there it said we ought to have a performance statement on every single tax incentive act that comes forward in the future. And I have said for years that that work that we do in Performance Audit is not for what's gone on in the past, but it's really coming to proof right now. We've got to adjust these incentive programs so that we know what we're doing. And I don't see a lot in this bill. I just don't see enough. Now the municipalities, that's great. What we're doing for them, they'll have forewarning about the sales tax that they're going to be missing and they'll have a chance to budget that. But I don't see enough in transparency in what's happening. And here, the big picture, what I would say is why we ought to be looking at this, the Nebraska Advantage Act years ago roughly said was going to cost \$60 million a year. Well, clearly it's \$120-150 million. How many things in the Legislature do we have with that sort of a budget effect that we don't seriously look at? K-12 is \$1 billion. Look at the time and energy we look at that. University is \$577 million, \$575. Look at the time we look at that. We don't have quite the ability to look at that as I'd like to because they do their own thing. The community colleges get \$110 million, state colleges, \$52 million. All those things, look at the time and energy we put in looking at every single line item that they spend. With the growth projected in this state--

LINEHAN: Thank you. Did you have something else to say?

DAN WATERMEIER: I was just going to say that--

LINEHAN: Yes, Senator McCollister.

McCOLLISTER: Please continue.

LINEHAN: I have to go, just--

McCOLLISTER: --your words of wisdom.

DAN WATERMEIER: The-- the thing that I would like to remind everybody is that clearly the GDP in the state that we've been banking on, 5 percent over the years, is not going to be there. And even in your own Fiscal Office you've got some real simple modeling programs that show what happens if it falls to 4.5, to 4, to 3.5. It doesn't take much and it's a disaster. I would hate to be sitting in the Appropriations Committee with unknown liabilities that these tax incentives dump on us. We have no idea. We have no idea how to budget. And it is an

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expense. I will have to disagree with Richard Baier. He just got up here earlier and said it wasn't an expense. It's a liability and to me that's an expense. It's a future liability. Now I'm not here to say we shouldn't have tax incentives. I'm a proponent of them. But they got to work and we got to figure out what they cost. We've got to get to the bottom of this, and LB720 doesn't do it yet. So I would just encourage you to seriously look at the Performance Audit, the work that we've done inside this building, and we have a lot of good work, so--

FRIESEN: Thank you, Senator McCollister. Any other questions from the committee? So the-- a lot of what we-- the Performance Audit talked about is the inability to measure success, and so-- and I-- and just my limited experience with that was a real struggle because we didn't set it up right so that we could measure it.

DAN WATERMEIER: Right.

FRIESEN: When you look at this, and you probably haven't looked at the draft amendment, but from what you've seen this bill does not do that yet?

DAN WATERMEIER: It doesn't. And you-- you come back to there's another issue with having DED work on it and then handing it off to the Department of Revenue. The Department of Revenue is the only industry-- industry that-- institution, I think. Now the department of-- DED can have some confidential numbers, but nothing like what the Department of Revenue can. You've got to make sure that those things are in there before that sign-- contract is ever signed. You can't go back, and this is the trouble we had over the last five years trying to get the numbers we wanted. We wanted to know what the job costs really were and we had these wild numbers between \$32,000 a-- what it cost to produce a job, to \$240,000 dollars, partially because we didn't know all the numbers. I would admit we didn't have good numbers. But I'm not convinced that it's there yet.

FRIESEN: So--

DAN WATERMEIER: We don't have enough data there yet. And it's going to be a difficult thing and all of you can remember the push back that we got from specifically the chamber. We're saying we don't want to give that up. and we'd come to the table with some deals made and we'd get to the floor and it'd blow up. It's difficult.

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FRIESEN: I remember that. So another thing was the-- we talk about 51 percent of the time here and I know that question came up--

DAN WATERMEIER: I'm sorry, 51 percent?

FRIESEN: When an employee, a new employee, a new hire only needs to be in the state 51 percent of the time.

DAN WATERMEIER: Oh, yeah.

FRIESEN: And so I remember last time too. Wasn't there a question about whether or not we were incentivizing out-of-state jobs? Did that ever come up or am I--

DAN WATERMEIER: It wasn't a big concern. More we had other things that would have been bigger issues for us.

FRIESEN: OK.

DAN WATERMEIER: And-- and the Legislature had given a lot of direction about we want to know more, we want to know about their-- their health benefits that they're being offered and that, you know, wasn't part of the deal. They didn't have-- they weren't required to share that. So there was a whole laundry list of things and if you go back and look at that performance audit, the one that was done in '16, I think, in '16 and the report in '17, is it very clearly shows a lot of good suggestions.

FRIESEN: So would-- would one of the big issues be the average wage because, like I think it was mentioned earlier, you can-- I think they discount anything above a million but-- so if you pay some executives \$500,000, \$600,000, and a whole bunch of employees \$20,000--

DAN WATERMEIER: The pooling effect. I'm pretty sure that's not taken out of this bill. I mean Senator Kolterman could correct me if I'm wrong, but I-- I don't think that's taken out yet.

FRIESEN: I saw it in there now, required to provide health benefits so that those jobs then are at risk for needing other benefits from our system, I guess.

DAN WATERMEIER: Right.

FRIESEN: OK. Thank you, Senator Watermeier.

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DAN WATERMEIER: All right. Thank you.

FRIESEN: Any other opponents?

DAVE WELSCH: Good afternoon, Senators. My name is Dave Welsch, D-a-v-e W-e-l-s-c-h. I'm here to testify in opposition to LB720. I am a farmer and currently serve as president of the Milford Public Schools Board of Education. I've served on the board for 20 years. LB720 is simply a replacement for programs like the Nebraska Advantage Act, a program which failed due to its high cost, lack of transparency, and the inability to generate economic growth to the level that it would pay for itself. As I mentioned in previous testimony before this committee, I have yet to find a research report to show that programs such as LB720 can pay for themselves through increased revenue from economic growth. The fiscally irresponsible competition between states to attract new businesses needs to stop. States are spending money which they cannot afford to spend. States are spending money which will never be replaced by new revenues created from this so-called economic growth. Hopefully Nebraska will be one of the first to end this fiscally irresponsible competition. If the Legislature wants to spend money to stimulate our economy, then invest in Nebraska businesses first. A good place to start would be in investing in Nebraska's number-one industry, agriculture. And you've heard this before but I'm going to repeat it again. By lowering the ag land valuation to 40 percent in the TEEOSA state aid formula, you will be pumping approximately \$126 million into rural communities. This will help to replace the equalization aid that has not been paid to rural equalized districts over the past eight years. This would be a great place to start to stimulate Nebraska's economy and our number one industry, agriculture. State expenditures need to be quantified. They can't be open-ended. As senators, you need to know the true cost of a bill before you pass it. LB720 does not have a cap on expenditures. Once Nebraska recovers from our current situation of reduced revenue and builds our Cash Reserve back up to a more appropriate level, then it would be appropriate time to look at ways to provide an economic lift to Nebraska's companies. It would be much more appropriate to reduce Nebraska's corporate income tax rate for all Nebraska corporations than to spend money trying to attract a handful of a select few companies. It is better to support businesses already operating in Nebraska than to chase after and compete against other states. Thank you, and I'd be happy to take any questions. And I'd-- I'd also like to add, as far as the cap on this, or lack of it, if expenses get out of control with this bill, how are you going to stop

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it? And as you know, school districts already function under several caps and lids and some of you would like to slap some more on us. If it's appropriate for school districts in the state, why isn't it appropriate for tax incentives? So--

FRIESEN: Thank you, Mr. Welsch. Any questions from the committee? Seeing none-- Senator Groene.

GROENE: He sat there a long time. Thank you.

DAVE WELSCH: Thank you. I appreciate that.

GROENE: You find it interesting that the chambers don't think there's a property tax problem but part of these-- this bill is that they want payback credits on property taxes?

DAVE WELSCH: I'm not as well versed in the tax incentive programs as I am with school funding. But if-- if an incentive program could be created which would essentially pay for itself, you've got to pay for things. You know, if the state's going to expend money, there needs to be a payback on it. And that's certainly one of the things we're looking at right now with trying to lower property taxes and-- and trying to increase revenue from a multitude of sources to-- to provide that. And I would like to make one small comment on, you know, those groups that are trying to incentivize companies to move to the state and they need to know what those programs are going to be for them to promote them, for myself, I'm currently negotiating with a young man to sell two of my farms to him. You know, he's a young beginning farmer. My property taxes doubled from 2010 to 2015, an increase of \$11,000. This young farmer would kind of like to know, are his property taxes, are they going to go down when he purchases these farms from me, or will he even be able to pay for these farms, will he even be willing to enter into a contract with me to buy them at the high level of property taxes that he'll be taking on by purchasing these farms? So what-- what works for companies that move into our urban areas, it applies to young farmers trying to get a foothold in our agricultural areas as well.

GROENE: Thank you.

FRIESEN: Thank you, Senator Groene. Senator Crawford.

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CRAWFORD: Thank you, Vice-- Vice Chair Friesen. And thank you, Mr. Welsch, for being here for so many bills to share your perspective and talk about how it impacts your community. I appreciate that very much.

DAVE WELSCH: Thank you.

CRAWFORD: Just for the record, I wanted to have you talk a little bit about the research that you have done. You said that you have yet to find a research report that shows programs such as LB720 can pay for themselves through increased revenue. Can you just talk a little bit about what that research looks like?

DAVE WELSCH: Well, I pretended I was a much younger person and went to the Internet to do my research.

CRAWFORD: OK.

DAVE WELSCH: And, yeah, on the several pages that I went through of results that popped up on basically I don't know if it was new income tax cuts, which essentially these incentives are income tax cuts, do they pay for themselves through economic growth? And I read a few of the studies, just like Senator Friesen brought up, and most of them said no, a few said maybe, but it's a very long payback period. And because of a 10-, 20-, 30-year payback period, there's so many other factors that come into play that you can't really quantify that they do pay for themselves. And I was unable to find a single study that said that, yes, they absolutely pay for themselves in a relatively short period of time.

CRAWFORD: Right. Thank you.

FRIESEN: Thank you, Senator Crawford. Seeing no other questions, thank you for coming in.

DAVE WELSCH: Thank you. I hope to be here tomorrow, but I have a game at 2:00, so we'll see how that goes.

JOHN HANSEN: Mr. Vice Chairman, members of the Revenue Committee, good afternoon. My name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n. I'm the president of Nebraska Farmers Union. The old saw goes, bit once, twice shy, and in the case of a lot of the rural view of how state economic development programs have worked for rural Nebraska, we've been bit a couple times pretty hard and we haven't seen the benefits in the-- of these programs come to rural Nebraska. And so there's been a great deal of skepticism on the part of folks in rural Nebraska

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about whether or not these programs really work for them. And as-- we were very much involved in-- in saying some fairly critical things from the very beginning about LB775 and I regret that most of the things that we said were going to happen happened. And so these are contracts. And so my advice to the committee is the same advice that I give landowners across the state who ask me about different kinds of contracts and that is that these are binding. Once you've signed on the line, you have the obligation. They are what they are, and so the time to investigate, the time to consider, the time to do the research, and the time for consideration is before you sign. And so I think that the work that Senator-- former Senator Watermeier and his committee did relative to the performance of Nebraska incentive programs is clearly a-- a yellow flag, if not a red flag, that we need to take more time to think about what it is that we're doing, because once the state rushes in and the state signs on the dotted line, there is years and years of obligations that may or may not provide what we used to think about when we were building water projects and other things is a favorable cost-benefit ratio. And so we've been saying for some time that even if you thought that the programs in the state were a good idea based on their performance and how they have produced, we simply couldn't afford them in their current status. And so we regretfully, while we-- we thank senator for his hard work in introducing this bill, we don't think that it hits the mark and merits our support at this time. I think we need to go slow and we need to do more thought before we go forward. With that, I'd end my remarks and answer any questions if I could.

FRIESEN: Thank you, Mr. Hansen. Any questions from the committee?
Senator Groene.

GROENE: You know, I've been sitting here listening to this, John. This isn't economic development. This is a bunch of business telling us the tax-- taxes are too high in the state of Nebraska. These are local businesses that the taxes are too high. Normal growth of a business, just like the farmer rents another quarter, the taxes are too high. This is a tax reduction asking by the business community that corporate income taxes, sales taxes, and employee costs are too high. What they're doing is no different than what we are doing in agriculture because property taxes are too high. So what I'm saying is maybe we ought to work together and give one tax bill, one program that everybody gets a tax cut. Anyway, I-- I-- it was more of a statement than-- than-- but your opinion would be appreciated.

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JOHN HANSEN: Well, I-- I've been sitting in this chair for 30 years and, you know, I-- I am one of the folks that's privileged to represent one of the state's largest businesses, production agriculture. We're an economic driver in this state. And unfortunately, my friends in the-- the-- the rest of the business community who represent the Chamber of Commerce, the Nebraska bankers, and those folks have not represented agriculture, in my opinion, and our interests have not been a part of their consideration. And I would welcome their interest in our problems and our issues. And I wish that they would be more supportive of our situation. And if they were, I suspect our folks would be more interested in helping them in a mutually beneficial way if, in fact, the track record were different than it is.

GROENE: Thank you. You said it better than I. Thank you.

FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Senator Crawford.

CRAWFORD: Thank you, Vice Chairman Friesen, and thank you, Mr. Hansen, for being here. Someone mentioned in earlier testimony the possibility of a rural multiplier to try to direct benefits to rural areas. Would that alleviate some of your concern or is it fundamentally a concern about incentive programs?

JOHN HANSEN: Well, each-- each incentive program brings its own particular set of strengths and weaknesses to the table. And-- and I-- I would say that the concerns that-- that Dan Watermeier just brought to the committee pretty well reflect the-- the issues that we've dealt with for a very long time. And we really do think that there needs to be more transparency, there needs to be a better investment in people, and that there certainly has to be, I think, both more accountability before we sign on the dotted line and more accountability after we sign on the dotted line to see whether or not the state's dollars are being well used and justified.

CRAWFORD: Thank you.

FRIESEN: Thank you, Senator Crawford. Any other questions from the committee? When-- you've watched this process here for 35 years, you said?

JOHN HANSEN: Thirty, only 30.

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FRIESEN: Thirty? So we keep-- we keep being told we're going to-- we're going to grow our way out of this so we can solve our property tax problem through growth. I'm not seeing that in the data. We've had numerous bills in the past year that base property tax relief on growth and it would come in over the next ten years. When I see the numbers, we have a billion dollars hanging over our head and we're adding more to it and our growth is weak. Are we ever going to see that growth where we grow our way out of our tax problem?

JOHN HANSEN: The statement of what you have seen reflects what we have seen, and that is that the performance and the growth has simply not come to fruition. And so it-- it ends up being kind of a bet on a long-shot horse that never comes in.

FRIESEN: Say our return on our investment is not good?

JOHN HANSEN: The return on investment is not good. And I would also say that those of us in agriculture are told over and over again that when we get dollars from the federal government to provide income safety nets for farmers that those are subsidies. And I've-- I've discussed with this committee and former Chair of this committee, Senator Warner, that when taxpayers use their dollars to help particular people or-- or sectors that we ought to call the things, those taxpayer dollars spent, the same name, and that when we give taxpayer money to large corporations we call it incentives, and when we give taxpayer money to poor people and farmers we call it subsidies and welfare. But at the end of the day, it would be the same thing.

FRIESEN: Thank you, Mr. Hansen. Seeing no other questions, thank you. Any other opponents who wish to testify on LB720? Anyone wish to testify in a neutral capacity? Has it been a long day?

MARK MCHARGUE: It's been a long day, Vice Chairman, and I appreciate being here and the committee sticking with us. I am Mark McHargue, M-a-r-k M-c-H-a-r-g-u-e, and I'm the vice president of Nebraska Farm Bureau. And I am here to represent on behalf of the Ag Leaders Working Group which comprises of probably, as you know, the Cattlemen, the Corn Growers, Nebraska Farm Bureau, Pork Producers, Soybean Association, Dairy, and the Wheat Growers, and I'm here today to testify on behalf of that group in a negative-- in a neutral position. And I want to start by saying I'm testifying in a neutral position primarily because our organizations want to show this committee, the introducer, and the bill supporters that while property tax is our priority, we-- we are willing to keep an open mind about other issues

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which could, if done correctly, coupled with a fundamental tax reform, could be beneficial to our state's economy. This bill includes some language that says, "The Legislature hereby finds and declares that it is the policy of this state to modernize its economic development platform" to "encourage new businesses to relocate to Nebraska" and "existing businesses to remain and grow in Nebraska." We can appreciate what it might take to attempt to grow business in the state. But is it worth incentivizing companies into a state when property taxes are driving businesses and consumers out of the state? We do not disagree that we need to grow Nebraska's businesses and our work force. And we also would offer that whether you're walking your legislative district or you're talking to small businesses, the burden of property taxes is still top of mind. What truly seems to make Nebraska uncompetitive is taxing our largest industry, agriculture, at a rate higher than any other state around us. I would also like to highlight the fact that this bill provides ImagiNE Nebraska Act participant tax refunds on their property tax bills. It seems property taxes are not always evidently a local issue. We represent hundreds of thousands of Nebraskans in production agriculture and value-added agribusiness/agriculture. These are small businesses that employ thousands and whether it's the rate or the incentives, they need a tax code that works for everyone and not just for those that can afford to navigate a complex system. Given we are not satisfied with the status quo on property taxes, we cannot support moving business tax incentives without first addressing comprehensive and meaningful property tax relief and reform. Thank you for your time. I know it's late and I would be happy to answer any questions.

FRIESEN: Thank you, Mr. McHargue. Senator Briese.

BRIESE: Thank you, Chairman Friesen. Thank you for being here, staying this late, and thank you for your testimony. But I assume it is the-- your position and the position of the Ag Leaders Working Group that property tax relief should be, must be the priority of this committee, correct?

MARK MCHARGUE: Yeah, absolutely. That's no secret as we've really worked for several years in a row. The ag community is fully together in the fact that we need to reform property taxes first. And as I said in the testimony, we're not saying that there is not a place for incentives, but it's really an issue of how we prioritize as we address their tax system in Nebraska, that unless we address the property tax system and how we do it and how we fund it and how that

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works through our school system, that needs to be our number-one priority.

BRIESE: Okay. Thank you.

FRIESEN: Thank you, Senator Briese. Any other questions from the committee? Seeing none, thank you for your testimony.

MARK MCHARGUE: Thank you.

FRIESEN: Any others wish to testify in a neutral capacity? Seeing none, Senator Kolterman, you're welcome back to your seat. I think it's still warm.

KOLTERMAN: Yeah, I'm back. Lots of things, lots of things to talk about. It's been a-- it's been a very interesting afternoon to me. Senator Friesen, you asked about business expansion, if we should really be incenting those expansions. I'm working on a project right now in my district, in my community where the company came in, they were doing a nationwide search. While we were-- while we were courting them, we didn't even-- we don't know who they are yet today. We're aren't working off of a name. But they made it very clear to us that they're looking at other locations all over the country. And even when we found that out, we also found out we're being considered with-- they're-- they're also looking one other state. And it comes down sometimes to the bottom line. So if a Nebraska company can find a much better deal simply across the border in Iowa or South Dakota or Missouri, they might go there. Wouldn't you, if it made much more sense financially, for example, wouldn't you do that? We already found out there's farmers that have moved out of state because it was more advantageous to them. So-- so having lived it, it's happening. We need the incentive packages. Senator Groene, a couple of thoughts for you. I-- my daughter was here and she gave me the dickens because I used Costco as an example. But she also told me-- she corrected me and I'm going to correct my-- the Costco project, they're starting-- front-line jobs will start at \$15 an hour but they will have full benefits on top of that. Comes out to around \$30,000 dollars without including the benefits. And-- and then they also have bonus incentives. I-- I don't know how anybody can say that's not a good job. That's probably better than what we're paying our staff here at the Capitol. But also, to qualify, they had to do the-- the investment which was over-- which had to be over \$100 million. They're investing \$450 million dollars in the state, but they also had to create 50 jobs over \$72,000 and they're doing that. Would they be able to use the

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Imagine Act, the bill we're talking about here? I don't know if they would have or not. I think they would have because they like our state, they like the fact that we're open for business. What if they want to look at another facility, western Nebraska? I think they'd do that because they've been happy with what we've got here, and I'm pretty near and dear to that because I hear it every night. Are we bringing people here through projects like that one? Well, in their case, I've had the opportunity to meet people that they brought here from Colorado, California, Texas, Alabama, Virginia, West Virginia, North Carolina, South Carolina, and Minnesota. They bring families with them. They help our state grow. But still, over 60 percent of their employees will be local, so I think it's going to be a good mix. And in many cases they're bringing kids from out of state. The other thing is, I've sat in on no less than seven hearings in my own district where we have farm families bringing young farmers back to the community and they wouldn't have been able to do that had it not been for that plant. You also said, Senator Groene, that we should simplify this. The reality is there's nothing simple. Are-- are there things we can do to simplify? Probably, and I think we've talked about a lot of that. I think we've made a good start. We're attempting to address the issues. But I-- I don't think we can afford to jump off the bandwagon at this stage. Another thing that came up, Senator Friesen, you asked about the insurance question. I think you'd find-- you'd be hard pressed to find a company in Lincoln or Omaha who are utilizing the Nebraska Advantage Act who also aren't providing insurance to their employees. Maybe that's not the case in rural areas, but one thing you need to remember is that even if this insurance is provided through the company, they don't always have to take it. I think that you also asked about would they be eligible for Medicaid. Well, Medicaid is 153 percent of the federal poverty level, which is around \$37,000, so under the proposed Imagine Nebraska, the new jobs created, they would not qualify for-- for Medicaid. Senator Groene, you had brought up the question about handouts, the handout that you receive. Well, the district-- that district-by-district handout was an agreement signed for the total jobs and investments. I agree with you. Maybe you didn't get that many in North Platte, but it did make a difference. You did get some jobs out of that in North Platte. I want to point out that 40 percent of the jobs that have been developed under the Advantage Act are in rural Nebraska. The incentives have all been performance based. In return, we get new jobs and investment, new taxes, we get-- get paid, and so we get greater revenue as a state. The question came up--I've got to check my gadget here--about ethanol. I don't know, I think Senator Linehan maybe asked

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some questions about ethanol, ethanol facilities with Nebraska Advantage agreements. Renewable Fuels Association, the Nebraska Energy Office report 27 ethanol plants in Nebraska. Fifteen have signed an agreement for the Nebraska Advantage program. That's 15 with the Nebraska Advantage program. That doesn't count LB775. The agreements for these 15 plants show a total plan investment of \$1.874 billion dollars. The agreements for these 15 plants show a total of 611 planned jobs. These plants have the capacity to produce 1.524 billion gallons of ethanol annually. I estimate that this level of ethanol production requires approximately 544 million bushels of corn, which is just over 32 percent of Nebraska's 2017 corn production of 1.683 billion bushels. At the marketing year, 2017, average price received by producers estimated by the USDA, the value of corn purchased by ethanol facilities with signed Nebraska Advantage agreements is more than \$1.822 billion dollars. That's from Dave Dearmont. He prepared that for Director Rippe and he worked for the Department of Revenue and now he's working for the Department of Economic Development. A brief note on the fiscal note, the fiscal note does not measure benefits. The program represents a sliver of the credits and exemptions granted by the state. We should be having the same discussion of what it costs to lose jobs and investments and what does it-- does to funding schools, finding money for tax relief. Senator Friesen, you're absolutely correct. The ag economy weathered the national economic storm better than most states. During that time, we set aside over \$250 million in property tax relief. We've also been able to put ethanol finding [SIC] into road-- or additional funding into roads and state aid. Now that commodity prices are lower, we need to grow the business sector to make up for the difference. We have a work force crisis, more importantly, a population crisis. Our kids are being recruited away. Companies have said in front of this committee that other states recruit them. If we don't create jobs and have incentives, there will be no more revenue to fund schools, to fund roads, to fund Medicaid, or to solve the Corrections issues. I believe in building coalitions and finding common ground. We've worked hard in drafting this legislation to improve the program based on feedback on the current Nebraska Advantage Act. I believe there is a path forward and I look forward to working with the committee to find that path while also addressing property tax relief. One final thought, you know, there's-- we keep hearing about property tax relief, property tax relief. Is there anybody on this committee that would say that I'm not supportive of property tax relief? Is there anybody here? I'm on record as saying I support property tax relief. I voted with you all the other night, or didn't vote but I gave you my opinion. But we have

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to have them both. We can't grow our state by just cutting taxes on property. We need to do that, but we also need to grow our state by increasing revenues, revenues that these new companies are going to bring that our current companies are going to expand on. So with that, I really think we had a good hearing today. I don't necessarily agree with all of the opposition, but they don't agree with me either, so what else is new? With that, I would try and answer any questions you might have.

FRIESEN: Thank you, Senator Kolterman. Just one comment I guess I want to make. We've talked a lot about the numbers here and I asked you at the beginning of the hearing. We've spent about a billion dollars to grow our state. Our revenues aren't even there to fix our property tax problem. And now we're going to double down with more incentives while we have 15 years of current incentives. I'm not seeing the light at the end of the tunnel. I don't even think there is a tunnel.

KOLTERMAN: Well, you just heard from several key leaders in the business community.

FRIESEN: [INAUDIBLE]

KOLTERMAN: I don't-- I can't-- I can't fix our problem.

FRIESEN: But that's what we need to look at.

KOLTERMAN: Commodity prices are a lot of that, Senator. You know that.

FRIESEN: They are a part of that, but property taxes right now are killing us--

KOLTERMAN: I understand that as well.

FRIESEN: --and we-- there's no revenue to do it with.

KOLTERMAN: I think it--

FRIESEN: That's the problem.

KOLTERMAN: I think if we shut the door on business, we're not-- we're going to have less revenue.

FRIESEN: Show me how we've grown business to help this. We've been doing this for 15 years. I'm struggling with that.

KOLTERMAN: Yeah.

FRIESEN: I look at the return on investment. It looks to me like we've spent more than we've gained, or else we should see the curve going up and we see it going down. We've got all this hanging over our heads. We-- it's-- there's unknowns out there. I mean right now it's looking like 90 percent of those credits will get redeemed. That's a lot out there that we have to deal with. And then we start another program and we want work force development and I'm struggling to see where we make this all balance out, and the return on investment doesn't look good to me, but that's--

KOLTERMAN: Well, I appreciate that.

FRIESEN: Senator--

KOLTERMAN: Point well taken.

GROENE: If you noticed, I never mentioned that I'm for this limit on you got to be high-paying jobs. An awful lot of people in my district that are high-school educated, they just want a job and they're the underemployed and they're the ones, if we don't give them a \$12 job, hour job, they are the ones on Medicaid. So in ag some of them jobs are manual, they're mass production of poultry or whatever. I want those jobs too. So my comment was, would have Costco come without-- with this new program because of the pay limit?

KOLTERMAN: I think they would have.

GROENE: Well--

KOLTERMAN: The can-- they can make it work just like all the large companies can.

GROENE: Well, then they apparently--

KOLTERMAN: There's not a lot of difference between \$19 and what they're paying.

Well, apparently they came because we had a lot of corn and we-- and we're animal husbandry friendly. Maybe we didn't need to give them anything. But I think that was two reasons they came. But anyway, no, my point is Omaha and Lincoln wants high-paid, suit-and-tie jobs, and that's what this program is geared for. It's not geared for rural Nebraska and ag at all. And-- and you made a good point. You know, you

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know, sometimes we get convinced nothing happens unless the government is involved. I've heard that we're not building any houses unless we TIF them. That's-- that's the opinion out there by the League. I see houses being built all over North Platte. We're being built and nobody gave them a program. You mentioned 27 ethanol plants; 12 of them didn't get taken. They got built.

KOLTERMAN: Well, they were under the LB775.

GROENE: I know one that didn't take it. So anyway, but economic development does happen naturally. And if you don't believe in the free market system, which I'm-- apparently our business leaders do not, and believe that you've got to have a Keynesian attitude that government is the only way to incentivize it and to make it happen, I am-- I don't think anybody on this committee is against an economic development plan. We just don't want to throw the-- throw the bank at them.

KOLTERMAN: And we have-- we've taken a hard look at the fiscal note here and it's considerably less than what we're paying currently. We made a very strong attempt to keep that down intentionally.

GROENE: But it's an estimate, not a cap.

KOLTERMAN: It's an estimate just like it was ten years ago. We don't know until we try. Would you like to continue working under our current Advantage Act?

GROENE: We're on the same page on a lot of this, but we just need to fine-tune it.

KOLTERMAN: Well, we're working on that.

GROENE: Thank you, Senator.

FRIESEN: Thank you, Senator Groene. Any other questions from the committee? Senator Linehan.

LINEHAN: Thank you, Senator Friesen. I'm concerned about what I think I'm hearing here between business and what you just said about the fiscal note. So when we look at these programs, they don't measure-- they don't measure any of the income from the jobs that are created? We just look at what that business pays in taxes?

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KOLTERMAN: We look at end results, yes. It's all-- everything we've done over the years is based on end results.

LINEHAN: But what's the Fiscal Office do? Do they-- they take into--

KOLTERMAN: They take a look at the past and they take a look at the future. They estimate out where we're going to be based on what we're providing for jobs.

LINEHAN: Yeah, but do they take and consider-- well, let me ask the question a different way. And I-- I--you're not supposed to do this, because I don't know the answer to the question, but--

KOLTERMAN: It's OK. I probably [INAUDIBLE]

LINEHAN: --if our revenues over the last-- since 1989, whenever we passed LB775. It was '86, '87. Have our revenues-- what years-- and this will be something the committee looks-- needs to look at. In what years do our revenues actually drop?

KOLTERMAN: I-- I don't have an answer for that right off the top.

LINEHAN: No, but I think it's something we need to look at because I think, if I remember from sitting in Planning, our revenues go up every year, so-- but our budget-- again, I'm going to bring us back to-- it's going to be a very constant theme from Senator Linehan. We just-- you can't just look at one side of the ledger--

KOLTERMAN: No.

LINEHAN: --on our income-- on our problem here.

KOLTERMAN: Here's-- here's the way I look at that. This bill, LB775, all these bills that we've had over the years cost us roughly 3 percent of our state budget, 3 percent, 3.9, 3.4, something like that.

LINEHAN: So it could be maybe that the spending is the problem as much as what we're bringing in as revenue.

KOLTERMAN: Yeah, I think it's both. Yeah, I think it's both, but you-- you can't afford to shut people off. You want to-- you want to hang a sign up that says "closed for business?"

LINEHAN: No.

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KOLTERMAN: We can't afford to do that.

LINEHAN: Thank you. Other questions from the committee? Thank you.

KOLTERMAN: It's been fun. Thank you.

LINEHAN: Good job. So with that-- oh, letters for the record, I'm sorry. We have-- it's short--Brandon Kauffman, city of Lincoln; Gary Person, North Platte Area Chamber and Development; Jeff Clark, Advanced Power Alliance; Kyle Nixon; Todd Foje, Great Plains Communication; Tim Burke, Omaha Public Power; Doug Kindig, United Cities of Sarpy County; Elizabeth Everett, First Five Nebraska; Courtney Dentlinger-- I'm saying that wrong, I'm sorry, Courtney,-- Nebraska Public Power District; and opponent, Jessica Shelburn, Americans for Prosperity; and neutral, none. And with that, we'll open the hearing on LB419. Is that next? LB419. Hello, Senator Bolz.

BOLZ: Good evening, Revenue Committee. You are-- you win the legislative tenacity award today. It sounds like it was quite the hearing. I am in fact Senator Kate Bolz, that's K-a-t-e B-o-l-z. I'm here to introduce LB419. It sounds to me as though you had some excellent dialogue throughout the day. So you'll have to forgive me if there are themes that are repeated as I discuss this bill to you. But I do think it is an important bill to discuss. LB419 proposes some ideas in our economic development policy to reflect best practice principles including a focus on high-impact businesses, maximizing value, protecting the budget, and responding to economic conditions. The bill is reflective of work done by a group of stakeholders this summer with the Center for Regional Economic Competitiveness, a nonprofit, nonpartisan think tank and technical assistance organization. They produced a report with us and with the generous support of the Pew Charitable Trust. I'm distributing a letter from the CREC for your review and a representative from Pew is kindly here today. The Center for Regional Economic Competitiveness interviewed stakeholders all across the state including academics, economists, business owners, legislators, and people in the economic development field. Many of you were involved in this project and I thank you for that. I'm going to take LB419 head on. Colleagues, this is not a technically perfect bill. It's not a bill that I expect the Revenue Committee to go into Exec Session and, and raise all your hands and vote it out unanimously. LB419 is a bill that provides us an opportunity to talk about some really important principles and ideas that I think should be incorporated into any major economic development policy. It reflects four principles promoted by the Pew

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Charitable Trust: (1) target high-impact businesses; (2) maximize value for companies in the state; (3) respond to economic conditions; and (4) protect the state budget. It sounds to me as though there's been plenty of discussion today about how Nebraska Advantage does not currently reflect those principles. Existing policy subsidizes wages at far too low of a level, does not require benefits. Existing policy doesn't maximize value for companies in the state. According to Dr. Timothy Bartik, businesses heavily discount the value about your tax credits, those are a significant part of our program just as one example. Bless you, Senator Groene.

GROENE: Sorry.

BOLZ: It's OK. Nebraska Advantage, I do not believe effectively responds to economic conditions. While the performance-based approach certainly has merit, it doesn't respond quickly to a downturned economy or necessarily reflect the geographical disparities. The differences in different types of community and the economic and educational background of those kinds of communities. And I think, as has probably already been referenced today, even after factoring in projected increases in state revenue from the jobs and economic activity created by Nebraska Advantage, the Nebraska Department of Revenue estimates that revenue losses will be \$32 million in 2018 on a cumulative loss of \$997 million by calendar year 2027. So the most important part of this to me and one of the reasons that I wanted to bring this bill is because I think there needs to be an opportunity for dialogue between the Revenue Committee and the Appropriations Committee. Nebraska Advantage certainly does not protect the state budget. The impact of tax incentives varies significantly year by year. For an example, in 2018 tax credits earned was \$63 million. The projected tax credits to be earned in 2019 is \$200 million. The variance has an impact on the state budget in managing other priorities. I've provided you two charts that show the volatility in tax incentives and the volatility in our state revenues. So as we consider a new policy, I'm hopeful that we take advantage of our lessons learned. One lesson learned is that LB312 which was passed in 2005 and established the Nebraska Advantage Program anticipated costs of \$24 million each year in the two years after the bill passed. And during floor debate, senators discussed the program costing the state between \$50 and \$60 million per year. And of course that \$200 million is what is projected for 2019. So LB419 addresses some of these best practices in the following ways: addresses targeting high- impact businesses by establishing a wage threshold for the Nebraska Advantage

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of 130 percent of the Nebraska average weekly wage. I think we should set the bar high. I think healthcare benefits should be required. It would maximize value for companies in the states by providing a flexible grant fund to be administered by the Department of Economic Development. Such a fund could be used for building and site development and job training resulting in significant and timely incentives for companies. Job training funds address the number one issue identified by the Nebraska Chamber of Commerce in their annual survey work force development. Even, even that kind of approach and that proposed amount I think needs more analysis. But that flexibility and that responsiveness is an important principle to consider. We need to respond to economic conditions. A more flexible fund could be used to target incentives in areas that are struggling, areas that maybe face a dramatic change, a natural disaster, or could be responsive in an economic downturn. And LB419 would protect the state budget by implementing a cap on the credits provided each year and would reduce the term of credits to no more than four years. That number probably needs additional analysis as well. And I think we could dig down and think about other ways to protect the state budget. Such as providing a cap on the individual amount any company could draw down limiting a company's ability to access multiple programs at the same time or limiting the ability to access additional incentives after the initial application. Colleagues as I said, this is not a technically perfect bill. I don't expect you to go into Exec Committee and vote it out today. Even these ideas are not comprehensive and complete and I have put together a few ideas in your handouts that might serve us well to consider as we think about the future of our economic development programs and tax incentive programs. But I do think that it is essential that as we have these discussions about our tax incentives and economic development policies we, we consider both sides of the ledger. We consider the impact of on the state budget. Not just because I serve as a member of the Appropriations Committee, but because as a member of the Appropriations Committee, I see all of the priorities that come to our attention that impact not only things that are important to me but things that I think are important to you as Revenue Committee members. For example, the homestead exemption, the property tax credit program, the InternNE program, and the customized job training program. And I don't think with, with the exception of the homestead exemption, I don't think we've been able to fund any of those priorities at the level that the Appropriations Committee or the body would like to see in recent years. I don't need to tell you that we've had three years of cuts and those cuts have been significant. You know, for example, over three years we, we cut the university

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system an average of 8.3 percent. So colleagues, my requests and my intention in bringing this bill to your attention is to discuss some of these important priorities and principles and to see them worked into whatever policy we move forward with. I know you've had a long day. I'll try to wrap it up. The only thing I will add is that I will provide for you, Madam Chairwoman, a copy of the Nebraska volatility report. It's likely something that you've seen before. But it does have the answer to your question about revenue growth over time and it looks like while the general trend has been upward during, during economic downturns, there has been times when, when we have seen a dip in our overall revenue. So with that, I thank you for your tenacity and your patience and your commitment to, to sticking around. And I appreciate your thoughtfulness as we consider these ideas moving forward.

LINEHAN: Questions from the committee? Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So when you looked at the economic development incentives and you've been involved for a number of years now and, and you're right, our revenue growth has been pretty steady, dipping a little lately. But again, as we've invested almost a billion dollars. Well, we-- I guess those credits are out there. We've invested a billion dollars. Have we seen benefits from that? Has our revenue growth reacted accordingly or has it been consistent with before we had an incentive program?

BOLZ: Senator, it's, it's an excellent question, and I wish there were a clearer answer to provide you. When I think about why our revenue projections look the way they look, I think of all the factors and metrics that go into that final baseline number that we have to balance to. Sometimes it is in fact the, the impact of credits being claimed in a given year that, that takes some of the revenue from our ability to spend it out through the budget. Is that or is that not counterbalanced by a wages and, and capital investment? That's a hard call. But, but the actual question you're asking is how are we-- how do we see any of that reflected in hopefully revenue growth into the future? It's a really difficult question to ask because, as you know, we've made significant changes to our tax policy such as changing the income tax brackets, changing the, the, the taxation of agricultural repair. We've had the significant Trump tax, tax changes just in the last year and we're still figuring out the puzzle of how that is impacting Nebraska state revenues. And then you've got the national economy. You've got the-- you know, international trade, the

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discussion with China. And I, I will try not to ramble here, but, but I don't know that I can answer your question because of the multiplicity of factors that go into the revenue number that we have to budget to.

FRIESEN: It seems like the-- our return on investment has not been that great. We struggle constantly with enough revenue. And, yes, we've, we've given a lot of income tax relief, we've given a lot of property tax relief,--

BOLZ: Um-hum.

FRIESEN: --but we currently have the highest income-- or property tax rates in the country. And our income tax rates, everybody says they're too high. And yet we don't have the revenue to operate with even to fix our school funding.

BOLZ: Um-hum.

FRIESEN: And so I'm-- I don't mind incentives if they return some money on their investment. But I'm struggling to see that that's happening and maybe there's some data out there that would show that. But maybe we need to structure them different and hold companies more accountable. I mean, parts of the Advantage Act I'll admit have worked, parts of it have not.

BOLZ: I'd, I'd agree with you, Senator. And you and I at, at least for the past couple of years have sat in the tax incentive annual hearing in which we hear the outcomes of the, of the programs on an annual basis. We do that as an Appropriations and a Revenue Committee. And, and I know that there are people in this room and people listening who would say those reports are not the full story. I can respect that. But I also can't ignore the fact that next year the, the gross revenue loss is \$32 million and over time that's \$997 million. And I can't help but think what that would mean to homestead exemption and to university funding and to InternNE and to all the other things that come to my committee as requests.

FRIESEN: Thank you.

BOLZ: Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Senator Briese.

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BRIESE: Chairman Linehan. Thank you for being here and bringing this to us.

BOLZ: Sure.

BRIESE: I talked with someone here three, four hours ago about how, how do we ensure that these incentives are actually incentives, that they actually yield results? How do we know that we aren't just taking people along for the ride? You know, we had a testifier here a half hour ago to consider characterizing as subsidies, welfare, giveaway, whatever. How do we-- is there a mechanism to ensure that-- you know, the vast majority of these dollars actually generate growth in our state? And I, I maintain there probably isn't.

BOLZ: So one way to think about that is, is reflected in the Center for Regional Economic Competitiveness report which talks about the specific program objectives-- and program objectives and benchmarks that should be tied to promoting high-impact projects. We can-- I think it's in your, your Executive Summary. I've never been good at Roman, Roman numerals. I think it's page 4. But some of those metrics they suggest include things like number of businesses and target industries using the credit combined total annualized value of wages and capital investment for seven years to reflect the economic value of both human capital and capital expenditures projected and actual economic benefits as a ratio to total tax expenditures reported in target industries projected in actual fiscal benefits as a ratio to total tax expenditures reported in the [INAUDIBLE] industry and updated annually. That's a lot of jargon when you read it on the microphone. The real point is that I think we need to drill down in terms of the objectives that we're trying to achieve with these investments and measure them accordingly so that we can get to the bottom of the question of whether or not we're actually promoting economic activity or we're providing subsidies as, as it might be the perception of the testifier on the previous bill.

BRIESE: Anyway, thank you. A discussion for another day probably.

BOLZ: Sure.

LINEHAN: Thank you, Senator Briese. Other questions from the committee. I'm just going to tell the whole world my ignorance. On the page 9 of your handout, this one, so we have since I've been here two years ago, been short of money. The first year I got here-- would be

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'17-'18. So do we actually have a 4 percent growth in revenues in '17-'18?

BOLZ: Senator, forgive me, I gave you my copy of the report. So, so I don't see what you're referencing.

LINEHAN: OK. Grant, can you hand her-- do you have one of these? It's the thing she just handed out.

BOLZ: I gave you my, my copy of that report.

LINEHAN: Oh, your copy. Here, right here. Here, thank you. Thank you. Thank you much. That works.

BOLZ: I'm sorry, could you--

LINEHAN: No, that's OK.

BOLZ: --ask your question one more time.

LINEHAN: So the chart on page 9 or it's number 9. It's this chart, I've seen it a hundred times, I've just never--

BOLZ: Sure.

LINEHAN: --always doing other things.

BOLZ: Yep.

LINEHAN: So did our revenue-- total general revenue funds go up in '16-'17 3.4 percent?

BOLZ: Yes.

LINEHAN: And then in '17-'18, they went up 4 percent?

BOLZ: Looks about right.

LINEHAN: So OK, if our revenues are going up, then why are we having to cut?

BOLZ: Sure. And, and actually-- forgive me, I, I gave you my copy of the revenue volatility report.

LINEHAN: OK.

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BOLZ: So, so that's what I was looking for, but I'll, I'll do my best from memory and, and you can take me with a grain of salt. But the, the challenge is that it's not-- we don't necessarily budget to what, what revenue growth is we, we budget to what the forecast tells us to budget to. And so it's always a matter of whether we're over or under. Thank you so much. Whether we're over or under forecast. So in '16-'17 we were, we were under what was forecast. Sorry, in '15-'16 we were under by 8.28 percent. And what we're marrying up is what the forecasting board is saying here's what we expect you to be able to have in revenues with our projected increases that we have to implement every year which is in the second half of the budget report that says, here's your, here's your projected costs in the next year which also increases every year. So you always have to factor in salary and health insurance and the increase in the TEEOSA formula, increases in everything from the Department of Correctional Services to the homestead exemption. I, I hope I am in some way answering your question. But the, the point is it's not just whether or not your revenue increases, it's whether or not your revenue increases in comparison to what we project as expenses in the future and how much revenue we are expected to, to budget to.

LINEHAN: So you have this chart in front of you and the next page is the, the spikes we have in paying out benefits from the Advantage Act and LB775, right?

BOLZ: Right.

LINEHAN: So are you trying to say by these charts that the-- that are-- I'm not trying to say-- I don't mean-- I'm tired. So--

BOLZ: That's OK.

LINEHAN: Is what-- is this what you think this reflects is that when we have spikes-- I mean, what percentage even if we have what is it, a \$150 million that we paid out in 2016?

BOLZ: The, the point I'm trying to illustrate with the charts is that when you have a combination of revenue volatility and volatility that is a, a central part of the way in which you're structuring tax incentive programs it makes trying to budget more difficult.

LINEHAN: Well, isn't there a way that we could figure out what's on the books and lever-- and roll it out over a number of years and have it-- I don't know if it's set aside. I suppose we'd never do that

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because we're governments, we're not going to save money to pay the bills later. But isn't there a way we could know what it is and then budget for it?

BOLZ: I, I think there certainly are projections and estimates that we are taking, taking a close look at. But we can't always predict when a company is going to be ready to claim their credits. And we can't always predict that when a company is ready to claim their credits, it will be a good revenue year or a bad revenue year. So the worst case scenario is when a significant number of companies are ready to claim up their performance credits during the same year that you have an economic downturn. That means that-- you know, sorry kids there's not much of a Christmas.

LINEHAN: Yeah. OK. Thank you very much.

BOLZ: Thank you.

LINEHAN: Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Thanks for bringing this, Senator Bolz. I have a question about when you-- I can set the page here, of your Principles for Economic Development Initiatives. The number one thing up there says target high-impact businesses.

BOLZ: Um-hum.

KOLTERMAN: It's a threshold of 130 percent of the Nebraska average weekly wage. We need to set the bar high and would help, help benefits. What does that boil down to in today's dollars? What, what-- what's a high impact business? And what is 130 percent of the Nebraska average weekly wage?

BOLZ: Sure. I, I know the number for the annual wage rather than--

KOLTERMAN: That's fine.

BOLZ: --the weekly wage. Forgive me, it's, it's about \$72,000 a year. I think the distinction that I think is important to make is that there, in my mind, there's a difference between the quali-- the wages of the qualifying jobs and the average wages in a company. So if you have ten jobs that are qualifying for incentives with the, the marrying up with the capital investments, setting the bar really high for those ten jobs I think makes good sense knowing that you're not setting that bar for every job in the company rather for those

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qualifying jobs. But I, I would also maybe just point out the item 1 in the second, in the second section on that page which says that there are, there are multiple other ways to target high-impact businesses. You can set a specific set of incentives, incentives for a high-impact industry, such as the Massachusetts Life Sciences Tax Incentive programs. You can reward businesses with high-skilled, knowledge-based program through cash rebates of up to 10 percent of the taxable wages like the Oklahoma 21st Century Quality Jobs Program. I, I am the first to admit that, that this bill is brought for the purpose of asking the Revenue Committee to consider these principles and push, push this Legislature to put together the best possible new program for us to use.

KOLTERMAN: And, and I-- excuse me, I appreciate that. It's been a long day.

BOLZ: I, I can tell and I appreciate your hard work.

KOLTERMAN: But I-- you know, I got a letter-- and I think you probably got the same kind of letter from Kawasaki Motors that-- you know, they've been a, they've been a growing industry in our community here in Lincoln as well as the state and they're critical of the fact that we're trying to raise our wages in my bill to \$19.50 an hour, and if yours is-- and that boils down to about \$42,000 and yours is \$70-some. How do we, how do we balance that? Because that-- they've, they've grown a lot and they're the kind of business that we need in this state I believe. How, how do we balance that?

BOLZ: Senator, I imagine that you've, you've seen the Kawasaki Plant. It's kind of in your neck of the woods.

KOLTERMAN: Yes, it is. A lot of my, a lot of my people in my community work there.

BOLZ: Sure. And myself as well. Do you imagine that there are 10 jobs that pay over \$70,000 dollars a year in that complex?

KOLTERMAN: Yes.

BOLZ: And, and I think that's the point that I'm trying to make is that-- you know, we are not saying that in order to qualify for incentives every welder and machinist needs to be paid at this level. But we're saying that-- I am saying that I think we should set the bar

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high to be able to cross that threshold to get millions of dollars in tax incentives.

KOLTERMAN: OK. I see where you're going with that, because I heard the same thing. I got the same kind of report from Nucor Steel out of Norfolk. They, they, they thought of my bill as too high. I'm thinking, wow.

BOLZ: I appreciate that. You know, I would also say that I think, that I think a good-- a best practice kind of piece of legislation would include some opportunities for customized job training. And, and this bill does, does some of that. If you do that, I think you are helping that company achieve the wage thresholds that you're expecting of them or at least set the bar higher for wage thresholds by giving them some incentives to, to skill up those workers and make them more valuable to them. So you're doing-- it's sort of both/and.

KOLTERMAN: Yeah. Thank you.

BOLZ: Thank you.

LINEHAN: Thank you, Senator Kolterman. Senator McCollister.

McCOLLISTER: Thank you, Madam Chair. Thank you for bringing this bill and the scholarship that, that went behind it.

BOLZ: My pleasure.

McCOLLISTER: Well done. You suggest extending the Advantage Act to 2026 and, and just not moving forward with LB720 for this year, and also attaching a cap, which I think also makes good sense. My only issue with that is in LB720 it has some best practices and some operational improvements that I thought-- you know, was-- were worth noting. So any comment on, on that disparity or that issue?

BOLZ: I, I, I appreciate the issues that you're bringing up. I guess to clarify and maybe you're referencing I think I was quoted in a, in a newspaper story this week. I don't-- you all just spent I think five hours listening to testimony on LB720 and I was in Appropriations Committee so I am not in a place to, to make a discernment about LB720 that's-- I respect your job and I'll rely on you to do it. There may be opportunities to marry up some of what's in LB720 and some of what's in LB419. I, I, I don't want to sound like a politician here, but, but I do think my honest position is that we should move forward a bill when we have a bill we think is right and is good for the state

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for the next decade. And so if that's this year, wonderful. If it's next year, that's OK, too. I think the best practice policy is what should drive us. The, the reason that I changed the dates in the bill was, was in LB419 was for two reasons: one, is to say, I believe in tax incentives. I, I think they are part of an economic development portfolio and I think we should continue them for the future. And I didn't want to leave the-- I didn't want to propose a bill to you that said here are all these principles and ideas that are gonna expire in a year or so, I only sort of mean-- I don't mean to sound flippant. I'm just trying to explain why we made those changes in the bill that's proposed to you.

McCOLLISTER: Thank you.

LINEHAN: Thank you, Senator McCollister. Other questions from the committee? Seeing none, thank you very much Senator Bolz.

BOLZ: Thank you.

LINEHAN: You gonna stick around.

BOLZ: Thank you. Yep, I will stick around.

LINEHAN: Proponents?

RENEE FRY: Good evening, Senator Linehan, members of the Revenue Committee. My name's Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. Senator Linehan, we are not anti-incentive. But we have learned so much over the last several years about our incentive programs, about how to make them better, about how to make them more effective, about how to limit pieces that are not working. When I came up and spoke on LB720, I handed out a checklist that we had put together that was best practices from several different organizations. And I think it's really imperative that we pay attention to those best practices as we're looking and thinking about what the next iteration of tax incentives looks like. We're here in support of LB419 because it does make a lot of progress in terms of implementing some of those best practices from giving DED discretion to really target high-impact businesses to limiting the volatility and predictability of these incentives and the impact on the state budget through caps and through shortening the time frame of those incentives through better targeting of high-wage jobs including benefits. You know, these are things that, that legislative performance audit, that the Economic Development Task Force, that the

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Revenue Committee and the Appropriations Committee during tax incentive hearings have been talking about for years. And so we were here in opposition to LB720 because it didn't implement a lot of those best practices. LB419, I would agree to Senator Bolz is not perfect, but it does move us further down the line in terms of what we have learned as to where we can make improvements to make sure that our taxes and our programs are more effective and are, are more predictable. So Senator Linehan, you had made a comment about the charts that I handed out at the last bill about this being in the past. It's true there in the past, but there are also present and future. There are significant liabilities that we have in terms of our commitments to Nebraska Advantage under the contracts that have already been signed and I think that's really important for us to keep in mind as we're thinking about bringing on a new program. And Senator Linehan, you also made a comment about the bills that we've supported this year. And I would just say that we've supported a lot of bills because we do believe that we need to do something on property taxes and no stone should go unturned. And so I think a lot of those bills were part-- should be part of the conversation when we're looking at property taxes. And I would hope that on-- when we're looking at incentives we just pay a lot of attention to all of the great work that has been done over the past several years and take that into account as we decide how we move forward. With that, I'd be happy to answer questions.

LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank you very much.

RENEE FRY: Thank you.

LINEHAN: Next proponent. Any other proponents? Opponents? Anyone in neutral?

LISA SCHEVE: I'm sorry, I didn't hear. I'm an opponent.

LINEHAN: You're an opponent?

LISA SCHEVE: Opponent.

LINEHAN: OK. If you're wanting to testify guys, you're gonna have to move up because we're gonna get "tired" and "tired" and slower and slower.

LISA SCHEVE: Sorry about that.

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LINEHAN: That's OK.

LISA SCHEVE: Good evening, members of the Revenue Committee. I am Lisa Scheve, L-i-s-a S-c-h-e-v-e, and I am here today on behalf of the Greater Omaha Economic Development Partnership, the Lincoln Chamber, and the Nebraska Chamber. And we are here in opposition of LB419. We do appreciate Senator Bolz's efforts on economic development and work force development. The Partnership has had very productive discussions with her on these issues. Our opposition to LB419 goes to these points: the wage levels. We do support higher wages. This goes to many facets of what the partnership strives for. But we do have to take care that we do not leave behind employers and potential employees. The credit caps. Limiting approval of the applications that would receive tax credits to a specific dollar amount cap could lead to a scenario where promising employment and investment projects and those who would be employed at these businesses would not happen. Depending on how this would be administered this might lead to a rush to applications before necessary details are worked out or perhaps applications not being made at all and promising employment projects never materializing. For example, I have to wonder about what developments in a rural community like Blair might locate in some other state or country if an application was not submitted in time to make the cut. It adds a level of uncertainty that would make development efforts that much more difficult. Now allow me to offer some positive-- positives about the Senator's proposal. A closing fund would provide a great tool for landing projects particularly for large and complex ones. Site development is imperative for our development across the state. Having project ready sites is vital for any community in attracting employers particularly for industrial, industrial projects such as manufacturing and commodity processing. Job training is one of Nebraska's highest needs and advancements in work place skill set requirements puts a premium on allowing businesses to train their employees to excel in the talents a particular line of work demands. These benefit the employer and employee alike. A productive work force for the employer. A promising career path for the employee. In closing, I have previously done economic development work in Cass County and Washington County. I would like to use my hometown of Blair as an example, a model, a model of just how much can be accomplished with programs such as Nebraska's development programs. We have leading businesses that are on the front edge of bioscience and agricultural value-added products. A city of

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8,000 with employers such as Cargill, Evonik, Novozymes, Corbion, NatureWorks. Thank you.

LINEHAN: You did a perfect job.

LISA SCHEVE: Thank you.

LINEHAN: Any other questions? Senator McCollister.

McCOLLISTER: Yes, thank you Madam Chair. You and others today have spoken against any kind of arbitrary limit on the amount of incentive programs that Nebraska offers. But I would venture to say that this-- the budget of the state of Nebraska isn't unlimited with regard to incentive programs. Don't you agree that some kind of cap ought to be established?

LISA SCHEVE: I can't speak specifically to that, but what I can speak to is the length a project can take. There are some projects that can take two to three years to materialize. And for you to rise to the first or second top on a list of com-- competitive communities and for putting a cap and a time frame on that, it really puts a lot of uncertainty out there for projects to be able to go into it knowing that, that that cap that fund-- those funds are going to be there.

McCOLLISTER: Wouldn't it be better for us to establish some kind of competitive system with a cap of a certain amount of money and, and let the, the Economic Development Department figure out which projects are funded by the state and which ones aren't?

LISA SCHEVE: I apologize, but I can't answer that at this time. But I'd be happy to follow up with you.

McCOLLISTER: Fair enough. Thank you very much.

LISA SCHEVE: Um-hum.

LINEHAN: Thank you, Senator McCollister. Other questions from the committee? Seeing none, thank you for being here. Any other opponents? Now neutral.

JOSH GOODMAN: Good afternoon-- or good evening, Chairwoman and members of the committee. My name is Josh Goodman, that's J-o-s-h G-o-o-d-m-a-n, and I'm a senior officer with the Pew Charitable Trusts Economic Development Tax Incentives Project. While Pew does not have a position on LB419, our research may provide useful context, and so I'm

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going to discuss three aspects of the bill and how they relate to our research and the broader literature on incentives. And I'm going to just try to hit on a few different things that haven't been covered in this very good conversation that's taking place today. So first of all, the bill raises the Advantage Act's wage thresholds. And obviously you've had a lot of discussion on that. One, one point I wanted to make, is the research shows that the case for raising wage thresholds is strongest in situations where the unemployment rate is low such as in Nebraska right now. And so what you have if you create jobs with incentives when you have a low unemployment rate is, in the end a lot of the jobs will be filled by people moving into your state. So that just sort of makes sense if the unemployment rate is low you have to find people somewhere to fill these jobs. A lot of the jobs will be filled by people moving into the state. Which obviously isn't necessarily a bad thing, but it means that you have to pay for schools and roads and everything else for those-- you know, people moving in. And so the case is that you want to raise your average wage and so it makes sense in those circumstances to have it set a higher standard. Secondly, LB419 take steps to create annual limits on the amount of incentives that Nebraska authorizes and as been-- has been discussed there's been a lot of volatility in Nebraska's incentives in recent years. And our research shows that annual limits on incentive costs can help make these programs more predictable. This is something that Iowa, Kansas, Missouri, and Minnesota all have done for many of their large programs and also Nebraska caps some of its incentives. I think one important thing to remember with caps is that they don't have to be sort of a straitjacket where if there's an economic opportunity you can't pursue that opportunity. We've seen states use flexible caps and so Iowa has a cap where the state can exceed it by 20 percent in one year but then that counts against the next year's cap and so you do have that opportunity to pursue projects. And then third and finally, LB419 reduces the length that businesses can carry forward Advantage Act credits. And shortening carry forward periods is an effective way to make the cost more predictable. Our research shows that in general the longer businesses can carry forward credits, the harder it will be for state officials to predict the timing of the costs. And shortening the time frame of incentives also has the potential to increase their cost effectiveness. Leading economic research shows that businesses generally place a high discount rate on money that they're promised far in the future. One study showed that if you offer a business executive a dollar ten years from now they only value it at 32 cents today. So as a result you have opportunities to shorten time horizons,

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and that you can potentially spend less on incentives, and still have the same impact. So I'll stop there. Thank you.

LINEHAN: Thank you very much for policing yourself. Questions from the committee? Senator Crawford.

CRAWFORD: Thank you, Madam Chair. And thank you Mr. Goodman for being here. Could you just elaborate a little bit on how a flexible cap works?

JOSH GOODMAN: Sure. Yeah. So I think there are a few different options. The way Iowa does it is for one thing they have an aggregate cap across many of their economic development programs. And the reason that's important is their economic development authority can say-- you know, we have a great opportunity that involves this particular program. So we're gonna dedicate more money to it this year and do less of something else so that's one aspect of the flexibility. Another thing that they can do, as I mentioned, is exceed the cap by 20 percent but that money then counts against next year's cap. One other idea that was in the Center for Regional Economic Competitiveness' report in Nebraska was to have sort of a process where you could have an approved-- approval to go over the cap. So say the Governor and the director of economic development and the chair of the Revenue Committee and the chair of Appropriations Committee all said, you know, this is a once in a lifetime opportunity. We all agree that it makes sense to go over the cap. You could have that written into law so that you would have that flexibility. So I think in a lot of the discussion of caps the question has been-- there's definitely been this desire for more predictability on incentives, but the question has been what if we have the great opportunity-- this great opportunity? So I think there are ways to manage that challenge while still having that upper limit to provide you-- you know, more protection in your budget.

LINEHAN: Senator Crawford, do you have another question?

CRAWFORD: Oh, no, that's fine. Thank you.

LINEHAN: Thank you, Senator Crawford. Senator McCollister.

McCOLLISTER: Yes. We talked about caps, and thank you Mr. Goodman for being here, at-- during our lunch meeting this afternoon, and we talked about the downsides of a quality kind of cap. You know, the political aspects of that versus the first come, first served. What

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have states done with, with trying to implement caps that we could learn from?

JOSH GOODMAN: Certainly. So one thing that's interesting about LB419 is it sort of has both of those ideas in it in different parts of it where you have a deal closing fund that's-- what's often referred to as a discretionary program where an economic development, economic development officials are making this decision about which companies receive incentives and which don't. And discretionary programs are very easy to cap, there's no expectation that they are entitlements. And so-- you know, generally speaking with a discretionary program there is a certain amount of money involved in that program. I think Director Rippe said earlier today that there are pros and cons of discretionary programs. Some of the advantages are, are that you are able to-- you know, better target which businesses you want to attract but you sort of have to have some process in place to make sure that you're doing a good job at that, that you can administer the program effectively. One thing we've seen states do is have a range of actors involved in the decision to-- on which companies get incentives so potentially the budget director in addition to economic development. Those kinds of things and having protections like that potentially makes it less likely that you-- you know, are providing incentives to connected businesses or something like that that you're really going after the best businesses. For a program that isn't discretionary that's more of an entitlement, you also see caps in those programs, they can function on a first-come, first-served basis. You can also do it where the level of incentives is prorated depending on how many businesses qualify. When states do use the first-come, first-served approach, often then they allow the next round of businesses, businesses to continue qualifying and they're sort of first in line for the next year's authorization and so that's one way you can sort of get at that problem of it's the end of the year and we're out of incentives but we still have businesses applying. So those are a few different options and there are tradeoffs with each of them.

McCOLLISTER: Good answer. Thank you.

LINEHAN: Thank you, Senator McCollister. Senator Groene.

GROENE: And you say a cap, \$60 million. Are you telling us, telling us that's how much is per--would actually be credits every year or its new credits over the next 15-year life of it-- of the new project?

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JOSH GOODMAN: So caps can be structured in different ways, often they're on authorizations. And so that's-- you know, what you're, you're promising to businesses and then they still have to go out and create the jobs, make the investment, whatever it might be, before they get the incentives. So that's sort of managing your long-term liability because you're only adding to that \$60 million each year. We also sometimes see caps on what the state is actually--

GROENE: But it's the \$60 million over the life of the agreement?

JOSH GOODMAN: It, it could work either way so often it will be \$60 million this year and then there's another \$60 million next year and then another \$60 million for the whole program not for one company but for the whole program so \$60 million.

GROENE: We're, we're concerned about-- I don't know what it has cost us, the most it has ever cost is about \$120 million or something one year. You're gonna add \$60 million every year to that?

JOSH GOODMAN: So I think this would be-- you're, you're still going to have your old commitments under the Advantage Act and you're still going to be paying that down. As I understand the bill, you wouldn't be then accruing a new \$120 million or whatever it might be,--

GROENE: Sixty a year.

JOSH GOODMAN: --you'd just be accruing a new \$60 million that would be adding on to that liability in the future.

GROENE: Paid out over the time.

JOSH GOODMAN: Paying out over, yeah, over the-- you know,

GROENE: Fifteen--

JOSH GOODMAN: --15 years whatever it might be.

GROENE: All right.

JOSH GOODMAN: Exactly.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Senator Friesen.

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FRIESEN: Thank you, Chairman Linehan. You made a statement, if you, if you offer an incentive and the business has to wait 10 years it's worth 32 cents?

JOSH GOODMAN: Yes, and so and that's what one study showed. The way that-- that study involved a survey of business executives so they went straight to the source and we're kind of looking at this whole question of how much do businesses value money that's promised them in the future? And that was sort of the average from that survey of business executives. And so I think what's, what's interesting there is-- you know, the state probably doesn't discount money that much for the future. If you look at standard discount rates it would be far less than that and-- you know, the state's perspective is we're gonna be around 10 years from now and 100 years from now and we want to have a balanced budget those future years, too. Where as a business executive they might not know whether they're going to be in business in 10 years or their market might have totally changed. And so I think that's where you see that discount there. And I think part of that sort of affects how long you want to pay out incentives. It also maybe affects how long you want to give businesses to qualify for incentives in the first place. So under the Advantage Act currently businesses have between four and seven years to hit their either job creation or investment targets. When I look around at programs around the country that sort of longer than the typical, it's often more like two years for you to hit those job creation or your investment targets.

FRIESEN: But there were-- I mean, if I remember right there were companies waiting seven years after they've earned their credits.

JOSH GOODMAN: Right. And so then there's also the question of carry forwards which is what LB419 is trying to short-- shorten. So there's the question of how long does it-- do you have to hit your targets? Then how long do you earn your incentives once you hit the targets? And then if you don't have the tax liability to use those credits, how long can you carry forward them-- to them in the future? So all of those factors play into sort of the length of the Advantage Act liability and also play into the question of budget predictability because you don't know-- our companies can hit their targets in two years, four years, seven years. Are they going to use the credits right away or are they going to carry them forward? So all those factors play into some of this volatility that you see.

FRIESEN: OK. Thank you.

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LINEHAN: Thank you, Senator Friesen. Other questions from the committee? Senator Crawford.

CRAWFORD: Thank you, Madam Chair. And thank Mr. Goodman for being here. Is there a, a, a best practice in terms of how long those time periods should be?

JOSH GOODMAN: Um-hum. Yeah. There isn't one number that, that we see in our research that makes the most sense. Certainly, incentives can't be totally immediate because often states in Nebraska have done this and want to use a performance-based model where companies are creating jobs or making investments before you give them the incentives. Some of the numbers we've seen in other states in Minnesota, one of their major programs that sort of like their primary job creation program is five years in the Minneapolis area or seven years in, in the other parts of the state. Utah has a program that varies from five to ten years. So some of those time frames are sort of-- you certainly see states doing 20 years and things like that. But on the shorter end, it's more like five to ten years that, that we see.

CRAWFORD: And is that-- when you talk about five years, you're talking about the whole process of attainment, getting incentives, and carrying forward all three of those steps are and within five years?

JOSH GOODMAN: That's more like five years for when they're allowed to use-- receive incentives. So after they hit their targets it's maybe five to seven years. But they do have a quicker ramp-up period than what Nebraska uses right now. So maybe it's a year or two for them to hit the target and then the 5-, 7-, 10-year range after that.

CRAWFORD: Thank you.

LINEHAN: Thank you, Senator Crawford. Other questions from the committee? Thank you for being here. Anyone else, anyone else testifying in the neutral position? Senator Bolz would you like to close?

BOLZ: I'll be very brief. I just wanted to thank everyone for sticking around tonight, and especially thank Josh for his hard work and insights and traveling here. I wanted to add one small item. And, and then I know you're, you're all wanting to move on to the next bills. But another alternative in terms of setting caps include what Iowa does. Iowa has an aggregate cap. Their cap is currently set at \$170 million. That applies to multiple economic development tax credits.

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And in that way you could kind of float priorities based on different things that are coming in, in a year as well as previous years' incentives that are coming due. So I just wanted to share that for the conversation. And thank you again for your time and attention.

LINEHAN: Thank you very much. Oops, we have questions. Yes. Senator, I think I saw Senator Crawford first.

CRAWFORD: Thank you, Madam Chair. And thank you, Senator Bolz, for putting these priorities on the table with this bill. I'm trying to-- if we're talking about a cap trying to think about whether we mean a cap of promised benefits is that what we mean? Like any project-- well, that would be a project, we're talking per year, so small projects per year would have-- we would have projected what we expect the benefits to be? So I'm just trying to think how that works.

BOLZ: The way LB419 is written and proposed, it would be an annual approved cap per year. So the Department of Economic Development could approve no more than \$60 million worth of credits in a project in a given year. And, and in-- there are other ways to do it. But the, the reason I chose that way is because it, it added budget predictability but also was pretty generous.

CRAWFORD: All right. So-- just so I understand, so a-- for each project that the, the Department approves they're going to project how much this is going to raise over the lifetime of that project. And then, and then-- so one pro-- one project might be worth \$20 million we expect over 10 years. Another one might be \$7 million over 10 years. And so that is the projection of all the future expenses that we're putting in that cap. Is that what we're doing?

BOLZ: But-- not exactly.

CRAWFORD: OK.

BOLZ: The, the idea is that an annual cap would be at \$60 million per year so you'd have to keep a running tally.

CRAWFORD: Aw.

BOLZ: And, and, and I'm not pretending that that's, that's an easy solution. Some of the other solutions might be more practicable in implementation such as capping the amount for any given company. You know, in, in the lifespan of a project or limiting their growth among tiers. There are multiple ways to do it. Honestly, the reason that I

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chose the annual cap of 60 was because it, it was a simpler way to articulate-- to bring the concept of--

CRAWFORD: [INAUDIBLE]. Yes, um-hum.

BOLZ: --capping to your attention. And the-- since you asked, the, the other reason was \$60 million plus \$40 million in an annual-- in a year is \$100 million. If you add in the sales tax incentives that would be claimed, it's about \$150 million. So the bill overall would, would spend in concept about the same amount as we are investing now. And that was part of what I was trying to say, is that I want to maintain our investment in economic development programs, but I want it to be more meaningful and more predictable.

CRAWFORD: All right. Thank you.

BOLZ: Thank you for the question.

LINEHAN: Thank you, Senator Crawford. Senator McCollister.

McCOLLISTER: Yeah. Thank you, Madam Chair. In accounting parlance, they call that the difference between accrual and cash accounting. And so under a cash accounting, the state would only give credits or write checks in the amount of \$50, \$50 million or some amount or the accrual system you tabulate everything you've got coming in then you only, you only budget that, that amount. Would that be a correct way to look at that?

BOLZ: I, I think that's one way to look at it. To, to be frank, I think, I think that someone with the expertise like Mr. Goodman from the Pew Charitable Trusts should advise us if we are to move forward with putting this policy on paper about the best way to marry it up with the proposals that are being considered. I, I would imagine that there are different kinds of ways of putting the parameters together that would be recommended based on your objectives. If your objectives are to get the most bang for your buck right away, you know maybe you set higher caps. If your objectives are to spread the love around, maybe you set lower caps for multiple companies. I don't mean to, to dodge your question but I am trying to illustrate that there are multiple answers to the question.

McCOLLISTER: You told-- just said \$170 million for the state of Iowa.

BOLZ: Yes.

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McCOLLISTER: Is that correct?

BOLZ: Yes.

McCOLLISTER: So a state that's twice as large in terms of population has a, has a budget of \$70 [SIC] million, and I think we spent, what, \$160 million last year. Is that a correct statement?

BOLZ: The so the-- I'm, I'm not sure. Senator Kolterman, I, I hear him in, in my ear saying, saying maybe that's not a fair comparison. The Center for Regional Economic Competitiveness report articulated that it-- I think it's on page 39 of the report if you want to review it at a later date, just gives Iowa as the example is their annual aggregate cap of \$170 million. If, if you look at some of the reports from Nebraska we're spending on average about that every year.

McCOLLISTER: And that, that report is all in-- all programs in?

BOLZ: Let me find the-- so Iowa has an aggregate cap that applies to multiple economic development tax credits. There, there economic development authority has discretion to determine how the \$170 million is divvied up between the tax credit program. Their authority can exceed the cap by 20 percent in any year and then-- you know, that counts against the following year's cap as Mr. Goodman referenced. So it's, it's just a model that we can look to as an example.

McCOLLISTER: OK. Thank you, Senator.

LINEHAN: Thank you, Senator McCollister. Other questions from the committee? OK. Thank you very much.

BOLZ: Well, thanks so much for your hard work.

LINEHAN: It has been requested that we take a five-minute break. So--

BOLZ: Thanks.

[BREAK]

LINEHAN: OK, let's start again to see if we can get out of here before maybe 9:00 hopefully, 8:30. OK, let's go for 8:00. We'll see. OK. We are going to open the hearing on-- oh, I forget letters for the record for that last one. Whatever, we'll read them in. OK, LB413-- 419.

KAY BERGQUIST: No, LB413.

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LINEHAN: Yeah, LB413. Oh, we need-- did we lose our--

_____ : LB419.

BRANDT: No, LB413.

KAY BERGQUIST: Do you want to do letters for the record?

LINEHAN: Yeah, let's do letters.

KOLTERMAN: McCollister left.

LINEHAN: McCollister left, OK. This is the last one, right? We only had one opponent: Mike Boyle, Kawasaki. And neutral was: Kenneth Poole, Region-- Center for Regional Economic Competitiveness. OK, so that one's closed. So now we can open this one, LB413.

BRANDT: This is nicer. Welcome, from the Judiciary Committee.

LINEHAN: Yeah, there's similarities, yes.

BRANDT: Do you want me to start?

LINEHAN: Yes,--

BRANDT: OK.

LINEHAN: --we would like you to start.

BRANDT: OK.

LINEHAN: We've got--

BRANDT: Good evening, Chairwoman Linehan and members of the Revenue Committee. My name is Tom Brandt, T-o-m B-r-a-n-d-t. I represent Legislative District 32, Fillmore, Thayer, Jefferson, Saline, and southwestern Lancaster County. I am here today to introduce LB413 which is a bill that would sunset the Nebraska Advantage Act on 12/31/2019 instead of 12/31/2020. The state's largest and most visible incentive program is Nebraska Advantage. Designed a generation ago, this wildly popular program has helped the state retain and recruit high-impact projects using tax credits. The origins of the use of tax credits for industry retention and recruitment date to the passage of LB775 in 1987 as part of an ultimately unsuccessful effort to retain ConAgra in the state. Initially passed in 2006, the Nebraska Advantage Act was designed primarily as a statutory tax credit program. This

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program promotes job creation and capital investment by companies that Nebraska may be competing for against other states. Today, Nebraska Advantage provides multiple tiers of tax breaks depending on the size of the advancement and the number of new jobs created. Created in 2017, the Legislature's, Legislature's Nebraska Economic Development Task Force reviewed the future of the Nebraska Advantage Act. The first Task Force report focused on a 2017 performance audit committee report that stated the cost associated with the Nebraska Advantage Act may not be sustainable. The audit report reflected an important concern about rising program costs and uncertainty about the fiscal impact of the credits taken. The number of qualifying projects has been increasing every year from 73 in 2014 up to 132 in 2017. The report stated that the Act does not have the types of protections that would prevent the program from increasing substantially beyond the state's expectations. Originally projected to range from \$24 to \$60 million a year, the program is expected to earn in excess of \$200 million in future tax credits annually starting in 2018 and going until 2027. Because of a lack of transparency by qualifying companies and the fact that the tax credits are claimed outside of the state's budgeting process, it is difficult to forecast future claims on the state's revenue streams by future applicants. The current Nebraska Advantage Act is set to sunset December 31, 2020. LB413 would move this date up 365 days to sunset December 31, 2019. It is unknown at this time what the actual savings will be. I would be happy to answer any questions the committee may have.

LINEHAN: Thank you very much, Senator Brandt. Are there questions from the committee? I'm sorry. Oh, Senator Kolterman.

KOLTERMAN: Thanks for coming and bringing the bill. Do you think we need an incentive package in the state of Nebraska?

BRANDT: Absolutely.

KOLTERMAN: OK.

BRANDT: Yeah.

KOLTERMAN: Thank you.

LINEHAN: Thank you, Senator Kolterman. Other? Did you have a chance to listen to any of Senator Kolterman's-- the testimonies today on his bill?

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BRANDT: Unfortunately, no, we had our own issues going on upstairs.

LINEHAN: OK. All right. OK. Will you stay around to close?

BRANDT: Yes, I would.

LINEHAN: OK. Thank you very much.

BRANDT: Thank you.

LINEHAN: Are there proponents?

RENEE FRY: Good evening, Senator Linehan, members of the Revenue Committee. My name's Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. I'll keep my comments short. I do want to just mention that this was a rec-- was recommended by the economic development task force that we move the sunset date for Nebraska Advantage up one year. A couple of things that I wanted to, to mention that I don't think have been brought up yet. Dr. Bartik, we've have talked about him before, and he does find that business tax breaks do have little correlation with employment or future economic growth and can be very costly. He did-- does find that typical incentives probably tip somewhere between 2 percent and 25 percent of incentive firms toward making a decision favoring the location providing the incentive. In other words, for at least 75 percent of incentive firms. The firm would have made a similar decision location-- regarding location, expansion, or retention decision without the incentive. So I just think that's important for us to keep in mind as you're having these discussions specifically related to Nebraska Advantage. I just wanted to, to note that even after factoring in projected increases in state revenue from jobs and economic activity created by the Advantage agreements, the Department of Revenue estimates that Nebraska Advantage projects nonetheless will lead to a \$41 million revenue loss in calendar year 2019 and cumulative revenue losses of a billion dollars by 2027. That is after factoring in economic growth. So I just think that's really important for us to keep in mind. That's the Department of Revenue using their dynamic model with the train model so I just wanted to mention that as well. One other point that I don't think has come up yet today, when performance audit looked at Nebraska Advantage, they did find that the jobs created with the Act have cost between \$24,000 to \$320,000 per job. Again, I just think that's really important to keep in mind. Senator McCollister had asked a question about Iowa. I do not know if that would be an apples-to-apples comparison. I think it's a valid

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question. But when you look at the cost of our incentive programs, and you look at the comprehensive financial report from the state of Nebraska, those cost \$363 million in FY'17; \$249 million in FY'18. So Nebraska Advantage is one piece of that. But when you look at our incentive programs collectively, the number is actually quite a bit bigger. With that, I'd be happy to answer any questions.

LINEHAN: Thank you. Are there questions from the committee? Seeing none, thank you very much.

RENEE FRY: Thank you.

LINEHAN: Other proponents?

JOHN HANSEN: Good evening, Chairman Linehan, members of the Revenue Committee. Again for the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n, and I am the president of Nebraska Farmers Union. We are in support of LB413. I've already said about what needs to be said, I think, in previous testimony. But I would say that as a rule of thumb you generally extend those things that are cost effective, those things that are working, and you generally shorten the stroke of those things that are not. I think this is not. I think that whatever replaces it will be better. I think that these contracts have very long tails. And my experience in my line of work as also a former public official is when you put a deadline on things whether it's well drilling or wherever it is there tends to be a kind of a gold rush at the end and everybody wants to get in while the getting is still good. And so I think it is a, a prudent thing to do to shorten the lifespan of this particular program by one year. And I think that the savings will be substantial. With that, I would end my remarks and answer any questions if I could.

LINEHAN: Thank you, Mr. Hansen. Are there any questions from the committee? Seeing none, thank you for being here. Appreciate it.

JOHN HANSEN: Thank you.

LINEHAN: Other proponents? Any opponents? That's amazing. Anyone, anyone in the neutral position? Would you like to close, Senator Brandt?

BRANDT: This won't take long. I guess real quick on the close, I would like to reiterate what Renee said. In 2019, we're gonna expect a net revenue loss from this program of \$41 million. And at the end of the

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program in 2027, we're looking at a net revenue loss of \$997 million. You know, eventually by stopping this program and going to another scholar program would help us with the predictability of the state budget. I think that's one of my primary concerns when you see what's happening in education, and property tax, and, and-- you know, you've got a speaker that's told us that if there is a fiscal note attached it's not gonna go anywhere. And maybe this is a start. I mean, if you're in a, you're in a deep hole you have to stop digging sometime. And with that, that's the extent of my wisdom this evening. And if anybody has any questions, I'd be happy to answer.

LINEHAN: Thank you, Senator Brandt. Do we have any questions from the committee?

BRANDT: Great.

LINEHAN: Thank you very much.

BRANDT: Have a good night.

LINEHAN: We do have letters for the record. This is where they are. Proponents: none. Opponents: Bob Hallstrom, Nebraska Bankers Association; David Brown, Greater Omaha Chamber; Wendy Birdsall, Lincoln Chamber of Commerce; and Bryan Slone, Nebraska Chamber of Commerce. Neutral: none. With that, we bring LB413 to a close, and we go to LB417, which is--

KAY BERGQUIST: Senator Friesen.

LINEHAN: Friesen. Good evening, Senator Friesen. Welcome to the Revenue Committee.

FRIESEN: Good evening, Chairman Linehan, members of the Revenue Committee. My duty is to take over where Senator Schumacher left off. I'm here to introduce numerous tax credits that are out there that most of you new members don't know about. So we have a chance to talk about and to make sure everybody realizes they're there. And so with that, I introduce LB417. We can skip the Advantage Act which is-- mine shows a fiscal note of zero also. It's an amazing thing. It's shown that for a couple of years in a row now because I've done this before. So basically it changes some dates for applications and it shuts down the New Markets Job Growth Investment Act, the Nebraska Job Creation and Mainstreet Revitalization Act, and the Beginning Farmer Tax Credit Act upon passage of this bill and the Governor signing it. Tough

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chances. So the New Markets Job Growth Investment Act, it allows individuals, corporations, estates and trusts, financial institutions, and insurance companies to claim a nonrefundable, nontransferable tax credits for an investment in a qualified Community Development Entity. And that's a CDE, they call it. The credits may be used against the income tax and the premium tax imposed on insurance companies or franchise tax imposed on financial institutions. The Act requires a CDE to file an application with the Nebraska Department of Revenue to receive cash investments that qualify for the New Markets Job Growth Investment Tax Credit. And upon approval of the application, the CDE may accept cash investments that qualify for the new-- there's a lot of abbreviations in here. It'd be the New Markets tax credit and the investor will receive those credits as provided by the Act. The next one was the Mainstreet Revitalization Act. The Nebraska Job Creation and Mainstreet Revitalization Act is jointly administered by the Nebraska State Historical Society and the Nebraska Department of Revenue. The Act provides that no more than \$15 million in Nebraska historic tax credits will be allocated annually beginning January 1, 2015 and ending December 31, 2022. The allocation of the NHTCs was \$14,960,178 in 2015; \$10,853,000 in 2016; \$5,942,000 in 2017. That was through September 2017. NHTCs are equal to 20 percent of eligible expenditures incurred for improvements to qualifying historically significant real property limited to a \$1 million tax credit per project. NHTCs may be used against income tax, the premium tax imposed on insurance companies, or the franchise tax imposed on financial institutions. The NHTC on-line application consist of a five-part projects. I'll just skip some of that. The last part, the Department of Revenue reviews parts 4 and 5. Part 1 is historic structure certification that certifies the historic significance of the property. Part 2 is qualified rehabilitation certification. It approves the proposed rehab rehabilitation and allocates the NHTC. Within 12 months after completing the rehabilitation and placing the property in service, the applicant then submits the part 3, completed rehabilitation certification. And if the NSHS certifies the completed rehabilitation project, the applicant submits its eligible expenditures to the Nebraska Department of Revenue for review and approval. Part 4 is a request for certification of credits and the NDR then notifies the applicant of the approved eligible expenditures. The certified credit amount and the amount required fee to be paid to the NDR before any tax credits that it's issued, NHTC certificates may be used to offset tax liability as noted above or the credits may be transferred and sold, assigned, or distributed to others. We'll skip some of the other stuff and I'm sure there's people that are gonna to

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testify that use these credits will point out their importance. The one thing I want to touch on last is the Beginning Farmer Tax Credit Act. And we discussed that a little bit in the past. I have several times now come in opposition to the tax credit. And so when it was first brought in here it was a tax credit that was to get a beginning farmer started that was not related to the owner of the property. And so when they, when they had that in place there was just relatively few applicants. No one used the program. And so they expanded it now so that you can use-- I get, I get a tax credit for starting my son farming. And so-- and that's when the, the dollar amount started ramping up and, and now it's-- it has a million-some dollars fiscal note I think. And so again, I-- I'm-- I don't know that we need incentives in that position. There's not an incentive if you own a hardware store and you want to transfer it to your son. He figures out a way to do that. I do believe that we could leave the credit in place for those nonrelated parties. So if there is a retired farmer that wants to start a young man that doesn't have an opportunity any other way, this might be something if we would expand the qualifications a little bit and make it a little bit higher dollar amount that it could be a significant enough to let that happen. But right now I, I don't see that these credits here that would be enough difference that you're gonna, unless you want to, you're not gonna be able to start somebody farming because of these credits. So to me, I could be using them right now if I wanted to. I've not applied for them. But again, I just don't feel it's, it's proper. I-- and again, if we take away the requirements-- or close down the requirements, I think it'd be something that we could, could look at.

LINEHAN: Thank you. Do we have questions for Senator Friesen? So you would-- I'm sorry, you'd, you'd just do away with all of these? Is that what you're saying?

FRIESEN: Yes.

LINEHAN: OK.

FRIESEN: Very simple bill.

LINEHAN: Yes, I bet there are some from earlier. Just guessing.

FRIESEN: Well, Senator Schumacher usually and there were some others involved but a lot of times we with new many members you don't know if

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they're out there. This kind of brings them to the forefront and lets everybody know they're there.

LINEHAN: Thank you very much. Are there any proponents for Senator Friesen's bill? For LB7-- 417? Are there any-- no proponents? Opponents? And if you're gonna testify, can you please kind of move of front. That gives me an idea of where we are here.

JOHN HANSEN: Again, Senator Linehan, members of the Revenue Committee. For the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n, and I am the president of the Nebraska Farmers Union. I have worked-- we are opposing this bill for one reason and that is that it would terminate the beginning farmer program. And I would also just remark that, that if Senator Friesen is going to try to fill the, the shoes of Senator Schumacher those are indeed big shoes to fill relative to helping identify all of the different programs that we have. The things that we have thought about doing in this particular area dates back to my efforts and others in the early 1980s as there was a task force that was put together by then Governor Kerrey. We have looked at-- we have tried-- we've wanted to do a bunch of things and we have never really put the kinds of financial resources behind a program to do what is really needed given the, the size and the scope of beginning farmers. And so what we have is the best we can get that is still available. And so this is a very difficult time for farmers and ranchers. We're going to lose a significant number of producers who are not gonna get their loans renewed this year. And a significant portion of those are going to be those who are-- who have the least amount of equity, who have the least amount of cash reserves, and are in the most financially vulnerable position, and those would be beginning farmers. And so from, from no other standpoint but the kind of message that sends is that a time of crisis when the program you have is as meager as this is but is the only thing that we have. If we pull the plug on it now, the message that it sends is a message that I think the state of Nebraska does not want to send to all of those young men and women who gratefully still want to be a part of producing our food and fiber for our state. So with that, I would end my comments and ask-- answer any questions if I could.

LINEHAN: Thank you, Mr. Hansen. Senator Kolterman.

KOLTERMAN: Thank you, Senator Linehan. Mr. Hansen, thanks for stepping forward. This is probably one of the few times that we've ever agreed on anything. I will, I will tell you something, I have used that new farmer program for a nonfamily member. Rented a young man 400 acres.

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It was good for him and it was good for the family. And I think if anything we ought to be looking for ways to expand that so we can help out our agriculture along with the business community. So thank you for stepping forward.

LINEHAN: Thank you, Senator--

JOHN HANSEN: Thank, thank you. And I would say that I, I understand Senator Friesen's reticence to have the program extended to family members. I do not have that. You-- we have all kinds of kids, nieces, and nephews, and other kinds of folks, and a lot of times that relative that gets in the buggy with a beginning farmer can use some help because they're also, they're also absorbing some other kinds of costs and risks involved. And the track record is pretty clear is that at times the low commodity prices when family members are trying to get other folks in their family started farming, it's a very vulnerable time and that they are at risk. And a lot of times the folks with good intentions and the older generation who tried to help themselves became at risk because they were in the buggy with that beginning farmer. So I would just end with that. Thank you, Senator.

LINEHAN: Thank you very much. Other questions from the committee? Senator Groene.

GROENE: Just real quickly.

LINEHAN: OK.

GROENE: Do you know that all the guys from the Chambers are sitting there smiling and saying, Mr. Hansen, what's good for the goose is good for the gander.

JOHN HANSEN: Boy, I sure wish I had a goose as big as theirs.

[LAUGHTER]

LINEHAN: Thank you, Senator Groene. Other questions? Other proponents-- or opponents? I forgot we skipped-- I mean, we didn't have-- OK. OK. Opponents? I'm sorry.

TREVOR JONES: Senator Linehan, members of the committee, my name is Trevor Jones. I am the director and CEO of History Nebraska, also known as the Nebraska State Historical Society. And I'm here to talk about the Nebraska Job Creation and Mainstreet Revitalization Act, and I've been listening to testimony today. So we oppose the elimination of this program early. It's designed to sunset in 2022. Doing so in

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2019, I think would be a mistake. This program has proven unlike perhaps some of the other tax incentive programs to have been a great boon for the state of Nebraska. Currently, it's return on investment is about 755 percent for the state of Nebraska. It's generated about 1,700 jobs since 2015; about \$128 million in economic impact statewide. It already has a cap of \$15 million a year as you heard in previous testimony. That's usually a good idea. And it gets evaluated annually by the independent Bureau of Business Research at the University of Nebraska-Lincoln. So we feel that this is a great program. It's demonstrated to be a great program. It works across the states. It worked in big communities, small communities. And it really spurs economic development, especially in communities that could not get a private investor to come in and support a, a redevelopment project usually with historic building in a downtown. So that's enough for me. If you have any questions, I'd be happy to answer them.

LINEHAN: Well, let's see. Do we have any-- Oh, yeah, I'm sorry.

TREVOR JONES: Oh, I did not get my name. I apologize, it's been a long day for me, too.

LINEHAN: That's OK. I forgot to ask.

TREVOR JONES: I'm Trevor Jones, T-r-e-v-o-r J-o-n-e-s.

LINEHAN: You did say it. You just didn't spell it. Questions from the committee? Senator Briese.

BRIESE: Thank you, Chairman Linehan. Thank you for your testimony. I'm not extremely familiar with the details of the program, but you could say with, say with certainty that this program returned those dollar-- that amount on its--

TREVOR JONES: Yeah, we--

BRIESE: --investment, and it actually did create-- caused the creation of those jobs?

TREVOR JONES: Correct. There's a formula that's used-- about three dozen states have programs that are similar to this and they all use the same research model for evaluation for economic impact evaluation so that's what the Bureau of Business Research has used for us so it's an accepted tax credit evaluation model throughout the nation.

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BRIESE: Is it possible that some of this would have happened without these credits?

TREVOR JONES: That-- I asked them to try to research that and they laughed at me because there's no-- they can't figure out how to say whether or not-- how do you know if something wouldn't have happened? All I've got is anecdotal evidence from a lot of communities that wouldn't have been able to do the project without the incentive. One of the great things about this is, this is that if you're a nonprofit and you don't need the tax credits you can syndicate and sell them. And so we have people that have used those as collateral on a bank loan in order to get stuff done on the front end. And we've seen a lot of places that could not make their numbers work without the credit. And it's up to a 20 percent credit.

BRIESE: But that's kind of precisely my point of what you mentioned earlier. It's extremely difficult to tell if we actually are--

TREVOR JONES: Right.

BRIESE: --getting any sort of a bang for our taxpayer dollar. But anyway, thank you.

LINEHAN: Thank you, Senator Briese. Senator Groene.

GROENE: What are you getting for those credits? Sixty cents on a dollar, 50 cents?

TREVOR JONES: I think some people that come after me can speak to that more accurately. Our part of the role at the State Historical Society is we turn those over to Revenue. That's the way the law is written. It's a two-part process. So my office doesn't handle any of that stuff once, once that--

GROENE: So you don't know what the--

TREVOR JONES: No, I don't, I don't know what they go on the open market for.

GROENE: What the discounted amount is?

TREVOR JONES: No.

GROENE: All right. I'll ask somebody else. Thank you.

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LINEHAN: Thank you, Senator Groene. Do-- when you talk about 755 percent and 1,700 jobs, \$128 million, that's not what our fiscal office would say though, right? That's what you're-- some independent study said?

TREVOR JONES: That's correct.

LINEHAN: OK.

TREVOR JONES: Yeah, it's an independent research study.

LINEHAN: Do you know has a performance audit committee done a study of this program?

TREVOR JONES: We did one last year. Be happy to, to share that with members of the committee.

LINEHAN: Did they say it was, did they say it was-- what did they say?

TREVOR JONES: I don't-- they evaluated the number. They were not asked to do that same type of analysis that we've had the Bureau of Business Research-- they asked for-- the bill asked for-- you know, a number of applications, how many were completed, the rest of it. That was what, what was asked for so it wasn't a full economic analysis.

LINEHAN: OK. Other questions? Thank you very much for being here.

TREVOR JONES: All right. No problem.

JORDAN RASMUSSEN: Good evening, Chairwoman Linehan. My name is Jordan Rasmussen. Members of the committee as well, good evening. My name is Jordan Rasmussen, J-o-r-d-a-n R-a-s-m-u-s-s-e-n. I'm a policy manager with the Center for Rural Affairs. We understand the reason why Senator Friesen is looking at these tax revenues-- or additional sources of revenues. We're facing state budget shortfalls again. We're-- we've got a property tax crisis on our hands. So this is a logical place to look. However, we do want to voice our concerns about the early sunset of the Beginning Farmer Tax Credit. The credit was created more than 20 years ago. Just to recognize the, the undercurrent of land transfer that was happening at that time and continues to happen today. There's too few farmers coming back into farming. And then also just the rapid decline of our rural communities in general. And so that, that is why this incentive was created. But not only was it created, it's really made an impact in our rural communities and for our farmers during that time by bringing those,

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those renters, and those looking to get started in farming together with those that are looking to retire or rent the property out. They-- there's been significant strides that have been made to kind of mitigate that that trend towards farm consolidation, the aging of Nebraska's farmer population. And in-- over the course of those-- this-- these last two decades, 450 new farmers and ranchers have been brought into the industry. When you couple that with education and outreach and the use of federal programs, the Beginning Farmer Tax Credit has helped contribute to the 10 percent increase in the number of new farmers in the state. And also when you break it down further and look at the economics of the program, it's paid dividends. So more than \$11 million dollars was paid in rent in 2017-- or by 217 farmers in 2017. Eleven percent of that came-- was returned to property tax owners. So if you look at that from an ROA perspective that's about eight dollars and seventy-two dollar-- \$8.72 that was paid in every dollar of rent. I see that my light is on. I guess-- I just want to say that, again, we've seen, we've seen the data. The audit report, I think, reinforces that. That was conducted this summer. There are, there are changes that need to be made. There's legislation that's also on the table to, to, to correct some of the language and modernize this Act. We just are worried that if you remove it from the menu of options of how to get started in farming that, that will-- we're, we're again not setting a great precedent for others-- for farmers to come, come into farming. So--

LINEHAN: Thank you, Miss Rasmussen.

JORDAN RASMUSSEN: Yes.

LINEHAN: Are there questions from the committee? Seeing none, thank you for--

JORDAN RASMUSSEN: Thank you.

LINEHAN: --being here. Next opponent.

MICHAEL SOTHAN: Good evening. Thank you, Chairwoman and Senators for giving us this opportunity. My name is Michael Sothan, M-i-c-h-a-e-l S-o-t-h-a-n, with Main Street Beatrice. We are a nonprofit organization that focuses on downtown development of our rural community. In Beatrice, luckily we have been seeing some, some recent success. But we definitely are still struggling with some, some pretty significant challenges in our downtown. And, Senator Groene, of course you kind of mentioned some of the struggles of rural America and rural

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Main Streets. Luckily for us, the picture is not totally bleak and [INAUDIBLE] blighted. We've really got a lot of good things going for us. I think a large part of it is because of believing in ourselves and also starting to utilize some of the tools that are actually available. There's not a lot of tools that are available for some of our rural communities but the Nebraska Job Creation and Mainstreet Revitalization Act that this bill proposes eliminating is one of the tools that has actually helped us in our community, has actually been giving some of our people in our, our Main Street district-- and I guess, the, the, the support or at least some of the, the, the reasons for actually investing in some of our downtown properties. Here in 2018 alone, we saw \$1.3 million invested into downtown Beatrice properties and improving those. One of those is actually coming on-line and will be a historic tax credit project. But oftentimes, even if they don't use this, this tax credit, it was one of the things that helped get them actually want to invest into our downtown knowing that there was gonna be something there. Once they started crunching the numbers they said, you know, maybe I don't necessarily need it but just having the program there actually brought them to the table to look at investing in our downtown. Oftentimes, these buildings are having challenges. You know, they are not the cheapest to, to invest them. And part of that is because of the fact that they have not been invested in over the last number of years. And so this tool definitely helps us break that cycle of disinvestment, helps us get people back in there. It's sustainable economic growth because our downtowns they've been there for a long time. They're gonna be there for a long time. These are also places for small businesses. Small businesses are gonna grow. They're gonna start usually in a downtown. And so that's the one thing I definitely want to talk about. It's also less expensive for our communities. When we look at the expense, these are built environments. They're, they're already there. The infrastructure, the roads, everything else is already built for them. So that's one thing I definitely wanted to also mention. So it's a lot cheaper for our communities. But I think Senator Watermeier said it best, these incentives need to be about the people. And when we look at-- to the people, our downtowns, our historic places, that is definitely a sense of place, the sense of pride. If we're wanting to recruit people to stay in our communities, we want to keep businesses to come, we want to have, have people come to our rural communities, we have to win that sense of place battle. We have to win that quality of life battle. And being able to revitalize our Main Streets, our

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historic places is a significant part of that fight. And so that's some of the things that I definitely wanted to talk about.

LINEHAN: Somebody might ask you a question.

MICHAEL SOTHAN: Thank you. I'm definitely willing to answer any questions you have.

LINEHAN: Senator Groene.

GROENE: Are you talking about the historical tax credit? That's the--

MICHAEL SOTHAN: Yes, the historic tax credit, the Nebraska Mainstreet Revitalization.

GROENE: Do you know what you get-- how much those are discounted?

MICHAEL SOTHAN: You know, we've-- the one project that's in our community is just gotten approved so that they have not gone through that process and they may not actually discount.

GROENE: You haven't used it before?

MICHAEL SOTHAN: We, we were using it. We're in the process of using it, but we have not gotten to that point. Some of our businesses in our town have not gotten to the point where they've been receiving those credits back, there at the initial stages. And so we're-- we've only had eligibility in our downtown since 2016 for the majority of buildings. There's been some buildings that have eligibility since before then.

GROENE: You have to get them declared historical first or, or--

MICHAEL SOTHAN: They, they have to at least meet some basic levels of historic significance, yes.

GROENE: If I told you if, if they're discounted from-- most of them around 60 cents maybe at 70,--

MICHAEL SOTHAN: I've heard it's higher than that. It just really depends upon the buyer.

GROENE: --at 70, but by the time you pay the bond, people who sell it, their commission. But the state loses a dollar in taxes. Why don't we just give you 60 cents?

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MICHAEL SOTHAN: You know that's a great question. But as far as--

GROENE: We could save 40 cents.

MICHAEL SOTHAN: --seeing just how these, these end up working and like I said just the benefits that even when those people don't end up utilizing it, for some reason it seems to give them more confidence in investing in this. And we'd also have had some, some outside-- we have some buildings that are not gonna be able to be handled by the private sector. And these incentives, actually for a developer, we've had a few-- we've actually had some developers from Kansas City that have been looking at Beatrice. They got scared away a couple of years ago because bills like this were there. They're coming back to look at Beatrice once again and these incentives do make a big difference for them. It does make a difference for our private folks. And there's always ways to make improvements to it. But it certainly is working right now.

GROENE: Thank you.

MICHAEL SOTHAN: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Thank you for being here.

MICHAEL SOTHAN: Thank you, Senators.

LINEHAN: Other opponents?

MEGAN SOTHAN: Thank you, Senator Linehan and the members of the Revenue Committee. My name is Megan Sothan, M-e-g-a-n S-o-t-h-a-n, and I represent the Gage County Historical Society Museum in Beatrice, Nebraska. Today, we are testifying in opposition to LB417 because as introduced the bill would eliminate the Nebraska Job Creation and Mainstreet Revitalization Act, also known as the Nebraska historic tax credit. We believe that the NHTC is a valuable and needed tool for the preservation of historic structures, economic growth, and community investment. In our role as an institution that supports the preservation of our local history, we see historic preservation as a vital component of ongoing community-wide reinvestment efforts. In addition to safeguarding our historic resources for future generations, it also gives us an avenue to make our community more attractive to live and work in by adopting our existing structures into quality community assets. The NHTC is unique among our tax

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incentive programs because it encourages investment in the built environment. The rehabilitation and development of historic structures will continue to benefit communities as long as the building exists. The absence of rehabilitation incentives contributes to the problem of vacant and deteriorating structures which generate little to no tax income and often taxpayer dollars are wasted on preventable demolition when a building becomes too much of a liability to municipality. The NHTC helps to slow this loss of our unique historic resources. Also as an institution that promotes the preservation of history, we believe that the preservation of the built environment also plays an important part in retaining a sense of identity in our communities in addition to the economic benefits. Our historic buildings allow visitors and residents alike to experience the aesthetic and cultural history of our communities and community identity and pride stem from the retention of our historic places. A strong sense of identity leads to healthier communities that are attractive for us to live and work in. The NHTC has shown that saving our past positively impacts our future through the preservation of our heritage, economic growth, and community revitalization. So we are asking for your support into helping us keep the NHTC so we can continue this progress in our communities. And I would be happy to answer any questions you may have. Thank you.

LINEHAN: Thank you very much. Are there questions from the committee? Does Beatrice-- have you got an idea of the Homestead Park? Does it bring very much-- I mean, number of visitors?

MEGAN SOTHAN: It brings a significant number of visitors to our community, yes. I could not tell you the exact numbers.

LINEHAN: [INAUDIBLE].

MEGAN SOTHAN: Right. But it is definitely-- does contribute to the vibrancy--

LINEHAN: It's a national park, right?

MEGAN SOTHAN: Yes, it is a national park. It's actually a national monument but working to change the designation to a national park.

LINEHAN: OK.

MEGAN SOTHAN: Yes.

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LINEHAN: Thank you very much.

MEGAN SOTHAN: Thank you.

LINEHAN: Other opponents?

DAVID LEVY: Good evening. I tried to get up here as quickly as I can to minimize the inefficiency there. David Levy, D-a-v-i-d L-e-v-y, on behalf of Omaha by Design, the Nebraska Economic Developers Association, and the Nebraska Association of Commercial Property Owners in opposition to this bill and in support of retaining the Nebraska Job Creation and Mainstreet Revitalization Act. I will be brief. I've handed you a executive summary of a report from the National Trust for Historic Preservation which talks about the importance of programs like this to maintaining communities and especially smaller communities like many in our state. Much of what I was gonna say has been said. But a couple of things. This truly is a statewide program. Successful projects under this program have occurred or are occurring in Legislative Districts 4, 7, 8, 9, 11, 17, 19, 22, 23, 26, 27, 30, 32, 33, 35, 37, 38, 41, and 43. Truly is a statewide program. Senator Groene you had-- bad timing to respond to your question, I apologize.

GROENE: That's fine.

DAVID LEVY: You had asked about the monetization of these credits. Our, our program in Nebraska is somewhat unique in that it's available to governmental entities and nonprofit entities. And for those entities they can freely sell, freely transfer 100 percent of the credits they, they receive. When they do that they are paid in the low to mid 90s cent range for those credits because that free transfer ability makes it very easy, eliminates a lot of the transaction costs that's not good for the lawyers and the accountants in the process, but it gets more money to the project and that's what we're all here to do. When it is a for-profit entity, they can freely transfer half the credits they have to syndicate half of them. The combined number there is more in the 75 to 80 cent range so it is, it is a good return. And it really is a public-private partnership because the people buying the credits are private entities who are investing in that. To pick on Senator Briese for a second, the project in your district is the Sherman County Courthouse. That is a public building, obviously a public project, but the people buying those tax credits that are helping make that project happen are private, private people. So that's a private-public-- public- private partnership going toward

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the revitalization of that Sherman County Courthouse. So with that, again, very strongly urge the committee to keep this program going, been very successful. It's kind of a little program that could. It's very quantifiable unlike some of the other conversations you had earlier today on the other programs. Happy to take any questions. Thank you.

LINEHAN: Thank you very much for being here. Senator Groene.

GROENE: So you're telling me a county can do it?

DAVID LEVY: Correct.

GROENE: A county?

DAVID LEVY: Correct.

GROENE: I thought it was bad enough that a hospital could do it, a, a nonprofit hospital, not a government-owned hospital.

DAVID LEVY: Well, you're bringing private-- you're bringing them private dollars to that public project. You're encouraging the private sector to invest in that public project.

GROENE: But the state of Nebraska helped do a county project at the courthouse.

DAVID LEVY: That's correct. That was something that Senator Schumacher was very adamant about when, when we developed this program five or so years ago now.

GROENE: Well, for the program, but I don't think we should be offsetting the county. But anyway, I got a hotel that I need down in North Platte. I think you have mentioned 42.

DAVID LEVY: We have talked about that. I think that would be great.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Seeing none, thank you for being here.

DAVID LEVY: Thank you all very much.

LYNN REX: Senator Linehan, members of the committee, my name's Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. We respectfully are here opposing this measure. Again, we just wanted to underscore the fact that it is a statewide program.

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Municipal officials have told us that basically this is a program that has enabled them to work with the private sector to renovate buildings-- historic buildings that otherwise would have been basically gone by the wayside. And so we really appreciate the committee considering and reconsidering moving up the sunset on this. We think that it's extremely important to keep this program going. With that, I'd be happy to respond to any questions you might have.

LINEHAN: Thank you very much, Miss Rex. Any questions from the committee?

LYNN REX: Thank you very much.

LINEHAN: Thank you very much for being here. Other opponents? Anyone in the neutral position? Go ahead.

BRADLEY LUBBEN: This seat is still warm.

LINEHAN: All day long.

BRADLEY LUBBEN: I thank you very much for your endurance and your time this evening. Chairwoman Linehan and members of the Revenue Committee, I am Dr. Bradley Lubben, B-r-a-d-l-e-y L-u-b-b-e-n. I am vice chair of the Nebraska Beginning Farmer Board and I'm happy to be here to testify as a representative of the board on a neutral capacity on LB417. I have additional documentation that is being distributed and asked that it be placed in the record as well with the bill. The Board is responsible for administering the Beginning Farmer Tax Credit Act. We approve or deny applications based upon applicants meeting criteria set forth in the Act and seek to carry out the intent of the Act to the best of our abilities. It was referenced earlier that there are some other proposed legislative changes to the bill that's discussion for another day. But certainly we seek to implement the program as best we can. The Act was created to encourage a pursuit of farming as a career and to aid in the beginning of being a farmer and acquiring access to agricultural assets by providing a tax incentive to owners. Since the inception of the program in 1999, \$12.5 million in tax credits have been issued and over 450 beginning farmers have used the program. Nebraska was the first state to enact an incentive program to aid beginning farmers. Iowa, Wisconsin, Colorado, and Minnesota created similar programs all fashioned after Nebraska's program. We continue to receive inquiries from other states interested in creating a similar program. The advisory committee on beginning farmers and ranchers established in 1998 to advise the United States Secretary of

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Agriculture recommended in a 2015 land tenure study that other states replicate Beginning Farmer Tax Credit programs and similar incentives to be considered on the federal level. Nebraska's program has been cited in several studies and reports, a list of which is included in those documents provided. I'm here today to answer any questions you may have to help you determine the future of the program. Thank you for your time.

LINEHAN: Thank you very much, sir. Are there questions from the committee? Seeing none, thank you for being here. Oh, wait a minute. I'm sorry, I'm sorry. Senator Briese.

BRIESE: Thank you, Chairman. And thank you for being here Dr. Lubben, appreciate that. Just like any other incentive program though, do we run the risk of enriching folks who would otherwise rent to these people without the program? And how, how common of occurrence might that be with this program?

BRADLEY LUBBEN: Well, Senator Briese, it's an important question as to whether this really does in fact help producers into the farming and ranching occupation or whether it really pads pockets of landowners instead. We can say that from our applicants, the fundamental purpose of the program is to-- yes, it is a tax credit that rewards the landowner, but it rewards the landowners specifically for renting to a qualified beginning farmer and rancher for a minimum period of three years. And so there is better access and at least a foundation for that beginning farmer and rancher to build a viable operation that might not otherwise be there.

BRIESE: OK. Thank you.

BRADLEY LUBBEN: Um-hum.

LINEHAN: Thank you, Senator Briese. Other questions from the committee? Senator Groene.

GROENE: Thank you. The Rural-- Center for Rural Affairs conveniently picked the years 2007 to 2012 that increased new farmers by 10 percent. Do you know what those years were? Seven dollar corn.

BRADLEY LUBBEN: Well, it was a good period, correct. Seven to twelve--

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GROENE: I'm sitting here and I can at least think six young farmers I know that were professionals and came back home to farm during those years.

BRADLEY LUBBEN: Seven to twelve were also the two periods that we had the most recent census data for.

GROENE: Is it just because [INAUDIBLE]--

BRADLEY LUBBEN: The 2017 census [INAUDIBLE]--

GROENE: It's kind of convenient that a lot of young guys came home to farm. That convinced them to come home.

BRADLEY LUBBEN: Right.

GROENE: Anyway.

BRADLEY LUBBEN: Right.

LINEHAN: Thank you, Senator Groene. Any other questions from the committee? I have one question because I remember kind of slightly when we looked at the audit on this, how many of these 450 beginning farmers were sons or daughters of the people who are getting the credit?

BRADLEY LUBBEN: I know the audit addressed that question. I don't remember that number off the top but we certainly can respond to your [INAUDIBLE] number.

LINEHAN: Because I think that's one of the concerns--

BRADLEY LUBBEN: Yeah.

LINEHAN: --I think that's what Senator Friesen said.

BRADLEY LUBBEN: Right.

LINEHAN: If, if you're-- like my nephew, he wanted to farm regardless of how many of us told him he shouldn't. So if he-- if we rent him land-- we'd rent him the land anyway. Right? I mean, I think that's the whole relative thing is, is a little bit questionable.

BRADLEY LUBBEN: Yeah, there are questions about the relationship and, and certainly the program grew when the family restriction was lifted. It still requires in addition to just being able to rent to a family

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member or a decedent, it requires a transition plan so it's not just renting to a son or daughter or a grandchild. It is that there has to be a transition plan in place that says how the ownership will eventually transfer to that beginning farmer and rancher. So it's a commitment that there really is a transition happening not just a convenient rental arrangement for the-- for an operation.

LINEHAN: But how do they get-- how do they get around-- if they transition it-- like I transition something to my child,--

BRADLEY LUBBEN: Um-hum.

LINEHAN: --how do they get around-- because part of the problem is you can't-- what am I trying to-- capital gains, you can't--

BRADLEY LUBBEN: Yeah, yeah. So the-- there has to be a transition plan that includes a will.

LINEHAN: It could be on death though.

BRADLEY LUBBEN: Yeah, that includes a will.

LINEHAN: And then they get the stepped up base.

BRADLEY LUBBEN: They still get a stepped up base.

LINEHAN: OK.

BRADLEY LUBBEN: It is a, it is a question that was brought up and on it is-- it is a question we've addressed before the whole requirement of a transition plan and the complications therein. But, but that in fact has been part of the program.

LINEHAN: And then I think this came up in some conversation just so we have it on record. It only can be one-- used on the land once. Right? You can't like rent it to this nephew and then that nephew and then that neighbor--

BRADLEY LUBBEN: Correct.

LINEHAN: --and get the credit again and again. It can-- once the quarter section or whatever has been in the program it's done. It's a onetime only.

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BRADLEY LUBBEN: As we have interpreted the program and operated it, it is a one-time limitation on a particular tract of land. So that tract cannot be rented to a qualified beginning farmer more than once.

LINEHAN: Does that need to be made clear? If you're saying you have to interpret it, that makes it sound like--

BRADLEY LUBBEN: Well, as we have interpreted it, we thought it was clear. The audit report that, that was conducted over summer pointed to whether that limitation was one time only per beginning farmer--

LINEHAN: Or per land.

BRADLEY LUBBEN: --or one time owner per landowner or whether as we had interpreted it for many years that it was one time per tract of land.

LINEHAN: OK. That's helpful to know--

BRADLEY LUBBEN: You bet.

LINEHAN: --so if we keep it. OK. Any other questions? I'm sorry. Thank you very much for being here.

BRADLEY LUBBEN: Thank you.

LINEHAN: I appreciate it. Anyone else in neutral position? Senator Friesen, would you like to close?

FRIESEN: Thank you, Chairman Linehan. I apologize for everybody having to stay so late back there to testify on this, but I didn't realize we'd be quite this long. So you've heard now-- you've heard of-- we have a tax incentive program that actually has a positive return on its investment. So there are ways of doing it. And it does have a cap and we can make things like that work. The Beginning Farmer Tax Credit-- if we wanted to fix it, we would give that beginning farmer 50 percent of the property tax credit for property taxes paid on that land and we'd give it to that beginning farmer and then that would lower his rent. And so that, that tenant-- or the landlord could profitably rent it to him. So you know, I'd be looking-- make some changes to it to make it a better program. I think than it would actually be worth something. So it'd have a little bit of a large fiscal note, but I think-- you know, a 50 percent tax credit on property taxes paid, that's where the beginning farmers are struggling

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right now. The landlords are not willing to lower rent. That is their retirement, that's their investment. Taxes are \$100 an acre.

LINEHAN: Some places.

FRIESEN: Some places-- some places higher, some places less. But it is a struggle for that beginning farmer to come up with land. And, and I've heard stories of, of older people wanting to rent to that beginning farmer, but they can't give up that revenue and so they're forced to rent it to the older guy that can pay more rent. And so property taxes have had a huge impact on this. I mean, it has stopped some people from farming. With the same token if I'm just going to start my own son farming, I do still feel that's my responsibility. So with that, I'd be glad to answer any questions.

LINEHAN: Thank you, Senator Friesen. Do we have any questions? We know where you are on property taxes.

FRIESEN: I have the longest list of opponents, too, on the--

LINEHAN: The letters for the record. I'm just gonna read them-- just the company. Restoration-- oh, excuse me. Proponents: none. Opponents: Restoration Exchange Omaha; Restoration Exchange-- two people from Omaha; Greater Omaha Chamber; Lincoln Chamber of Commerce; Nebraska Chamber of Commerce; Nebraska Main Street Network; Nebraska Independent Community Bankers; Wayne County Board of Commissioners; Wayne County-- three from Wayne County Board of Commissioners; Mayor of Auburn; Auburn Development Council; Main Street Beatrice, they were here; We Support Agriculture; Nebraska Bankers Association; National Trust of Historic Preservation; Advantage Capital; Stonehenge Capital; Fremont; Jerry Berggren; Michael Eisenbarth. And neutral: Donald Anthony, Next Gen, Generation. So our final hearing of the day, LB613. Thank you. Welcome, Senator Crawford.

CRAWFORD: Thank you. Good aft-- good evening, Chairman Linehan and fellow members of the Revenue Committee. My name is Sue Crawford, S-u-e C-r-a-w-f-o-r-d, and I'm here to present LB613. And I'm not going to pretend that I can fill the shoes of Senator Schumacher, but I would say that he was the key instigator in our conversations in the Economic Development Task Force in saying that we should reexamine these tax incentive programs. And so this bill is that they-- as we were looking at the sunset dates on multiple tax incentive programs, these three programs had sunset dates of about 2022. And the question was, should we keep doing them until 2022 or not? And so that's what

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led to the recommendation that we, we stop doing them. Actually, have the sunset date moved up to 2019 instead of 2022. And the other part of-- so we'll have a similar conversation I'm sure that we had on LB417. The other part of the bill was to direct any of the savings into our Site and Building Development Fund because that is an economic development program that has a high demand. The money gets used quickly. It's a way that-- I've heard great reports in terms of how it gets used in terms of bringing development to our communities. And, and we definitely could use more money in that program. So the estimate in the bill was that it would be \$30 million. On fiscal note, it reports it's less than that. It is not my-- it would not be my intention to put more into the fund than is saved by eliminating these programs if the bill were enacted. So that's why it has a fiscal note is that it didn't generate the money that was expected in those three programs. So this is-- I think it's part of regularly examining the tax credit systems to make sure they're meeting their development goals and living up to legislative intent. And I'm sure my opening will be followed by organizations and individuals who have used these credits. And we look forward to hearing from them so we can have these discussions. Appreciate your attention to this issue.

LINEHAN: Thank you, Senator Crawford. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. Do you also remember, Senator Schumacher talked to us several times about any community underneath 5,000 population unless it's next to a larger urban community is not viable and they should go away? Do you remember that?

CRAWFORD: I remember discussions like that, yes. I don't, I don't agree with that.

FRIESEN: Is there, is there some point though where maybe we limit some sorts of these tax credits to communities that maybe are not viable? I mean there-- I, I don't know if there's cases out there I'm just saying that they are, they are storied buildings that, that are in some really small communities. But they're-- all communities in rural part of Nebraska are struggling. Some that are not going to survive. Should we, should we look at whether or not the community is viable before we put more tax dollars into it?

CRAWFORD: I think it would be very difficult to assess viability of a community because there are many dynamic factors there. Some community that's struggling, perhaps-- I think a key incentive behind the historic tax incentives is to try to turn those communities around and

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attract people. And so I guess it would, it would be hard to assess whether or not a community would be able to make the most of that tax incentive or not at the-- at the outset.

FRIESEN: The struggle is you know when the community loses its school,--

CRAWFORD: Right.

FRIESEN: --it's, it's pretty hard to bring a community back unless you're near a larger urban population. But when you're out in the rural areas-- Senator Groene's area, those communities once they lose their school, there's, there's not much hope there. It's just, it's just a thought when we're doing tax credits. Do we look at something like that or do we continue to focus on anybody that applies?

CRAWFORD: Good question.

FRIESEN: Thank you.

CRAWFORD: Thank you.

LINEHAN: Thank you, Senator Friesen. Other questions? Wouldn't this be perceived-- maybe we'll hear from some people. But if we take these three programs, which seem to do kind of cover the whole state versus being focused in big cities, and we take it and we use it for Site and Building Development, wouldn't that go to the mostly urban areas?

CRAWFORD: It's my understanding that Site and Building Development Fund is also a program that is used across the state.

LINEHAN: OK, we'll save it.

CRAWFORD: Yeah.

LINEHAN: Senator Groene.

GROENE: How about we just do it for rural Nebraska for a town that's under 50,000 people, 30,000 people?

CRAWFORD: That is not the intent of that. I, I wouldn't support that.

GROENE: Why not?

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CRAWFORD: That's not the intent of this legislation. No, I think it's-- there are important developments to occur in rural and urban areas.

GROENE: Seems to be more urban when we follow the dollars on all of these programs. But thank you.

LINEHAN: Thank you, Senator Groene. Other questions? Thank you.

CRAWFORD: Thank you.

LINEHAN: You're going to stay to close I assume. Proponents for LB613? OK. Opponents? See if I can keep it straight this time.

JOHN HANSEN: Chairman Linehan, members of the Revenue Committee, for the record, my name is John Hansen, J-o-h-n, Hansen, H-a-n-s-e-n, and I oppose this bill for exactly the same reasons I opposed the last bill. It's been great being with you today and now I get to go home. Thank you very much.

LINEHAN: Thank you very much. Hopefully, the committee will let you go home. Do we have questions? No, see that was quick to close.

JOHN HANSEN: Thank you.

LINEHAN: Next opponent?

TREVOR JONES: Can I just say ditto? No. Trevor Jones, T-r-e-v-o-r J-o-n-e-s, executive director and CEO of History Nebraska, Nebraska State Historical Society. Oh, I have one. I'll give it to you in a second. And I don't have much to say that I haven't said before except to give an example of the Palace Hotel in Pender which is a community of 1,100 people that renovated a downtown building and turned it into a bunch of apartments that are there that are fully occupied, were occupied from the very first day. And then one of the things that Pender really needs is work force housing. And these projects provide work force housing. And when I met with the city officials from Pender they said they can use ten projects like that in the downtown tomorrow because what they can't do is attract new businesses to the community if people don't have places to live and projects like this help with that. So small communities need this kind of tax incentive to create vibrant downtowns because it helps small businesses built come around that once people are living there they need amenities and that helps economic development all the way across. We really see the historic tax credit as an economic development tool that works with all the

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other things that you do. But it really starts with that vibrant downtown.

LINEHAN: Thank you. Senator Groene.

GROENE: So you're saying they take an old hotel or some building downtown and turn them into apartments or condos--

TREVOR JONES: Correct.

GROENE: --in a smaller town?

TREVOR JONES: Correct.

GROENE: So you just work for rural or statewide?

TREVOR JONES: It has been statewide. We've done a lot of projects. I think somebody followed me read-- you know, the list of districts that it's been in. Certainly, if you look at the amount of dollars spent, we're spending more money in, in larger communities, but that's because the projects are, are larger. But we're doing-- you know, we're really split--

GROENE: Do you do Omaha and Lincoln, too, and Grand Island?

TREVOR JONES: We're-- yeah, Hastings. We've got multiple projects in Hastings right now. We'd just do two in downtown Chadron last year. So they really are statewide. It's a great way to really sort of leverage that money that when they couldn't do it.

GROENE: Who, who is doing it?

TREVOR JONES: It's a--

GROENE: Nonprofit like you get an old building in Hastings, I know they did a hotel there. Who, who did it?

TREVOR JONES: That was actually an outside company out of Kansas that came in as an economic-- as a development-- outside developers-- for-profit developers for that project. But we've done nonprofits doing theaters.

GROENE: Did they turn it into condos or--

TREVOR JONES: No, it's actually low income housing.

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GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So you say the projects are scattered statewide. Dollar wise, does it favor any part of the state at all?

TREVOR JONES: Dollar wise, it definitely favors the larger cities. Certainly, the-- for the first year of the, the program it was mostly projects in Omaha because they were really ready to go. But what we've really seen is that these are spreading out statewide once the program-- once people understood what the program is and could see how it worked. And so-- but, yes, the vast majority if you look at just in terms of money. But if you look in terms of projects, it's, it's well distributed.

FRIESEN: OK.

GROENE: Is there a cap on this?

TREVOR JONES: On the tax credit, it's \$15 million a year.

GROENE: All right, that's the max.

TREVOR JONES: Yeah, correct.

LINEHAN: Thank you, Senator Groene. I, I had a question. How big is Pender? I was--

TREVOR JONES: Eleven hundred.

LINEHAN: Eleven hundred-- with the superintendent yesterday. OK. Thank you very much. Other questions? Other opponents?

MICHAEL SOTHAN: Michael Sothan, Main Street Beatrice again. M-i-c-h-a-e-l S-o-t-h-a-n, and I just really quick wanted to highlight just a couple of quick things that I ran out of chant time before. Otherwise-- you know, definitely think about it. But one thing, dollar amount in our smaller communities as you well know a lot of times the buildings, the scope of those-- the size of those projects, the amount of that it even costs, it's often cheaper to do that just because our-- we're able to do it a little bit cheaper but they're also smaller projects in our rural communities. And so oftentimes a smaller project will have a much larger impact in our world communities. So do

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keep that in mind just like the hotel will hopefully in downtown North Platte. But when we, when we look at some of the things that, that we have going on-- you know, we talk about viability, we talk about a lot of those things. In my handout that I gave you guys before, I just wanted to point out on the back of my, of my letter I had some of the same facts that, that Director Jones mentioned. But one other thing that some of my contemporaries in Wisconsin were talking about is for downtowns when you actually are able to incentivize and hopefully get these projects these buildings fixed up, it does actually create other benefits that we don't calculate in these historic tax credit numbers. Oftentimes downtown businesses that when a storefront gets revitalized-- gets fixed up, the income that's being produced off of that property for the business that's in there also increases. Oftentimes in Wisconsin and their numbers are very-- their, their economic base is very pretty similar to us. They're seeing almost 20 percent increase in store sales by making these improvements. And oftentimes it's because when we actually do historic tax credit projects it's not just a little bit of paint here it's actually really improving the quality of that building. And again, especially our younger folks, people my age, we want to have places that we go. It doesn't matter if it's Beatrice, if it's the little village of Steele City that I live in of about 50, 60 people, or if it's when we're up to go visit in Lincoln and Omaha. This is something that we want. This is something that we certainly want to see. And so I just wanted to point that out. Then the other thing is something that's called revitalize or die. When you're talking about small communities-- you know, there's no doubt that they have to revitalize or die and our downtowns are the key point of that. I really invite you to read some of this information. And if you have a chance go on social media and actually search revitalize or die and watch some of those videos. It really captures a lot of what we talk about as Main Street and how we need to transform our communities and make it about the people and the buildings help us do that. And the last thing that was in my handout was just talking about how millennials prefer revitalized historic areas. Unfortunately us in rural communities, we're losing those people to urban areas because we've been behind the times. Lincoln and Omaha have certainly beat us out in being able to do those historic rehabs and do a lot of that type of stuff. But we are starting to catch on in the rural areas and this is a tool that definitely helps us do that. And so I just wanted to highlight that. And if you have any questions for me, I'd be happy to, to answer those.

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LINEHAN: Thank you very much. Senator Groene.

GROENE: What projects are you doing in Beatrice?

MICHAEL SOTHAN: So one of the projects that we're doing is it's a building that's been sitting vacant now for the last several years so it's pretty much contributing almost zero tax revenue. It's just very depressed values. It's a two-story building that was built in the 1920s. It's gonna-- the people that are looking at doing it they're gonna renovate, totally revitalize the, the basement, the first floor, and the second floor. It's right on Highway 77. Everyone sees it. They see the sagging windows. They see all the dilapidation and this is gonna allow them to do that. They were actually planning on doing green space development, but this is them reinvesting into our downtown. Because one, we've got them to believe in our downtown. But two, they were able to make it make financial sense only because of this tax credit.

GROENE: What are they gonna do, office space or--

MICHAEL SOTHAN: It's gonna be office space. It's actually gonna be a group of, of attorneys that are trying to grow their business. They're mostly younger attorneys and they're trying to fill that gap and they're, they're wanting to have a really cool, awesome office that overlooks Highway 77 in our downtown.

GROENE: Thank you.

LINEHAN: Thank you, Senator Groene. Other questions? Is it the old Savings and Loan?

MICHAEL SOTHAN: Not quite. It's close. It's just within a half a block of, of that. But it's just to the, just to the south of Security First Bank, if you're familiar with that, just north of Court Street and Highway 136.

LINEHAN: OK. I thought of another question but it escaped me now. Any other questions? Thank you for being here.

MICHAEL SOTHAN: Thank you, Senator.

LINEHAN: Yep.

MEGAN SOTHAN: Hello, Senators. Thank you, again. I would just like to expand on some of the-- oh, excuse me. My name is Megan Sothan,

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M-e-g-a-n S-o-t-h-a-n, and I represent the Gage County Historical Society Museum in Beatrice, Nebraska. Sorry, trying to jump the gun there. I just would like to expand on some of my earlier points talking about sense of place and community identity. These are some of the intangible things that we see happen through incentives like the historic tax credit program. I have-- I provided a handout with my earlier packet that helps to define some of those things, sense of place focuses mainly on numbers 4 through 6 on that handout. About just how people see their community and how by improving our built environment we increase that sense of pride and help spur community development and make people want to live in that community. It also helps with the retention of our youth and that is dependent on creating a community that they're proud on living in. I say that with experience as being one of those youth. I'm 30, grew up in Nebraska, and am proud to live in a rural community that's working to make itself better. It also helps with talent recruitment which is dependent on providing an attractive and vibrant community with a strong aesthetic. And that helps us to attract business and economy because they also look for that quality of life and sense of place when they are looking for places to locate to. I'm also going to wear a different hat for a moment. I am also on the village board of Steele City, Nebraska. It is about 50 people and would just like to respond to the comments that-- you know, our community's under 5,000 people viable. I would like to argue a little bit about-- for Steele City. We actually have a historic district. It includes five buildings plus one individually listed building on the national register of historic places. And we have recently had about 7 families under 30 move into our community. We are strategically placed between Fairbury and Beatrice and so we're seeing a lot of growth in people wanting to live in a more rural aesthetic community while being close enough to where they work. And so would just like to highlight that. I would also like to mention another Nebraska community, extreme southwestern Nebraska, Haigler, Nebraska. Also very small, has also done some very great things to promote their very small rural community. I know I'm running out of time. I would be willing to take any questions that you may have about sense of place and some of those intangible benefits that come from the historic tax credit.

LINEHAN: Thank you very much. Are there questions from the committee? Thank you for explaining where Steele City is, that's one I've missed.

MEGAN SOTHAN: Thank you so much for your time.

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GROENE: I've actually been there.

MEGAN SOTHAN: Yeah, you'll have to come back sometime.

LINEHAN: Next opponent?

DAVID LEVY: Good evening again, Senators. David Levy, D-a-v-i-d L-e-v-y, on behalf of Omaha by Design and the Nebraska Association of Commercial Property Owners in opposition to this bill. Just a couple of things real briefly. You might notice or at this point you might not. Last time I testified also on behalf of the Nebraska Economic Developers Association. They do support-- I'm not testifying on their behalf this time, but I did tell them that I would say that they support the Job Creation Mainstreet Revitalization Act. But they are also very supportive of the Site and Building Development Fund. In fairness to Senator Crawford in this bill, I have used that program or my clients have used that program also and it is a good program. The only other thing I would add at this point and happy to answer any questions is there is, again thanks to Senator Schumacher, it's almost like he's, he's here, a couple of years earlier, I think 2017, we added or the Legislature added to the program a set aside of \$4 of the \$15 million for small projects and small communities. There is \$15 million every year at the beginning of the year when sometimes there's competition for that \$15 million. There is \$4 of the \$15 million reserved and set aside for those small projects in, in those rural communities. So there really is that very direct attempt to try and make sure that the program is available for those communities. With that, I can't add anything further. Happy to answer any questions.

LINEHAN: Thank you very much.

DAVID LEVY: Thank you.

LINEHAN: Senator Groene.

GROENE: I should know this, but is the, is the \$15 million used every year?

DAVID LEVY: No, it was fully-- it was oversubscribed the first year. The second year, I believe, the number that was used in that year-- and again projects may start one year and go to another, was \$11 million.

GROENE: Is there a limit per project?

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DAVID LEVY: There is. It's \$1 million in credit. It's maximum per project.

GROENE: Per credit?

DAVID LEVY: Yep.

GROENE: So they get that \$90-- \$900,000, the \$750,000--

DAVID LEVY: Correct, per--

GROENE: --actual cash to use on a project?

DAVID LEVY: For a project. Many projects are smaller than that but that is the maximum per project.

LINEHAN: Thank you, Senator Groene. Other questions from the committee? Seeing none, thank you Mr. Levy.

DAVID LEVY: Thank you.

LYNN REX: Senator Linehan, members of the committee, my name's Lynn Rex, L-y-n-n R-e-x, representing League of Nebraska Municipalities. I know you had a long day today and we appreciate your patience and listening to this. We respectfully oppose this for the reasons I stated before in LB417. This bill is and this program all across the state Nebraska is used by the largest of cities and the smallest. And I think it's been very, very effective and probably is a prototype of what you might be doing on some other programs. So with that, I'd be happy to answer any questions you have. But we hope that you will in fact not basically advance the, the sunset that's in this bill because we hope this program can continue. It's been very valuable.

LINEHAN: Thank you, Miss Rex. Is there other questions from the committee? Those of us that are left. Nope. Thank you.

LYNN REX: Thanks so much. Thanks for your patience.

LINEHAN: Thank you. Nope, thank you. Other opponents? Anyone wanting to testify in the neutral position?

BRADLEY LUBBEN: Chairwoman Linehan and members of the Revenue Committee, I stand before you one more time. I'm Bradley Lubben, B-r-a-d-l-e-y L-u-b-b-e-n, and I'm here again as representative of Nebraska Beginning Farmer Board to speak in a neutral capacity on

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LB613. In deference to the committee, I will forego reading the same testimony on LB613 that I offered on LB417 and open to any questions you may have.

LINEHAN: Thank you very much, Mr. Lubben. Do we have any questions? Yes, Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. So if we would improve upon the beginning farmer program by offering a 50 percent tax credit for property taxes paid. Do you think that would stimulate the, the rental of ground to young people?

BRADLEY LUBBEN: If we increase the tax credit available to landowners.

FRIESEN: Well, in-- to the beginning farmer--

BRADLEY LUBBEN: Increasing the tax rate available for a beginning farmer for property tax is--

FRIESEN: Yes, if, if we look at that piece of property and 50 percent of the property tax is paid--

BRADLEY LUBBEN: Right.

FRIESEN: --just give it right to the beginning farmer.

BRADLEY LUBBEN: I can say under the current program the beginning farmer does qualify for a tax credit on property taxes paid on personal property which is a relatively small part-- very small part of the overall program today. In relation to the question of tax credits on farmland owned, most of the beginning farmers to qualify for this program have a net worth limit of \$200,000 which means they don't know own very much land.

FRIESEN: Is, is that high enough in today's, in today's market that, that cap? I mean, you don't have to own very much before you're--

BRADLEY LUBBEN: Correct.

FRIESEN: --kicked out of that.

BRADLEY LUBBEN: Correct. Two hundred thousand dollars sounds like a substantial net worth, but to operate a farm or ranch operation of any, of any scale that represents a full time in activity, \$200,000 is not enough to even leverage into additional assets. So it's very much

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a, a beginning farmer who is pushing hard to try and grow into the business.

FRIESEN: What is the average size of a farm in Nebraska?

BRADLEY LUBBEN: If we looked at the overall average size of farm in Nebraska, I believe it's in the 700-plus per acre-- acre per farmer number. If you acknowledge that of the 47,000 farms in Nebraska, the substantial percentage-- the majority of those farms are of a small noncommercial size and you reduce it to just the sort of commercial size operations that are less than 20,000 then the average size of a farm that really represents a viable commercial size operation is substantially bigger.

FRIESEN: Do you think we would be able to-- the transition between the older farmers-- there's a lot of guys now 70 years old still farming,--

BRADLEY LUBBEN: Um-hum.

FRIESEN: --so if, if we did give a larger tax credit to that beginning farmer, do you think more transitions would happen quicker?

BRADLEY LUBBEN: If the tax credit was available to the beginning farmer, they would be in a position to perhaps increase their willingness to bid on farmland but they're still very financially limited in how much or how quickly they could acquire farmland. So for the beginning farmer or rancher it's typically through leased land or through other value added enterprises, livestock and other operations, that fundamentally allow them to start that, that gets them to a full-time operation given their limited financial base.

FRIESEN: So as, as much as you understand about the Costco operation and the farmers that talked a lot about young people being able to come back because of these barns,--

BRADLEY LUBBEN: Right.

FRIESEN: --do you, do you look at that as-- you know, those-- there are no tax credit involved there, somebody had to put up that barn. It wasn't that young, young man coming back--

BRADLEY LUBBEN: Um-hum.

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FRIESEN: --because there are no tax credits for that. And so I mean, how did it-- you can't say that it really stimulated bringing people back because maybe they had a hired man.

BRADLEY LUBBEN: Um-hum.

FRIESEN: But there were no tax incentives for those livestock operations. And yet there was a huge investment put out that no young farmer could have put up.

BRADLEY LUBBEN: Yeah. Correct. And in the sense that the very few young farmers maybe very few established operations could put up barns independently and, and hope to raise livestock for, for, for the cash market. So the Costco activity and a few other related or at least similar activities across the state are very unique. And they do offer opportunities for a limited number of individuals that, that might contract with them. That provides a secured income stream over the life of that contract which is typically as long as the life of those-- the expected life of those facilities. And so that security gives them more of a base to acquire the, the financial resources to actually invest in the building itself. So it's a fairly highly-- one would expect a fairly highly leveraged relationship. But it also has some security in terms of the length of the contract and the, and the expected throughput.

FRIESEN: OK. Thank you.

BRADLEY LUBBEN: You bet. Thank you, Senator.

LINEHAN: Thank you, Senator Friesen. How many farmers are there in Nebraska that that's their full-time job? Not the--

BRADLEY LUBBEN: Right.

LINEHAN: --not the I work in town and then on the weekend I go home and I farm my 160 acres, but they live-- it's there--

BRADLEY LUBBEN: That's, that's where I'd point to. If, if the numbers, I think, will say that there's 47,000 farms, approximately 47,000 farms in the state,--

LINEHAN: Yes.

BRADLEY LUBBEN: --that's the U.S. Census definition of at least a \$1,000 of sales. If you take off the percentage that are less than

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commercial size operations that is the weekend farmer or the retirement farmer that's enrolled in the CRP and is still technically a farmer or hobbies and so forth. The, the percentage is, is less than half. And so Nebraska has one of the bigger percentages of commercial operations relative to the total number but the percentage is still substantially less than half. So, so less than 20,000 really sort of full commercial, full-time operations in, in the state. And even at that I would quantify-- I would consider those commercial size as in contributing a substantial proportion of a farm household's well-being that is not--

LINEHAN: Right, they live-- they'd actually make a living off farming.

BRADLEY LUBBEN: They make a living on farming or at least they, they substantially engage in an activity on the farm. They may still make a substantial percentage of their household income in off-farm employment.

LINEHAN: OK, so 20,000?

BRADLEY LUBBEN: Less than 20,000.

LINEHAN: Less than 20,000. OK. Are you a farmer?

BRADLEY LUBBEN: I am a son of a farmer. I'm a college professor. So--

LINEHAN: Very good.

BRADLEY LUBBEN: I'm a wanna be farmer.

LINEHAN: Yeah, there are a lot of those. Thank you for being here. Other questions? Thank you very much.

BRADLEY LUBBEN: Thank you, Senator. Thank you, all.

LINEHAN: Thank you. Is anyone else wanting to testify in the neutral position? Seeing none, would you like to close, Senator Crawford?

CRAWFORD: I'd like to thank the testifiers who have come today and thank the committee for your patience and good questions for this conversation. I think we have-- we're going to have further conversation on the beginning farmers' credit of the bill so we'll have more conversation on that in the committee. I think that we've heard several important testimonies on terms of historic tax credits and the value that it provides to communities which I think have

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slated good record of the value of that program continuing. It also connects to an important principle that SRI suggested and it's important in priorities for the state of Nebraska and that is to emphasize state-- excuse me, place-based development as part of economic development in the state. And, and their testimony attest to the way in which they provide that and sent that priority for the state in terms of economic development. And with that, I'll end my closing, answer any questions if anyone has any.

LINEHAN: Are there any questions from the committee? Thank you. The letters for the record. Proponent: none. Opponent: Restoration Exchange Omaha; Nebraska Independent Community Bankers; Wayne County Board of Commissioners twice-- three times, excuse me; Mayor of Auburn; Auburn Development Council; Main Street Beatrice; We Support Agriculture; Restoration Exchange; National Trust of Historic Preservation; Advantage Capital; Enhanced Capital; Stonehenge Capital; Nebraska Main Street Network; Nebraska Cooperative Council; Abby Hegemann, Fremont; Jerry Berggren; and Michael Eisenbarth. And in the neutral: Donald Anthony, Next Generation. Thank you very much, gentlemen-- all of you.