PREPARED BY: DATE PREPARED: PHONE: Tom Bergquist February 23, 2015 471-0062

LB 538

Revision: 00

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT - STATE AGENCIES (See narrative for political subdivision estimates)										
	FY 2015-16 FY 2016-17									
	EXPENDITURES	EXPENDITURES REVENUE EXPENDITURES REVEN								
GENERAL FUNDS	127,833	0	91,749	0						
CASH FUNDS	0	0	0	0						
FEDERAL FUNDS	0	0	0	0						
OTHER FUNDS	0	0	0	0						
TOTAL FUNDS	127,833	0	91,749	0						

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

Requires that tax incentive performance audits shall be conducted on the eight existing tax credit programs as well as any new tax incentive program that may be created by the Legislature for the purpose of recruitment or retention of businesses in Nebraska. The bill requires the office of Legislative Audit to develop a schedule for conducting tax incentive performance audits and shall update the annually. The schedule shall ensure that each tax incentive program is reviewed at least once every three years.

The costs of the tax incentive performance audits could vary depending on the frequency of audits per the schedule that will be developed and whether these audits would be done in lieu of other audit projects. If these audits are to be in addition to existing audits, then an additional audit position would likely be required. Another cost would likely be the acquisition and maintenance of economic modeling software to assist in the evaluations. The table below shows the estimated cost to the office of Legislative Audit.

	FY2015-16	FY2016-17
Salary (Performance Auditor)	55,000	56,320
OASDI	4,208	4,308
Retirement	4,125	4,224
Health Insurance	11,000	12,397
Subtotal	74,333	77,249
Operations	5,000	2,500
Modeling software	48,500	12,000
Total	127,833	91.749
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Although the Departments of Revenue and Economic Development will likely be asked to provide information as part of the audit, the bill should not result in a significant increase in their costs.

Section 9 of the bill also includes a two year extension for new project applications for Tiers1, 3, and 6 under the Nebraska Advantage Act. This would allow for additional projects to be eligible for tax credits with a subsequent revenue loss in future years but the number of applications and amount of credits is unknown.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES								
LB: 538 AM: AGENCY/POLT. SUB: Dept. of Economic Development								
REVIEWED BY: Lyn Heaton DATE: 2/23/2015 PHONE: 471-4181								
COMMENTS: No ba	COMMENTS: No basis upon which to disagree with the Department of Economic Development's analysis.							

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES						
LB: 538 AM: AGENCY/POLT. SUB: Dept. of Revenue						
REVIEWED BY: Lyn Heaton DATE: 2/24/2015 PHONE: 471-4181						
COMMENTS: The operational fiscal impact on the Department of Pevenue will depend on the extent to which the audit plan						

COMMENTS: The operational fiscal impact on the Department of Revenue will depend on the extent to which the audit plan developed by the Legislative Performance Audit Committee requires information to be compiled and presented by the Department relative to the tax incentive program(s) being audited.

LB 538 Fiscal Note 2015

		State Ag	ency Es	timate				
State Agency Name: Dept. of Econ	nomic Development					Date	e Due LFA 1/29/2	2015
Approved by: Lara Huskey		Date Prep	oared: 2/2	/2015		Pho	ne: 402-471-3777	1
	FY 2014	<u>-2015</u>		FY 201	5-2016		FY 201	6-2017
	Expenditures	Revenue	E	<u>xpenditures</u>	Revenue		Expenditures	Revenue
General Funds								
Cash Funds			· <u></u>					
Federal Funds			· <u></u>					
Other Funds			· <u></u>					
Total Funds								

LB 538 requires that tax incentive performance audits be conducted of the following tax credit programs: The Angel Investment Tax Credit Act; The Beginning Farmer Tax Credit Act; The Nebraska Advantage Act; The Nebraska Advantage Microenterprise Tax Credit Act; The Nebraska Advantage Research and Development Act; The Nebraska Advantage Rural Development Act; The Nebraska Job Creation and Mainstreet Revitalization Act; The New Markets Job Growth Investment Act; and any other tax incentive program created by the Legislature for the purpose of recruitment and retention of businesses in Nebraska.

Each program must be reviewed at least once every three years, and the review must consider several factors defined in LB 538, including the fiscal impact of the program.

The Legislative Performance Audit Committee will notify the agency being audited of the scope of the audit and projected deadline for completion of the office's report. Following the audit, a report will be issued and presented to the Appropriations Committee and Revenue Committee of the Legislature. The agency will be required to implement actions in the audit report, unless waived by the Legislative Performance Audit Committee.

The Department of Economic Development will have some additional costs for providing additional information for the audit; however, these costs can be handled with current resources.

Major Objects of Expenditure									
Class Code	Classification Title	14-15 <u>FTE</u>	15-16 <u>FTE</u>	16-17 <u>FTE</u>	14-15 Expenditures	15-16 Expenditures	16-17 Expenditures		
Benefits									
Operating Costs									
Travel									
Capital Outlay									
Aid									
Capital Improvements									

LB 538 Fiscal Note 2015

		State Agency	Estimate			
State Agency Name: Departmer	nt of Revenue				Date Due LFA:	2/23/2015
Approved by: Len Sloup		Date Prepared:	2/23/2015		Phone: 471-5896	
	FY 2015	-2016	FY 2016	5-2017	FY 201	7-2018
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	\$ 26,300		\$ 27,000		\$ 28,200	
Cash Funds						
Federal Funds					_	
Other Funds						
Total Funds	\$ 26,300		\$ 27,000		\$ 28,200	
	<u> </u>					

LB 538 requires the Legislative Performance Audit Committee (Committee) to evaluate all tax incentive programs created for purposes of recruitment or retention of businesses in Nebraska every three years.

Each tax incentive performance audit will include an analysis of whether the tax incentive program is meeting specified goals, an analysis of the economic and fiscal impacts of the tax incentive program, an assessment of whether adequate protections are in place to ensure that the fiscal impact of the tax incentive does not increase substantially beyond the state's expectation in future years, an assessment of the fiscal impact of the tax incentive on budgets of local governments, and recommendations for any changes to statutes, rules or regulations that would allow the tax incentive program to be more easily evaluated in the future.

LB 538 requires each approved tax incentive performance audit report to be presented at a joint hearing of the Appropriations Committee and Revenue Committee. For tax incentive performance audits, the Committee may waive the requirement that agencies provide an implementation plan within 40 days following the release of the committee report.

LB 538 extends the sunset date for Nebraska Advantage Act Tier 1, Tier 3, and Tier 6 projects and Nebraska Advantage Research and Development Act projects.

It is estimated that there will be no fiscal impact to General Fund revenues.

It is estimated that the Department will need a 0.5 FTE auditor to gather the additional information on incentive programs required for distribution to the Committee.

Major Objects of Expenditure								
Class Code	Classification Title	15-16 <u>FTE</u>	16-17 <u>FTE</u>	17-18 <u>FTE</u>	15-16 Expenditures	16-17 Expenditures	17-18 Expenditures	
A21212	Auditor	0.5	0.5	0.5	\$ 19,800	\$ 20,300	\$ 21,200	
Benefits					\$ 6,500	\$ 6,700	\$ 7,000	
Operating Costs								
Travel								
Capital Outlay								
A * 1								
Capital Improvem	ents							
Total					\$ 26,300	\$ 27,000	\$ 28,200	