[LR444]

The Committee on Tax Incentive Evaluation met at 9:00 a.m. on Thursday, July 24, 2014, in Room 1003 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR444. Senators present: John Harms, Chairperson; Dan Watermeier, Vice Chairperson; Al Davis; Annette Dubas; Galen Hadley; Bob Krist; Heath Mello; Paul Schumacher; and John Wightman. Senators absent: Greg Adams.

SENATOR HARMS: Well, first of all, I want to welcome everyone. And I want you to understand these are now live mikes, okay, and we are streaming across Nebraska just this morning, and this afternoon in our work session we will not be; so I just wanted to caution you about the mikes are now live. And first of all, welcome to all of you for coming, and welcome, Nebraska, those that are watching on television. We appreciate your interest and your involvement in this aspect. First of all, I'd just like to make sure that you, if you would, for me, to turn off your cell phones so that we don't have that kind of interruption. Before we actually get started, there's a couple things I'd like to share with you if I could. First of all, since we are live, I would like to have you introduce yourselves. My name is John Harms. I represent the 48th Legislative District. I am chairing LR444, the Tax Incentive Committee. We'll start to my right, Paul, and to the public's left. If you'll introduce yourself, please. [LR444]

SENATOR SCHUMACHER: Paul Schumacher, District 22. That's Platte, Stanton, and Colfax Counties, parts of them. [LR444]

SENATOR DUBAS: Annette Dubas, Legislative District 34. That's Nance, Merrick, Hamilton, and a portion of Hall County. [LR444]

SENATOR WIGHTMAN: John Wightman, District 36; includes Dawson County, Custer County, and a small part of Buffalo County. [LR444]

SENATOR HADLEY: Galen Hadley, District 37, the city of Kearney and a portion of Buffalo County. [LR444]

SENATOR HARMS: And this is Diane, our clerk today. [LR444]

MARTHA CARTER: I'm Martha Carter. I'm the Legislative Auditor. [LR444]

SENATOR WATERMEIER: Dan Watermeier, District 1, and I live in Syracuse in the southeast corner. [LR444]

SENATOR DAVIS: Al Davis, District 43, which is west...northwest...north-central and western Nebraska. [LR444]

SENATOR MELLO: Heath Mello, District 5, south Omaha and parts of midtown Omaha. [LR444]

SENATOR KRIST: Bob Krist, District 10. That's unincorporated parts of Douglas County, Omaha, and Bennington. [LR444]

SENATOR HARMS: I'd also like to introduce you to Peter Breunig who's going to be our page today. Peter, thank you very much for giving up part of your summer day. We appreciate that. A couple things I'd like to just share with you before we actually get fully into the agenda, is that in your notebooks that we have given you, you will find in Tab 4 you will find the Department of Revenue's reports on tax incentives. By law they have to give a report on an annual basis to the Appropriations Committee and to the Revenue Committee. And I would like to encourage you to review this very carefully before the 28th meeting. I have taken the time to read through this. This is an excellent report. It's in-depth. It's very complex. And I think when you go through that, then I think you'll find how important our recommendations are going to be to kind of simplify this so that the general public can come to grips with and have a better understanding about what's really happening with these programs. But it is well done. It follows the letter of the law. They have included everything that they should by what's required by law. So please make sure that you're prepared to maybe to look at that. If you look in your notebooks on Tab 1, just real quickly, you will see that we have updated our schedule. And I want to note that the briefing that we'll have on the 27th has already been scheduled; the location has been scheduled. It's there for you. On the 28th we will have, we will start at 8:30 and that's where that briefing will take place. Now I'm not going to chair that. That will be chaired by Senator Mello and Senator Hadley, since they are...by law, that's the committee they're reporting to. We will be a part of that but they will be chairing that. And I don't know if you have chosen yet a room, a hearing room, because that's not yet been identified, have you? Okay, it will be 1113. Okay, that's now scheduled? Okay, so that you understand how that's going to work. And then right after that's over, from 10:45, as you'll see, to 12:00, we'll have a little bit of a work session; and then we'll have our public hearing. Okay. Do you have any questions on that calendar or anything that you might have an interest in? All right. The other things that I would like to just bring to your attention, what our goal is today. Our goal today is, by the end of the day, to have a general feeling and thoughts of what we would like to have our staff put together on the metrics and the goals that we want to evaluate on the six programs that we are reviewing, okay? You will note in the information that Bob is going to bring before us, some really great information. It's going to make it a lot easier for us be able to identify the metrics and the goals that we probably want to accomplish and the way...and he'll tell you this as he put that together, you can almost use it for anything and cross them over and back and forth. I mean, it's pretty easy. But it's just a matter of what we want to have for a measurement. And that's why it's so important for you to read that report from the Revenue Department. I mean, it will open up a whole another world for you, and some other thoughts about just exactly what you want to have evaluated and what you want to have actually measured. As I said, this is streamlined. Bob is going to talk about metrics; he's going to talk about economic modeling for us, which will be very helpful for us to get a better understanding about this. This afternoon, we don't have lunch but lunch is on your own. It will be in the cafeteria and there will be...and in the back of the cafeteria, you know, there's that one room that will be there for us to sit in a more relaxed atmosphere and you can talk a little bit about whatever you want to visit about, or about the meeting today. As I said, today this program is live, it is being streamed; but our work session will not be streamed. That kind of brings you up to day with just the housekeeping responsibilities that we have today. Do you have any questions you want to ask before we move on, further on, on the agenda and approve the agenda? Do you have any concerns or thoughts? Seeing none, then I'd entertain a motion to adopt the agenda. Is there such a motion? [LR444]

SENATOR KRIST: So moved. [LR444]

SENATOR MELLO: Second. [LR444]

SENATOR HARMS: Discussion? Those in favor aye. Opposed, same sign. We'll start our briefing now, and I want to just take a moment, if I can, to introduce Bob. You know, he was not able to get here last time because of a plane scheduling problem and bad weather. But on Tab 2, if you open up your Tab 2, you will find his PowerPoint presentation. It's well done. For the public, I'd like to give...since we already have his background and what he's done in his life, I'd like to share this if I could, just for a moment, for the public and the people who are watching. You already have this information before you and I apologize, but I'm going to read it to you again and so those who are watching will have an idea about Bob's background and his experience. He's a policy director of Pew's work on the state's fiscal health and economic growth. He supervises initiatives that help states improve the return on investments from economic development tax incentives and better management revenue projections and volatility. He oversees research on tax incentive evaluation and long-term budgeting practices and directs technical assistance provided to state leaders and including data analysis, policy development, and outreach to key stockholders and the public. He's a frequent speaker of these issues and has presented to state legislators and a wide range of professional and academic associations. Before joining Pew in 2010, he worked for the chief financial officer of the District of Columbia as a manager in the Office of Budget and Planning and then as director of research in the Office of Revenue Analysis. In the latter position, he managed a research agenda that covered tax, budget, and economic policies and practices. He was also a senior policy analyst with the Center on Budget and Policy Priorities in Washington, D.C. He holds a bachelor of arts degree in communications. He has a master's degree in public administration from George Washington University. He comes to us well qualified to give us the help and the assistance. So Bob, welcome. Thank you very much. And if you'd like to introduce your...I guess, Josh. Okay, and give a little background on Josh for us. Appreciate it. [LR444]

ROBERT ZAHRADNIK: Um-hum, yes. Thank you so much. It's a real pleasure to be here and I'm very excited I was able to get here this time, and I apologize again for not being able to make it last time. And I'm joined today by my colleague Josh Goodman, who is a senior researcher on our tax incentive evaluation team. And part of the reason I brought Josh: Josh is probably the only person in the world that's read every evaluation of tax incentives produced in the last couple of years by states. He's a real expert on what these evaluations look like and the kind of information that they can provide, and he's been instrumental in helping pull together the list of metrics we're going to talk about. So my talk is going to focus on sort of a framework for evaluating tax incentives, how to measure economic impact, and then Josh is going to talk some about the metrics and how you can sort of align the metrics with the goals that are already in Nebraska's tax incentives. [LR444]

SENATOR HARMS: Thank you very much. Go ahead. [LR444]

BOB ZAHRADNIK: All right. So to begin, I'm going to talk about and try to sort of help explain how evaluations can provide information and kind of put the tax incentive in the context in terms of how it affects the economy. So, right now, we've been involved in a project where we're working with an economist from the Upjohn Institute, named Tim

Bartik, who's one of the leading experts on the role that taxes play in economic development and trying to understand how taxes and tax incentives affect the economy. So he's been helping us develop a framework and a model that we're then going to work with states that put in place an evaluation process that they can use to help measure the economic impact. So I'm going to kind of walk you through how this framework works and some of the key questions that you need to be thinking about as you work through this process. And any time you have questions, please feel free to interrupt. I'll be covering a lot of different concepts, so please, just stop me whenever you need to. So to begin, sort of the foundational concept of how incentives work is that an incentive basically reduces business costs. And this cost reduction provides an opportunity for companies to maximize their profits by increasing output without having to increase their own costs. So...and when companies are increasing output, what they most commonly do is hire more people. If they're going to produce more whatever it is they produce, the often need more people to do it. But the number of people they hire is going to depend on the size of that cost reduction. So a big factor here is, how big is the incentive and how big is that incentive relative to their business costs? So that's the key question to think about in terms of how, you know, how firms respond is, how big is the incentive compared with the overall business costs of the company? So now, on the next slide, we're going to talk about different industries respond to incentives in different ways. So, and the big question here is, do the benefits appear right away or does it take some time? So once companies have hired more people, they can increase output. Research indicates that a 1 percent cost reduction will usually, on average, result in about a 4 percent increase in business output. That's known as elasticity. So if you can have an incentive that reduces costs by about 1 percent, typically, businesses will respond by increasing output by 4 percent. Now the type of credit or the type of industry that you're incentivizing will impact that elasticity. So 4 percent is an average. Sometimes it's higher, sometimes it's lower, depending on the type of business that you're targeting for the incentive. And one factor is that businesses respond to incentives differently, depending on how much taxes are a share of their overall business costs. If taxes are a big portion of their costs and you're reducing those taxes, they're going to be more responsive. But even so, no matter how responsive they are, it doesn't happen overnight. It's takes time for companies to adjust their operations to respond to the incentive. Research indicates that it usually takes about 17 years for businesses to fully utilize the incentive, and this is known as the long-run elasticity or the speed of adjustment. And let me...I've got a couple of....so this first graph, this is a graph of businesses that are moderately influenced by the price of labor and they need some time to find high-skilled employment. To fill the jobs that are available, it takes time. Next, we're going to look at a different kind of business. This shows an industry that might react more slowly. For instance, a manufacturing company might not respond as readily to job creation if their costs are more driven by supplies or infrastructure. For example, if they have to build out some new infrastructure to take advantage of the tax incentive in order to increase output, that's going to take a little more time, so they're going to be a little slower in reaching the full impact of the incentive. Also, depending on the kind of workers that they're hiring, those workers might need to be trained and that can take time as well; so they may be able to hire the workers but for them to actually do the work that impacts output may take some time to get them trained up. Then you have other kinds of firms that are more...where they're costs are more heavily influenced by labor. Labor-intensive industries, for example, call centers for insurance companies or fast-growing Web-based industry, you might see a quicker impact from the incentive because they don't need as much time. It's mainly about bringing people on. The jobs might not be as high-skilled, so they can be more responsive to the incentive. So to kind of summarize some of the key questions about responsive and speed of impact: So how responsive is the industry to changes in business taxes? In other words, do taxes make up a large portion of their overall costs, or a smaller portion? And then a really question is, are businesses prepared to hire people right away, or do they need time to train the workers and build the infrastructure to support those new workers? And that's really going to depend on the industry that you're targeting. [LR444]

SENATOR HARMS: Bob. [LR444]

BOB ZAHRADNIK: Yes. [LR444]

SENATOR HARMS: When you...listening to this portion of your presentation, it looks like to me that as we look at this that we have to have some flexibility in there if it's going to take...I guess not everything is going to fit each company, so there's going to have to be some flexibility, if it's 17 years for one and it's 10 for the next. I think as we look at this we have to be pretty careful that we don't cut those companies off and hurt them; that we have the flexibility in here in our evaluation so that it doesn't harm them and also gives them an opportunity to grow and develop. Is that accurate or...? [LR444]

BOB ZAHRADNIK: Yes. Yes. There is...depending on the industry and depending on what the needs of that industry are. For example, if you have incentivized a business and that incentive has primarily been for new investment in the company, not necessarily job hiring; new investment, that takes longer. That could eventually have job impacts but it's just going to take longer for it to happen; so you always want to have that time dimension factored into your analysis. And any evaluation you do, be realistic about where on that curve are the businesses, and are there future benefits that haven't been realized yet need to be...are those things that need to be considered as part of the evaluation. But different businesses are going to be at different points of their usage of these incentives. [LR444]

SENATOR HARMS: Okay. Thank you. [LR444]

BOB ZAHRADNIK: Um-hum. So now we get to the question of, are the jobs really new? And the key concept here is, how much exporting are these businesses doing? In this slide we're starting out with this big circle. This is national demand for the industry that you're targeting, okay? And then this next circle, this is the in-state demand for the industry. So this is essentially showing a picture of an industry where there's a lot more in-state demand. There's not as much export potential. So this primarily sort of a specialized retailer that primarily produces things that are bought in-state. There's a little bit of exporting but it's mainly the products are bought in-state. And you have a set of companies that are currently operating in this industry that are primarily meeting in-state demand, and some of what they're doing is being exported, but most of what they're covering is meeting in-state demand. So next, now you've provided an incentive and you've allowed some new companies kind of into this industry and you have three possible things that can happen when you've sort of brought new companies in. The first thing is that you essentially have displaced some jobs that were already there. Because these firms were essentially meeting in-state demand and you've brought another company in, you know, they're just...you've created some new jobs but they're just displacing jobs that were already being filled by businesses that were meeting that demand. But then you have some new jobs. You have new jobs that are meeting some of the in-state demand that wasn't being met by the other firms. And then you have a small share of jobs that are meeting some of the new export demand. So that's one snapshot, and that's primarily for an industry where most of what's happening is happening in-state. Now I want to show a new, a different, example where there's a lot more export potential. And when there's a lot more export potential, what you have is you have existing companies that are primarily meeting the export demand, a little bit of in-state demand. But then if you provide incentive, you see these new firms can now find a space in this industry where they can meet a lot of the unmet export demand, and they're not overlapping with the existing firms as much. So there's no job displacement here. What you really have is some new jobs meeting in-state needs and then you have a lot of jobs that are meeting a lot of this additional export potential. So the degree to which you have new jobs versus displaced jobs is very much dependent upon how much exporting a particular business does. Yes. [LR444]

SENATOR HADLEY: When you say exporting, is that exporting of goods and services? [LR444]

BOB ZAHRADNIK: Yes. [LR444]

SENATOR HADLEY: The product they're making. [LR444]

BOB ZAHRADNIK: Yes. The product itself is being bought by folks outside of the state. [LR444]

SENATOR HADLEY: Okay. [LR444]

BOB ZAHRADNIK: Yeah, that's exactly right. So...and I think sort of the example is retail is very much an in-state kind of business. And if you're incentivizing more retail, you're likely just creating competition between existing firms that may have to lay off workers because of that competition. But if you incentivize manufacturing or something that's produced and then bought outside the state, there's a lot more potential, there's a lot more potential customers outside the state than inside the state; so those are more likely to be new jobs. So that's all about sort of the industry you're focusing on is going to dictate a lot of how much new job growth you're getting. [LR444]

SENATOR HARMS: Now one of the things that I think...questions that constantly has come up with some of my colleagues are, are these really new jobs or are they not new jobs? Are they just paying for jobs that are already there, or have we added new people to their payroll? [LR444]

BOB ZAHRADNIK: Right. [LR444]

SENATOR HARMS: And that seems to be one of the questions that people ask a lot, and I think that's one of the things we want to definitely evaluate to find a way that we could measure that, are these new jobs or are they not new jobs? [LR444]

BOB ZAHRADNIK: Yeah. And I think this sort of, and I'll...so some of the questions to think about, when you're thinking about sort of business expansion and what we call displacement, which displacement means, you know, a new firm has opened up but those jobs have simply just displaced jobs that were happening somewhere else where somebody got laid off because of the competition. So some of the key questions to think about is sort of, first, what's driving the growth in this industry? Is it growth in-state or is there growth and demand for this industry outside of the state, which provides a lot more potential for new jobs? As I mentioned, you know, are the new companies simply displacing businesses at existing companies? Because essentially, when you provide an incentive, if you're providing an incentive in an industry and not everyone is getting it, then you're providing a competitive advantage to one set of businesses, you know, which...and putting another set of businesses potentially at a disadvantage. But if you're doing that to advantage in-state businesses against out-of-state businesses, then you're in better shape. But if you're simply pitting companies in-state against each other, you may just end up with a small amount of net new jobs. Yeah. [LR444]

SENATOR SCHUMACHER: In Nebraska, where we've got very low unemployment, probably close to structural unemployment, is this dynamic any different than in a state that has a lot of unemployment? [LR444]

BOB ZAHRADNIK: Yes. [LR444]

SENATOR SCHUMACHER: I mean, we're talking new jobs and we don't have...we're at structural unemployment... [LR444]

BOB ZAHRADNIK: Yes. And I'm going to get to that in a...in terms of the labor does...is a key factor in terms of particularly how much resident job growth you can get versus potentially bringing in folks from out of the state to fill the jobs. But I will get to that, I think, the next slide. Will new companies bring money into the area by exporting goods? Because if you bring in a new company and they're selling products outside the state, that's new money coming into the state by folks that are buying the goods from outside the state. And then where are the new companies already growing prior to the incentive? Were they already on sort of an upward growth trajectory that you need to account for; you know, did the incentive boost that growth more or were they just already kind of doing well and the incentive had less of an impact? So next we're going to turn to...first, we're going to talk about the multiplier and then I'll get to the labor market. So would there be additional employment spurred by the incentive? Because...and this goes to the fact that...so you're targeting an incentive to a particular set of businesses, but you have other impacts that happen outside of those businesses. So what does that look like? So, first of all, if a company expands its output and hires more workers, it also needs more supplies. And if those suppliers are local, those suppliers may need to hire more workers, so you have additional jobs that are related to...that are indirectly related to the incentive, and those are known as...that's been known as the indirect impact. If you were able to get your...so if you put a car plant, you know, somewhere, and they're able to expand and then they need, you know, additional supplies, additional car parts, and those suppliers need to hire more workers to meet that demand, then that's employment that's indirectly related to the incentive. Then there's another kind of indirect effect. You've got more people in your state that have jobs that are spending more money locally. So that can create additional employment at restaurants and shops where these people are spending their dollars. And that's known as induced employment. So as an example, you have a company that gets an incentive that directly hires 100 new people, and then the suppliers to that company hire 30 additional people because of additional orders from the company, and then local shops hire 20 new people because you've got more people buying stuff, more people with jobs. So what you have is 150 new jobs that you could connect to the incentive, and that's a multiplier of 1.5. You had 100 direct jobs times 1.5; you have 150 total jobs that was sort of the impact of the incentive. And that multiplier is an important concept and there are some things to think about, some questions to think about when you see these multipliers, and you'll often see evaluations that reference multipliers. So one question is about wages, and this goes to sort of job equality: Are the wages for new employees higher than average? And this gets to, is the goal of your program simply jobs, or do you want to sort of raise the standard of living of workers in the state? And that gets to sort of wages and benefits. Did these new companies actually purchase supplies from local businesses, or were they bringing supplies in from out-of-state, which will not have as much of a multiplier impact. Were local services used for companies to expand? Did they use local construction companies and local transportation, that sort of thing, when they started building out their plan? And then a really important question is, what is a reasonable multiplier? Our research has found that a multiplier between 1 and 2 is reasonable. It could go as high as 3. If you see a multiplier that's higher than 3, you really want to ask some tough questions about kind of what is driving that number. And you will often, in some of these studies, you will see multipliers far in excess of 3 or 4, and based on some fairly questionable assumptions. But I think based on our conversations with Tim Bartik and looking at the academic literature, a multiplier will typically fall between 1 and 2. [LR444]

SENATOR DAVIS: So are there good methodology to be able to drill down and determine what the real multiplier is? Is that available? [LR444]

BOB ZAHRADNIK: Yes, that is. And sometimes that's sometimes when some of these outside economic models, like REMI or IMPLAN, oftentimes what happens is states will use those models and those models often...they can be used to come up with a multiplier. Sometimes that's all an analysis will do is only come up with a multiplier and not make any other adjustments, because there's other things going on besides the multiplier. But there are ways and as we develop this model we're also going to sort of have resources available to give a sense of what are reasonable multipliers, depending on the industry and that sort of thing. So that's...there's been a lot of work done in that area, yeah. [LR444]

SENATOR HADLEY: Just so I'm clear,... [LR444]

BOB ZAHRADNIK: Yeah. [LR444]

SENATOR HADLEY: ...our current economic incentive laws and concept does not get involved in the multiplier effect, right? We look at just direct jobs by the company rather than looking at residual effects. [LR444]

BOB ZAHRADNIK: I...and here...so this sort of gets to the difference between sort of what the companies are, sort of contractually, you know, statutorily required to report, and that is direct jobs. What I'm saying is to get...if you're going to do an evaluation of the full impact of the program, then considering these additional jobs is a good thing to do, because these impacts are happening and it's worth considering them. Yeah. [LR444]

SENATOR KRIST: Slightly off subject, but in terms of the multipliers and the intended and unintended consequences of these incentives to bring in new businesses, a real-life example, we have one of the largest growing counties in the world,... [LR444]

BOB ZAHRADNIK: Um-hum. [LR444]

SENATOR KRIST: ...self-professed. With those new businesses come new people, come more schools, come more infrastructure. [LR444]

BOB ZAHRADNIK: Yeah. [LR444]

SENATOR KRIST: And that particular county has issues with infrastructure in terms of sanitary and etcetera, etcetera, etcetera. How does a...besides...below our level, below the state level, how does a county or a municipality take advantage of looking at these incentives and projecting what that's going to do to infrastructure and how that's going to change the dynamic of tax structure and so on? [LR444]

BOB ZAHRADNIK: That's a great question and it's an area that we've started to think about more in terms of what is the state and local relationship when it comes to sort of economic development. Because oftentimes states will provide the incentives and, you know, if you have a local jurisdiction that's growing, they're sort of...they're the ones at the ground level that have to deal with the implications from a...I mean, there's tax revenue associated with it but there's also a service provision that needs to be provided. And I... [LR444]

SENATOR KRIST: The two of them aren't [LR444]

BOB ZAHRADNIK: They don't always line up. [LR444]

SENATOR KRIST: ...that (inaudible). [LR444]

BOB ZAHRADNIK: Yeah, exactly. I mean, particularly, you know, residential growth often ends up costing more than sort of business growth. You sort of need them to happen at the same time so that you're...so they can sort of offset each other. I do...I think it's...I mean, the answer is I think most states need to do a better job sort of coordinating with their localities and sort of...like from a planning standpoint. Like, you know, we plan on making these kind of investments, you know, in your jurisdiction and over ten years this is what we anticipate to be the potential, you know, business growth, and that could mean X number of new residents. You know, are you ready to...do you have a plan to handle that from an infrastructure standpoint? But often I don't know that that's happening as much as it could. [LR444]

SENATOR KRIST: Thank you. [LR444]

BOB ZAHRADNIK: So the next question to grapple with is, so what would happen under other scenarios? And this, the concept I'm talking about here, is called opportunity cost. And this is relevant to, particularly, to state governments, because states operate under a balanced budget requirement, which means any time you make a decision to spend dollars on one thing you're forgoing spending those dollars on something else. And so what the research has shown is that you don't want to just compare your total growth, your total job growth, to whatever the baseline was. You also want to factor in how else could those dollars have been used and what would have been the job impact of an alternative use of those dollars. So let me sort of show this on the graph. So here this is hypothetical. This is employment growth under an incentive over 20 years, and it shows that growth...it shows, from the starting point, employment grew by $1 million over the life of the incentive. However...and let's say this was $1 million; it was $1 million on a tax incentive, you know, targeted to job creation. Now, that $100 million could have been used for something else. It could have been used for infrastructure, it could have been used for schools, it could have been used for a general tax reduction. That would have had some employment impact. Some of the use of that money would have had some impact on employment that you didn't get because you spent it on the incentive. So, in this case, the alternative was about 250,000 jobs. So in this case there would have been a net impact of the incentive; the growth above the best alternative is about 750,000 jobs. So that's just another kind of adjustment to make as you're doing the evaluation and considering the total impact of the incentive. So some questions to ask about trade-offs and the context. So one question is, is the economy already expanding? In other words, is that first dark green area, is that actually already growing; in which case, you want to account for that kind of underlying growth. And the next question, which is...and there's not an obvious answer, but what is the next best or most likely use of the funds? What is a plausible alternative? And we've seen evaluations that have done, that have sort of modeled, okay, we've used it for a tax incentive; what would have happened if we had used it for a reduction in the corporate income tax; or what would have happened if we had used it on, you know, just general spending in the economy? Because any time the government spends money in the economy, there is some economic benefit to that. It might not be as productive, because you're trying to meet other goals other than grow the economy, but it has some economic impact. And then, how much did the economy grow beyond what would have occurred otherwise, just after you've considered the alternative use? Yes. [LR444]

SENATOR HADLEY: This is, I guess, one of the crucial questions to me, because if we're assuming we have extra money and we can use it for incentives or we can use it for education or we can use it for health, but that assumes, doesn't it, that these companies are going to expand without the incentives and pay the taxes that we would have been giving them back and we would have the money to do other things. And the key question is, will the companies actually do the expansion, increase the labor force, without the incentives? Because if they don't expand, if they don't increase the labor force, if they don't do it, we have no extra money. Is that a...? [LR444]

BOB ZAHRADNIK: So in this case...so I think...I mean, I think you're talking a little bit more about the but-for question, which I'll get to. I think in this...this is just isolating...you know, you have a certain amount of money to spend and you're deciding...you've decided to spend it on incentives. You could have spent it on something else. Just factor in that if you would have spent that on something else, there would have been some amount of economic impact from that other kind of spending. That's all this is getting at. This isn't getting at whether or not...this isn't tackling the but-for question just yet. This is just there would have been some economic activity associated with using the money in some other way, and that's all. But I will get to your other question. Yes. [LR444]

SENATOR KRIST: When you get to that question, following that is we have models, examples within the state that refuse, for example, to use TIF and yet they have grown exponentially over other communities that have. And when the TIF community grows, it loses tax revenue. When the other community grows at the rate that they would normally, they continue to increase the revenue. So when you get to the but-for, I'd like to see that (inaudible). [LR444]

BOB ZAHRADNIK: Um-hum. Sure. I think we're finally at...yes, so this gets to the...this is the labor market question. So how much did...and this is, how much did state residents benefit? So state residents benefit from incentives in different ways, and the state's labor market and the type of jobs will play a role in how many residents, state residents, will directly benefit from job creation. So this...and the framework that I'm walking you through uses existing research to examine whether new employees came from the current labor market or came from out of state. And I'll use the movie industry as an example because it's fairly straightforward, but this can apply to other industries. So if your economy doesn't have workers with the skills needed to produce a movie, and you incentivize film production, it's likely those workers are going to come from out of state to fill those jobs. Now, if over time, you're producing a lot of movies in the state, then maybe some of those workers will decide to move into the state because there's more...because there's steady employment in that industry. And also you could have people that are living in your state may decide to go get trained to learn about how to do film production so that they could fill some of those jobs, and then over time you may have a supply of workers in the state that can fill those jobs. The other issue here, and this goes to the earlier question, is the tightness of the labor market. So the first question...and concepts I'm talking about here, one is migration and the other leakage. Migration means people coming from other states to fill the new jobs that you've incentivized. And leakage means the benefits of the incentives leaving the state because out-of-state firms are finding ways to take advantage of the incentives and that money is going somewhere other than Nebraska. So the first question is, is there room in the economy to support more jobs? And this gets to, if you have a really tight labor market without a lot of...with low unemployment, there isn't as large a supply of resident workers to fill the jobs. So that's one fundamental question. But then another question is, even setting that aside, do the residents, do in-state residents actually have the skills to fill the new jobs? So depending on types of industries you're targeting, you know, does there need to be a job training component combined with the incentive, to ensure that the residents actually have the skills to fill the jobs? Are the new jobs attractive to out-of-state residents? In other words, are these jobs that are either, you know, really high wage or really specialized so much so that someone would be willing to move from somewhere else to fill these jobs? And then finally, do the companies that get the incentives for spending out of state? And this particularly applies to film production, because oftentimes you have companies that come into this state, claim a lot of benefits, and then sort of...a lot of that money just flows back to wherever their base of...wherever that industry base is, typically, in California. But other states have sometimes structured incentives in such a way, not necessarily intentionally, where out-of-state businesses could claim some of the benefits. So you want to at least make sure that you're not...that...you want to minimize the amount of leakage from these incentives to out-of-state firms. Did that answer your question? So now, I'm going to try to pull all this together, all these concepts together, and kind of show kind of the magnitude and direction of change that happens based on all these concepts. So we start with going back to the beginning. So you're providing an incentive to a particular industry, and that incentive has a certain dollar value. And depending on the size of the incentive and the cost structure of the business, the way this model works is you can calculate sort of what is the plausible job creation that could happen in an industry given the size of the incentive. You know, if an incentive is really big and taxes are a major part of an industry's cost structure, then you're going to have more plausible job creation than if the incentive is small and taxes aren't all that important. But this model begins with a calculation separate from what the businesses are reporting of what's a plausible amount of job creation based on the size of the incentive and the industry. Then you adjust these figures for the fact that it takes time for businesses to respond to the incentives. So this gets to this elasticity and the fact that, depending on the type of industry, you know, if they have to build infrastructure, if they have to train workers, if it takes them time to find the workers to fill the jobs. All this stuff takes time, so you're not going to see an immediate impact. And this is important because sometimes there's a thought that incentives are something that can be used to sort of immediately stimulate the economy, and that's not really the role incentives can play. It just takes too long for these things to kind of work their way through the economy to see an immediate impact. But it also goes to the point of when you're evaluating them, to sort of make sure you consider the fact that these things do take time and to give yourself enough time to sort of, to understand the impact. So then, and this goes to this export question, depending on how much exporting the industry does, there will be some amount of job displacement which reduces by some amount the jobs that you can directly attribute to the incentive, because you need to net out those jobs that were simply displace. But then on the positive side, you could also factor in the indirect job creation. So these are the jobs related to the suppliers and then the induced employment related to other businesses in the state that are benefiting because of the growth in the industry. But then you have a downward adjustment for opportunity costs. And this gets at you spend $100 million on an incentive. That $100 million could have been spent on something else that would have had an economic impact, so you want to adjust your net impact to account for those opportunity costs. And then, depending on the employment picture and how the incentive is structured, some of these benefits will go to current residents but not...but some will also go to people moving into the state to fill these jobs. So this line is a subset of the total job number, the benefits to the current residents. So then this is kind of the final piece of the puzzle. So this is the...and these are hypothetical numbers although they are reasonably realistic hypothetical numbers, but they don't reflect Nebraska data. But where you're often starting from is the jobs reported by the businesses that received the incentive. Like, that's sort of your typical baseline. What this is now showing is based on reasonable economic assumptions about, you know, how firms respond to incentives, multipliers, displacement, you end up with what is sort of an estimated reasonable amount of job creation. That's the blue line. The green line is what the businesses reported. So this is one...this is sort of an indirect way to get at the but-for question, because the difference between the green line and the blue line is essentially jobs that likely would have been created anyway. Or another way to thing about it is jobs that just, given the size of the incentive, it's just not plausible that the firms could have gone to that level of job creation with the incentive. They may have reported that so that probably means they included some stuff that was happening anyway. So this is kind of...this would, at least, put into perspective how much job creation you could attribute to the incentive versus what the business is reporting they said they created. So that's the end of my conversation. Before I turn it over to Josh, are there any additional questions kind of on this set of concepts, before we turn it over to Josh on the metrics? [LR444]

SENATOR DAVIS: So in this last slide, the hashed line is the actual job creation? [LR444]

BOB ZAHRADNIK: The hashed line is the...that's the...the hashed line is the resident job creation. The blue line is the sort of estimated total plausible job creation and the green line is what the businesses reported. [LR444]

SENATOR DAVIS: Okay. Thank you. [LR444]

BOB ZAHRADNIK: Um-hum. [LR444]

SENATOR HARMS: Do you have any other questions? Well, thank you. Josh. [LR444]

BOB ZAHRADNIK: Okay. All right, so let me talk it over...turn it over. Do you want to...? [LR444]

JOSH GOODMAN: Yeah, maybe we can... [LR444]

BOB ZAHRADNIK: We're going to switch seats here so we can take the controls. [LR444]

JOSH GOODMAN: Well, great. Thank you so much for inviting us. It's great to be here. So Bob talked about sort of you how measure the impact of an incentive. The focus of my portion of the talk is going to be more on what you measure. And I'm going to mention a lot of specific metrics that states have used in their evaluations. I'm also going to talk about sort of some rules of the road when you're selecting metrics, and then at the end I'll talk about a potential process for Nebraska to select metrics. And so the first step when you're selecting metrics is coming to some kind of agreement about the goals of incentives. A metric is nothing more than something you're measuring to tell you whether your goals have been achieved. And so we looked through the legislative findings on Nebraska's tax incentives, where every one of Nebraska's tax incentives has in law a legislative finding section that describes something, the purpose that the Legislature had in mind when it created the incentive. And in looking through those, you know, we tried to sort of group them and organize them, try to figure out what the core message is in those were. So I'm going to tell you sort of what those three goals are. But, of course, as policymakers it's really up to you to decide if those goals are what's most important for you. So the first one is strengthening the state's economy overall. And these are incentives, like many of the (inaudible) Advantage Act that are broadly available to Nebraska companies. They're focused on creating jobs, making investments, business investments. They're not...there are some limitations on what businesses can claim them, but, in general, they're not sort of narrowly targeted. They're focused on the economy as a whole. And then, secondly, they're incentives designed to revitalize rural areas and other distressed areas of the state. And so these are your geographically targeted incentives. Something like the Nebraska Advantage Rural Development Act would be an example. [LR444]

SENATOR HARMS: I'd like to just talk to the committee just for a minute. This particular area, if you look at the report that the Revenue Department has given us to review, you will find that I don't think there's very many people in rural Nebraska involved in this category, and I think it's an area that we're going to have to address. I'm not so sure even about the distressed areas. I'm not sure how much we've paid attention to that. We probably have. But I have a real concern when I looked at it and saw the cities that were involved in rural Nebraska. There is not a lot of money in that aspect. I think the total is about $2 million, if I recall, that was available for that particular area. So I think those are all things we're going to have to take into consideration, because if we're going to revitalize rural Nebraska, we're going to have to get them involved, and somehow that's just not happening. So I just wanted to bring that to your attention. So look at that, because it's pretty clear in the report. It's got all the cities and identified those are participating in these and those that have received the dollars. There's not a lot. And I don't know if it's just that they don't have access to or understand it's available, or whether they have people that can put all of that together for them, I'm just not sure. I think it's an issue that we as a committee need to make sure that we understand the area that is probably struggling the most in this economy, from a population base moving from rural to urban and out of the state, is rural Nebraska. And somehow we've got to find a way to address that issue. Bob. [LR444]

SENATOR KRIST: I'm going to go back to and nail the infrastructure question again. We have parts of Nebraska that are not accessible either for essential air travel or roads. And you can't build or expand communities unless you have that kind of availability. So when I looked at that report, I see the gaping hole in there is you can grow it if you can bring a company in, and the only way you're going to bring a company in is to have essential traffic flow in and out of that community, so. [LR444]

SENATOR HARMS: Yeah, see, I agree with that. The other side of that is connectivity technologically. You know, just having connectivity in rural Nebraska would make a big difference for people relocating and being able to work in their homes and that sort of thing. So I think all of that has issues that we're going to have to somehow come...we're going to have to have a discussion. As you progress into the future, you're going to want to look at those things. I think those are really issues. And I don't think it's so much around the capital area. It's the further from here that you go west is when you begin to see it just slowly drop off. You get where I live and it's almost gone. You don't see it, so. Thank you, Josh. [LR444]

JOSH GOODMAN: Great. Yes, thanks. And a little later I'm going to talk about sort of how you might set metrics for some of these programs for rural and distressed areas that might relate to some of those questions. And so, third, there's a goal to diversify the state's economy and sort of position Nebraska for the future. And so these are incentives that are targeted to small entrepreneurial firms, high-tech firms, renewable energy firms, those kinds of companies, and so it's really about sort of how can

Nebraska be ready to be an economic success for the next generation. And one good thing about these goals is that they're goals that are very similar to a lot of other states' goals, and they're similar to tax incentives in other states that have been evaluated. And so there's a lot of examples out there of metrics that other states have used to evaluate programs that are very similar to the programs in Nebraska. So what I'm going to do next is I'm going to talk through each one of these three goals specifically and just sort of say, you know, what might you think about when you're setting metrics. [LR444]

SENATOR DAVIS: Josh, before you do that, can I ask just a question, and maybe it would come later. But you say ours are similar to other states. [LR444]

JOSH GOODMAN: Um-hum. [LR444]

SENATOR DAVIS: So is there a variation across the nation in terms of how these are done? And so we're here in the center of the Great Plains. Are we similar to the Great Plains states or are we talking are similar to coastal states? [LR444]

JOSH GOODMAN: Really, I would say similar to most of the states, that there are basically three ways you can target an incentive. You can target it based on the activity--so job creation, something like that. You can target it based on the geography, which is where distressed areas come in. And you can target it based on the industry, and that's where some of these, you know, entrepreneurial ones come in. And I would say the one difference is we haven't seen that many evaluations of incentives targeted towards rural areas specifically. What you see more often is, like, enterprise zone programs, things like that, where it's a distressed area that might be urban or it might be rural. But I think those still provide ideas for metrics. So one thing that's a little bit different in Nebraska also is, with the Advantage Act, you kind of have a lot of different incentives wrapped into one program, which there are some other states, like Arkansas, that do that; whereas other states, maybe they would have similar incentives but they would call each one something different. But that's really more a matter of presentation than the substance of the incentives. [LR444]

SENATOR DAVIS: Thank you. [LR444]

JOSH GOODMAN: So, first, strengthening the overall economy. This is where you were talking about jobs or wages or business investment or measures of overall economic activity, things like gross state product, are often what states have measured. And one thing that's part of this is often, it's not only the economic impacts of the programs but the fiscal impacts of the programs. And that's an important consideration in that what you're interested in is often the return on investment of programs: Are we getting a good bang for our buck? The one caution that I would make is that occasionally we see evaluations where this is sort of treated as the end-all and be-all of metrics, that the goal is for the program to pay for itself in returned tax revenue to the treasury. And I think it's important to remember that the goal is strengthening the overall economy, and so it's important to be thinking not just about the fiscal impact but also the economic impact. Secondly, it sorts of important to focus on what is the ultimate outcome that you're looking for. And generally, what states have cared about is the outcomes that affect the well-being of their state residents. So clearly, something like jobs matters to Nebraskans, or wages matters to Nebraskans. And there are other things you might measure that might more be sort of strategies to achieve those ultimate outcomes. And so I think a good example here is something like business investment where it isn't the investment inherently that helps someone, it's what comes along with that; and so you might be interested in measuring investment, but the reason you're interested in that is because if a business builds a new factory, those are jobs that won't just be here for the next year. Most likely, that company is planning for those jobs to be here for a long time. So it's a long-term job investment. And so you can...getting back to sort of what Bob said about timing, something like investment could play into sort of long-term job creation. An evaluation in Washington State sort of took this perspective. What it did is it showed how additional research and development spending that was brought about by an incentive then translated into higher employment at those companies. And third, one of the goals of the Advantage Act is to create high-quality jobs. And in thinking about what that means, clearly, wages are part of that, benefits are part of that, but there are also other considerations that are worth thinking about. So one is this whole question of, are Nebraskans getting the jobs or are people coming in from out of state? Just in the last few weeks, there was an article out of Georgia where both the film office and the film production companies that are coming to Georgia to make movies were concerned because a lot of the people working on those films were coming in from out of state and not just sort of the big-name Hollywood actors but the, you know, people on the crews working on them. And this was kind of a concern from the company's perspective because it would be cheaper if they didn't have to bring in workers from elsewhere, and it was also a concern from the film office's perspective because what they're really interested in is jobs for Georgians. And so they were talking about, well, how can we train more workers who can fill those jobs in Georgia? [LR444]

SENATOR HADLEY: Josh, just a quick question. [LR444]

JOSH GOODMAN: Yes. [LR444]

SENATOR HADLEY: You know, we're talking about setting metrics. And this is metrics to see if current programs are working? Is that...is it a kind of circular thing? We have economic development programs in Nebraska, and what we're really talking about here is trying to develop a set of metrics to see if they're meeting our goals, which we'll then use for feedback to potentially change our work or modify, is that what you mean? [LR444]

JOSH GOODMAN: Yeah, yeah. That's precisely. Yeah, that's exactly right. Yes. [LR444]

SENATOR HADLEY: Okay. I just want to be clear that this is kind of a loop-type of thing. [LR444]

JOSH GOODMAN: Right. [LR444]

SENATOR HADLEY: And this is the evaluation part of the loop. [LR444]

JOSH GOODMAN: Yes, that's exactly right. And so you could think about these things also if you were creating a new incentive. But that's definitely what I have in mind with this presentation, is...yeah. [LR444]

SENATOR HARMS: Josh, how many states have a long-range plan to determine what they want to be when they grow up? (Laughter) In other words, if they're going to target high-tech firms, and they look at their educational training programs and know that they don't have experience, do they start beefing that up? Or how many have a plan that says, this is what we want to be, this is the target we're going to go after so when we reach that target we have the trained personnel there? We're ready to go. We say, we've got the people, we've done the training through the community colleges, the universities, wherever, however, how high you have to go in the technology. Have other states gone that direction? [LR444]

JOSH GOODMAN: You know, I don't have an exact count of states, but definitely that's something that a lot of states are thinking about. And I know in Nebraska, for example, there was the Battelle study a few years that I think some of that was in there. And so certainly it's important to be thinking about, okay, you know, we are talking about the incentive, defining, okay, is this a program that's supposed to work over the next five years, or is this something that has longer-term goals, and what are those goals? And what part of...what role does the incentive play, a tax incentive? And what role might other state policies play, whether it's higher education or work force training or things like that? [LR444]

SENATOR HARMS: See, I think that's a big issue. I mean, I think it has to be a concern of ours on the basis that if we have the baseline educated, trained work force for the target that we're going to go after, that will prevent us from having other people from out of the state coming in and taking the jobs. That's my point. [LR444]

JOSH GOODMAN: Right. [LR444]

SENATOR HARMS: And I think that's something you have to think about, because a lot of times we just kind of do the scattergun approach and we say, well, this is a company we want and we're going to bring them in here because they are looking at Nebraska--which is great. But a lot of times you don't have the educated work force to be able to deal with it. And that's what I just wondering. That's the reason I was asking the question. Because the two have to be connected in the future because it's going to be much more high tech and we're going to find that we are truly in competition with a whole new global economy and you can commute from your home...I mean, you can communicate from home and set up a business and a company. So I guess that's kind of what I was interested in knowing, because I think that's really important for Nebraska to realize. If we're going to rejuvenate rural Nebraska, rural Nebraska has to decide what their target is going to be and then make sure we have the educated work force, we prepare our schools or career academies and that sort of stuff, start gearing up for that sort of thing, or I think we'll fail. I don't know. That's just my views. I'd be interested in any comments of my colleagues on that issue, what your thoughts are. Is that kind of discussion on target or is it just kind of out in left field? [LR444]

JOSH GOODMAN: No, that's definitely on target. And what we see in high-quality evaluations is they'll put a...they won't just focus on the tax incentive in isolation. They'll be putting it in the context of other programs that are designed to achieve the same goals and looking at things like, are these programs coordinated? Questions like that can be really helpful, I think, in evaluations. One other point on job quality I would make is that often it's just as valuable for an incentive to help someone move up the economic ladder as it is to just sort of pay a high wage. And so helping someone make $40,000 a year instead of $30,000 could be just as valuable to you, potentially, as helping someone make $140,000 instead of $130,000. And one place we saw this concept in an evaluation was a study of Massachusetts' life sciences incentives. And when you think about life sciences program, you would sort of expect the evaluation to talk about all of the Ph.D.s, all of the six-figure salaries and things like that. And certainly that document was looking at metrics like that. But they were also concerned with...one of the points they made was that half of the jobs under this incentive didn't actually require even a bachelor's degree. And rather than presenting that as a bad thing, they were presenting that as a good thing because it meant that there would be opportunities for more different people from Massachusetts to move up the economic ladder. So secondly, for revitalizing rural and distressed areas, many of the same metrics that I just talked about, things like jobs and wages, would also be relevant. You would just be sort of measuring them in those specific areas, but there are also specific considerations related to these types of incentives. And so I think this gets back to Senator Harms's point, a lot of evaluations have had a lot of success determining to what extent the incentives are reaching their target areas. An example of this was a Minnesota evaluation of their job opportunity building zones program. And what this evaluation did is, first, it sort of rated counties by their level of distress. And so they looked at things like population loss or poverty rate or unemployment rate to figure out sort of what are our distressed counties. And then they looked at whether job creation in this program was correlated with those measures of distress. So were the jobs going to the most distressed areas? And in this case they really didn't find a correlation, and so that led them to conclude that, hey, maybe there are ways we can improve this program to focus it more tightly on the areas that it's supposed to help. The second, sort of getting back to the point that incentives are supposed to help people, you can look at whether the incentives are actually helping the people living in the areas. And so one thing that a Maryland evaluation of their enterprise zone program did is it looked at what they called a skills mismatch. And the idea here was to study whether the residents in these zones had the necessary skills to fill the jobs that were created in the zones. And in some zones more of them had the skills, in some zones less. There was one area where they found that 90 percent of the jobs required at least a high school degree but that a quarter of the residents lacked a high school degree. So from that it was clear that this incentive couldn't possibly help all of the people who were looking for work in that zone. And so I think that kind of analysis can be helpful to identify, you know, maybe there's some additional policy intervention we need here. Maybe it's work force training, maybe it's something else, to make sure that the benefits are spread broadly. And third, another thing that we've seen a lot of evaluations do is compare the distressed area to either a different part of the state or the state as a whole. And this can be a really effective way to conduct an evaluation, but it's sort of important to be cautious when doing so. So sometimes what we'll see is they'll look at some very broad economic indicator, like per capita income or the poverty rate in the zone, and compare that to the state as the whole. And I think the thing to remember when doing that is there are factors besides the incentive that could affect those things if, say, you had a drought that hurt rural Nebraska and reduced per capita income, that might not affect Omaha or Lincoln. And so that would have nothing to do with the effectiveness of the incentive. And so it's just a cause for caution when conducting that type of analysis. So third: diversifying the state's economy. One thing that Martha shared with us was the report from Invest Nebraska to the Innovation and Entrepreneurial Task Force, and...which I know some you participated in. And I thought that was a really useful document because it had, you know, a lot of good metrics in there. Some of the conclusions were the same points that we were interested in making. So I think that's a useful resource for you when you are talking about setting metrics for these types of programs. One of the challenges, which is a challenge with any incentive but especially for these types of incentives, is around timing. And so these are programs that are designed to position the state for the future, but you as policymakers likely don't want to just wait 10 or 20 years to find out whether the program is a success. So one thing evaluations have done to deal with that issue is they've measured incentives' effects on business outputs and business outcomes. And here what I have in mind, for example, is a Michigan evaluation. And one thing it studied, this was an evaluation of a program for sort of small entrepreneurial tech firms. And so one thing it studied was their patent productivity, you know. And the reason to look at that was if a company is successfully applying for patents, that might mean that in the future it's going to be able to commercialize these products and ultimately be a success. So it's sort of like an interim measure on the way to what you're actually hoping to achieve. This study also looked at whether the incentive was affecting firm survival rates. And so these are, you know, small startups, a lot of them aren't going to make it more than a few years; is the incentive helping more of them survive? And that Michigan study also looked at sort of follow-on financing. So what it looked at is whether the incentive helped these companies be more likely to get funding from other sources; in this case, specifically, from federal grant funding. So that can be a way to see whether your investments are sort of leveraged and lead to greater benefits for these companies that help them to grow. And then finally, also for these kinds of programs, job creation is important. For example, an Iowa evaluation studied the number of Ph.D. scientists and engineers in the state. That was an evaluation of their research and development tax credit. And the only thing to be cautious about is when you're comparing these programs to others that are designed to work on a quicker time line. You know, these programs might not right away have the same level of job creation, but that's just because they have a different sort of time frame that they're designed to work on. So the question then I think for you is, how do we decide on metrics? And one thing that's really challenging is that there are just a vast number of metrics that are out there that states have used, and then, many times, even something that's more or less the same, like jobs, could be described or measured in a lot of different ways. So one thing that might be helpful is to, first, develop guidelines for setting metrics. You know, what are some principles that our metrics ought to follow? And so some of the lessons I talk to for each of the specific types of incentives could be guidelines for those types of incentives, and I think there are also sort of some overall guidelines you might consider. So first, getting back to the point I initially made. One could be to select metrics that reflect the goals of incentives. So, for example, if you have a program that's targeted towards high-quality job creation, it wouldn't be sufficient to just only measure the number of jobs, because that wouldn't tell you about quality. So that's an important consideration. Second, you want to consider the available data. And so there's no sense in picking something that sounds great to measure if there is no way the state can make the calculations. And what we've seen is data can come from a lot of different places. It could come from the companies receiving the incentives, but it could also come from a variety of existing state records. Third, you want to use clear and consistent definitions. And here, as a cautionary tale, I'll mention an evaluation in Washington, from their legislative auditor's office, and what I found is that beneficiaries of an incentive both reported creating 19 new jobs, but over the exact same time frame reported reducing total employment by 3 jobs. And what the auditor said is, we really don't know what to make of this; it's not clear what really happened because these numbers are in conflict with one another. And so that's where consistent definitions matter. You know, how do you set an employment baseline; how do you count new jobs when companies are constantly both gaining and losing workers? So you want your metrics to be based on...with...make...have answers to those questions when you're deciding on your metrics. And next, coordinate to allow for comparisons. Here I think a Michigan evaluation of their film tax credit kind of brings home what I have in mind. What this evaluation found was that in 2009, the film tax credit, qualifying production companies taking advantage of that credit hired around 4,000 workers. But those 4,000 workers translated into only 350 full-time equivalents. And if you think about the film industry, that kind of makes sense, that you often will be only making a movie for a few weeks and then you're done; so your 4,000 workers translate into 350 full-time equivalents. So let's say you wanted to compare that program to another program that was designed around more ongoing or permanent job creation. Using full-time equivalents as a metric would allow for more of an apples-to-apples comparison of those programs, rather than just counting the number of workers that were employed at any time on those forms. And then, finally, choose metrics to rigorously measure economic impact. So this gets back to Bob's presentation, and think about metrics that are designed to make those kinds of calculations. For example, a Louisiana evaluation used net new jobs as a metric. And what "net" in net new jobs meant was they were going to talk about the displacement that Bob described. And so this was a program where some of the companies taking advantage of it were manufacturers, but there were also things like grocery stores or restaurants that could take advantage of it: economic sectors where there's a lot of job displacement. And so ye defining their metric that way, they sort of signaled to, as part of the evaluation, hey, we're going to take into account that displacement and look at the net number of jobs. So finally, the first step then is to set guidelines for metrics, and then kind of what happens after that I think is obviously up to you. One idea would be to then sort of not make final decisions about the actual metrics but leave that to the office that's conducting the evaluations and have them follow these guidelines. Another option would be for you as a group to settle on metrics, or there were a lot of sort of in-between areas, so it could be that you settle on questions that you think the metrics should answer, something like: Are incentives for distressed areas effectively targeted to those areas? But then...and maybe potentially suggest a few metrics that could measure that but then still provide some flexibility to the evaluation office to decide what it wants to measure. And then, finally, I think it's crucial that as Nebraska conducts tax incentive evaluations, legislators and the committee overseeing the evaluations provide feedback on the metrics so that this is an ongoing conversation. So that's all I have and if there are more questions I would be happy to answer them. Yes. [LR444]

SENATOR KRIST: No pun intended, but same church different pew. We've been talking about growing businesses and new businesses and growing jobs. I proposed that we have a billion-dollar building project in the metropolitan area and we failed to incentivize using local businesses to do what they needed to do within the project; hence, the contracting for steel workers, etcetera, was brought in from outside the state. And although that does well for motel and hotel industries, it does very little to pay for our education infrastructure, because those people are not paying taxes specifically in the state of Nebraska. Are there examples out there of incentives that have incentivized those kinds of building or structures in the building industry per se to use local talent before they go someplace else with some incentive? [LR444]

JOSH GOODMAN: You know, I think there are programs like that. I don't have a great deal of background in them. Definitely there are examples of tax incentives where there is a preference given to in-state labor. And so a company might get a larger tax incentive if it's going in-state as opposed to out-of-state. And generally, for states, the preference is in-state labor. There are circumstances, like if you have an area that's suffering from population loss, there might be benefits of bringing in people from out of state so you can stabilize that and have a, you know, sort of keep your tax base in line. But generally, the preference is for in-state labor. [LR444]

SENATOR KRIST: And what's the...and I'd be interested in hearing, you say it's not your area of expertise, but is there an unintended consequence of potential interstate commerce issues with, then, other states? If everybody wanted to have everything happen in their own state rather than across the state lines, what's the unintended consequences of something like that happening? [LR444]

ROBERT ZAHRADNIK: I would just say...and this goes to my own experience. I worked for the city of Washington, D.C. And this is really...it's more of a local government issue. Oftentimes, local governments, when they're doing projects, they'll have local set-asides built into their sort of procurement or sort of...when money is going out the door, there's a requirement or at least there needs to be a good-faith effort to hire X percent of local businesses. That's often where it plays out. And the unintended consequence can be more in terms of, you know, is the...are there sufficient local businesses with the right kind of...you know, with the right skills to fill those? And then sometimes you end up with kind of a...there can be sort of games that are played where, you know, a sub...you know, there will be a main contractor that's out of state and they'll subcontract, they'll have a requirement to subcontract with local workers just to meet that requirement. And those local subcontractors really aren't...the only reason they're on the project is to fulfill that requirement. Yeah, and so that's just...it's just something from my own...that I know has happened. So it's just...you have to be careful with that as well. [LR444]

SENATOR HARMS: Senator Hadley. [LR444]

SENATOR HADLEY: Our system is basically performance based, meaning that companies must perform, if they say they're going to hire 50 new jobs and they're going to put $30 million into capital expansion, you know, our Department of Revenue actually goes through and counts people and looks at invoices for those kinds of things. Is that a common occurrence across the nation that incentives are performance based? Because at times we hear from DED and other organizations that they would love to have systems that says, well, we're just going to excuse you from paying sales tax rather than you paying sales tax, you meet the performance, we give the money back to you. Does that make sense? [LR444]

JOSH GOODMAN: Yeah, and it's really a mixed picture. So there are a lot of incentives out there that are performance based, but there are also a lot of them that are not. And so it's really...it's sort of all over the map. And in some states, we've done some work in Oklahoma, for example, and they have sort of their main economic development incentive, which is very much performance based. But then they have a variety of other credits on the books where there aren't any of those requirements associated with it. One thing that an evaluation could do is sort of look at, okay, these are the performance standards the companies are supposed to meet. There's this question of sort of accountability: Are they doing what they are supposed to do? But then there's the separate question of, have we set the standards at the right level? If we made it a requirement of 20 jobs instead of 30 jobs, would that get better results? Or if we moved, bumped that up to 50? And so that's the kind of area where I think evaluations can kind of get into the subtle details of a program to try to highlight, okay, this is what would work the best for the state. [LR444]

SENATOR HADLEY: We also, just a follow-up on that, we also do not get information on those companies that do not meet the target goal yet they might have met half. The incentive was based on 100 new jobs and $100 million of investment, and they got 50 new jobs and $50 million in investment, and we give them nothing back. So we don't have a method of saying, what's the impact on those companies that do not meet the standards? Which means we have not incentivized them at all,... [LR444]

JOSH GOODMAN: Right. [LR444]

SENATOR HADLEY: ...and will not incentivize them, yet they have met part of (inaudible) our economic (inaudible). [LR444]

ROBERT ZAHRADNIK: And one other point is Nebraska's performance system that's very much sort of...that's the front-end sort of accountability mechanism, and that's very much about ensuring that individual companies kind of meet the requirements of the program, which is...and that's definitely a good practice from the front end. Back-end evaluation is much more focused on the overall economic impact of the program itself. So you're sort of...you're going to a somewhat higher level and you're...and as we talked about earlier, you're considering factors that go beyond the program, sort of how did this incentive potentially have an additional positive impact in terms of multipliers, or was there some displacement, none of which is written into the program. But it's...if you want to get the fuller picture of the economic impact, you consider those factors. So these two things can work very much, you know, in concert with each other. Having a solid sort of up-front, you know, performance based program is excellent for compliance and making that sort of taxpayer dollars are going to where they're supposed to. And then on the back-end it's more about, are we meeting our economic goals for the state? [LR444]

SENATOR HADLEY: And we have not done a good job of going back and looking at our incentive programs to say, you know, 50 jobs and $100 million, is that appropriate in this level or that level? We've just kind of...because I asked the question last time, and I think the answer was that we really haven't analyzed whether or not our levels are appropriate. [LR444]

JOSH GOODMAN: Um-hum. [LR444]

SENATOR KRIST: Is it that we're not getting the feedback from it, or is it they can't take advantage in any (inaudible)? [LR444]

SENATOR HADLEY: Well, we get feedback...I guess we haven't asked for feedback. We asked for reports that so many companies meet the goal, so many signed up for it, but we don't know whether that...we don't have data on whether or not that's...the goals are still appropriate. Are they...you know, some of them were set years ago and we haven't looked at...and maybe that's what doing the metrics will allow us to go back and complete the loop and say, instead of $25 million of investment maybe we need to expect $50 million in investment. [LR444]

SENATOR DUBAS: I'm not sure if this fits in what we're talking about here, so I'm interested in your take on it. As I've visited with businesspeople and I've gone to sessions on incentives and economic development, I've heard tax incentives are not a top priority when businesses are looking at either expanding or starting from scratch. What they're looking at is a ready work force, a good education system, a solid infrastructure, roads, technology, all those other things. So like I said, I'm not sure if that should be part of this discussion or not. [LR444]

ROBERT ZAHRADNIK: I won't answer that question but I will say...I mean, there's a lot of academic literature on sort of what role do taxes play generally in business location decisions and the economic climate. Actually Tim Bartik, who we're working with, has done a lot of that work. And sort of the short answer is that taxes are one of the things that matter and it's...but it's not necessarily the most important thing, but it is a factor. And it matters more once, you know, businesses are making decisions about...so they may take a national view and decide, you know, which region we want to locate in. That has very little to do with taxes because that's more about the labor market and, you know, infrastructure and that sort of thing. Once they decide on a region, taxes become a little more important because now a lot of those other things are all the same...it's the same labor market, you know. So if they're trying to decide between, you know, states that are near each other, taxes become a little more important at that juncture. But it's still...but those other factors still matter. I mean, it's a...there's no...it's not a yes or no kind of question. I do think this sort of goes to an earlier point about, you know, what is your economic development strategy. I mean, if there are certain types of businesses that you really want to attract for a very specific reason, tax incentives provide that kind of targeting mechanism to say, you know, we want to grow this particular industry so we're going to devote resources to trying to get those kind of businesses here. But by the same token, let's make sure we have the...either maybe it's because we already have a work force for that industry, you know, and we just don't have the businesses. Or if it's the other way around, we have the industry but we don't have the workers, then you want to focus on sort of job training and that sort of thing. But it does...it takes that bigger picture view of sort of what are you trying to accomplish. [LR444]

SENATOR DUBAS: So by going through this and developing the metrics and really evaluating our incentives, all of those other things being equal, if we have incentive packages that really are doing what we think they're supposed to be doing, that could bump us up a little bit. [LR444]

ROBERT ZAHRADNIK: At the margin. I mean, these things do operate kind of at the margin, and you just want to make sure wherever you're targeting those dollars, it's at the place where it can have the greatest impact. That's hopefully the goal. [LR444]

SENATOR DUBAS: Thank you. [LR444]

JOSH GOODMAN: Um-hum. [LR444]

SENATOR WIGHTMAN: I know we discussed this earlier somewhat as to percentagewise how many of these jobs would have come to Nebraska or how many of the expansions of an industry would have come to Nebraska even if we hadn't offered it, or...yeah, in many instances the same thing would have been done but they took advantage of the tax incentives. I assume that happens in all states, does it not? [LR444]

ROBERT ZAHRADNIK: Yes. Yeah. [LR444]

SENATOR WIGHTMAN: Do you think it happens more in Nebraska than other states, because of the nature of the acts we've...? [LR444]

ROBERT ZAHRADNIK: I think it's hard to say and it's particularly hard to say because you haven't had a regular kind of evaluation process. Hopefully,....and most states haven't. So, you know, we're only now starting to learn sort of the answer to that question for some other states. And oftentimes it's not...you don't get the exact answer. You sort of get what I kind of present to them was a way to kind of get a plausible sense of, based on the full package of incentives you provide, here's a reasonable amount of job creation that you could have expected over this period and then here's what was reported. And if there is a difference, then you can assume that some of those jobs would have happened anyway. I think that's...I don't know if you have anything else to add? [LR444]

JOSH GOODMAN: Yeah. And I think part of it does get back to the size of the incentive in the context of the businesses that we're all cost, which was sort of the first thing that Bob...and so when states have been measuring, trying to come up with some estimate of how many of these jobs came about because of the incentive, that's one of and things they've used is said, okay, you know, this reduced business costs by X percent; we can use the economic literature to come to a reasonable judgment about how big of an effect that really had on business behavior. And almost always it's some of the jobs came because of the incentive and some of them would have come anyway, AND that's sort of...you know, that's not a sign that there's a problem with the incentive necessarily.

That's just sort of the nature of incentives typically. [LR444]

SENATOR WIGHTMAN: Thank you. [LR444]

SENATOR HARMS: Paul. [LR444]

SENATOR SCHUMACHER: It strikes me that this entire incentive discussion we're having, we're not an island and we're not an isolated system. And you have to put an overlay over that of probably there's 49 other rooms around where people are trying to sharpen their knives just like we're trying to sharpen our knives. And that interaction somehow has to be a part of the calculation. And then you have the federal government who has its own set of interventions in the economy that has to somewhere fit in this. I mean, let's suppose the federal government, we have $30 million a year. We've got it in a pot and we're going to do some economic thing with it. And we've got a choice. We can create an incentive or sharpen an incentive, or we can put it into a program where the federal government says we will give you $300 million to match your $30 million. Is there at some point where the thing becomes so clear that you say, wait a minute, this is a whole lot better deal than that? Is...? [LR444]

ROBERT ZAHRADNIK: I'm trying to think...it's rare that it's that clear. [LR444]

SENATOR SCHUMACHER: What if it was that clear? [LR444]

ROBERT ZAHRADNIK: Then you'd have an easier decision. [LR444]

SENATOR SCHUMACHER: Dummy-proof? [LR444]

ROBERT ZAHRADNIK: What's that? [LR444]

SENATOR SCHUMACHER: Almost dummy-proof? [LR444]

ROBERT ZAHRADNIK: I mean, in that, if it were that clear, then perhaps. But it's...it...at this point, I mean, at this point so few states are kind of doing the kind of comparative analysis where they can actually look at two different options at the same time and make that comparison, that there's not enough evidence to sort of point to a case where it was that clear. I don't know if I...I can't remember if there were any evaluations where it was...where something that stark was kind of presented. [LR444]

JOSH GOODMAN: Yeah, I'm struggling to think of one. Yeah. [LR444]

ROBERT ZAHRADNIK: Yeah, I mean, you know, there are...I don't think Nebraska has a film tax credit. That happens to be an incentive that's been evaluated a lot and some of the results of those are fairly compelling in the sense of, you know, in Massachusetts, when they looked at it and they took into account opportunity costs, you know, the film tax credit, it was sort of...it was, like, net-negative jobs; like that money could have been spent on something that would have produced significantly more jobs than what came. And so that's a very particular case because film tax incentives are just structured to really sort of bring in a temporary economic event that isn't about kind of building your economy, unless you're really trying to build a film industry. And some of those...those seem to be sometimes the most obvious. But a lot of these other ones, because they haven't been evaluated alongside other programs in the same way, you haven't been able to reach those kind of conclusions. But hopefully, if you put a process in place like this, you could get to that point. [LR444]

SENATOR HARMS: Do you have any other questions you'd like to ask? [LR444]

SENATOR DAVIS: I guess I've got one, John. And Senator Harms made reference to the document in the booklet which you guys may not have, but it talks about how these incentives are distributed. And so the question that I really have comes down to this. We have a jobs incentive and we have a capital incentive. And so we may have a company that invests $300 million in capital improvements that has 15 jobs or we may have one that invests a small amount but has a lot more jobs. Are we going to be able to, after we're done, to evaluate how effective either of those two are working? [LR444]

ROBERT ZAHRADNIK: I think that's the goal and there are ways to sort of translate, you know, kind of through the framework I described you can either kind of look at it in terms of jobs or in terms of investment or kind of translate one or the other to make it a more apples-to-apples comparison. And it's often just the time dimension. You know, that investment may generate jobs. It just might take longer and that investment may also...could also lead to some multiplier effects that are somewhat different, you know, from...than job impact. So I do think there's a way to get at that. [LR444]

SENATOR DAVIS: I guess what I'm thinking is, so if you've got an entity that is investing a lot of money into a computer equipment and airplanes but not really adding any jobs and those are exempt anyway, what are we gaining here? [LR444]

ROBERT ZAHRADNIK: Oh, exempt from... [LR444]

SENATOR DAVIS: Well, if you're exempt from sales tax. [LR444]

ROBERT ZAHRADNIK: Right. Yeah. And that's a question...yeah, that's a question of...and that goes to the goals, I mean, if your goal is...even if it's, you know, over 20 years, you're looking for job growth and you find that some industries just aren't as labor intensive and that that investment isn't necessarily...that investment isn't leading to the outcomes that you want from the incentive, then that's something that you can consider through the evaluation process. [LR444]

SENATOR KRIST: I just want to follow up on, because I think it's something that sometimes we miss, follow up on something that Senator Schumacher brought up. We had, in the '50s, a huge investment in infrastructure, line repairs, line cable, I mean, all that came about because of Strategic Air Command in the eastern part of the state. As a result, we harvested and marketed call centers and all those kinds of things that centered themselves on the eastern side, which is a national resource as a natural resource. What can we do to pinpoint both categories and exploit those kinds of things to create jobs? And is there an example of states that have done that? We did it by accident in Nebraska after, you know, the IT infrastructure was in place. Do you have any examples of those kinds of things? [LR444]

ROBERT ZAHRADNIK: So you're talking about sort of how to take advantage of the natural or...you said natural... [LR444]

SENATOR KRIST: Yeah. We don't have Mount Rushmore; what do we have, that kind of thing. [LR444]

ROBERT ZAHRADNIK: Right. And that goes to this bigger question of developing an economic development strategy that kind of does a scan of what are the assets of Nebraska and how do you structure programs, whether it's tax incentives or...and this...I mean, this conversation is focused on tax incentives. There's a lot that happens on the economic development front outside of tax incentives. You know, there are economic development spending programs that often have...you know, that are more targeted and have eligibility requirements and then there's...I think sometimes the (inaudible) with that type of development is that lots of things are tied to the economy, you know. Infrastructure investments have...(recorder malfunction)...that we don't feel like we're getting the most out of. The goal of this incentive is to get more out of it. I mean, that could be the goal of a program. So I did want to...Martha just reminded me that we have under Tab 2, the second page, is a handout that's sort of a laundry list of examples of metrics that we've...we, primarily Josh, has pulled from evaluations in other states. And basically this connects back to Josh's presentation, because they're organized around those three goals. And this isn't necessarily the only list of this, I mean, but this is a pretty good starting point of the...these are the kinds of specific metrics that we found other evaluations have used to try to measure these broad goals. I don't know if there's more you want to say about... [LR444]

JOSH GOODMAN: Yeah. I think the only thing I noticed, the first category we labeled "Metrics applicable to many types of incentives." [LR444]

ROBERT ZAHRADNIK: (Inaudible.) [LR444]

JOSH GOODMAN: And those are the ones that kind of are focused on growing the economy overall. But as I noted,... [LR444]

ROBERT ZAHRADNIK: Right. [LR444]

JOSH GOODMAN: ...they're also relevant to, you know, if you're targeting distressed areas or something like that. And, you know, just to emphasize what Bob said, this is not even...there are a lot more out there than this or a lot more ways to...you could word these, and, you know, states call similar things by different names, and so I wouldn't take this as sort of the end-all and be-all of metrics lists but just sort of examples for you to be thinking about. Yeah. [LR444]

SENATOR HARMS: Senator Hadley. [LR444]

SENATOR HADLEY: If we were to go down to the Governor's Office and beg for the use of his new plane and we were going to fly to a state where we could sit down for two days and talk to them about how they're evaluating their incentives, what state would you recommend that we fly to? [LR444]

JOSH GOODMAN: The funny thing is, almost everything that we mention as the best practice is something that states are already doing somewhere but it's not always the same states that are doing all of them. So one of the states, the broadest evaluation system is Washington state where they've had their legislative auditor actually evaluating virtually all of their tax expenditures, not just economic incentives but other kinds of tax expenditures, over the last ten years. And they...so it's really sort of a well-established, professionalized process. But then there are other states that probably have done a better job of measuring economic impact. And we have seen that in the individual evaluations in a lot of places. Connecticut had a very good evaluation that went through each one of their incentives in sort of a single report and took into account many of the factors that Bob talked about. In places where we've just recently seen momentum in the last two years, Rhode Island, Mississippi, Indiana have all passed new laws to create a regular schedule for evaluation. So if you're interested in sort of where there's recent momentum, those would be some of the examples to look at. [LR444]

SENATOR HADLEY: We actually have the schedule, but we don't have the metrics yet because we put them under sunsets. [LR444]

JOSH GOODMAN: Um-hum, um-hum. [LR444]

SENATOR HADLEY: And so, consequently, I think we passed last time, I think it was a two-year sunset. So they will come up again, so it would behoove us,... [LR444]

ROBERT ZAHRADNIK: Yeah. [LR444]

SENATOR HADLEY: ...as a result of these hearings, to have something--since I'll be gone it's easy for me to say (laughter)--something you will have to sit down with these programs and say...but also, shouldn't this concept work with most of our programs? I mean not only just economic incentives. But if we're spending money on social programs or health programs or such as that, I don't think we do as good of a job of...we pass statutes and we give funding and then we forget about it. [LR444]

ROBERT ZAHRADNIK: Um-hum. [LR444]

SENATOR HADLEY: And no one ever checks to, you know, that $10 million we gave some department to do some program. We never get around to going back and figuring out whether they really... [LR444]

ROBERT ZAHRADNIK: Yeah. [LR444]

SENATOR HADLEY: ...you know, and it's still ongoing and it's costing $10 million here, and we have no idea whether it's... [LR444]

ROBERT ZAHRADNIK: Yeah. No, that's absolutely right. And one reason we focused on tax incentives for economic development is, one, it's one of the harder things to measure; but also, tax incentives in particular, they aren't even part of the budget process. So they weren't even, in a lot of places, even coming up for any sort of regular review. But you're absolutely right. We actually...Pew has another project called Results First which has taken a cost-benefit analysis model developed in the state of Washington and we've been rolling...they've been sort of introducing that to other states, primarily in the area of corrections. And it actually documents all of the research on programs, academic research, and kind of compiles it and then plugs in state-specific data to kind of generate a comparative cost-benefit analysis of different kinds of, you know, public safety interventions and how effective they are at both maintaining public safety but also being cost effective. And that's another aspect of our work that we're working to try to...basically our mantra is sort of bringing more evidence and data to public policy- and decisionmaking. So you're absolutely right. [LR444]

SENATOR HARMS: Paul, you had some questions? [LR444]

SENATOR SCHUMACHER: Is there any point in which you say, look...that we can judge what an unrealistic expectation for an incentive is? I'm trying to think of an example. Let's just say, I think it's Senator Davis' district, there's a little town called Long Pine: nice little town, 400 population. Okay. And we want to make you guys move to Long Pine from Washington. [LR444]

ROBERT ZAHRADNIK: Um-hum. [LR444]

SENATOR SCHUMACHER: Now you both live in the Washington area? [LR444]

ROBERT ZAHRADNIK: Yes. [LR444]

JOSH GOODMAN: Yeah. [LR444]

SENATOR SCHUMACHER: Born and raised there? [LR444]

ROBERT ZAHRADNIK: No, but been there 20 years, so it feels like it. (Laugh) [LR444]

JOSH GOODMAN: Yeah. [LR444]

SENATOR SCHUMACHER: Okay, so for some reason you decided to move to Washington,... [LR444]

ROBERT ZAHRADNIK: Um-hum. [LR444]

SENATOR SCHUMACHER: ...even though Washington has a higher income tax rate, I think, than we have in Nebraska, certainly higher than Florida has. And you're settled there and we want to move you to Long Pine. What do we have to give you to get to Long Pine? Are we being realistic to think there's anything we could cook up to get you to move to Long Pine and do what you're doing there? At what point is it...is the overall economic such that no matter what we do with incentives we can't expect miracles? [LR444]

ROBERT ZAHRADNIK: I think...and the answer to that question goes once again to the size of the incentive relative to the business cost. One thing we've seen in some states, they'll have job creation tax credits that are $1,000 per job or $5,000 per job. Just on its face, it's hard to imagine that that's a significant...that that's a sufficient amount of money to incentivize a firm to hire somebody whose wages are, you know, $50-, $60-, $70,000. Like...the...it just on its face doesn't seem sufficient. You can do a fairly complicated analysis and probably come to the same conclusion, but I think from at least a dollar standpoint there is a certain amount of...there is some threshold where an incentive needs to be of a certain magnitude to sort of move the needle in terms of business cost. I mean from an economic standpoint, that's kind of...that's the answer to your question. In terms of individual preferences, that's a whole other... [LR444]

SENATOR SCHUMACHER: But no amount of incentive, because Long Pine does not have the social contacts... [LR444]

ROBERT ZAHRADNIK: Sure. [LR444]

SENATOR SCHUMACHER: ...the resources that Washington, D.C., has. [LR444]

ROBERT ZAHRADNIK: Right. [LR444]

SENATOR SCHUMACHER: So the calculus on "let's give a tax incentive" or "reduce our tax rate" or "increase our tax rate" really doesn't enter into the picture because the other, more important stuff is in one place and not the other. [LR444]

ROBERT ZAHRADNIK: Sure, yeah. [LR444]

SENATOR SCHUMACHER: Now if you were going to farm, you might want to be in Long Pine. But you don't... [LR444]

ROBERT ZAHRADNIK: Yes, right. [LR444]

SENATOR SCHUMACHER: ...hard farming in downtown D.C. [LR444]

ROBERT ZAHRADNIK: Right, yeah. And that's another case of the goals. It probably doesn't make sense for that town to try to incentivize the public policy industry because you're not likely to get... [LR444]

SENATOR HADLEY: Paul, I think the guy that shot at you on the river up there, I think they put him in jail and (inaudible)...it's safe to go to Long Pine again. (Laughter) [LR444]

SENATOR HARMS: Senator Krist. [LR444]

SENATOR KRIST: The flip side to that question, though, is you could put a dollar amount on what a north-south four-lane highway would bring to the state and cities like or towns like Long Pine to go from Rapid City across Nebraska. And so not necessarily...that's not a tax incentive; that's an investment in potentially growing that part of the state. So if Long Pine is on that route, they're up for growth if for nothing else than a donut shop and a gas station. So I guess that's the flip side of...when you talked about that earlier it's... [LR444]

ROBERT ZAHRADNIK: Um-hum. [LR444]

SENATOR KRIST: ...is it better to invest in the infrastructure or do something on this side to bring people in or to incentivize some kind of a tax (inaudible)... [LR444]

ROBERT ZAHRADNIK: Yeah, well, and also, I mean, when we talk about infrastructure, then there's the possibility for sort of...for other kinds of industries. Like warehousing, I mean, because if...because, you know, there are some businesses where cheap land, if it's near a highway, that could be...that could make the difference, you know, in terms of creating jobs, that kind of thing. So in that case, infrastructure might be, you know, the better strategy. But it goes this: What is your strategy, and what are...what does one part of the state have to offer versus another; and then how do you get them...how do you leverage that asset? Um-hum. [LR444]

SENATOR HARMS: Senator Davis. [LR444]

SENATOR DAVIS: How are...just sort of speaking of Long Pine, you know, beautiful, scenic Long Pine Creek, which is gorgeous, but... [LR444]

SENATOR SCHUMACHER: Hidden Valley. [LR444]

SENATOR DAVIS: Hidden Valley. But I...when I look through what we've done and how things have been done, it seems a lot of our incentives are directed towards large corporate entities or big business; and what I think is important is, how do we incentivize local entrepreneurship... [LR444]

ROBERT ZAHRADNIK: Um-hum. [LR444]

SENATOR DAVIS: ...and especially in rural Nebraska, as Senator Harms has been referring to. To me, that seems to be the gaping hole in what we've been doing. [LR444]

ROBERT ZAHRADNIK: Um-hum. [LR444]

SENATOR DAVIS: So are there other states who have kind of been able to work with that and have some positive results that we can look at? [LR444]

ROBERT ZAHRADNIK: And that's something...and we, you know, we have another project where we're working with some other states on kind of helping them out with their data and also sort of cataloguing their program. So I think, I mean, that certainly after this meeting we can certainly sort of provide you with some resources just on what...just what other programs look like that are focused on sort of small business/entrepreneurship kind of development. [LR444]

SENATOR DAVIS: You know, in Long Pine five jobs could be a big deal. [LR444]

ROBERT ZAHRADNIK: Yeah, sure. [LR444]

JOSH GOODMAN: Um-hum. [LR444]

ROBERT ZAHRADNIK: Yeah. [LR444]

SENATOR HARMS: Any other questions? Senator Mello. [LR444]

SENATOR MELLO: Thank you, Senator Harms. Thank you, Josh and Bob. And I guess it's maybe more of an analysis question. In any of your research have you been able to distinguish any kind of trends at all in regards to analyzing incentive programs during recessionary periods, such as what we just went through, through 2008 through 2012, in comparison to pre- or postrecessionary periods? And I'm kind of looking at it from the vantage point of you have an incentive program where company X comes in, in 2008, puts an application in, says they're going to create 20 jobs and invest $10 million. The recession hits. They then withdraw their application and says, we're not going to do this, end up laying off people in the process, comes back as the recession kind of leaves, postrecessionary, puts that application back in the process, and is essentially incentivized to replace the jobs that they lost during the economy. That's kind of how my mind-set is working in the sense if there has been any analysis done maybe...and you've done in other states along the way to see if that's something traditionally most incentive...tax incentive-related programs operate that way, if they allow that kind of activity to occur, and if that's simply just part of the natural economic business cycle. And part of our general goals is, generally, we want to incentivize jobs regardless if it's during the recession or not during a recession and whether or not it's something that we should be taking in consideration as we try to do our own evaluation. [LR444]

ROBERT ZAHRADNIK: Sure. So I think...I can't think of any programs off the top of my head where they explicitly sort of make that distinction between sort of what's happening with the general economy. Obviously, if you're doing an evaluation--and maybe Josh knows of one--I mean, you have to consider what's happening. You have to sort of control for the overall economy as you evaluate the effect of the incentive. And that sort of goes to one of the questions of, you know, if the economy was already growing, then you want to sort of...you want to take into account that there was some baseline growth happening and that hopefully the incentive kind of accelerated that growth. And on the other...I think another really tricky issue is, how do you account for job retention, you know, because thats...in some ways that's a harder thing to get at if, you know, if you essentially prevented jobs from being lost, which...I'm trying to think if there's examples of...if we've seen examples of evaluations that kind of got at that. [LR444]

JOSH GOODMAN: Yeah. Oftentimes, with job retention, it's either there's some new investment going on along with that retention... [LR444]

ROBERT ZAHRADNIK: Right. [LR444]

JOSH GOODMAN: ...or there's some reason to believe that the company might be leaving otherwise, although that's always, you know, a tricky issue to work through. [LR444]

ROBERT ZAHRADNIK: Right. [LR444]

JOSH GOODMAN: So...and what we...I think another thing we've seen a fair number of times in evaluations is looking at maybe not over the course of multiple years, like you're describing, but within a particular year, okay, how do we set sort of the baseline number of jobs. [LR444]

ROBERT ZAHRADNIK: Yeah. [LR444]

JOSH GOODMAN: If a company, you know, lays off ten workers this week but then hires them back next week, making sure that they don't get credit for those jobs, and so there might be sort of an average over multiple months to set that baseline, something like that. And another thing we've seen, it's sort of thinking them through: Okay, if one company is bought by another company, are those jobs counted as new jobs or not? So those are some of the kinds of details that...and an evaluation could tell you, potentially, you know, have we gotten it right or are there potential problems here that maybe we need to adjust sort of how we define these terms in the law. [LR444]

SENATOR HARMS: Do we have any other questions? Senator Hadley. [LR444]

SENATOR HADLEY: You know, one of the earlier questions Bob alluded to, you know, is the "but-for" question. And it seems like sometimes we have a misunderstanding that...if you look at the Revenue Department report, they had tax credits used of $79 million in 2013. And some people are under the assumption that if we don't have the programs we're going to have $79 million of additional state revenue that we can use on other programs. How do we get a handle on the "but-for"? I understand we can do it in the macro area. [LR444]

ROBERT ZAHRADNIK: Um-hum. [LR444]

SENATOR HADLEY: But how do we say to...and someplace in the report is the list of companies that signed up in 2013. How do we know which of these companies or if any of them would say, that's fine if you don't have this, I will still do it; or, if you don't have this program I have plants in South Dakota that I can expand just...I have two firms in Kearney that are expanding right now that have plants in South Dakota. So the choice was to expand in South Dakota or expand in Kearney, Nebraska. How do we get to the "but-for" question? Or do we just assume it away? [LR444]

ROBERT ZAHRADNIK: My answer to this is: You're not going to get to it on an individual firm basis. And I think the only way to get a reasonable assessment of whether a program is achieving its goals is that it is the sort of average of all of these firms, some of whom, you know, yes, created new jobs because of the incentive, and some were already going to. I think from a program evaluation it's...I think once again it's a separation between a company enters into an agreement with the state to do something and they get the money and there is an administrative, you know, sort of imperative to make sure that they meet the requirements, and that's not a "but-for" test. That's just a "this is how many jobs we have now and in two years we're going to have this many and because of that we have a contract with the state and you give us the money." And there's no way to put in a "but-for" test on an individual business. But over the course of a program, based on the framework I talked about, you can at least get a sense of maybe 60 percent of these jobs were new and 40 percent were across all the businesses. And the question is, is that good enough? Like, is that good enough for, you know, policymakers to say, yes, we can live with a program where maybe 40 percent is going to jobs that would have already been created? I think that's the best you can sort of get to. [LR444]

SENATOR HADLEY: I have heard there's some economic research, and I've heard that...the figures 70/30, 65/35, somewhere in that range. Are those ballpark figures or is it hard to ballpark that from state to state? [LR444]

ROBERT ZAHRADNIK: I mean, it differs program to program and state to state. I... [LR444]

JOSH GOODMAN: Yeah. And, I mean, I have seen some numbers like that in certain evaluations, but it does really depend on the nature of the program. One other thing I think is like...at least in some situations there are sort of commonsense ways to approach it. And so, for example, Massachusetts and their film tax credit evaluation. What they say is, we know that for major motion pictures there are all these different states competing, we're going to assume...and we know that we...before we had this incentive these kinds of productions weren't coming to Massachusetts, so we're going to assume that the incentive brought them there. But there are also, you know, commercials for Massachusetts tourist attractions; there are long-running TV series that have...were filmed in Massachusetts before the incentive; there are, you know, like, a sports program or a TV newscast that we know pretty much they're linked to a Massachusetts location. And so we're going to assume the incentive didn't leave those to locate Massachusetts; they would have done so anyway. And so, I mean, there's...depending on the program and the situation and the available data you can do a more sophisticated economic analysis; or sometimes it might be sufficient to just make reasonable assumptions and if...make...you know, say, this is why we're making this assumption. [LR444]

SENATOR HADLEY: That's a hard, hard question. [LR444]

JOSH GOODMAN: Yeah. [LR444]

SENATOR HADLEY: It really is. [LR444]

JOSH GOODMAN: Yeah. [LR444]

SENATOR HARMS: Any other questions? Well, let me just tell the people that are watching us, the public, that you can get Pew's presentation. It's posted on our Web site for this committee. And don't forget it's LR444, Tax Incentive Evaluation Committee. So if you'd like to have more time to study this, please do so. You can pull them down and print it off for yourself and then can also communicate with us from...however you would like. So I think what we're going to do right now is I think we're going to go off the streaming because we're going to go into a work session. And we'll take about a just about ten-minute break, and then we'll come back and I'll explain to you what we're going to have to have from you as committee members in order to get to the next step. Okay? So thank you very much for the...for Nebraska, for watching, and we'll continue to work towards this. Okay? [LR444]

SENATOR HARMS: I wonder if I could have your attention so we can go ahead and get started. If I could walk you kind of through where we're going to go and how we're going to get to the next level I'd like to do that right now if I can, and we might be able to work through just the noon hour quickly or close to the noon hour and we may not have to return. It just all depends upon the kind of discussion you'd like to have. First of all I just want to ask you, are you comfortable with the three goals that Josh and Bob have presented to us? Are there any other goals that you would like to add to that? As I looked at that, it pretty much crosses over into everything we want to do. But I need to have your input and your discussion. This is your committee. I'm just kind of trying to guide us. And tell me where you want to be so our staff and...and while Bob and Josh are here, can kind of help us walk through some of that. Is there any other goals you want to add? Do you feel comfortable with those three goals? [LR444]

SENATOR WIGHTMAN: I guess I think they'd be broad enough that you could...you could, just by perhaps enlarging a particular goal, that you could cover it all. I don't see why you couldn't. [LR444]

SENATOR HARMS: Do you have any others? I think Bob has got a...you putting those up on the screen for us, Bob, or...? [LR444]

JOSH GOODMAN: Yeah. [LR444]

ROBERT ZAHRADNIK: There we go. [LR444]

JOSH GOODMAN: There we are. [LR444]

SENATOR HARMS: Okay. Those are the goals. So you feel like you feel comfortable with those three? It looks like to me they cover about everything we're going to want to cover, but somebody--there are deeper thinkers than I am--may want to adjust. [LR444]

SENATOR HADLEY: And these came from Nebraska's statutes or...? [LR444]

SENATOR HARMS: Yes. [LR444]

JOSH GOODMAN: Yes, the legislative findings in statute. And so there's some more detail and they don't all word things exactly the same way, so we were trying to sort of organize those and simplify them a little bit. [LR444]

SENATOR HARMS: All right. Hearing no discussion, I assume we're all comfortable with that. That was the first thing I wanted to clear out of the way. Then I'd like for you to go to Tab 1, please, if you would, just for a real quick second. And on that calendar, bottom of the calendar you'll see the six programs that we're looking at. Okay? So I want you to keep those in mind. Those are six programs we're looking at. If you go then back to Tab 2, the information that Bob has given us that lays out the metric...examples of metrics that can be used in state incentives, what would really be helpful is--for us, for the committee, I mean for our staff--is if we can just walk through and kind of identify the things you think you'd like to see put into our program so that we have a better feel for this. Now I believe that we can write good, clear, defined definitions and we can determine whether the data is available. And I was just telling Martha that I think we can work through some of the data if we want broader reviews of that through the Planning Committee, through John Bartle...Dr. Bartle and Jerry Deichert who is doing all of our research, and the Planning Committee can go through them, I think, to also...to expand to see if there's other data available that would be helpful for us in our review. Okay? So we'd have a couple people, whatever...what Bob and Josh has given us, and then what probably the Revenue Department could give us. We had the university looking at that in kind of a neutral sense. They're great at what we've been able to discover when we've worked with them through the Planning Committee. So we can start that process of making sure the data is there and the kinds of things we need to have. So what I would like to do, and I've just been trying to get us to the next level, and I think the next level then will then...brings in our staff. And that's where John and Bob and Josh will have to come in to help us start laying some of these things out, probably working with the staff later this afternoon if they can. But I'd like a little discussion. When we look at the metrics, for example, for any type of incentive, as you look at these, what are the things you like to see us just include? So we can kind of check that off and we can start putting those things together, and then we may find others that we might want to add and bring back to you. Now we will make, first of all, when we're done with all this we're going to make no decisions on this today. We'll want to get all these kind of put together. We'll then have our hearings. And I'm always very concerned when you take information before a public hearing and say, this is what we've decided to do, we just want your input. We're going to come before them and say, hey, this is what we're just thinking about; can you kind of help us think through this a little bit; what were the other kinds of things you'd like to know about these and evaluation; and that sort of thing. We'll take all that information along with what we have developed through this discussion today and what Josh and Bob and our staff can put together. We'll come back in September. We'll put the polishes on that because we'll have the input from the public. Senator Hadley will be gone, and I do not want...because he's Chairman of the Revenue Committee at this point, and I do not want to make any decisions until he's here because he may have another view and input because he's worked with a lot of this throughout the years he has been our Chair. So I want to make sure he's here. So probably in October we'll really fine-tune this thing down. And we may be able to submit it in November, a month early; it just depends whether we need more research to the

Executive Committee for final approval. But we will meet the December 15 deadline, but we have a lot of work to do. And I think it's going to be hard and you're going to burn a lot of time if we try to sit here and write that ourselves. It's just not going to work. That's been my experience in the past. So if we could just take the metrics that are...either apply to any one of the incentives that you have, what are the kinds of things you'd like to just see included in that so we...Bob? [LR444]

SENATOR KRIST: I'm not sure that...if you go to one, two, three, four, five bullets up on the "Metrics applicable to many types of incentives," the first column you look at healthcare benefits incentivizing job. I'm not sure dollars per hour is the way to measure that. I think that needs to transcend all of the metrics for all of the programs. If we look at the expansion of what we're spending on healthcare as a state over the next...and Senator Mello can talk to it specifically. But if you're creating jobs, you need to create something applicable that we are looking in terms of the healthcare delivery system costs in outgoing years because the two of them...holding down the cost on healthcare delivery systems and offering jobs that pay is appropriate; but offering jobs that have healthcare benefits is also appropriate. I think that needs to transcend all those (inaudible). [LR444]

SENATOR HARMS: Sure. Okay. I will tell you from discussions that Martha and I have had with different select users of this particular program--and Senator Watermeier was involved in some of this--here's the concerns that people have had, and that is: jobs--I mean how many jobs has it created for sure; new net direct jobs--I mean how many jobs have...really were new, or would you have had those jobs if you wouldn't have gone through this program? And then percentage of the workers hired is also an issue in cost per jobs. We've found that that was a real problem--how that was determined, how it was evaluated, and what criteria we use to determine those cost per jobs for these programs. I mean, those are some of the things that I know that people have mentioned to us that they would like to have. I mean, what else is in there that you would like to see? [LR444]

SENATOR DUBAS: I think looking at the job growth rate and the job creation at firms versus those companies that don't have incentives, along with the average wages both at incentivized and nonincentivized...like you were talking...we were talking earlier, there's no way to get to the "but-for," but I think you can get close to it if you look at the job growth rate, job creation, and the average wages between incentivized and nonincentivized and like businesses. [LR444]

SENATOR HARMS: Okay. [LR444]

SENATOR HADLEY: You know, one of the things, and I don't know whether we need to do it right now, but some of these things we have right now. If you look at the revenue report, jobs, new direct jobs, you know, a lot of these items are already collected. And I've worked with the Revenue Department and with Economic Development and with businesses and one of the concerns businesses have is that we have made this process so complicated at times... [LR444]

SENATOR HARMS: Yeah. [LR444]

SENATOR HADLEY: ...through the audit, through the reaching attainment, that some of them would actually say, the heck with it, I'm not going to put in that time and effort. You know, they work on a cost benefit too. And so what I'd like to know is how many of these things are we going to have to go back to individual companies and say, you know, what was your healthcare benefits, what was your, you know...how...I think we have to weigh that because the one thing I definitely heard--and we...and thank goodness we worked with the Revenue Department and got it straightened out--oh, that they had a tremendous backlog in trying to audit companies that had reached attainment. But they have to be audited to see whether they have it and a couple years between attainment and the actual when it came back through. The other thing I worry about is that...how much of this is macro that we can...we couldn't get macro... [LR444]

SENATOR _______: Yeah. [LR444]

SENATOR HADLEY: ...without a great deal of "how." It was, how much do we have to go to companies and say, give us some of your proprietary information so we can compare them, compile this report? [LR444]

SENATOR HARMS: If you just look at the report that the Revenue Department has given us, it is really complicated. I mean, when I read through that, and, man, I tell you, I had to go through it a couple of times, it's just in depth. Unless you're really good at numbers--and I guess we kind of get used to it in the Revenue and Appropriations Committee--I can see where the average citizen would not understand the findings of this thing. It is just complicated. So if there's anything we could do to simplify some of this or find what better ways to measure it so it's simple for people to understand and also for our colleagues to understand. I'm not being critical, I mean, because they don't work with the numbers a lot, they're in other areas, and those of us that do understand that when you go through this it's not easy. [LR444]

MARTHA CARTER: And if I could respond a little bit to Senator Hadley's concern, I think in our conversations with the representatives from Pew what we have kind of envisioned as staff is we need some directions in terms of what are the things that you would like to know about that would be indicators to you of success. And then I think there has to be a second step that is looking at what information is available, what it would take to get that information. Honestly, I think that could also include a question about looking at that information that is required to be reported and whether all of that is, in fact, necessary, not so much maybe the information on the businesses but what's reported in the annual report. Is that all of value to you as policymakers or would...could there be some reporting requirements taken back so that if new ones are added it doesn't just keep piling on? So from a staff perspective at least I'm seeing this as a several-step process that, yeah, you can't just immediately require a bunch of new stuff that you haven't had before. [LR444]

SENATOR SCHUMACHER: To Senator Harms's point that, early on today, that there doesn't seem to be much of a take in the rural areas of these programs, and when you think about it, I mean, you know, the businesses that employ people and our business in rural areas are probably things that start up and have three to five people. Now I've been practicing law for, you know, 30-some years, and I've never had anybody say, and, oh, we're going to start this business and what incentives are available to us? They don't want to pay me--or anybody else, for that matter--to go apply for incentives. They want to get on and start their company who does this, that, or the other thing. So these...I mean the complexity and that it isn't easily and uniformly applied I think is a big, big reason, at least in the rural areas, that there's no take. I mean you just don't want the government in your business. [LR444]

SENATOR HARMS: That's pretty true. [LR444]

SENATOR WATERMEIER: And they create a liability that they just don't want, a potential future liability, because that's what I hear back all the time in the microenterprising incentives, that they just...they're not...they're going to stop using it because it's too much of a risky liability for the future. [LR444]

SENATOR HARMS: But I think that we just have to make sure that the people that are in these distressed areas, rural areas, are...understand that it is available. I don't think if you went down the streets in some of these communities and talked to some of the leaders even have any idea this stuff is available for them. And that's the thing that I think that we might find greater use. If you only have $2 million as a cap, I think that's what it is, that's not very much money to spread out from urban to rural Nebraska, and I think that's something else we're going to have to look at in the future. But we're going to have to put a...we're going to have to put some type of machinery together that makes sure that the communities are visited with and they do know this is available for them because I can tell you now I don't think they do. But looking at just the metrics for any type of incentive, anything else you'd like to add on that? Senator Mello. [LR444]

SENATOR MELLO: I'm going to...I'll just read my list under the "Metrics applicable to many types of incentives": jobs; net new jobs; annualized full-time-equivalent jobs created; percentage of incentivized jobs filled by state residents; cost per job; job creation at firms receiving incentives compared to job creation under alternative policies; increase in business investment; average wages at incentivized jobs compared to average wages of jobs in the same county; and ratio of revenue the state collects to cost of incentives. Under the "Metrics for incentives to help distressed areas": job creation from incentives in distressed areas compared to job creation from incentives in other areas; percentage of residents of the state's distressed areas who have who have the education to fill the jobs in the areas; proportion of incentivized jobs that do not require a bachelor's degree. And under "Metrics for incentives for innovative firms" I have: patents granted; patent applications filed; whether companies receive financing from other sources as a result of incentives; survival rates of firms receiving incentives compared to those who do not; and percentage of angel investors who are new to investing in the state. [LR444]

SENATOR HARMS: Okay, do we feel comfortable with that? Are there any other suggestions or any... [LR444]

SENATOR KRIST: Well, let me ask a question in terms of what you just read off. I don't have any issues with any of them. But the six particular programs that we're looking at, they're not all as complicated as the others. [LR444]

SENATOR HARMS: No, they're not. [LR444]

SENATOR KRIST: So I would expect the microenterprise tax credit to be a pretty simple form to fill out, and if it's not, it needs to be. As an example, the farmer, beginning farmer tax credit should be very simple. I mean you would think that those incentives or what they are capable of answering in terms of data would be less involved than it would be in Nebraska Advantage Act. Is that true? [LR444]

MARTHA CARTER: I think that's true. [LR444]

SENATOR HARMS: Yeah, yeah, I think that's true. [LR444]

SENATOR KRIST: So our...do we consider it one of our jobs to make sure that we're trying to make it as accessible and... [LR444]

SENATOR HARMS: Yeah. I think we just have to make sure they're aware of it and that it's accessible. And if we just...we could still put some items in there, some metrics in there to make sure that it's being evaluated. But, yeah, I think that's right, Bob, yeah. [LR444]

SENATOR SCHUMACHER: But the flip side of that is that if you make it accessible and equitable and easy, then the $2 million or whatever you put into the program is drained really quick and... [LR444]

SENATOR MELLO: It already is though. For that example, the microenterprise is one of the first programs every year that gets... [LR444]

SENATOR HADLEY: Angel investing when (inaudible)... [LR444]

SENATOR MELLO: Same thing: Angel investing and microenterprise go really quickly, like, you've got to put your application in quickly to get that credit for both of those so. [LR444]

SENATOR HARMS: So the question there is that maybe we may want to look at more money in those programs. [LR444]

SENATOR DAVIS: Yeah. Can I ask a question about those two specific programs? We added the Angel. Angel hasn't been there that long. The other one I think has been for awhile. So are we able to track what happens to those entities after they've used that up? Have they continued to grow? [LR444]

SENATOR HARMS: I don't know. [LR444]

SENATOR DAVIS: Is that something we could find out? So are we seeing larger growth out of those microenterprises which would indicate to us that we ought to put more into it? [LR444]

MARTHA CARTER: I would say, if that's one of the metrics that you want to use,... [LR444]

SENATOR HARMS: We could do it. [LR444]

MARTHA CARTER: ...I mean, I...it...that is not being tracked at this time. [LR444]

SENATOR DAVIS: I guess to me I think that would be helpful to have an idea. [LR444]

MARTHA CARTER: Let my staff people know so... [LR444]

SENATOR HARMS: (Inaudible.) [LR444]

KATE GUDMUNSON: Sorry. I was just going to say, in microenterprise, that, as far as we know, isn't being tracked. But Angel Investment is through the Department of Economic Development not through Revenue. So they might actually gather more information on that. We'd have to ask them. [LR444]

SENATOR DAVIS: And then as to the beginning farmer, I think we have...we need to know the same thing: Are the people staying in the business down the road? If that's not happening, is that a good program to put in place? It sounds good. But if it's not working, do we want to keep it? [LR444]

SENATOR HARMS: I agree with that. One of the things, remember, is that the goal of this is not to eliminate programs. The goal is to find a way that we can evaluate them and have the metrics to determine whether they're going to be successful. But it does not mean that in the future you're not going to have the data, the information that say, you know what, this is not working, we need to change this and people to start using it and it's not being used in the right way. This is what the idea behind all of this is, is to get your database and your platform put together so then you can start making good policy decisions because you've got the information. The way it is now we don't know. And that's what I always try to, you know, to look at is, what is that foundation and the base? We've got all of our research in there, then we can start making those decisions. And you'll make really good decisions once that database is put together and the platform is there. So what...the question you're asking is a good question, but we don't know what the answer to it is. But we'll find out; in about four years from now you're going to have a pretty good idea, or three years or whatever it is. [LR444]

SENATOR HADLEY: John, just as kind of an overview, is the process that we're looking or hoping to get to is that currently we do have sunsets on these economic development programs and, you know, last year, and we extended them for two years. Prior I think it had been a five-year (inaudible)...so I would assume that we're going to still continue to work with a sunset type of concept. And then this would be the data. [LR444]

SENATOR MELLO: Well, that's the question. I would actually pose the question to you, Galen: If we do a good...and that's always the kind of the rub which is, if you do a very good evaluation period or evaluation model, maybe you get rid of the sunsets because you're doing the evaluation on a regular basis where, in theory,... [LR444]

SENATOR HADLEY: Well, I... [LR444]

SENATOR MELLO: ...we should be doing it with the sunsets, but we've never done it that way. [LR444]

SENATOR HADLEY: I know. So the question I guess I'm asking is, is the evaluation ongoing that every year we go through this process? Or do we by putting sunsets every five years and one of these programs every year might come up? [LR444]

SENATOR HARMS: I think in order to help the Revenue Department you're going to have to stagger these and I don't think you can do every one of these programs every year. I think you're going to have to stagger those so that you can actually deal with that. The other side of it is that I think that you have to be really careful of just what we ask the Revenue Department to do because you're going to have to determine now...I brought this up the last time. But we had talked this: Can they do it with the present staffing and how much pressure do we put on them and the timing of this all comes into one nice package. They may not be able to do the...an additional staff member. So I just want you to think about that because I don't know the answer to that. But it's a possibility. Yes. [LR444]

MARTHA CARTER: I'm just looking at Bob and Josh. I think that their recommendation in terms of timing is that we don't do all of the tax incentives in one year... [LR444]

SENATOR HARMS: No. [LR444]

MARTHA CARTER: ...and that we do them every...like on some scheduled basis, so maybe every three years I think... [LR444]

SENATOR HARMS: Sure. [LR444]

MARTHA CARTER: ...was the least amount of time that had been suggested because every year you're just not going to have enough change in the programs... [LR444]

SENATOR HARMS: No. [LR444]

MARTHA CARTER: ...of this size to make it worth all of that trouble for everybody, including the agencies involved. So I think that...and whether it's tied to the sunset or not, I don't know, did you guys have any thoughts on that? [LR444]

ROBERT ZAHRADNIK: Sure, yeah. So in the memo we had sent prior to the last meeting we had presented some recommendations on what an evaluation schedule could look like. You know, what we found in other states is every three to five years is a typical time frame. We suggested three years--I think three or four depending on the kind of workload would make sense--and a multiyear schedule so that each year a subset of programs are being evaluated, preferably goals with...programs with similar goals are being evaluated. And then ideally you would have an evaluation come out prior to the sunset date of that tax incentive. I think that's an ideal system so that...you know, the sunset date is a natural time to be reviewing a program. You'd want to have the evaluation in hand when that's happening. So if you can sort of sync up your evaluation schedule with your sunset dates, then that would be really a really good system to work with. [LR444]

SENATOR HADLEY: We literally have to do that because our fiscal note system, if we told them the Advantage Act expires December 31 this year we would never have it back because the fiscal note would be hundreds of millions of dollars. [LR444]

ROBERT ZAHRADNIK: Right, right, right. [LR444]

SENATOR HADLEY: I mean we would have never...but I guess I'm thinking the three to four years. And maybe we start with, you know, the microenterprise, beginning farmer, so we get an idea of how gathering the data works, how the process works. [LR444]

SENATOR HARMS: Because you only have large numbers there, it'll be easier for us to manage. [LR444]

SENATOR HADLEY: Easier to manage... [LR444]

SENATOR HARMS: Absolutely. [LR444]

SENATOR HADLEY: ...the first couple years to get feet on the ground. And then the Advantage Act and... [LR444]

SENATOR HARMS: Now... [LR444]

MARTHA CARTER: Senator Hadley, I'll just say, I thought I had it right here, but the only concern there is that I think your sunsets are in 2017. [LR444]

SENATOR HADLEY: Teen, that's correct. [LR444]

MARTHA CARTER: So if the Legislature passes something in 2015 and you want an evaluation before that sunset comes up, that would have to happen in 2016. So if you wanted to start--it's not that it can't be done--if you wanted to start with the smaller programs you'd need to extend your sunsets on the Advantage Act. [LR444]

SENATOR HADLEY: That...and I...I thought we would have to extend the sunsets. [LR444]

SENATOR KRIST: I think that's the first order of business. If you're going to align the dots you're going to have to look at establishing sunsets that will allow you to... [LR444]

SENATOR DAVIS: To get (inaudible)... [LR444]

SENATOR HARMS: I agree. [LR444]

SENATOR KRIST: ...analyze it, get the data, and decide on a sunset. So to that question, for the Appropriations side of the house, do we want to evaluate the sunset in the first year of the biennium, or do you want to evaluate it in the second year leading into the next biennium budget? Because if the Advantage Act, as Senator Hadley referenced, is a $100-million package, you'd like to have a little bit of notice before you have to suck that one up, I would think. [LR444]

SENATOR HARMS: The other question, the other thing we'll have to put in there is, who does the evaluations; who is responsible for that; and who should be doing that? Is it going to be Revenue? Appropriations? I don't think Performance Audit probably. [LR444]

SENATOR _________: Didn't... [LR444]

MARTHA CARTER: Well, Performance Audit needs to do the evaluations, I think... [LR444]

SENATOR HARMS: I know. [LR444]

MARTHA CARTER: ...I mean, within the existing statutes anyway. [LR444]

SENATOR HARMS: Yeah. [LR444]

MARTHA CARTER: But policy, no, that would go... [LR444]

SENATOR HADLEY: Well, I think it has to go to Revenue because they're the ones that basically put forth the bills to either get rid of a program; or if we come up with a new incentive program that's the one that maybe the... [LR444]

SENATOR HARMS: Well, we just want to clarify that when we... [LR444]

SENATOR HADLEY: Yeah, yeah, and... [LR444]

SENATOR HARMS: ...when this is all done so that everything... [LR444]

SENATOR HADLEY: And I'm not trying to be territorial, but that... [LR444]

SENATOR HARMS: ...we know what the flow is. [LR444]

SENATOR MELLO: I'm going to politely...I love my friend Galen Hadley. I'm going to politely challenge you along the way on that because I think this is an auspice of auditing and evaluation that neither...I would not say the Appropriations, we should not do it, and I would say that the Revenue Committee should not do it because the general concept of what we're exploring of measuring effectiveness falls under the audit statute. It's a measuring the determination and effectiveness of a state statute program, which is what the Performance Audit staff and auditors do for everything else. [LR444]

SENATOR HADLEY: Oh, no. I want them to do it. [LR444]

SENATOR MELLO: But I think having Revenue... [LR444]

SENATOR HADLEY: But I think the decision about how there is also that... [LR444]

SENATOR MELLO: Oh, oh, that's the...absolutely, that's something that can be...I was just more of... [LR444]

SENATOR HADLEY: No, no, I... [LR444]

SENATOR MELLO: ...where the auditing and everything occurs happens here... [LR444]

SENATOR HADLEY: No, I agree. I don't think the Revenue Committee ought to be involved in the audit function but ought to use the results then to suggest... [LR444]

SENATOR MELLO: Yea or nay, yeah. [LR444]

SENATOR HADLEY: ...appropriate legislation. [LR444]

SENATOR WATERMEIER: Changes. [LR444]

SENATOR MELLO: Changes, yeah. [LR444]

SENATOR KRIST: Having watched, though, what your workload is, again, if we're going to say that the Performance Audit Committee of the Legislature... [LR444]

SENATOR MELLO: It's going to cost some money. [LR444]

SENATOR KRIST: ...is going to be performing these audits, that's going to take away a lot of time from what we're used to seeing... [LR444]

SENATOR DUBAS: It's going to require additional staff. [LR444]

SENATOR MELLO: It's going to require another auditor at least. [LR444]

SENATOR KRIST: It's going to require another auditor. [LR444]

MARTHA CARTER: Well, yeah,... [LR444]

SENATOR MELLO: Yeah. I mean... [LR444]

MARTHA CARTER: ...because you're going to have to give us somebody that...I mean we're going to have to get somebody who really does this, that's what they do. [LR444]

SENATOR DUBAS: And that's a full-time position. [LR444]

SENATOR ___________: And doesn't pretend? [LR444]

MARTHA CARTER: You know, that's very different than what we do now. [LR444]

SENATOR HADLEY: I'll be available, (inaudible)...(laughter). [LR444]

MARTHA CARTER: In 2016? [LR444]

SENATOR MELLO: January 1, 2017. [LR444]

SENATOR __________: There we go. [LR444]

SENATOR HARMS: Well, that's why I wanted to bring that up ahead of time, so that we seem to kind of think through where we'll be with that so. [LR444]

SENATOR HADLEY: Yeah, I want to make it clear that I want the audit...Performance Audit to do it. [LR444]

SENATOR MELLO: Yeah. No, policy obviously goes to the Revenue Committee, absolutely. [LR444]

SENATOR HADLEY: But then the policy part of it needs to come through the Revenue. [LR444]

SENATOR MELLO: Absolutely, absolutely. [LR444]

SENATOR HADLEY: I...we shouldn't be the ones doing the audit. You don't audit the...you don't let the people who are making the policy also do the audit. [LR444]

SENATOR KRIST: Unless you're the federal government. [LR444]

SENATOR HARMS: Okay. Do we have any other thoughts in regard to the metrics? [LR444]

SENATOR SCHUMACHER: Is there a metric for somehow entering in here--maybe there isn't--for fairness? I mean, I think the effective tax rate, if I remember the number that we got, on the top bracket is like 4-point-something percent. Senator Hadley, you remember that, where the effective tax rate... [LR444]

SENATOR HADLEY: Yeah, 4.6, 4-point... [LR444]

SENATOR SCHUMACHER: Something like that. [LR444]

SENATOR HADLEY: Something like that. [LR444]

SENATOR SCHUMACHER: So...and our...yet our tax rate is 6.84 percent. And I think the guesstimate was that that disparity exists because of one of two factors: one, charitable deductions of some sort that lower it down; and the other thing, tax incentives. So if I am an incentivized business I might be paying no tax; and yet if I'm in a business that may have the same number of employees, even though they didn't come in under a program, I'm paying 6.84 percent. I'm might have to pay in a corporate tax too. And so at...is...I mean, if it could be shown that we'd give a grant to some people of zero percent tax rate and all the rest of us will bear the higher taxes, is...and...but it would bring in marginally more jobs, is that a good policy? Are we willing to say, hey, you know, you do this, you meet these six standards and you meet them first, you get no...you don't pay in taxes, the rest of us will take it because you're going to create 2 percent more jobs in the economy for us? [LR444]

SENATOR HARMS: Josh and Bob, do you know of anything so they...other states that have looked at this? [LR444]

ROBERT ZAHRADNIK: Yeah. I was just...some...so this...I mentioned this economist Tim Bartik we've done some work with. Another piece of analysis that he's been working on is actually looking at how tax incentives impact the effective tax rates that are paid by businesses. And I'm just at this moment not...I'm not sure where the status of that research is, but it was essentially, sort of, before and after incentives, how much does your effective tax rate change? That can give you a sense of sort of what is the magnitude of this incentive and how much does it impact. [LR444]

SENATOR SCHUMACHER: And impact some that get a really good deal, and some have to carry the burden for the good deal. [LR444]

ROBERT ZAHRADNIK: Yeah, and that's, you know...you can look at it on average. I don't know from a data standpoint if you could sort of...if you'd be able to see a distribution of that. I mean the other side of sort of...the other part of the fairness question is then sort of the geographic distribution which oftentimes the whole point is you're trying to target benefits to certain areas, you know, that are distressed; are you effectively doing that or not is another dimension of that. [LR444]

SENATOR HARMS: Okay. Any other discussion? [LR444]

SENATOR MELLO: I had one. [LR444]

SENATOR HARMS: Senator Mello. [LR444]

SENATOR MELLO: And Senator Krist mentioned and I don't know how you'd phrase it, but...and maybe it's something as simple as number of incentivized jobs that provide health and retirement benefits. And when I mention retirement benefits, part of it because the Retirement Committee last year we did an interim study--Al may remember this--that shows Nebraska has a decline over the last decade in the private sector of retirement accounts and those who have access to retirement accounts. It's been declining over the last decade, and I think that's something...we always usually talk about benefits, but usually that just applies to health benefits or healthcare, health insurance, where I'd like to incorporate retirement as well as being part of that bigger jobs that...incentivize jobs with benefits, incorporate retirement. [LR444]

SENATOR DAVIS: I think that makes sense. [LR444]

SENATOR HARMS: Okay. Good discussion. Anything else you'd like to bring to the table here? [LR444]

SENATOR DAVIS: This is sort of an out-there question. [LR444]

SENATOR HARMS: Okay. [LR444]

SENATOR DAVIS: But we've got...let's just take the ethanol industry. So we've incentivized that through the Advantage Act, and then we've also incentivized it through fuel abatement, fuel tax abatement. And I realize that's something else. Are we able to bring that into it, or is that just too far out? [LR444]

SENATOR HARMS: I think it's...at this point I think the only thing we want to concentrate on is on the six items we now have and then... [LR444]

SENATOR DAVIS: Well, I understand that. [LR444]

SENATOR HARMS: You know, you could...but you... [LR444]

SENATOR DAVIS: But I think it's important for us to recognize that... [LR444]

SENATOR HARMS: Yeah. [LR444]

SENATOR DAVIS: ...these other things are going on all the time. [LR444]

SENATOR HARMS: Sure. Yeah, and I think that eventually you may want to go back and take on that particular issue and those other issues that might be there. In the time that we have today and the kind of schedule we have, we'll be wishing to get the six done. But I think that's something that needs to come forward in the future. Don't let it get lost. I mean that's important. [LR444]

SENATOR DAVIS: I mean, I guess, just as a footnote to whatever we're doing,... [LR444]

SENATOR HARMS: Sure. I agree. [LR444]

SENATOR DAVIS: ...we need to have...the knowledge needs to be there... [LR444]

SENATOR HARMS: I agree. [LR444]

SENATOR DAVIS: ...for people to say, oh, yeah, and there's this and this and this and this. [LR444]

SENATOR HARMS: I agree. Yeah, particularly with term limits, you're going to want as many footnotes as you can get in because they're going to have this turnover, you know, and I think it's important to set ourselves up for that. That's a good suggestion. [LR444]

SENATOR KRIST: That could be as easy as thing, Martha, as just adding that to the list of audit factors when you decide to audit the product: What other programs is that particular entity... [LR444]

SENATOR HARMS: Sure. [LR444]

SENATOR KRIST: ...taking advantage of? [LR444]

SENATOR HARMS: Any other discussion you'd like to have? Any other directions you'd like to give us? [LR444]

SENATOR DAVIS: John, you talked about the Rural Development Act. [LR444]

SENATOR HARMS: Um-hum. [LR444]

SENATOR DAVIS: And I would, I guess, to my own selfish interest, I'd like to see that move as rapidly as we could. [LR444]

SENATOR HARMS: Yeah, I agree with that. I...we see that. I guess I don't mean this in a critical sense for people but unless you're in rural America you don't really see what's happening. And when I see what's happening in so many of these smaller communities and then I look around and see that there probably are dollars available or we might be able to put more money in there to help more people, it gets lost and I think we have to move forward because I think, of all of Nebraska, the greatest risk lies in rural Nebraska--not so much with the crops and all that income that comes in, but the people have left. And we saw the data when Senator Bolz brought her stuff forward in regards to the elderly, and that's just the beginning of what's to come. So it's important. If we're going to rejuvenate this state, rural Nebraska has got to be rejuvenated. Urban America is going to do great. I mean Omaha, Lincoln, Grand Island, you know, all these larger areas are going to do fine. But you get beyond those and they're not, and you can see it in the public school enrollment, the decline in tenure straight down. That whole things is going to have to be restructured eventually or reorganized. And that's where it goes back to really the...I don't think rural America understands yet that they can't scattergun (inaudible)...they got to market their niche, what they want to become and what they want to be. I went...(inaudible), I say, what do you want to be when you grow up? It's just...they have to be able to focus in on that one item or two and you've got the...all the...you have access to the community colleges that can do training and all those things. I don't think they just understand how to do any of that, to be honest with you. So, yeah, I agree with you, I think we're headed for some real issues. Anything else? So I appreciate your time. Josh and Bob, thank you so much for coming because without you I don't think we could probably get all this together at all. We appreciate it. What we'll have to have from Martha and from the staff is things pretty well laid out of what we've talked about today in a form that we can advertise at least about our hearings and be able to give to people when we have the hearings saying that this is just things we are considering, we've made no decisions, help us think through this process and give us your input of evaluation, and that sort of thing. You'll get a...you'll get some discussion that says you shouldn't do any of it. I've already got those phone calls, and our ears just ring off. But you just have to be kind and gracious and say, thanks for your views, and, I'll take it under advisement, and get off the telephone as quickly as you can. But you're going to get that sort of thing. But we know the benefits of this. So anything else? Well, thank you very much, and I'd entertain... [LR444]

SENATOR HADLEY: Leave the books? [LR444]

SENATOR HARMS: Pardon me? [LR444]

SENATOR HADLEY: Leave the books? [LR444]

SENATOR HARMS: Yeah, leave the books. That's right. Leave the books. Well, thank you very much for coming. [LR444]