

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

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES</b> (See narrative for political subdivision estimates)				
	<b>FY 2017-18</b>		<b>FY 2018-19</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$0	(\$67,000)	\$0	(\$136,000)
CASH FUNDS		(\$2,125)		(\$4,250)
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$0</b>	<b>(\$69,125)</b>	<b>\$0</b>	<b>(\$140,250)</b>

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

LB 291 creates the Special Economic Impact Zone Act.

The Department of Revenue estimates the following fiscal impact of LB 291:

Fiscal Year:	Income Tax: (General Fund)	Sales Tax: (General Fund)	Total: (General Fund)	State Highway Capital Improvement Fund: (Cash Fund)	Highway Allocation Fund: (Local)
2017-18:	(\$ 14,000)	(\$ 53,000)	(\$ 67,000)	(\$ 2,125)	(\$ 375)
2018-19:	(\$ 30,000)	(\$ 106,000)	(\$ 136,000)	(\$ 4,250)	(\$ 750)
2019-20:	(\$ 31,000)	(\$ 159,000)	(\$ 190,000)	(\$ 6,375)	(\$ 1,125)
2020-21:	(\$ 33,000)	(\$ 212,000)	(\$ 245,000)	(\$ 8,500)	(\$ 1,500)

If there were a revenue sharing agreement with a federally recognized Indian Tribe as a result of LB 291, such an agreement would reduce sales tax revenues collected by the state. The amount depends on the Tribe or Tribes involved and the time when the agreement becomes effective. Both are uncertain and no estimate has been made for this impact.

The Department of Revenue indicates a minimal cost to implement the provisions of LB 291.

We have no basis to disagree with the Department of Revenue's estimate of fiscal impact or cost.

The Nebraska Investment Finance Authority (NIFA) indicates no fiscal impact to NIFA.

We have no basis to disagree with NIFA's estimate of fiscal impact.

The Nebraska Commission on Indian Affairs failed to respond.

<b>ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY &amp; POLT. SUB. RESPONSE</b>			
LB: 291	AM:	AGENCY/POLT. SUB: Department of Revenue	
REVIEWED BY: Lyn Heaton	DATE: 2/27/2017	PHONE: <a href="tel:4024714181">402) 471-4181</a>	
COMMENTS: We have no data upon which to disagree with the Dept. of Revenue's analysis, though the extent to which existing businesses will be able to restructure/reorganize and then locate the new business entity into a Special Economic Impact Zone in order to reduce their existing state income and sales tax liability is difficult to estimate.			

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 291	AM:	AGENCY/POLT. SUB: NE Investment Finance Authority (NIFA)
REVIEWED BY: Lyn Heaton	DATE: 2/24/2017	PHONE: <a href="tel:4024714181">(402) 471-4181</a>
COMMENTS: No fiscal impact on NIFA.		

**State Agency Estimate**

State Agency Name: Department of Revenue		Date Due LFA: 2/27/2017				
Approved by: Tony Fulton		Phone: 471-5896				
Date Prepared: 2/24/2017						
<b>FY 2017-2018</b>		<b>FY 2018-2019</b>		<b>FY 2019-2020</b>		
<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	
General Funds	\$0	(\$67,000)	\$0	(\$136,000)	\$0	(\$190,000)
Cash Funds		(\$2,125)		(\$4,250)		(\$6,375)
Federal Funds						
Other Funds		(\$375)		(\$750)		(\$1,125)
<b>Total Funds</b>	<b>\$0</b>	<b>(\$69,500)</b>	<b>\$0</b>	<b>(\$141,000)</b>	<b>\$0</b>	<b>(\$197,500)</b>

LB 291 creates an incentive for new businesses operating on an Indian Reservation, a preference for NIFA projects located on an Indian Reservation, and authorizes a sales tax and revenue sharing agreement between the state and Indian Tribes.

The first nine sections of LB 291 would adopt the Special Economic Impact Zone Act (Act). The Act defines “qualified business as any corporation, partnership, LLC, sole proprietorship, or other business entity that is subject to income taxes or sales taxes and establishes a business location within a special economic zone after the effective date of the Act. The qualified business cannot derive more than 5% of its income from the sale of agricultural grain or be engaged in Class III gaming authorized under the federal Indian Gaming Regulatory Act.

A special economic impact zone is any Indian Reservation as defined in Neb. Rev. Stat. § 43-1503. The bill also provides that before any trust land located within a metropolitan, primary, or first class city can be included in such a zone, the city must give its approval, but there is no procedure outlined in the bill to create a zone.

For taxable years beginning on or after January 1, 2018, a qualified business may exclude any income tax liability derived from sources within a special economic zone. Also, beginning January 1, 2018, a qualified business is exempt from sales and use taxes due on the first \$10 million of taxable purchases for use in the zone. Businesses may qualify for these benefits in addition to benefits under the Nebraska Advantage Act. Relocation from another part of the state into the zone is not eligible for the benefits under the Act. The Department may adopt rules and regulations to carry out the Act.

LB 291 would also amend Neb. Rev. Stat. § 58-201 (NIFA) and enact a new section to require NIFA to give a 2% bonus under its scoring system to any project located in a special economic zone as defined in the Special Economic Zone Act.

Finally, LB 291 would require the Department of Revenue to enter into a revenue sharing agreement with an Indian Tribe if the agreement contains the following terms: the tribal tax must be less than or equal to the state sales and use taxes; the tribal tax cannot be imposed on transactions exempt from state sales and use taxes; the tribal tax must be imposed on both tribal members and nonmembers; 20% of the tribal tax must be shared with the state; and provisions for remitting the tribal tax, resolving disputes, and auditing.

If the proposed revenue sharing agreement contains additional conditions, the Department would have discretion to reject the agreement.

LB 291 would induce some new businesses to locate in the special economic zone to take advantage of the incentives provided. This inducement would affect General Fund revenues in three ways 1) the income of the business would be partially exempt from income taxes; 2) any Native Americans that become employed within the special economic zone would be exempt from income taxes; and 3) the first \$10 million of purchases of these businesses would be exempt from sales tax.

As a result of the incentives provided, the Department estimates that LB 291 will result in several new businesses located in the special economic zone. LB 291 is expected to result in a reduction to the General Fund as follows:

	Income Tax	General Fund Sales Tax	Total General Fund	State Highway Capital Improvement Fund	Highway Allocation Fund
FY 2017-2018	\$14,000	\$53,000	\$67,000	\$2,125	\$375
FY 2018-2019	\$30,000	\$106,000	\$136,000	\$4,250	\$750
FY 2019-2020	\$31,000	\$159,000	\$190,000	\$6,375	\$1,125
FY 2020-2021	\$33,000	\$212,000	\$245,000	\$8,500	\$1,500

\*Total may not add due to rounding.

If there were a revenue sharing agreement with a federally recognized Indian Tribe as a result of LB 291, such an agreement would reduce sales tax revenues collected by the state. The amount depends on the Tribe or Tribes involved and the time when the agreement becomes effective. Both are uncertain and no estimate has been made for this impact.

It is estimated that there will be minimal costs to the Department to implement this bill.

**Major Objects of Expenditure**

Class Code	Classification Title	17-18	18-19	19-20	17-18	18-19	19-20
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
	Benefits.....						
	Operating Costs.....						
	Travel.....						
	Capital Outlay.....						
	Aid.....						
	Capital Improvements.....						
	<b>Total.....</b>						

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

**2017**

**LB<sup>(1)</sup> 291**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Nebraska Investment Finance Authority

Prepared by: <sup>(3)</sup> Christie Weston Date Prepared: <sup>(4)</sup> 1-19-2016 Phone: <sup>(5)</sup> 402-434-3900

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

	<u>FY 2017-18</u>		<u>FY 2018-19</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
CASH FUNDS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FEDERAL FUNDS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
OTHER FUNDS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL FUNDS</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>

**Explanation of Estimate:**

Proposed housing developments on reservation land for which the owners apply for federal low income housing tax credits (LIHTC) that are administered by the Nebraska Investment Finance Authority (NIFA) may submit an application in the “competitive” application cycle or pursuant to a set-aside for such projects through the “CRANE” (Collaborative Resource Allocation for Nebraska) process. By applying through the CRANE process, the applicants receive technical assistance from the NIFA staff to assist in developing the application to attain the necessary requirements for an allocation of LIHTCs for the project. In the CRANE process, application fees are a one-time charge, no matter the length of time an applicant takes to get through the process.

For applicants submitting through the competitive process, technical help from NIFA staff is not available to applicants since they are competing against each other for a conditional reservation. Applicants pay an application fee each year in the competitive process, even if they submitted an application the previous year and were not awarded. The applicant has only two rounds each year to receive an award in the competitive process. Historically, NIFA receives 3 applications for every single application which is awarded LIHTCs in the competitive process.

There is no way to predict whether a developer would submit an application in the competitive process multiple times over multiple years, resulting in additional application fees, so a revenue estimate is not provided.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2017-18</u>	<u>2018-19</u>
	<u>17-18</u>	<u>18-19</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
<b>TOTAL.....</b>				