Does not include written testimony submitted prior to the public hearing per our COVID-19 response protocol

LINEHAN: Welcome to the Revenue Committee public hearing. My name is Lou Ann Linehan. I'm from Elkhorn, represent Legislative District 39. I serve as Chair of this committee. For the safety of our committee members, staff, pages, and the public, we ask those attending our hearing to abide by the following procedures. Due to social distancing requirements, seating in the hearing room is limited. We ask that you only enter the hearing room when it is necessary for you to attend the bill hearing in progress. OK, we're not doing a bill so. So what do I need to read here? Are we doing this? Yeah, I don't think so, because we're not going to have witnesses besides the gentlemen. So would you like to proceed?

TONY FULTON: Sure.

LINEHAN: Thank you.

TONY FULTON: Well, good morning. Thank you, Chairwoman Linehan, members of the Appropriations and Revenue Committees and their people are tuned in also, right?

LINEHAN: Yes. Who is all on the phone? Go first, someone.

BRIESE: Yeah, this is Briese here.

LINEHAN: Good morning, Tom.

BRIESE: Good morning, everyone.

VARGAS: This is-- this is Tony Vargas.

LINEHAN: Senator Vargas. Anyone else?

_______________: The caller--

FLOOD: Mike Flood.

_______________: --has joined the conference.

LINEHAN: Morning, Senator Flood.

FLOOD: Morning.

TONY FULTON: OK. For the record, my name is Tony Fulton, T-o-n-y F-u-l-t-o-n, and I'm the Tax Commissioner for Nebraska. It's a pleasure to come before you again this morning. Accompanying me this morning is Mike Walsh. He is the tax policy manager, is a new face that you'll get to know over the years. And Dr. HoaPhu Tran, who is manager of the research section, whom I think you probably know. In our fashion, traditional fashion, I should say, we are pleased to review the 2020 Annual Tax Incentives Report with you. The report was electronically submitted to you on July 15, so you should have received it. And then with a copy of the PowerPoint presentation we provided yesterday. The presentation includes reports on the following programs: the Nebraska Advantage Act, Nebraska Advantage Rural Development Act, Nebraska Advantage Microenterprise Tax Credit Act, the Nebraska Advantage Research and Development Act, the Employment and Investment Growth Act, and Invest Nebraska Act. The report does not include any information on ImagiNE. A report for ImagiNE will be issued separately on October 31. And shamelessly, I'll put a little plug in here to you who have the power to change law. Perhaps these two reports can be combined at some point in the future for the sake of efficiency. OK, I'm going to turn it over to I think Mike goes first. But does anyone have any questions now? I will stick around so if there are questions later we can. OK.

MICHAEL WALSH: Good morning, Senators. My name is Michael Walsh, M-i-c-h-a-e-l W-a-l-s-h.

_______________: The caller--

HILKEMANN: Senator Hilkemann.

_______________: -- has joined the conference.

MICHAEL WALSH: As Tony indicated, I'm the tax policy manager. And typically what we do is we go through the slide show, which we have sent to you, and I will go over it. I think the biggest problem are the projections that you like to see, which I hope we will go over for you as well. So we can get started here. First of all, we talk about what is disclosed, not disclosed, the comparison of the expenditures of the Advantage Act, as Tony just went over. So, as you know, there's certain things that we can and cannot disclose. Everything we can disclose was submitted in the report on July 15. And this is a summary of what we've been able to provide for you with the number of signed agreements, specific project information. Specifically we're not permitted to disclose certain information so we have adopted the IRS statistical standards as minimum standards for compliance with confidentiality. So therefore, if there is data from fewer than three taxpayers, that's not disclosed or areas less than the entire state, no data from fewer than 10 taxpayers. So this is no changes to that, obviously. So the first slide is a comparison of the total expenditures from what was used in 2018, 2019, and 2020. This covers the Advantage Act, the Rural Development Act, the Microenterprise. So you see that there's a few that are going down. Obviously, LB775, that program is coming towards the end. So the expenditures used has gone down. So we have refund and credit usage, so this-- these slides will go forward and break down what we-- what we've been using in the past few years and some of the projections. And HoaPhu will go over where he sees this increase coming from. So in 2020, we have the increases close to $143 million; the employment of the Nebraska Advantage Act. We project that to go up. And we project the Employment Investment Act of LB775 to be going down, as has been the trend. So we have about $39 million in the Nebraska Advantage Act refund and credit usage in 2020. This is on the corporation and individual income tax. When we then add the-- the income tax withholding offset refunds, that was $20 million in 2020; direct sales and use tax refunds 2020 was at $54 million and $31 million in the sales and use tax refunds [INAUDIBLE].

LINEHAN: I'm sorry. Can I just-- I'm having a hard time keeping up on the slide. Can you just say which slide you're on, which slide?

MICHAEL WALSH: Oh, sure. I'm sorry. This is slide 12.

LINEHAN: OK, so if you can just say which slide every time you start--

MICHAEL WALSH: Sure.

LINEHAN: --then go to it. OK. OK.

MICHAEL WALSH: Slide 12, these sides are just all come together so this is the culmination of slides. Slide 15--

LINEHAN: Somebody needs to mute their phone. Excuse me. I'm sorry.

MICHAEL WALSH: That's OK, Senator.

LINEHAN: Could someone, whoever's-- somebody needs to mute, maybe everybody who's calling in should mute their phone unless you want to talk to us.

________________: [PHONE BACKGROUND]

LINEHAN: Gentlemen, somebody, please mute your phone.

________________: [PHONE BACKGROUND]

LINEHAN: They walked away. [INAUDIBLE]

MICHAEL WALSH: If George was still here, [INAUDIBLE]

________________: [PHONE BACKGROUND]

LINEHAN: Can somebody text everybody on the phone? There. Thank you. OK. All right. We are now on slide 12, right?

MICHAEL WALSH: Slide 13, which is just all of the slides together.

LINEHAN: OK.

MICHAEL WALSH: And that is actually the combination slide. So it's the one that should be up the longest.

LINEHAN: OK.

MICHAEL WALSH: So and again, this is the the usage that we had for refund and credit usage broken down by direct refunds, sales and use tax, corporation, and income tax withholding. For LB775, you see that, and this is now Slide 14, that is the million dollars were down to $12 million on the corporate and individual income tax. For the sales and use taxes, Slide 15, refunds, that is down to $8 million. And then we have the direct sales and use tax refunds, which are even smaller. And this is the-- the slide 17 that combines all three for LB775. Again, that program has not been accepting applications since 2006. So on the Advantage Act, as you know, the Advantage Act has ended accepting new applications as of December 31 of last year. And there's the six different tiers that you can use if you're looking for the information. Page 7-13 in the report that the commission has submitted on July 15 has the specific information that will be on the slides.

Here we have the Advantage Act qualified business activity. Applications can have qualified and nonqualified activities at a project location. Obviously, that's now changed in the ImagiNE program where it's location based. And during the application process, the applicant needs to demonstrate to the department how they will segregate the nonqualified activities for audit purposes. Again, that was a simplification in ImagiNE that will not be part of the new incentive program going forward. In the past, the project locations had to be interdependent and the taxpayer could select the tier. They could also amend between tiers in the program. But again, we are not accepting new applications or new applications for that program. What we did find is about 10 to 15 percent of the projects did not attain in the year they initially thought they would because you do have to go through a qualification audit with the department. And the majority of the audits have resulted in adjustments to initial amounts claimed. That's usually with a based on employment numbers. So we have the verification of claims with benefits in the remaining years and recapture of benefits is what we do with our audit review process. Consistently, and we've said this I think almost-- for many years that we've been making this report, about 50 percent do not follow through of those who file applications. And we'll see if that happens with the 2020 returns as well, applications that were filed. And 65 to 75-- to 70 percent of the qualified companies exceed the estimates. Because when you do file your applications, you do not have to-- there's no penalties if you do not meet your levels. So many applications will just state the minimum qualifications to meet the levels that they're looking for, for which tier they want. So cumulative summary, and this is slide 24, through 2020, the qualified capital investment of $14,780,808,604. So we had-- the largest part here is that we had total credits earned, this is a big number for-- well, this is the overall, I'm sorry, through 2020, $1.3 million. So you have outstanding credits left over, $674.2 million. And next slide does list what 2020 numbers are. So in the Advantage Act, we had $2.8 billion for qualified capital investment; direct refunds of $53.6 million; tax credits earned, it was a large number this year, $289 million; and tax-- total tax credits used of $90.3 million. So we have reported new jobs of 3,294; and the average wage of $57,388. Again, that was slide 25. Every year we do a summary chart. This chart has not-- the projections have not significantly been different any year on the pie chart. Still the estimated of the 12 percent of personal property; 20 percent for corporation income tax; just 3 percent on individual income tax; 17 percent on the withholding use credits; 16 percent sales and use tax refunds using credits; and then 31 percent on the direct sales and use tax refunds. We do benefits obviously approved by industry; and due to confidentiality, some of the groups or some of the industries are grouped together. We have seven industry groups reported this year, the same as the prior year. And we have a table to summarize activity by manufacturing and nonmanufacturing groups. So in benefits approved by industry and manufacturing, we list 115; and this slide, slide 25, slide 28, sorry, lists the 2020 numbers, as well as the cumulative numbers for each project. And in your report, that's on page 31 and 35. We have 93 qualified projects for nonmanufacturing, breaking that down as well on slide 29. So we had the identity of taxpayer, locations, and payments have approved. We have in 2020 78 projects that were reported; projects that have qualification audits completed in odd years and projects with qualification letters issued in 2021 will be reported next year. Total tax credits used and refunds for '19 and '20, there's no deduction for recapture repaid and does not include the property tax exempted. We also have on page 26 of your report, we have the personal property value exempted by type, by county; and the NAICS codes that would be listed for the breakdown. We have summary of activity by applicants. And we have 401 companies that provided that reporting. Of those 401, 177 are qualified projects and 224 have not requested a qualification audit. So if they haven't requested that qualification audit, they are not receiving benefits and they may never receive benefits. I'll be back.

HOA PHU TRAN: Good morning. My name is HoaPhu Tran with the Department of Revenue, and I will take over the next two slides and we'll get back to Mike after that. So this is where we-- it's a requirement in statute that we have to provide revenue gain and loss analysis. We do it dynamically. So-- so the idea is that the tax incentive affect revenue in two ways, one positive and one negative. The positive is that when businesses get tax incentive, they tend to hire more people. They make investment. So we get more tax revenue on those new employee that due to incentive. But then on the other side, we have a negative impact to revenue is that the direct [INAUDIBLE] of tax revenue that we would have without giving that to the business incentive. So the department gets like what we call a comput-- computable general equilibrium model would generate this table, which is slide 34 on your slide. So the first-- so the first line here, you see, is what we call the revenue generated by incentive tax credits, so that's basically derived from what we run the simulation on-- so when a company get a tax credit, effectively, that lower the price of capital, all labor. So when we lower the price of capital that increase more revenue, more people working, more investment and generate this tax revenue. The second line is negative effect, which is the total tax credit that we give out to those companies to hire people, to investment, things like that. And then the [INAUDIBLE] two lines, the red line where we have the revenue gain losses. Then the next two line is the job number for the incentive. There's significant difference between the two line, the fourth line down on the first table, the company estimated new jobs qualifying for tax credit. What that number is that a company, whatever they reported on that form that they claim in for the tax credit. So let's say some [INAUDIBLE] that require company to create 100 jobs to get the benefit they're reporting when they file a claim, they say, OK, they could hire 100 job. So that's what we call that [INAUDIBLE] to get the tax credit. All right. That does not include any other company. But at the same time, for that particular company to just hire 100 people, not all 100 people are hired because of the tax credit. Some of that job might be just because the company need to grow, the economy, grow, everything, grow. So they need to hire more people to meet the demand of their business or whatever the case may be. They just need to hire more people to do the work that they need to do. The second line, which is-- which is relatively large, I mean, the top number relatively large at 45. We expect them to, you know, stay relatively high the next two years and then kind of back down a little bit as company switch from this program to the other program. Under estimated net new job increase, that's the dynamic impact. So it is smaller and that number include the direct job that we believe is directly due to incentive, not how many company-- how many jobs the company are putting on their tax form to get the credit. It's how many jobs that we believe are due to the incentive, plus the spillover effect, which include Company A hire one person. Then, you know, the input from other Company B. Company B end up hiring .25 or .5 FTE, whatever that case may be. That's what we call a spillover or indirect effect. So that estimate net job increase is what we believe is due to the tax incentive program itself. So it's tend to be smaller, but it's positive. And I recall Senator Linehan asked me a question last year.

So why is the indirect number is smaller than the-- why is the estimate job smaller than the one we call static? And if you really think about this, there are research out there, basically so the-- example of 45-- 4,549 jobs in 2021 that we-- we are predicting. There are research out there claiming that that have to be, you know, 75 or 70 or whatever the number may be, it's less than 50 percent, of the jobs are created because of the tax credit and the rest, which is about 75 or whatever the number might, there's no consensus on this estimate. But there are some studies out there, one we conduct ourselves so at 25 percent. So if you take 25 percent of the 4,549, that give you roughly, what, 1,100, 1,200. And if you assume a multiplier effect of roughly, you know, it's have to be less than one. So if you just assume .5, then you take 1,100 times .5, gets you relatively close to the 1,964. Again, those are all inside the model. We don't have a number exactly coming out. This is kind of dynamic. But-- but there are research out there that's saying something to that effect. So that is one explanation why that net job increase is smaller than whatever the company is reporting, because realistically, some company just-- they're going to hire people anyway, not just because they get the credit then they hire. And I want to address this projection on the total tax credit used and direct refund for '21-22. It's a spike on the graph if you go back and look at one graph earlier on. It's basically a spike in '21. And reasons for that projection is that in 2020, there were a large amount of credit earned, roughly $290 million and only $90 million of that was spent, was claimed. So that's still roughly $200 million out there somewhere. And we expect them to use it fairly soon. We don't know that. But, you know, people just don't leave money on the table, that's what I assume they apply for when they apply for the program. And also the direct sales tax refund, there's a couple big projects out there that we're waiting for. So we don't know when that will hit. But that's why you see the next two year are relatively high compared to historical data or even past next two-year cycle. So that is all I have on my two slides. Are there any questions?

LINEHAN: Are there questions? Yes, Senator Bostar.

BOSTAR: Thank you, Chairwoman Linehan. So what accounts for this shift in the estimated percentage of net job increases as a share of the total qualifying jobs from the tax credits? So in 2021, you know, the

1,961 is 43 percent of the 4,549; 2022 it's 48 percent; in 2023 it's 60 percent. So what accounts for the change?

HOA PHU TRAN: Well, we don't look at the two line like that. So they're independent technically. The first line is whatever the company is reporting on the tax return to get the credit. We don't know how many that job is due to the tax credit or due to the growth of the economy. I mean, obviously, when the economy is doing well, they're going to hire people anyway. The second line is the estimated job, which we did not use the job to input. We didn't use the ratio to get to that number. What that number derived from is what we call a computable general equilibrium model, where we lower the price of a capital based on the projection of tax credit earned and use. So when-- when we pay them a certain amount money for-- for investment or whatever the case might be, effectively that investment, the product of that capital they just purchased become lower. When you have lower capital investment price, they tend to hire more people. It's just like interest rate. When you have low interest rate, they tend to borrow more and invest. So that two line is not exactly. And after the program end, you're not going to see many companies reporting those numbers anymore if they don't have any activity. And so-- so the dynamic number will carry on. Some of the job will carry over and then it's ended, when it was ended. Did that kind of answer your question? It's not a direct link.

BOSTAR: But is there-- is there any value in comparing those numbers to get a sense of the efficiency of the program?

HOA PHU TRAN: It's hard to know when a company hire a person it's due to what the cause is.

BOSTAR: Of course.

HOA PHU TRAN: So it's--

BOSTAR: But we're making guesses.

HOA PHU TRAN: I mean, we can come up with all metrics we want. But how reliable those are, I can't tell you that. I don't know.

BOSTAR: Thank you very much.

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

FRIESEN: Thank you, Chairman Linehan. So how many-- how many applications to Advantage Act are there out there yet that need to be either approved or-- because I'm sure there were quite a few came in the end?

HOA PHU TRAN: That question--

________________: We had 95 [INAUDIBLE] 2020.

HOA PHU TRAN: How about if I will answer what's on the two slides.

FRIESEN: OK.

HOA PHU TRAN: Again, I don't know [INAUDIBLE] and I let Mike answer to everything else.

FRIESEN: OK. So the sales tax, direct sales tax, you made a comment about that. Do you feel that there's just a big refund on that sitting out there waiting? Because that's been one of the complaints of cities and stuff, is that suddenly there's a big--

HOA PHU TRAN: Yeah, I mean, there are a few big projects out there that we-- I mean, [INAUDIBLE]

FRIESEN: Is there a reason for them holding onto that or. I mean, because to me, that's easy revenue to get If it's already approved and it's earned its tax issues.

HOA PHU TRAN: I don't know the reason for them to do that or whatever the reason is not. But I mean, not directly related to this, but on the General Fund revenue forecast, we put in a number for sales and use tax due to incentive. We put it in one year and they didn't do it. So we pushed it on o the next year. So it's difficult on the [INAUDIBLE] but we know it's out there.

FRIESEN: OK. So when you compare, you know, we've got a lot of datacenters in the state recently and I know the incentive programs that they use versus the jobs created. Are they a better attraction for us than regular industry or how do-- how does the analysis shake out between datacenters and manufacturing?

HOA PHU TRAN: So which one is better?

FRIESEN: Which one would create more jobs or more, have more, better [INAUDIBLE]

HOA PHU TRAN: Manufacturing always require more labor than, say, datacenters. Datacenters invest heavily on computers which needs rotate every three or four years. It's--

FRIESEN: We just-- we just seem to be attracting datacenters recently. I just wondered if we were that much better than everyone else or if we need to look at that program. If it's, you know, from my standpoint, it seems to stick out, but. So when we look at the numbers here, the cumulative numbers, when we add up the revenue losses, what does that add up to? Is that-- we're almost at a billion dollars, or--

HOA PHU TRAN: It's large. I think there's a line in the report itself where we have [INAUDIBLE] cumulative. But again, those are estimated number too. There's no way we know like this, like I said this line, to get to that revenue loss, again, a loss, is estimated using this line. So--

FRIESEN: If you look-- even if you look at 2021 data, I mean, or 2020 even, you go back and I think if you figure out the net loss that we had and the jobs created, I mean, and the wages, it almost cost us more to create a job than what the job paid. OK.

HOA PHU TRAN: It's-- I don't-- I mean, for the time that I think for a very long time this number, we will not likely generate a positive number anytime soon. I think on the LB775, when we run this model, it doesn't generate a positive number until 20 years after the program, 20, 25 years or something like that. It's a long time. But at the same time, you know, I always say the state is not a profit maximizing entity. It's generate income for the people of the state. So as long as that's positive, is that worth the price? That's I leave up to you.

FRIESEN: OK, thank you.

Does not include written testimony submitted prior to the public hearing per our COVID-19 response protocol

LINEHAN: I'm sorry. Thank you, Senator Friesen. Are there other questions from the committee? Seeing none, thank you very much.

HOA PHU TRAN: Thank you.

MICHAEL WALSH: Senator, we-- we had 75 applications for 2020 and 25 are still pending to have a signed agreement--

FRIESEN: OK.

MICHAEL WALSH: --in our inventory.

FRIESEN: Thank you.

MICHAEL WALSH: So that's the most exciting slide that we have in this program. We have Nebraska Tax Incentive Annual Report. We have other programs besides the Advantage that we haven't gone over. We have the Rural Development Act, Microenterprise, Research and Development. So on the Rural Development, there's $2 million available now for applications in 2020. You have the Livestock Modernization Project, which is at a million dollars and a million dollars for level 1 and 2 projects, which the level 1 and 2 obviously, we have the slide located in counties with less than 15,000 for level 1, in a village, or distressed census tract and level 2 with a county with less than 25,000 in population. We had $1.4 million in credits used in 2020 under the Rural Development Act. And that could be we also previously the Livestock Modernization started out at $500,000 max and now it's up to $ million. So that could be part of the increase in the Rural Development Act. Microenterprise, the Legislature did make a few changes to Microenterprise this year, and I think that's actually effective tomorrow on the 28th. Still there's $2 million available. But now, instead of it being at $10,000 per applicant, it's now up to $20,000. And some of the restrictions were removed for who is a related party so that you could end up seeing an increase in that program. Last year the credits used in 2020 were listed at $90,000-- $909 ninety million-- no, $90,689 which is a little bit lower than it was last year. But again, that's also based on application year when we're looking at Micro so it's reported a little bit differently. But again, LB366 did change that so we could see an increase in participation from them. Research and Development Act in 2020, we had $10.2 million of credits used in the calendar year. There's a little bit on that program that if you do have your-- your work is at the federal tax credit for research activity at the college or university campus. That's 35 percent as opposed to 15 percent. So that's the one tweak there in R&D. And again, that's if they're doing research and development here in Nebraska. But they also qualify for that on the federal taxes. Along with this, this slide tile actually could encompass Nebraska Advantage as well. Now here, the other incentive program is no longer accepting applications that we have not yet discussed. Obviously, no new activities on the Invest Nebraska Act from LB620 and the employment investment growth of LB775 so we have limited activity, but the programs do still continue. People are still-- companies still are reporting usage and receiving funds out of that. So we do have outstanding credits, and this is slide 43. We do have outstanding credits of $136,572,986 on the qualified project activities. And here we go from 1988 to 2020. So there are 72 remaining signed agreements for the LB775 program. And again, all of this is laid out in your report.

LINEHAN: OK.

MICHAEL WALSH: Yes.

LINEHAN: Slide 43 are the total outstanding credits. What is-- some of them will never be claimed, right?

MICHAEL WALSH: That's correct.

LINEHAN: So you said the 50 percent or the 75 percent will never be claimed. Is there-- what-- what percentage do you assume will never be claimed out of that $136 billion?

HOA PHU TRAN: For the entire program would be something [INAUDIBLE] program. [INAUDIBLE] But this is-- since this number is [INAUDIBLE] program. So that 5 or 10 [INAUDIBLE] know right now.

LINEHAN: Because if they haven't claimed them and they're this close to the end, chances would go up that they'll never be claimed. But you don't have a number in mind whether it's 10 percent or 50 percent.

HOA PHU TRAN: [INAUDIBLE]

LINEHAN: How many more years do they have to claim on this p rogram?

_______________: FY 2005, it's about a 21-year window that the program can last. And since they file, you know, for claims [INAUDIBLE] couple years [INAUDIBLE]

LINEHAN: So are you saying they have till 2026 to claim this? 2005 plus 21 years would be 2026.

_______________: Correct. [INAUDIBLE] 2026, file for that refund in '27 and '28 [INAUDIBLE]

LINEHAN: OK. All right. OK. So the last time they could have gotten into this program is 2005.

MICHAEL WALSH: Correct.

LINEHAN: Do we have any, OK, wait a minute. Do we have any we don't have any idea how-- with that number, they've never filed. They're not audit. That's just out there.

MICHAEL WALSH: [INAUDIBLE]

LINEHAN: OK, it's a big number to have so many questions about. OK, I'm sorry. Go ahead. Anybody else have a question? Thank you. Go ahead.

MICHAEL WALSH: So this answers your question a little bit. There's five remaining agreements; no new applications after 2005 and the $49.1 million credits used from 2010 to 2016. And that's the end of the slide show. So if we have additional questions and I think the commissioner will come up and close.

LINEHAN: Senator Albrecht.

ALBRECHT: Hi. Can I just ask you a few quick questions on page 36 on the Rural Development Act? You say we have some monies left. Correct?

MICHAEL WALSH: Well, this act is still ongoing.

ALBRECHT: OK, so how much-- how many more applications or how many applications in total, do you know, that was used just for the Rural Development Act?

________________: Current year is about ten.

ALBRECHT: About ten applicants per year.

MICHAEL WALSH: Ten per year, right.

ALBRECHT: OK, and then--

________________: [INAUDIBLE] two years,

ALBRECHT: And they run two-year time frames? OK, and then on the Nebraska Advantage Microenterprise Tax Credit Act, and how many applications have we had in that particular program would you say in an average even per year that come in?

________________: About 100 maybe per year.

ALBRECHT: A hundred a year.

LINEHAN: I'm sorry, what-- 100?

MICHAEL WALSH: One hundred per year. Again, that could increase because the Legislature did change the program from a $10,000 cap to a $20,000 cap, removed some of the restrictions.

ALBRECHT: OK. Thank you.

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

MICHAEL WALSH: Thank you, Senator.

TONY FULTON: OK. Any other questions? Tax Commissioners don't get to close, but I'm closing. Senator Friesen asked the question that all you senators have to deal with the tangible and intangible aspects of having an incentives program. It's pretty hard for economists to put a number on. But we require them to so they do and Dr. Tran does a great job. There's a lot of things he just can't account for. Which industry benefits more? Why are there so many datacenters? Just to be clear, if there are any questions that we didn't satisfactorily answer, and please let us know, we will answer them. We've got a certain amount of time statutorily to respond. But what we try to endeavor to do here is to get them all answered. So that's one that I think I can handle right now. The annual report is-- part of the annual report breaks down incentives into specific industries so you can look at the industries. I'm not dumb enough to tell you which industry benefits more. I'm also not smart enough to tell you which industry benefits more. I'm sure the industries will have something to say about that. But the question, why are there so many datacenters? Well, there's investment and employment. Those are the two prongs upon which incentives are-- stand on and datacenters have a lot of investment. And so that's that's an attractive tax credit for people, companies investing. But that's just a smidge as to if I were going to open a datacenter, I wouldn't just look at tax incentives. In fact, that would just be part of it. Nebraska's electricity has, I've heard that a lot. That has a lot to do with it. The reliability of our electrical production, the relative cost are pretty low, cost provider of electricity. These are-- that's pretty important for a datacenter. So that's just one other aspect that I've heard a lot of. The DED folks would probably be able to speak to this even better. But that's-- the tax incentives are just a smidge of what is driving these datacenters, I think.

LINEHAN: Thank you. Senator Friesen.

FRIESEN: Thank you, Chairman Linehan. I mean, from my standpoint, I mean, if that's our goal is to attract datacenters or whatever it might be, we create tax programs to do that, it seems like. And so that's why I was kind of interested in seeing have we done this on purpose or did we create a program where it's just really advantageous to one kind of company or another? And is the return on investment, is it a wise choice? That's where I'm trying to decide, you know, is where is it giving us the most bang for the buck? Because we're giving up a lot of revenue in getting them here. What are they giving in return and the cost per job versus targeting some other industry or manufacturing or, you know, we've been known far and wide for insurance headquarters here because of our tax policy. And that's why I'm curious kind of--

TONY FULTON: Yeah.

FRIESEN: --as to look at the the bigger picture of what we're doing and why we're doing it and seeing if we can make it better. Because when I look at this and I, you know, if you look at the yearly loss and just this last year we gave up $242 million in revenue we, supposedly, in--

TONY FULTON: Yeah.

FRIESEN: --tax incentives. That's a substantial number. I think people want to know is it doing what it's supposed to be doing.

TONY FULTON: Yeah. I just don't think it's possible to mathematically express where one gets the best bang for the buck. We do our best here in the report. And so that's why we put it out there publicly. They're just-- there are-- there are a number of things that have to be assumed in order to produce a mathematical representation of how incentives impacts the broader economy, for instance, the jobs that are listed by the company that show up in our report. Now, we've got to have-- if we're going to invest $30 million and produce 30 FTEs and if we do that, then we get our tax credit, tax credits. Let's say that a company produces those 30 jobs. OK? Those-- those 30 jobs are going to be serviced in some way out in the broader economy. You know, they're going to go to McDonald's, they're going to pump gas, they're going to, you know. And so those secondary effects our economists and economists generally are going to have to make some assumption as to how many, what multiple, what factors should be considered with respect to the first job? So the primary job, if there's an FTE, but the secondary job, maybe it's .4 on that FTEs and then there are tertiary effects, etcetera, etcetera. Those are the things that economists will and, you know, hit me in the back of the head here, Dr. Tran, if I'm overspeaking, but I've read a lot of these things. They debate these types of things. And over time they get a sense of what's accurate, what's not. Those are just the things that can be quantified. The things that can't be quantified. I've said this before you all before when I was in your shoes, the things I was thinking about was, OK. Well, are you-- I bring this up every year, what's it worth to a society to have a 2.8 percent unemployment rate? Well, I would look at crime statistics. That might be something you all would look at. If people are readily engaged in, you know, going about making a livelihood, they're less likely to get in trouble with the law. People might debate that, but that's what you all do. You debate. That's not something that gets quantified in our report. What's the value of a young person at age five? What's the future value of that person 50 years from now, having been brought up in a household where both parents are able to work and they have adequate resources to care for the child? That's not going to show up in this report; but you all have to, you know, make those decisions. So those are the intangible things. I just want to-- I want to highlight it because no one has the ability to address that in a mathematical way. They can try but how are you going to put-- what fact are you going to put on that little kid? So we do the best we can because we're required by the law to put this report out. But those are the types of things I remember thinking through. And I've been doing this now for a long time. No one's provided a satisfactory answer. And I'm a math guy, so I'm looking for that mathematical and it hasn't been provided. I think it's because it's pretty hard to provide.

LINEHAN: Other questions from the committee? Isn't one of the debates among economists, if every state would do away with the incentives, then no state would need incentives? But as long as almost every state has an incentive package, you cannot survive without an incentive package.

TONY FULTON: I've heard that debate. I don't think it's an unreal-- I don't, so to be clear, I don't know if that is accurate, but it's not an unreasonable argument. If everyone were to stand down and no incentives and, you know, you had this pure, readily understandable tax structure, you know, I'd-- I'd say we made it to heaven.

LINEHAN: Is there any state that doesn't have an incentive plan package?

HOA PHU TRAN: [INAUDIBLE] some kind of incentive.

LINEHAN: 45?

HOA PHU TRAN: At least 45 [INAUDIBLE] is on the report.

LINEHAN: OK.

TONY FULTON: Yeah, we have it in there.

HOA PHU TRAN: [INAUDIBLE]

TONY FULTON: Yeah, I was going to say that that a state doesn't have an incentives package, that's simply another strategy to attract businesses. If we didn't have an incentives package, that we might lower corporate or--

LINEHAN: Right.

TONY FULTON: --individual or what have you. So that a state is not mentioned in our report does not therefore mean they're not competing with us because they-- they are.

LINEHAN: OK. Other questions? Yes, Senator Friesen.

FRIESEN: One more. I mean, and again, it goes back to we keep hearing over and over we're a high tax state and that's why we can't grow this state. And so at the same time, we're offering incentives to certain things to try and correct that. But whenever you create programs to fix something, it always seems like you lose something in the middle. There's slippage, whatever you want to call it.

TONY FULTON: Yeah.

FRIESEN: So as I know, everybody struggles with this is, is what is the balance between incentives and high taxes and are we targeting the right spot? And so is there even a, you know, when we talk about looking at property taxes and we study that to death and it seems like we still don't do anything, but is there-- is there a potential where we can create a commission that will look at this and say, here's the balance between a high tax state and incentives and where do we come in? It is it even possible to find that spot?

TONY FULTON: Well, with respect to property taxes?

FRIESEN: Any taxes.

TONY FULTON: Just want to-- want to get into the record, because someone years from now might look into this. Senator Linnehan had an adverse reaction to no, nothing done on property taxes. You all went pretty-- you did. That was a heavy, heavy lift, LB1107. The answer is yes. And I hate doing this. I hate-- I'd love to be able to give you an answer with mathematical certitude, but if such and such a number or such a study were identifiable, you can bet that all 50 states would be adopting it. Pretty hard to find the balance. You know, what I say so I got kids that are graduating. They're out in the workforce now. They've been able to find jobs here in Nebraska. That's something that I used to say back in the campaign days. I'm doing this for my kids.

_______________: The caller

McDONNELL: Mike McDonnell.

_______________: --has left the conference.

TONY FULTON: It was a-- yeah, I know [INAUDIBLE] pretty boring. That was what I said back in the day. And I look at where Nebraska is today, and I'm not just saying this because I'm a Nebraskan. Nebraska is whipping tail right now. We are doing well. So that-- that could be an argument. I'm not saying that you all have found the, you know, found the magic balance. No one can say that, but Nebraska hasn't been doing too bad. And that's-- that's-- that's not just recent, we've done pretty well in recent years. Now are taxes too high? Yeah.

FRIESEN: OK.

TONY FULTON: I'm not just saying that. That's true.

LINEHAN: Other questions? What is the cost on our fiscal note to drop the individual income tax rate down ten, .10 percent?

TONY FULTON: Point one?

LINEHAN: Point one, yeah.

TONY FULTON: We-- we will give you that answer.

LINEHAN: OK.

TONY FULTON: I could hazard a guess but.

LINEHAN: OK because I know it's been in fiscal notes, but I just [INAUDIBLE]

TONY FULTON: And was it 10 basis points for individual? Is that what you said?

LINEHAN: Yeah. [INAUDIBLE] the corporate. Yes, 10 bases point on the individual.

TONY FULTON: OK, yeah, we'll find that and get it to you.

LINEHAN: All right. Other questions? All right. Thank you very much, gentlemen.