CLEMENTS: We're ready. All right? Good morning. Welcome to the Revenue Committee and Appropriations Committee's joint interim hearing. My name is Rob Clements, I serve as Chairman of the Appropriations Committee. I'm here with Fred von Gillern, Vice Chair of the Revenue Committee. I'm from Elmwood, Nebraska, and represent Legislative District 2. I'd like the committee members to introduce themselves, beginning with my far right.

LIPPINCOTT: Loren Lippincott, District 34.

McDONNELL: Mike McDonnell, Legislative District 5, South Omaha.

MURMAN: Dave Murman from Glenvil, District 38, Southern part of Nebraska.

DUNGAN: George Dungan District 26, northeast Lincoln.

KAUTH: Kathleen Kauth, LD 31, Millard.

von GILLERN: Brad von Gillern, Vice Chair of Revenue Committee, LD 4, west Omaha.

DOVER: Rob Dover, District 19.

DORN: Myron Dorn, District 30.

ERDMAN: Steve Erdman, District 47.

CLEMENTS: Thank you. And today this joint hearing is regarding the Tax Incentive, the Annual Report, and the Tax Expenditure Annual Report. And we will be having invited testimony only. First, we'd like the presentation of the 2024 Nebraska Tax Incentive Annual Report. Please come forward.

JAMES KAMM: Good morning, Chairman Clements and honorable members of the Appropriation and Revenue Committees. For the record, my name is James Kamm, J-a-m-e-s K-a-m-m. And I serve as Nebraska's Tax Commissioner. We are presenting the Tax Incentive Annual Report here today, our portion from the Department of Revenue. This report provides an updated information for the Nebraska Advantage Act, Nebraska Advantage Rural Development Act, Nebraska Managed Microenterprise Tax Credit Act, Nebraska Managed Research and Development Act, the Employment Investment Growth Act, and the Invest

Nebraska Act, and the ImagiNE Nebraska Act. So at this point-- I'm here representing myself and my colleagues from the Department of Revenue. At this point, I want to turn it over to Director Belitz from DED. After that, Mike Walsh, the Tax Policy Manager for the Department of Revenue, will present our report today. So before I turn it over to Director Belitz, anybody have any questions for me?

CLEMENTS: Any questions from the committee? No. Thank you.

JAMES KAMM: Thank you, Chairman.

CLEMENTS: Welcome.

K. C. BELITZ: Thank you. Good morning, Chairman Clements, Vice Chair von Gillern, and members of committees. It is an honor to, to share this report with you from the work over the past year. My name is K. C. Belitz, K period, C period, my last name is B-e-l-i-t-z, and I serve as Director for the Nebraska Department of Economic Development, here today with Tax Commissioner Kamm, and their team from Department of Revenue to present reports From our perspective on ImagiNE Nebraska and the Key Employer Act, also to present a report for the Rural Projects Act. With me today is DED research administrator, chief economist Dave Dearmont, and our Incentives Administrator Ben Goins. Certainly they'll be able to answer any questions you may have of a technical nature, and they'll walk you through some slides here in a bit. The ImagiNE Nebraska Act is a shared responsibility between Department of Revenue and Department of Economic Development. We accept the applications for the program, determine eligibility, and then the Department of Revenue tracks and awards those tax credits and refunds as they are earned. Between January of '21 and June of '24, DED has received 133 applications for the program. Out of that, we've signed 87 agreements. Combined, those agreements represent the investment of more than $3.88 billion in our state, and projected employment of over 3,100 employees in our state. The Key Employer Jobs Retention Act was enacted in 2020, another program that we share responsibilities between DED and Department of Revenue. That program provides a wage retention tax credit for employers at risk of moving a thousand or more employees from the state due to either a change of ownership and/or control of the company within the past 24 months. The tax credit is contingent upon that applicant retaining at least 90% of their base year employees in Nebraska. DED did sign an agreement with Pfizer back in March of 2021. That agreement remains in effect. And lastly, applications for the Rural Projects Act opened in January of 2022, closed June 30th of 2023. We received four applications on the first day, from the North Platte Area Chamber and Development Corp., the Greater Fremont Development Council, the Grand Island Economic Development Corp., and the Gateway Development Corporation in Blair. We later received applications from the Cozad Development Corporation, and the Seward County Chamber. Pursuant to the Act, DED reviews and approves those applications in the order in which they are received. So we approved the applications and entered into agreements with North Platte, with Greater Fremont Development Council, and the Grand Island Area Economic Development Corporation. An agreement with Gateway, again in Blair, is in progress. Applications from Cozad and Seward are on a wait list until we get to them, that would pend, be pending additional funding. A total of $70 million is available for that program, and as of the end of the fiscal year, funds totaling about $14.7 million have been distributed to North Platte and Fremont so far. And those are the, the highlights of our programs that we're here to report to you about today. We appreciate the time and consideration and, and working together on these programs which are creating economic activity throughout the state. So we're grateful to the state's lawmakers for making those investments, and entrusting those investments to us, as well as our partners at Department of Revenue. With that, I think we'll turn it back over unless there are questions specific to me. Otherwise, we'll get to some details here in a bit.

CLEMENTS: Questions? Senator Erdman?

ERDMAN: Thank, thank you, Senator Clements. Thanks for coming.

K. C. BELITZ: You bet.

ERDMAN: Can you highlight some of those projects that the applications have been made for that you just highlighted?

K. C. BELITZ: Boy, it, it is truly a wide range of projects across the state. You know, I don't know if there's any specifics that we want to highlight. It's--

DAVE DEARMONT: Probably-- we've got a map that kind of shows where--

K. C. BELITZ: Yeah.

DAVE DEARMONT: --it's dispersed across the state.

K. C. BELITZ: We can show you the geographic--

ERDMAN: All right.

K. C. BELITZ: --distribution in a minute. Yeah, I would say I've been pleased with that distribution, certainly at a, at a high level, we're seeing projects around the state. Certainly one of our goals.

CLEMENTS: Other questions? Senator?

von GILLERN: Yes. Thank you again for being here, Mr. Belitz. The ImagiNE, can you-- ImagiNE is in the wind down.

K. C. BELITZ: Advantage is in the wind down.

von GILLERN: Advantage is in the wind down. Could you talk just, just for the sake of the whole room, the, the, the time frame for ImagiNE and Advantage ,and how they overlap, how the underlap, and just, just for clarity in the room, and at what point those, those programs--

K. C. BELITZ: Right.

von GILLERN: --come to an end.

K. C. BELITZ: Yep. Yeah, Advantage was the, the prior flagship economic development incentive program, and it, it is phasing out, and ImagiNE's just really just getting going. You want to give us the years?

DAVE DEARMONT: 2005.

K. C. BELITZ: 5, yeah.

DAVE DEARMONT: ImagiNE started in 2020, was ImagiNE, and applications for Advantage ended the same day that ImagiNE started.

CLEMENTS: Could you repeat that for the recording?

K. C. BELITZ: Yep. Yep. So 2005 is when Advantage began. That lasted through 2020. And then on the day that ImagiNE started, Advantage, we stopped taking applications for it.

CLEMENTS: All right.

von GILLERN: So under-- in your-- the documents are provided under the ImagiNE Act, the program activity says deadline for applications was May 31st, 2021, no additional agreements under the act. Is that-- that's applying to ImagiNE, ImagiNE applications? There's, there's a here program activity, no further-- no fur-- no additional agreements under the act without further authorization from the Legislature after May 31st.

DAVE DEARMONT: Key Employer.

K. C. BELITZ: Yeah. I wonder if that's--

von GILLERN: That is under the Key Employer.

K. C. BELITZ: Yeah.

von GILLERN: You're right. OK. All right. So just that-- it's just that aspect of it.

K. C. BELITZ: Yeah.

von GILLERN: They got it. Thank you. Appreciate it. That's all the questions I've got.

CLEMENTS: Other questions? Seeing none--

K. C. BELITZ: All right. We'll be back.

CLEMENTS: Thank you for your testimony. Next presenter, please?

MIKE WALSH: Thank you. My name is Mike Walsh. Do you have to spell it for the record on this one?

CLEMENTS: Yes.

MIKE WALSH: OK. M-i-k-e W-a-l-s-h. And as the commissioner mentioned, I'm the Tax Policy Manager for the Department of Revenue. I believe you've all received the reports that we have. I hope, I hope you did. I, I think we submitted them on time, October 31st. And the slides that we have are kind of based on the information in that report. So we're going to go over a couple of them. If you have questions, let us know. We also have very other able members of Revenue here to, to assist, and for any questions that you have, so. Oh, I just have to hit the space button. Oh, OK, cool. All right, so this is, this is just the, the outline of pretty much even what the report says. There's certain information we can disclose and not disclose. And of course, that's up to the laws that you set for each of the programs. So this is just the overview and changes that we've had with expenditures on this act. So we will talk about LB312, the Advantage Act, as well as the, the other Rural Development Act, the Microenterprise Act, R&D, and programs that are even older than the Advantage, the LB775 program, which is still paying out benefits, and Invest Nebraska, LB620. So we don't have to go through every single one of these slides, but I believe you guys did receive a copy of them, so you can go back. But again, everything that's in the slides is in the report that you received. LB1150, of course, changed a little bit about how we report, so we could make the reports make sense in terms of the fiscal year in reporting, which I think helped for budgeting purposes to show how much is going on, on calendar years versus-- fiscal year versus a calendar year. So that's kind of helpful. This is just a-- oh you can't-- I guess you can see that, the comparison of the total expenditures that we have for the different acts. As you can see, some of them are-- obviously Advantage has a, a large number still, but it's going down because the, as the commissioner mentioned, applications stopped for Advantage, so we're no longer receiving any, but we do have a number of qualified projects. This graph is very similar to the graph that-- when we presented it two years ago. So that the spike there that you have, that was two years ago as well, when we presented this. So there wasn't much of a change, because as you can tell, the, the programs are winding down. So not having as much of a-- as much of the credits. Again, and you can see the-- this graph will tell you which of the different [INAUDIBLE] sales tax are--

DOVER: Can we lower , can we lower the projector so we can see what's on-- it say on top.

MIKE WALSH: Yeah, maybe if I just--

DOVER: Thank you.

MIKE WALSH: [INAUDIBLE] the direct sales, you can see. And it's mainly the corporate and the individual income tax where you're using most of the credits. And I believe you should all have this draft as well if it, if it's helpful. If you don't, we can, we can get it to you as well. Obviously, LB775 has gone down a lot. But we do-- I believe I had it in here. It was LB775. There are--

DOVER: Thank you.

MIKE WALSH: --still-- we're still receiving some benefits. There's 28 remaining signed agreements on LB775. It is expected under the statute it would end, but there are statute of limitations, so some of these projects are still receiving money. That's why you can still see at the very-- at the tail end that there's benefits still coming out of that project. So more specific numbers on just the Advantage. No new applications from December 31st, 2020. We've also signed all the agreements and applications, so there are no pending applications, but you could still have projects come online to become a qualified project. So we only have 2-- well, we have 280 qualified projects. But you could have a few more projects come online, because there were 428 agreements that we signed. You're a qualified project, meaning you're able to receive benefits because you've shown that you're actually making the investment that you agreed to when you signed the agreement. So that, that number of the active 280 qualified projects could go out. But as of right now, there's 168 have not reported qualified benefits, of the 428 agreements that we have signed. And here's just a summary of how the estimated average wage of the, the new jobs and reported jobs. Again, all of this is in the report. Here's a nice little pie chart kind of breaking it down as to qualified project activity. And again, this is of the 280 projects that are actively reporting. We also then break it down by industry. And in some cases, because we have to maintain confidentiality, we have to group them together. So we broke it down for 152 qualifying projects for manufacturing. It was placed down for the credits that they used and, and credits that have been earned. You see, the credits that earned has the, the dot dot. And that's because we can't-- confidentiality, we can't report all of the information. But it is-- it's hard to see- $1.1 billion that would have-- for credits that are actually used. And then that's the same on the next slide, it just breaks it down that these are the, the non-manufacturing applicants that we have. And then this pro-- we also have project specific information because the, the Legislature changed the rules a little bit to allow us to provide some more information on certain projects after 2022. So we, we do it by the NAICS codes as well? So all of this information is pretty much checklist in the report. Those are the numbers I was going to give you earlier, about how many have we sent the [INAUDIBLE] reports. And then we have the projected revenue gains and losses of the projects that are still going on. If you have questions on this, I'll be [INAUDIBLE] on the projections. As he says it's not a forecast, but this is where we're projecting of how much we will be paying out each year going forward. Do you want to-- oh yeah, I'll hand it over to Dr. Tran.

HOA PHU TRAN: I'll just go over one slide.

MIKE WALSH: Just one slide? OK.

HOA PHU TRAN: Just one. Good morning.

CLEMENTS: Welcome.

HOA PHU TRAN: My name is Hoa Phu Tran, H-o-a P-h-u, last name Tran, T-r-a-n. I'll just go over the slide really quick.

CLEMENTS: Could you move the microphone closer?

HOA PHU TRAN: So one of requirement under this act is we have to do what we call a protective revenue [INAUDIBLE]. As we know, incentive-- tax incentive affects Nebraska tax revenue in two ways. One is the positive effect, right? So when you provide incentive to a company that will go out and they will hire people, they increase investment, and which enhances economic growth. The negative effect is the direct foregone of state revenue to incentivize those activities. So what we do here is we use what we call a computable general equilibrium model, which account for the interaction between the firm, the consumer, and the rest of the world, which is-- so basically the interaction between our economic agent. So incentive is basically affecting directly on the company that's receiving the credit, also at the same time indirectly providing economic growth throughout the rest of the economy by those companies' increase in, in investment by, you know, indirectly affecting other players as well. So what we have here is-- so the first line here is the revenue generating tax incentive. So this is the tax revenue that we believe are as the result of this investment made by those companies. The second line is the direct forgone of tax revenue. So in order basically if you think it's simply to get $144 million in state tax revenue, we have to forgo that year

$343 million, so that the, the revenue gain and loss is basically become negative for all the years in projection.

CLEMENTS: All right. Pause it just a minute.

HOA PHU TRAN: Yes.

CLEMENTS: Is this for one program, or all the incentive programs?

HOA PHU TRAN: This is just for Nebraska Advantage Program.

CLEMENTS: Nebraska Advantage only.

HOA PHU TRAN: Yes.

CLEMENTS: Thank you.

HOA PHU TRAN: And then we put down the job number that's created by this company. So all this company in for this particular tax--fiscal year using-- basically creating 2,600 jobs. And this line for like [INAUDIBLE] estimate new job for a qualifying tax credit, that's basically the number of job a company put on their application app to show how much increase they get. But we all know some of those companies may hire people regardless of tax incentive, right? So part of it is because of the direct incentive, part of it just because of a growth of the economy, or the growth of the company. Then this next line here is basically account for the indirect job, direct job plus indirect, because when your company A get the tax credit, they're going to buy more stuff from company B. Company B, then, do, do not get tax credit, go out and hire people, buy more investment, things like that. So that's what those numbers are for. Most of the time, in previous year, the estimated net job of the program is actually smaller than what the company yields. For this particular year, because the last couple of years, the credit earned by those company are very large, meaning they're making a very big investment for the last couple of years. So we-- so tomorrow basically saying that the economy picked up more job indirectly because of those investment by, by seeing basically this estimate that job number is bigger than what most directly benefit the company you-- to get the credit. So that's kind of a projection for the next ten years. You know, we, we won't see this become positive. But again, the-- you know, we're, we're not in the business of maximizing revenue, so. That's what I have for that slide, and I'll answer any question. Yes.

CLEMENTS: Go ahead.

von GILLERN: Thank you for the information. And again, to Senator Clements' question, this is about Advantage, and maybe the previous slide was about ImagiNE, but one, one slide showed that there was $1.3 billion in outstanding credit. If I took-- I'm trying to add it up in my head, is that those-- is that the, the--

HOA PHU TRAN: No ,those are basically-- the, the slide up is basically $1.7 billion outstanding credit. Those are actual dollar, meaning those are-- companies already own those credits. They just haven't used it all yet.

von GILLERN: OK.

HOA PHU TRAN: Because some of those credits are not directly fund. So the company needs to have a tax liability for them to use it.

von GILLERN: OK.

HOA PHU TRAN: They just don't have it right now.

von GILLERN: So, does the state book a liability for those in anticipation of having to pay those out?

HOA PHU TRAN: That is a question for [INAUDIBLE].

von GILLERN: I'm seeing a, a no head shake in the audience by someone who probably knows the answer to that, so I'll take that. So, all right. Thank you.

CLEMENTS: Please, go ahead.

KAUTH: So when you look at it, how much is the average cost per job? As, as I'm figuring out, I'm looking at about $131,000 for every job created that the state gives to the companies. That doesn't seem right. I think I did my math wrong.

HOA PHU TRAN: The, the average-- those numbers are very difficult to come up with, right? There was a study-- not a study, but report done by the Legislative Performance Audit, I believe, that look at that question every two years. And I think they have what they call a REMI, macroeconomic modeling. I think they are better to answer that question, because it, it's not as simple as taking the foregone revenue divided by the job, that you have so much indirect job, and it's a very tedious process if you would, because it's not just one company, you get this investment, you create those many jobs. It's, it's company A provide some input from company B, and so on and so forth, and, and then you have out of the state, so it's--

KAUTH: I think that would be a good number to know if we're actually, if we're creating jobs that are high paid, and, and going forward, is this actually worthwhile doing for Nebraska taxpayers?

HOA PHU TRAN: I believe that's some estimate out there? But I don't know that off the top of my head, so.

KAUTH: Thank you.

CLEMENTS: And one more thought. As Nebraska tax, income tax rates are decreasing for corporations, are you reflecting that in the revenue loss, that we wouldn't lose as much revenue because the rates are lower?

HOA PHU TRAN: The rates are lower, therefore the tax levied might be lower. But a lot of these company that can use the credit for a very long time. I think the period was like eight years in some, some case. So by the time they owe-- they don't own any credit, they still have a lot of time to use those credit that they're-- that,that they own. So in some case they will expire, yes. If you go back, that's what the slide before-- let me try to find it. So here you have what you call the credit that hasn't expire. So those are basically some of the credit that is no longer available to some of those taxpayer. because they have been-- that they didn't have enough tax liability to use, to use the credit, things like that. So that is also-- So I think the number we used before, what, roughly about 90% of the tax credit will get spent, and, what, 10% of that will not be utilized?

CLEMENTS: Senator Erdman.

ERDMAN: Thank you, Senator Clements. Following up on Senator Kauth's question. If you go back to that slide you had before, and that showed that the, the decrease in revenue was $186 million, 1,104 jobs.

$That's 169,000 per job. Explain to me how that's a good idea, that it costs us $169,000 for every job we create.

HOA PHU TRAN: I am only presenting the data. I don't know the answer to your question.

ERDMAN: So how much is the total earned credits that haven't been collected? All the--

HOA PHU TRAN: How much?

ERDMAN: --all the programs we have, the Advantage Act, the ImagiNE Act, LB775-- LB775's been in place for how long? 40 years? 35?

HOA PHU TRAN: '80 something for that?

CLEMENTS: 20.

Unidentified: '87.

HOA PHU TRAN: '87? That's when it's--

CLEMENTS: '87.

HOA PHU TRAN: So, so it should be done by the end of '25. Yes.

ERDMAN: So we still have credits earned there that haven't been used.

HOA PHU TRAN: A little bit, yes.

ERDMAN: So the total has got to be significant, because you're showing-- you show 1.3 just on the Advantage Act, right? $1.3 billion?

HOA PHU TRAN: Is, is this the slide that you're looking at, or is it--

ERDMAN: The one you just had up to when you showed the outstanding credits on-- So $1.3 billion just on Advantage Act.

HOA PHU TRAN: Yes.

ERDMAN: So then you have ImagiNE Act, you have LB775.

HOA PHU TRAN: LB775 is basically done, most of it. The outstanding for-- in Nebraska Event is probably the biggest right now. That number will continue to decline, and ImagiNE will pick up. That's just basically how the two program intersect. This one will get smaller and smaller. And then the other one will start picking up, yeah.

ERDMAN: I've been here eight years, almost eight years, and I've never understood why we do these things. And I'm beginning to clearly understand why we should never have done them. But just when I figure out where all the bodies are buried, then I've got to leave.

CLEMENTS: All right. Go ahead. Next slide.

HOA PHU TRAN: Next slide, [INAUDIBLE].

MIKE WALSH: OK. And also, I believe the Legislative Audit Office also does some deductions.

CLEMENTS: Would you, would you state your name again, please?

MIKE WALSH: Mike Walsh. Thank you. And the Legislative Audit Office does do the performance on this-- audit committee does do a couple analyses on the incentive programs as well. In the annual report, Senator Erdman, does have, on page 82 does have what, what's left with the Investment in Growth Act and what's expiring, what we believe will expire as well. So that, that chart is listed as well. That's not in the slideshow, but it's-- ok. So we do have the Rural Development Act, which has been increased for $10 million for livestock modernization projects, and $2 million for the level one and level two projects. And I believe-- let's say that we had 72 applications for the year ending-- prior year for this report. Of that, there's only two applicants that were level one and level two, and the remaining 70 were for livestock modernization. The year before, there were 39 applications and again, just two for livestock-- two that were not livestock modernization. There's different criteria for each of the projects. So in the credits used in '23 and '24, $2 million, and the year before, a little over $500,000. Again, the credits were recently expanded. So we've gotten a lot more interest in-- we've received now-- we're receiving larger applicants, so less applicants, but larger requests. And all of that information on all of these reports, then-- to give a little plug for the Department of Revenue, we have a lot of this information on our website. So if you have any questions, we have overviews, and how much pending applications there are right now, because obviously this report has a specific end date, but we have more information. So I encourage you to, to look at our website for further information because we have some pretty good stuff on there. Let's see. So on the microenterprise, this was also expanded a few years ago to increase the lifetime liability to-- lifetime available credits to $20,000. What we've found on this program, about 67% of the credits that are authorized end up being claimed, and that's that. But that's capped at $2 million a year for that program. Then we have the R&D Act. And again, this pretty much follows the federal R&D credit as well. We have a few numbers on that. Again, so what we're talking about with LB775, the older program, there are 28 programs that remain. So the outstanding credits are $45 million. But will they all be used? That's a-- that depends on what they file for refund claims. Then we have the , the really older to Invest Nebraska Act. Obviously, no new applications, because that ended in 2005, replaced by LB775, which was replaced by LB312, which was replaced by the ImaginNE Act. But we do have five remaining agreements. Unfortunately, because of confidentiality, we can't give out certain information because it would identify who the applicants are. A lot of the applicants now, and people who are getting credits with the 7-- with the LB312 program, they are listed in the record. But that's because you have different confidentiality rules for each program. Let's see. So if there's any other questions. If not, I'll hand it over to DED.

CLEMENTS: Senator von Gillern.

von GILLERN: Yeah. Just follow up to Senator Erdman's question earlier. I just want clarity, and I know typically we don't do any dynamic forecasting, but the, the cost and I'm not pushing back, in that it's a, it's a great point on how much it costs for job creation. But those are a one time cost to the state that there is an ongoing revenue stream back to the state through those jobs created. If, if an employee-- if a job is created, theoretically, that employee-- not theoretically, that employee is paying income tax and sales tax and property tax for 5 years, 10 years, 20 years, do we do any dynamic modeling on to, to that to to potentially show the offset for the cost of job creation?

MIKE WALSH: Well, the, the cost per job evaluation, that is the specific report that the performance audit committee does for incentives.

HOA PHU TRAN: The slide that I had--

von GILLERN: Yes.

HOA PHU TRAN: Was-- is basically that analysis.

von GILLERN: OK. All right. I'll go back to that slide and com-- All right, thank you.

CLEMENTS: Senator.

KAUTH: So, going to page 82. When you talk about microenterprise, it talks about the cumulative revenue gain or loss. So when you say cumulative, does that mean over the life of this program, how much revenue is being gained or lost? Because it's showing all losses.

MIKE WALSH: Page 82 is on--

KAUTH: The fiscal analysis of the Employment Investment Growth Act.

MIKE WALSH: OK, but not, not my growth.

KAUTH: I'm sorry, I said the wrong thing, thank you.

MIKE WALSH: I was confused. OK. So, yes, the-- were-- again, it's expected that the credits will-- $17 million of the credits will expire in '25 and '26 and not be used. But there are some statute of limitations that where they can still file credits.

KAUTH: Right. But, but what I'm saying, when you look at it, you've, you've calculated it, I mean, to Brad's point, the, the cumulative revenue gain or loss, how that program has performed in providing the revenue for the state. And from, from this chart, it shows a revenue loss in '23-24, and projected for '25-26.

MIKE WALSH: And I will hand it over to them.

KAUTH: Sorry, Mike.

HOA PHU TRAN: So, yes, those incentive company will generate revenue loss. The pay out to the credit owned by those company will always be higher than the revenue kicked back into the system in the long run. You know, tax cuts don't pay for themselves. Thus.

KAUTH: So. So your statement is that doing the tax credit will always result in a revenue loss?

HOA PHU TRAN: Yes, that is correct. But at the same time, like I said earlier, the state is not in the business of maximizing profit. We are in the business of providing welfare to the citizens of the state. So when you create a job, those people have a job those are increased the welfare for the citizens of the state.

KAUTH: But when the state loses revenue, it impacts property tax owners, it impacts people in different ways. So that's-- I just wanted clarification on that.

HOA PHU TRAN: Yes.

KAUTH: So thank you.

CLEMENTS: Other questions? Senator Erdman.

ERDMAN: Following up-- thank you, Senator Clements-- following up on Senator von Gillern's comment about dynamic forecasting. If, if in fact it cost $169,000 per job, what kind of revenue would the state collect in income tax, or any kind of other tax from that employee to make up $169,000? It'll never happen.

HOA PHU TRAN: Well, let, let, let me clarify one thing before I move on is those-- the, the revenue gain and loss are not a forecast, right? So we only forecast the credit owned by those company, and the usage of those credit. Because once-- then, then we take that forecast, we put it into what we call the Trend Model, which is a tax analysis format in Nebraska. It's a custom built dynamic model that we have in house. we put that in there, so basically what the thing about it is, the tax credit is nothing more than a lower rate of capital for a particular company. All right? So when you have a lower rate of capital, that's we put that into the model. So the model take the lower rate capital generate, and basically how many job they will create it with this lower capital. It's just like interest rate, right? If you think about an interest rate, the higher interest rate, less investment, the lower interest rate, the more investment. That's the same thing with the credit. So the revenue gain and loss is technically not a forecast. It's a simulation by the model, given the forecast of the tax revenue, the tax credit of those company. To answer your question on the, you know, like I say, the tax credit will have some impact on the job credit. There's no question about that. But the magnitude of how many job they created, you know that the best we can do is based on the model. And we think for the first time is when we presented this table on the back here, we actually see in a positive number for-- [INAUDIBLE] I go. Yeah. So basically, this is a bigger number than the job qualifying. So basically, the incentive company actually created more-- the tax credit app would create more jobs than those company claim those jobs for the credit.

CLEMENTS: Thank you. Any other questions? Thank you, Mr. Tran.

HOA PHU TRAN: Thank you.

CLEMENTS: Is that the-- does that conclude the tax incentive report?

HOA PHU TRAN: That's the ImagiNE Act program that Dave will go over.

CLEMENTS: All right.

HOA PHU TRAN: I will start the slide for him, and-- It's all yours, Dave.

DAVE DEARMONT: Good morning, Senator Clements, members of the Appropriations and Revenue Committees, my name is Dave Dearmont, it's D-a-v-e D-e-a-r-m-o-n-t. I'm the Research Administrator and Chief Economist at the Department of Economic Development, and I-- we do have a few slides on Nebraska Advantage Act, the Key Employer Act, and Rural Projects Act. So as was mentioned earlier by Director Belitz, the ImagiNE Nebraska Act is a, is a joint project between the Nebraska Department of Economic Development, and the Department of Revenue. The applications come to DED, they're approved by DED and if approved, the DED enters into an agreement. So after that, all the tax information is held within the Department of Revenue. Here's a map that shows the locations to date that we have around the state. It's fairly well spread out, concentrated in Lincoln and Omaha, obviously, where most of the population is. But there are projects around the state that have [INAUDIBLE] ImagiNE. Part of their resp-- part of our responsibility in ImagiNE is to provide a forecast for the Forecasting Board, the Legislative Fiscal Office, and the Department of Revenue also do this. But for fiscal year 2007, our belief was there would be about $2.6, $2.7 million in sales tax refunds. Another $4.1 or $4.8 million in other tax credits used in going down. Those are-- fit well within the Department of Revenue's estimate of 2004, 2005 of about

$107 million in [INAUDIBLE] funds. So this is just the ImagiNE piece, so. Right now it's a fairly small piece compared to Advantage and, and the left over part of LB775. The other thing that's different about ImagiNE is there was a, a base appropriation set up in ImagiNE that we can't go over. If we do believe that we've gotten applications that will, that will go above that base appropriations, we stop applications for that year, un-- until we're back to the point where we're, we're below that appropriation. So it started out $50 million for the first two years, and then increased to $100 million, and then $150 million, but it was capped at $450 million for 2025. Beginning in 2026, it-- that new base appropriation will be based upon 3% of the net General Fund revenues collected, so working off the forecast for-- it was prepared by the Forecast Board last February, is about $175 million. The October forecast is slightly higher, but that would be the-- that's the cap. If we get to that, if we get to that point where we think we're going to release that much in credits refunds, we stop taking applications. So for the, the Key Employer Act, that was for businesses that have at least 1,000 FTEs in the state, and they've gone through a change of ownership in the prior 24 months, and are at risk of moving more than 1,000 employees out of the state. If they agree to retain at least 90% of their employee base, they could earn a wage retention credit of 5% on the total compensation to the retained employees. Those credits are capped at $4 million a year, and $40 million over the ten year life of the agreement. DED did sign an agreement in March 2001 with the Pfizer. The agreement's still in effect, and the deadline for applications expired with no other applications so that, that program's closed for their applicants. The Rural Project Act was LB40 a few years ago. It was designed to provide funds to stimulate rural economy by incentivizing the development of new industrial rail access business parks. The funds were capped at $30 million per project, but $70 million was made available for the program. $20 million of that was General Fund appropriations, and $50 million of that was transferred to the Rural Projects Act Cash Fund. So the applications opened on July 3rd, and within about an hour and a half we had four-- had four applications; there's six total, but four were received early that morning. In order-- approved applications in order were the North Platte Chamber and Development Corp., the Greater Fremont Development Council, the Grand Island Area Economic Development Corporations. There's a, a waiting list at the next one in line, because the statute said take them in the order received, was the Gateway Development Corporation in Blair that, that approval process is in process right now. So we've got approximately $5 million left. To date, there are two others that have applications. If one of the others should drop out or something, there could be funds available for an agreement. As of the end of the fiscal year, $14.7 million have been distributed to the plan t in Fremont, and we posted the report to the Legislature on September 27th. So hopefully that was quick--

CLEMENTS: Questions?

DAVE DEARMONT: --and I'll answer questions.

CLEMENTS: Senator Kauth.

KAUTH: Thank you. Is there a limit on how many times these businesses can secure a tax credit?

DAVE DEARMONT: How many--

KAUTH: So if, if one of the, the-- if you have a list in here of businesses, so if, say, Kiewit and Sons applies for a tax credit, is there a limit to how many tax credits they get?

DAVE DEARMONT: Not really, no. It would require a new project and qualifying activity.

KAUTH: And so-- and as I looked through the list, all of them are in Nebraska, currently Nebraska businesses. Are we trying to use tax credits to bring new business to Nebraska, or hold businesses here?

DAVE DEARMONT: A lot of the-- a lot of the businesses, and I haven't really looked at the ImagiNE applicants yet, but in the Advantage applicants, there are a number of them that are, that are-- have headquarters outside Nebraska. A fair number of them do.

KAUTH: So we're not, so we're not just paying people to stay here. We're trying to get more businesses to--

DAVE DEARMONT: Right.

KAUTH: --move here.

DAVE DEARMONT: Yeah.

KAUTH: OK. Thank you.

CLEMENTS: Senator Dorn.

DORN: Thank you, Senator Clements. Thank you for being here. The Key Employers Act there with Fiserv, have they collected any of that, or when will they start, or-- explain that a little bit.

DAVE DEARMONT: Yeah, there were 4-- in the revenue report, there were $4 million used, claimed credits.

DORN: They have claimed $4 million in credits.

DAVE DEARMONT: What's that?

DORN: They have claimed $4 million in credits.

DAVE DEARMONT: There are $4 million credits for the program, yeah.

DORN: And they claimed them.

DAVE DEARMONT: Yes, they have.

DORN: I appreciate that that's yes. OK.

DAVE DEARMONT: Yeah.

CLEMENTS: Other questions? I had a question on the $30 million, the awards for rural projects. Is that because they have demonstrated they're going to spend it all, or could it be that they don't spend it all and then it could be reallocated?

DAVE DEARMONT: Potentially it could be reallocated, I, I believe, if they don't spend it all. They need-- the match requirements are such that if they put $7.5 million into their project, they could receive $30 million in state funds, up to.

CLEMENTS: And have the $30 million awardees provided their match?

DAVE DEARMONT: Yes, some of it, some more than others. They're building it out kind of slowly. I think the original-- the way the original program was set up, it was 5, $5 million a year going forward. And that was kind of perhaps a little bit better method for kind of matching the project with the, with their investment. I think the North Platte project is poised to-- they, they could pull the trigger, I think, fairly soon and, and earn the rest of the $30 million.

CLEMENTS: All right. Thank you. I think that's it. And next presenter. What's, what's next? Is there another incentive report?

JAMES KAMM: The fact that-- That's the inference, I think we'll go to [INAUDIBLE] managers.

CLEMENTS: Yes. So.

JAMES KAMM: When you're ready.

CLEMENTS: All right. Thank you. We welcome Commissioner Kamm with the Nebraska Tax Expenditure Report.

JAMES KAMM: Again, before I get to my formal testimony here, I'm going to go off script for sec. I do want to thank the Department of Revenue folks that are here today. I, I have a philosophy. The head coach is only as good as his assistants. And as you can see, that's never more true than what evidence here today. So I just want to thank my colleagues from Revenue that are here, Chairman, before we get going. Start the formal process of the [INAUDIBLE] testimony now. Good morning, Chairman Clements, Vice Chairman von Gillern, honorable members of the, the Appropriation and Revenue Committees. For the record, my name is James Kamm, J-a-m-e-s K-a-m-m, and I serve as Nebraska's tax commissioner. We're presenting a tax expenditure report here today. The department, pursuant to the Tax Expenditure Reporting Act, has published a 2024 tax expenditure report. Full reports have been published bi-annually since 1979, and that switched to even number of years in 1992. This report provides a review of tax and fee expenditures to the Legislature to better determine those sectors of the economy that are receiving indirect subsidies as a result of tax expenditures. Current Nebraska Revised Statute 77-380 reads: the Legislature recognizes that the present budgeting system fails to accurately and totally reflect the revenue loss due to such tax expenditures, and that, as a result, undetermined amounts of potential revenue are escaping public and legislative scrutiny, the loss of such potential revenue causing narrowing of the tax base, which in turn forces higher tax rates on the remaining tax base. A tax expenditure is defined as a revenue reduction that occurs in the tax base of the state or a political subdivision because of an exemption, a deduction, an exclusion, a tax deferral, credit, or preferential rate introduced into the tax structure. So at this point, I'm going to turn it over to Dr. Hoa Phu Tran, a revenue economist manager for the department. He'll present the report today. Before I have-- before I turn it over to Dr. Tran, is there any other questions?

CLEMENTS: Any questions from the committee? Seeing none.

JAMES KAMM: If not, Dr. Tran will follow me with the presentation. Thank you very much.

CLEMENTS: All right. Welcome.

HOA PHU TRAN: Well, good afternoon, and I think I will be in between this and your lunch, so I will be fast. So this-- my name is Hoa Phu Tran, H-o-a P-h-u, last name Tran, T-r-a-n. And I am to present the Tax Expenditure Report. So this is-- we do this every year, the Tax Expenditure Report. We publish the report on basically October 31st, and we are to-- here to present some of the information from that report. The report is long, so I am in not attempt to present all the information from the report. So I will basically focus on Section A of the-- not even all of that, but. So the purpose of the report is to provide a mechanism for which we will enable the Legislature to better determine the sector of the economy, which are receiving indirect subsidies after result of a tax expenditure. When we have a tax exemption, the lots of potential revenue basically costs a narrowing of the tax base, lead to a higher rate on the remaining base. This is kind of the cycle that the tax expenditure report is on. Right now it's 2024 full report. Next year we will do a sub-report, which is sales tax exemption after 2012, service for [INAUDIBLE] use and telecommunication. Every even number year we do a full report again, and then '27 we will do three sectors, which is consumer good, energy, and food. The cycle basically repeats itself. So here's all the section in that report we have. But like I say, for the interest of time, I only do A and B, which is the sales tax and the income tax. So first, the sales tax in Nebraska is 5.5%, except for the Good Life district, which is 2.75. This sales tax is on all-- for all of the field down here, sales and lease of tangible personal property, public utility, cable service operator, admission to movie theater, warranties, and hotel accommodation, and all of that is subject to sales tax. So when we have an exemption, there are multiple reason why we have the exemption, right? So, so that transaction may be exempt because of who the seller is, like the school, the nonprofit sport group. Those are what we call entity based exemption. The item being sold, food for home consumption, [INAUDIBLE] things like that. [INAUDIBLE] have a different tax on them, so we don't collect sales tax on it. Or the buyer, like the government, the school, the church, when they buy things, they are not subject to sales tax. And intended use of the item, which is on manufacturing machinery, [INAUDIBLE] for input. A quick note on estimating of expenditure. Again, when we expend-- when we have a tax exemption, we do not have the real data collected on those particular exemptions, so all of this is, is an estimate and, you know, it's, it's highly dependent on the data available, right? So we try to get the best data we can. We try to look at all the state, how they do things. We borrow some of their idea. And keep in mind, this is statics and data, not dynamic estimation. And then some of the item will overlap, but they're independent of each other. So basically some item might be in both places, double counting, some, at some place. So here is basically what the [INAUDIBLE]. Select this agricultural exemption. We have agricultural machinery and equipment. We estimate that to be $110 million. Agricultural chemical, we estimate that to be $159 million. Seed sold to commercial producer for agricultural purposes are $74 million. And water for agriculture and manufacturing, $19 million. Again, all this in the report. I could pick some of the bigger number and show it to you guy. And then you get gra-- animal for human consumption, grain animal feed, $266 million. Some selected--

CLEMENTS: Could we stop there? Senator Erdman, you have a question about that?

ERDMAN: Could you back up a slide?

HOA PHU TRAN: Yes.

ERDMAN: When you talk about that water at the bottom there. Explain that.

HOA PHU TRAN: So the water used for irrigation for mi-- if they provide more than 10% use.

ERDMAN: So who pays the, and who pays a tax on the water?

HOA PHU TRAN: Nobody.

ERDMAN: You said, you said, water used for engaged of agricultural and manufacturing purposes, sales tax, 19-- $19 million.

HOA PHU TRAN: Yes. So basically, we don't collect the tax if the water is used for irrigation on your farm.

CLEMENTS: So that's the amount that's not collected.

HOA PHU TRAN: That's the amount not collected for-- that's we estimate.

CLEMENTS: In other words, it's not taxable.

HOA PHU TRAN: It's not paid.

DORN: These, these are exempt.

ERDMAN: These are exempt. OK. I got it. Thank you.

DORN: It would-- if you taxed it, it would raise $19 million.

ERDMAN: Yeah, I know. That's why they got meters on our wells, so they can tax us.

CLEMENTS: OK. Thank you. Go ahead.

HOA PHU TRAN: Some selected consumer good. We have motor vehicle, motorboat trading, that's coming at about $72 million. When you trade in your vehicle for a new one, you get to write that off, but it's only if you trade it to a dealership. It doesn't work if you sell it to a third party. Certain medical equipment and medicine. That's about $200 million. Motor fuel, we don't collect sales tax on motor fuel, that's $282 million. Energy use in industry, $150 million. Energy use in agriculture, $84 million. Some of this is selected [INAUDIBLE] of business. Food or food ingredients, that's, that's food, except for prepared food, that you can consume, $203 million. MM&E, $96 million. Room rental by certain institution, like college dormitory, hospital bed, $140 million. Purchase by political subdivision of the state, $213 million. Purchase by church, nonprofit, and medical facility, $251 million. Some selected services. Legal services, $70 million. Pet related, $27 million. Real Estate agent service, appraisal, $50 million. And some other professional service combined, like investments advice, travel agency, physician, dentist, things like that, $400 million. And the Good Life districts, roughly $12 million going forward. And here's the income tax basis. So the 4.24%, the top rate is 5.84%. Those are the income level, taxable income level that's subject to the top rate. Same with the corporation, 5.58% for the first $100,000 taxable income, 5.84% in excess of that. So in the income tax benefit, we have the Nebraska standard deduction. That's coming in at about $542 million. Nebraska itemized deduction, if we-- that's $86 million. Income tax exemption for Social Security income, $113 million. Dividends and capital gains deduction, $31 million. Exemption for military retirement income, $24 million. Non-Nebraska S corporation and LLC income tax loss deduction, that's $43 million. Refundable earned income tax credit, about $30 million a year. Exempt-- personal exemption credit, so a nonrefundable credit of $146 in '22. I think it's $57 in '24, I should have changed that, it's $250 million. And then Nebraska property tax refundable credit, we will lose $60 million going forward, just the remaining part of the community college. And that is all I have.

CLEMENTS: Are there questions? Questions from the committee? Did you make a total of all those?

HOA PHU TRAN: No, I did not.

CLEMENTS: OK. I don't-- I think I ask you that every year.

HOA PHU TRAN: Yes. And the, the same answer is some of this are double counting somewhere in the computer, right? So you can't really add them. And also, at the same time, when you add them, you're going to get like a few billion dollars, right? But when you-- if, if you're going to have a tax policy that impact for several billion dollar, I guarantee you taxpayer behavior will change and you will not get that. So.

CLEMENTS: Oh I see.

HOA PHU TRAN: Which is not part of the analysis.

CLEMENTS: If we implemented a tax in a certain area, you say we would change the ac-- use of that activity then.

HOA PHU TRAN: Yes.

CLEMENTS: I see. All right. Well, seeing no other question, is there any other presenter regarding the tax expenditure?

HOA PHU TRAN: No, I believe I am the last one.

CLEMENTS: Is that it?

HOA PHU TRAN: Yes.

CLEMENTS: Well, very good.

HOA PHU TRAN: Thank you.

CLEMENTS: Thank you for coming.

HOA PHU TRAN: Thank you.

CLEMENTS: And that concludes our hearing. You know.