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AM2207 to LB 720 – which will be the focus of a Revenue Committee hearing today – does little to alleviate concerns about the fiscal impact and quality of jobs raised by previous iterations of the bill and instead creates new issues that make the measure a questionable economic development investment for the state.

Price tag follows a troubling precedent set by earlier incentive programs

With a projected cost to taxpayers of about $1 billion by FY 31,[1] LB 720 as amended by AM 2207 would join LB 775 and the Nebraska Advantage Act as programs that significantly reduce state revenues. Since 1987, the cumulative revenue forgone due to both LB 775 and the Nebraska Advantage Act has surpassed $4 billion.[2] According to the Department of Revenue, LB 775 is projected to reduce revenue by $2 billion after accounting for economic gain by 2025, and Nebraska Advantage is projected to reduce revenue by $1.5 billion after accounting for economic gain by 2028.[3] Given that at least 75 percent of incented firms nationally[4] would have made similar decisions regarding location/expansion/retention without incentives, there is a legitimate question as to whether these incentive programs are actually worth their cost and if enacting another program is an appropriate step for Nebraska.

Wage restrictions lowered from prior amendment, don't incent high-wage jobs

Wage requirements for some industries are considerably lower in AM 2207 than they were in previous amendments. The minimum wage for all industries in the 2019 version was $40,632. In AM 2207, however, manufacturing and aircraft service can qualify for incentives when paying wages as low as $32,396 per year – or $15.58 per hour – in 90 counties and receive incentives. A family of four at these wages would qualify for SNAP, Medicaid expansion and free school lunches. In Sarpy, Lancaster and Douglas counties, these two industries can pay wages as low as $34,710 per year – or $16.69 per hour – and receive incentives. The average wages in these counties are $22.58 an hour in Sarpy County, $21.80 an hour in Lancaster County and $25.13 an hour in Douglas

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[1] Nebraska Legislature, "LB 720 Fiscal Note," accessed at https://nebraskalegislature.gov/FloorDocs/106/PDF/FN/LB720_20200115-143627.pdf on Feb. 6, 2020.

[2] Obtained from the Department of Revenue's tax incentive annual reports and estimations of the personal property tax. We used exempted value by county (from DoR tax incentive annual reports) and multiplied it by the average county property tax rate in each respective year property was exempted. The total cumulative revenue forgone due to LB 775 and LB 312 is $4,014,819,580.

[3] Nebraska Department of Revenue, "Nebraska Advantage Act Projected Revenue Gains and (Losses) for Tax Years 2019-2028," accessed at https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/incentives/annual_report/2018_Nebraska_Tax_Incentives.pdf on Feb. 5, 2020.

[4] W.E. Upjohn Institute for Employment Research, "'But For' Percentages For Economic Development Incentives," accessed at https://www.upjohn.org/research-highlights/percentages-economic-development-incentives on Feb. 5, 2020.

County.[5] A family of four in these counties would qualify for Medicaid expansion and reduced school lunches at the wages allowed under AM 2207.

Amendment doesn't require companies pay for health benefits, allows pooling of part-time employees

AM 2207 only requires that employers offer health insurance to its employees – it doesn't require the employer to pay for any of the insurance. Furthermore, AM 2207 removed language from a previous amendment that prevented part-time jobs from being pooled to be full-time equivalent jobs for the purposes of qualifying for incentives.

Proposed cap is not really a cap at all

While LB 720 as amended by AM 2207 includes a cap, its structure is unlikely to have any substantive impact as it would not prevent the state from awarding credits and refunds in a particular year. Rather, the cap would simply halt new program applications in years where incentives are projected to exceed the cap.

As the cap is currently structured, applications will continue to be accepted in years leading up to the year in which the cap is projected to be exceeded, adding to the state's financial liability. This means the state could end up distributing refunds and credits in a given year that far exceed the cap limit. Furthermore, applications for new incentive agreements can resume in years when incentives are projected to exceed the cap should the Department of Economic Development get approval from the Legislature's Executive Board – or within 45 days of a request to the Executive Board if the Board takes no action.

Impact of LB 720, other major bills could leave state with structural deficit

It has been widely reported that approval of the tax incentive and property tax proposals before the Revenue Committee are likely to be linked. Furthermore, there is considerable discussion that LB 1084 – which would help fund a large project on the University of Nebraska Medical Center campus – will be linked to these measures as well. As this discussion continues, it's important to be mindful of the combined fiscal impact. If the three bills all pass, they could consume between 6.8% and 9.4% of state revenues between FY 23 and FY 28. The average annual revenue loss could be more than twice the size of the state appropriation for corrections and nearly equal to state funding for the University of Nebraska. Even if state revenues continue to grow at their historic adjusted rate of 4.2% annually, the impact of these measures would create a structural deficit that will have lawmakers continuously faced with having to increase

5 Nebaska Advantage Wages Report, accessed at https://neworks.nebraska.gov/admin/gsipub/htmlarea/uploads/Nebraska%20Advantage%20Act%20Wages%20Sheet.pdf on Feb. 6, 2020.

taxes or enact funding cuts to essential services like corrections, K-12 education and higher education to balance the state budget.

Conclusion

We continue to recognize that tax incentives are an important economic development tool. But it is vital to ensure that Nebraska's tax incentives are structured to incentivize high-wage jobs while also having a limited impact on our state's ability to fund priorities like K-12 education and higher education, which also are essential to our economy. LB 720 as amended by AM 2207 fails on both counts.