

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2015-16		FY 2016-17	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$350,522	(\$51,830,000)	\$505,618	(\$84,250,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$350,522	(\$51,830,000)	\$505,618	(\$84,250,000)

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

LB 331 creates the Bioscience Impact Opportunity Act.

The bill creates a tax incentive program for qualified businesses engaged in bioscience businesses.

Qualified businesses are defined as any business engaged in research, development, or commercialization of bioscience products and technologies.

Bioscience is broadly defined as the use of compositions, methods, and organisms in cellular and molecular research, development, and manufacturing processes in areas including the following:

- >Pharmaceuticals
- >Medical diagnostics
- >Medical instruments
- >Microbiology
- >Energy
- >Agriculture
- >Environmental applications
- >Medical therapeutics
- >Medical devices
- >Biochemistry
- >Veterinary medicine
- >Plant biology
- >Industrial applications
- >Homeland security applications

A qualified business must meet an investment level of \$1,500,000 and create one new job which pays wages equal to at least 150% of the Nebraska average annual wage (approx.. \$63,000). This level of investment and employment must be met by the end of the fourth year after the year in which the application was submitted.

Once the taxpayer has met the required levels of investment and employment they are entitled to the following tax credits:

- a) A refund of all state and local sales and use taxes paid from the date of application through the meeting of the required levels of investment and employment for all purchases, including rentals, of qualified property;
- b) A refund of all state and local sales and use taxes paid for all purchases, including rentals, of qualified property used as part of the project during each year of the entitlement period in which the taxpayer is at or above the required levels of investment and employment;
- c) An income tax credit equal to 6% of certain wages if those wages equal at least 150% of the Nebraska average annual wage for the year of application, available for each year of the entitlement period that the taxpayer is at or above the required levels of investment and employment;
- d) An income tax credit equal to 10% of the investment made in qualified property at the project; available for each year of the entitlement period that the taxpayer is at or above the required levels of investment and employment;
- e) A 100% exemption from the personal property tax for depreciable tangible personal property used in connection with the project and acquired by the taxpayer, whether by lease or purchase, after the date the application was filed; the exemption is available from the first January 1 following the end of the year in which the required levels of investment and employment were reached through the ninth December 31 after the first year the property qualifies for the exemption.

Credits may be used beginning with the taxable year in which the required minimum levels of investment and employment were reached. Credits may be carried over until fully utilized, but may not be carried over for more than 14 years after the year of application.

Credits are fully transferable. An acquiring taxpayer is entitled to any unused credits and any future incentives allowable under the Act. The Department of Revenue also notes that the bill allows intercompany transfers to qualify for incentives under the Act.

A nonrefundable fee of \$1000 is required with each application and is to be credited to the Nebraska Incentives Fund.

LB 331 also provides for the following: information in the application regarding planned employment and investment, plans and specifications of the project, location, a timetable of expected sales and use tax refunds and year expected to be claimed; duties and a timetable for the Tax Commissioner regarding approval of applications; details of the project agreement; definitions; ability of the state to recapture credits for failure to maintain required levels of investment or employment; and an annual report filed by the Department of Revenue to the Legislature.

In addition, LB 331 creates the Bioscience Impact Opportunity Grant Program. The purpose of the program is to help small businesses in the bioscience industry become stronger and accelerate the commercialization of bioscience-related products, etc.

The program is to be administered by the Bioscience Impact Opportunity Grant Board, which is to be part of the Department of Economic Development for administrative and budget purposes. The Board is to consist of 11 members, serving four year terms, and shall include the following:

- >Chairperson of the Agriculture Committee of the Legislature;
- >Chairperson of the Appropriations Committee of the Legislature;
- >Director of Economic Development
- >President of the University Technology Development Corporation;
- >Vice Chancellor of the University of Nebraska Institute of Agriculture and Natural Resources;
- >Executive Director of the Bio Nebraska Life Sciences Association;
- >5 members appointed by the Governor, of whom, one must be from a city of the metropolitan class, one must be from a city of the primary class, and one representing rural interests; four of the five must be residents of Nebraska.

Grants may be awarded for up to \$250,000 per year for three years to eligible businesses. An eligible business is defined as: a) a qualified bioscience business located in Nebraska; b) has 10 or fewer employees; c) grant funds will be used for personnel costs, supplies and equipment, rent, or renovation or construction of physical facilities (up to 15% of the grant).

The bill states legislative intent to appropriate \$2 million annually to the Bioscience Impact Opportunity Grant Fund, which is created by the bill.

The Department of Economic Development is given rule and regulation authority for the grant program.

The Department of Revenue estimates the following fiscal impact to the General Fund as a result of LB 331:

FY2015-16:	(\$ 51,830,000)
FY2016-17:	(\$ 84,250,000)
FY2017-18:	(\$ 181,830,000)
FY2018-19:	(\$ 271,570,000)
FY2019-20:	(\$ 398,910,000)
FY2020-21:	(\$ 413,830,000)
FY2021-22:	(\$ 419,890,000)
FY2022-23:	(\$ 423,170,000)
FY2023-24:	(\$ 428,130,000)
FY2014-25:	(\$432,470,000)

The Department of Revenue indicates that implementing LB 331 will require a one-time programming charge of \$56,916 paid to the Office of the CIO for mainframe and web development changes. The Department will also require the following staff: 1.0 FTE Senior IT Applications Developer, 1.0 FTE Auditor, and 1.0 FTE Fiscal Compliance Analyst, all in FY2015-16. In FY2016-17 they will require an additional 2.0 FTE Auditor, and 2.0 FTE Fiscal Compliance Analyst. In FY2017-18 they will require an additional 1.0 FTE Auditor and 1.0 FTE Fiscal Compliance Analyst. Total cost for FY2015-16 is estimated at \$257,007 with PSL of \$139,166. Total cost for FY2016-17 is estimated at \$418,203 with PSL of \$299,401.

We agree with the Department of Revenue's estimate of fiscal impact and cost.

The Department of Economic Development estimates an expenditure of \$93,515 in FY2015-16 for 1.0 FTE Economic Development Business Consultant to provide staff support for the Bioscience Impact Opportunity Grant Board and \$87,415 in FY2-16-17. PSL is \$45,115 for FY2015-16 and \$46,199 for FY2016-17.

We agree with the Department of Economic Development's estimate of cost.

Legislative intent to appropriate in this type of bill is not binding as the Legislature can choose to appropriate at a different level of funding or not at all.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES			
LB: 331	AM:	AGENCY/POLT. SUB: Department of Economic Development	
REVIEWED BY: Robin Kilgore		DATE: 2-9-15	PHONE: 471-4180
COMMENTS: No basis to disagree with agency's estimate of fiscal impact.			

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES			
LB: 331	AM:	AGENCY/POLT. SUB: University of Nebraska	
REVIEWED BY: Robin Kilgore		DATE: 1-22-15	PHONE: 471-4180
COMMENTS: No basis to disagree with fiscal impact.			

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA: 02/09/2015				
Approved by: Len Sloup		Date Prepared: 02/09/2015				
		Phone: 471-5896				
FY 2015-2016		FY 2016-2017		FY 2017-2018		
<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	
General Funds	\$1,257,007	\$(51,830,000)	\$2,418,203	\$(84,250,000)	\$2,524,598	\$(181,830,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$1,257,007	\$(51,830,000)	\$2,418,203	\$(84,250,000)	\$2,524,598	\$(181,830,000)

LB 331 creates the Bioscience Impact Opportunity Act (Act), which provides transferrable tax credits and tax refunds for qualified investment and employment in qualified bioscience businesses. A qualified bioscience business is any business engaged in research and development or commercialization of bioscience products and technologies.

Participants under the Act must meet required investment and employment levels (\$1.5 million investment and one new employee who is paid wages equal to at least 150% of the Nebraska average annual wage) by the end of the fourth year after the year of application. Upon meeting and maintaining the required levels of investment and employment, participants under the Act receive a refund of all sales and use taxes paid from the date of application through the end of the entitlement period; a 6% compensation credit calculated on certain wages for compensation paid during the entitlement period; a 10% investment credit for qualified property at the project; and a personal property tax exemption for personal property acquired after the application date for a specified period. Tax credits may be used to reduce the taxpayer’s income tax liability. Tax credits may not be carried over more than 14 years after the year of application. Any investment or employment used under any other tax incentive program of the state must be subtracted from the investment or employment computed for determining incentives under the Act.

If a refund claim of local sales and use taxes is in excess of \$25,000, the Department must notify the affected locality on July 1 of the year before the claims are to be paid.

Participants who are not engaged in a qualified bioscience business or who fail to meet or maintain required levels of investment and employment are subject to recapture which is a percentage equal to the number of years the taxpayer did not maintain the project at the required levels divided by the number of years of the project’s entitlement period multiplied by refunds allowed, any reduction in personal property tax received, credits used, and remaining carryovers. Additionally, the last remaining year of personal property tax exemption will be disallowed for each year the taxpayer did not maintain the required levels.

LB 331 provides the incentives allowed under the Act are fully transferable. As introduced, LB 331 also allows intercompany transfers to qualify for incentives under the Act.

Major Objects of Expenditure

Class Code	Classification Title	15-16	16-17	17-18	15-16	16-17	17-18
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
A07012	IT Application Developer Senior	1.0	1.0	1.0	\$62,558	\$64,059	\$65,597
A21211	Fiscal Compliance Analyst	1.0	3.0	4.0	\$36,922	\$113,425	\$154,862
A21212	Auditor	1.0	3.0	4.0	\$39,686	\$121,917	\$166,457
	Benefits.....				\$45,925	\$98,802	\$127,682
	Operating Costs.....				\$56,916	\$0	\$0
	Travel.....						
	Capital Outlay.....				\$15,000	\$20,000	\$10,000
	Aid.....						
	Capital Improvements.....						
	Total.....				\$257,007	\$418,203	\$524,598

The Department must submit an annual report of activity occurring under the Act to the Legislature. The reporting requirements mirror those in the Nebraska Advantage Act.

LB 331 creates the Bioscience Impact Opportunity Grant Program, which would be administered by an 11-member board which is considered a part of the Department of Economic Development, and the Bioscience Impact Opportunity Grant Fund. Applicants may apply to the board for a grant of up to \$250,000 per year for up to three years. \$2 million would be appropriated to the fund annually. Grants would be awarded in the order in which they are approved.

The estimated total reduction to the General Fund would be as follows:

Fiscal Year	Tax Credits	Grant Fund
FY 2015-2016	\$ 51,830,000	\$ 1,000,000
FY 2016-2017	\$ 84,250,000	\$ 2,000,000
FY 2017-2018	\$ 181,830,000	\$ 2,000,000
FY 2018-2019	\$ 271,570,000	\$ 2,000,000
FY 2019-2020	\$ 398,910,000	\$ 2,000,000
FY 2020-2021	\$ 413,830,000	\$ 2,000,000
FY 2021-2022	\$ 419,890,000	\$ 2,000,000
FY 2022-2023	\$ 423,170,000	\$ 2,000,000
FY 2023-2024	\$ 428,130,000	\$ 2,000,000
FY 2024-2025	\$ 432,470,000	\$ 2,000,000

LB 331 will require a one-time programming charge of \$56,916 paid to the OCIO for mainframe and web development changes. The Department would require the following staff to process applications and agreements, validate tax credit claims, track projects and the transfer of credits, and recapture tax credits for projects that fail to maintain investment and employment requirements under the Act: 1.0 FTE Senior IT Application Developer, 1.0 FTE Auditor, and 1.0 FTE Fiscal Compliance Analyst in FY 2015-2016; an additional 2.0 FTE Auditor and 2.0 FTE Fiscal Compliance Analyst in FY 2016-2017; and an additional 1.0 FTE Auditor and 1.0 FTE Fiscal Compliance Analyst in FY 2017-2018.