



## The Winds of Corporate Welfare

Nebraska just took a substantial step in fostering wind energy development as the legislature passed LB104, which allows renewable energy companies to qualify for the Nebraska Advantage program and refund all or part of their sales taxes.[\[1\]](#) Specifically, companies investing at least \$20 million into the state would be able to qualify for the Tier 5 incentive and refund all of their sales taxes. The Legislative Fiscal Office has estimated that only large wind farms would be able to afford that level of investment and qualify for the incentive.[\[2\]](#) That this measure is targeted towards big business is clear from the fact that proponents have emphasized that this incentive would help the state close a business deal with TradeWind, a wind energy company from Lenexa, Kansas.[\[3\]](#)

Wind energy proponents have long touted Nebraska's wind energy potential, citing the American Wind Energy Association's ranking of Nebraska as 4<sup>th</sup> in the nation on potential wind energy resources but 26<sup>th</sup> in actual wind energy production.[\[4\]](#) While this potential for wind energy is significant, the problem arises in LB104 giving tax incentives to out-of-state corporations. If taxes are keeping wind energy companies from moving to Nebraska, then advocates of wind energy should advocate lowering taxes to levels that would make Nebraska attractive to all businesses, including wind energy companies. To selectively allow some companies tax breaks while expecting others to pay is a clear expression of corporate welfare.

There is also the legitimate question of whether tax incentives are even effective. A 1997 study by Creighton University economist Ernie Goss showed most jobs attributed to the first Nebraska tax incentive bill passed in 1986 would likely have been created whether there were incentives or not. Similarly, Peter Fisher of the Iowa Policy Project has estimated that incentives are only responsible for one in ten jobs created, a dismal ten percent success rate.[\[5\]](#) Even members of Legislature are unclear if the program is effective: Sen. John Harms, Chairman of the Performance Audit Committee, said "[w]hat is not clear is how much of that activity [job creation] may have occurred without the tax incentives."[\[6\]](#) It is also notable that the Legislature will expand a program the *New York Times* estimated costs each Nebraska resident \$763 as a handout to companies, yet scoffs at proposals to lower and eliminate income taxes for average Nebraskans.[\[7\]](#)

Apart from the problems of tax incentives, there are also basic economic costs of investing in wind energy. A 2010 study by the International Energy Agency that calculated discount rates, construction costs, load factors, fuel prices, and carbon costs found that wind energy was the most expensive source of energy in the world, whether or not the discount rate was five or ten percent. By contrast, nuclear power was found to be the cheapest source of new energy generation at a

discount rate of five percent when used in North America, Europe, and the Asia-Pacific region, and it remained the cheapest source in North America and the Asia-Pacific region at a ten percent discount rate.[8] Similarly, the Energy Information Agency predicts that wind will still be between 49 and 77 percent more expensive than coal and natural gas in 2016.[9] When energy density is taken into account, the costs of wind become more apparent. Power density is the amount of energy that can be harnessed from a given unit of volume, often given in watts per square meter ( $W/m^2$ ). Wind produces roughly  $1.2 W/m^2$ ; for comparison, solar produces roughly  $6.7 W/m^2$ , an average natural gas well producing 60,000 cubic feet per day produces  $28 W/m^2$ , an oil well making 10 barrels a day has a  $27 W/m^2$  power density, and an average nuclear power plant such as the South Texas Project produces around  $56 W/m^2$ . Therefore, to match the 2,700 megawatts of power generated by the 19 square mile South Texas Project a wind farm would have to be roughly the size of Rhode Island.[10] So not only would utilizing more wind energy be more expensive for Nebraskans, it would also take up much more land.

LB104 gives a tax break to big business even when there is no clear evidence such tax incentives spur economic development, and worse, incentivizes an industry that may lead to increased costs for average Nebraskans. The upside of LB104 it that is carries a rider that restricts metropolitan class cities (Omaha) from raising their sales tax rates above 1.5 percent,[11] but that is the only part of the bill that should be kept. The rest of this corporate welfare bill should be vetoed and rejected by both policymakers and citizens.

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[1] Nebraska Legislature, Legislative Bill 104: Final Reading," January 20, 2013. Accessed May 29, 2013, <http://nebraskalegislature.gov/FloorDocs/Current/PDF/Final/LB104.pdf>; Nebraska Department of Economic Development, "Nebraska Advantage." Accessed May 29, 2013, <http://www.neded.org/business/tax-incentives>.

[2] Doug Gibbs, "Fiscal Note: LB104," Legislative Fiscal Analyst Estimate, May 22, 2013. Accessed May 29, 2013, [http://nebraskalegislature.gov/FloorDocs/Current/PDF/FN/LB104\\_20130524-144041.pdf](http://nebraskalegislature.gov/FloorDocs/Current/PDF/FN/LB104_20130524-144041.pdf).

[3] Grant Schulte, "Wind energy measure headed to final Neb. Vote," *Bloomberg Businessweek*, May 21, 2013. Accessed May 29, 2013, <http://www.businessweek.com/ap/2013-05-21/wind-energy-tax-measure-headed-to-final-neb-dot-vote>.

[4] Joseph Moore and Christine Scalora, "Lawmakers favor tax incentives for wind development," *North Platte Bulletin*, May 21, 2013. Accessed May 29, 2013, <http://www.northplattebulletin.com/index.asp?show=news&action=readStory&storyID=25590&ageID=24>; Associated Press, "Nebraska wind power continues to lag behind Iowa," *Washington Examiner*, May 12, 2013. Accessed May 29, 2013, <http://washingtonexaminer.com/nebraska-wind-power-continues-to-lag-behind-iowa/article/feed/2097776>.

[5] Deena Winter, "Do economic development incentives work?" *Nebraska Watchdog*, October 4,

2012. Accessed May 29, 2013, <http://watchdog.org/58041/state-reports-shows-most-jobs-wouldve-been-created-without-subsidies/>.

[6] John Harms qtd. in Deena Winter, "Nebraska spends up to \$235,000 per job in tax incentives," *Nebraska Watchdog*, February 11, 2013. Accessed May 29, 2013, <http://watchdog.org/68791/audit-state-spends-43k-to-235k-in-incentives-per-job/>.

[7] Louise Story, "As Companies Seek Tax Deals, Governments Pay High Price," *New York Times*, December 1, 2012. Accessed May 29, 2013, [http://www.nytimes.com/2012/12/02/us/how-local-taxpayers-bankroll-corporations.html?\\_r=2&](http://www.nytimes.com/2012/12/02/us/how-local-taxpayers-bankroll-corporations.html?_r=2&); Deena Winter, "NYT says Nebraska is a big spender on economic development," *Nebraska Watchdog*, December 4, 2012. Accessed May 29, 2013, <http://watchdog.org/63049/nyt-says-nebraska-is-a-big-spender-on-economic-development/>.

[8] Robert Bryce, "Wind Energy Hype: IEA Study Reveals the Real Cost of Wind Power," May 11, 2010. Accessed May 29, 2013, <http://oilprice.com/Alternative-Energy/Wind-Power/Wind-Energy-Hype-IEA-Study-Reveals-the-Real-Cost-of-Wind-Power.html>.

[9] Richard W. Fulmer, "Energy Density is Key," April 3, 2010. Accessed May 29, 2013, <http://www.masterresource.org/2010/04/energy-density-is-key/>.

[10] Robert Bryce, "The Real Problem With Renewables," *Forbes*, May 11, 2010. Accessed May 29, 2013, <http://www.forbes.com/2010/05/11/renewables-energy-oil-economy-opinions-contributors-robert-bryce.html>.

[11] Associated Press, "Lawmakers pass Nebraska wind energy incentive bill," *Joplin Globe*, May 29, 2013. Accessed May 29, 2013, <http://www.joplinglobe.com/national/x1374704327/Lawmakers-pass-Nebraska-wind-energy-incentive-bill>.

