An Examination of Nebraska Advantage Tax Incentive Programs

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The Legislative Audit Office is a non-partisan research unit that serves the Nebraska Unicameral Legislature Performance Audit Committee. We review state agency programs to evaluate the agency's success in effectively implementing legislative intent.
Nebraska has had a comprehensive tax incentive package since 1987.


Nebraska Advantage is regularly modified to meet current needs.

In 2012, the Legislative Audit Office was asked to audit the administration of the Nebraska Advantage Act to determine its effectiveness.
Findings

1. No measurable goals
2. Reported information is limited
3. Questionable value to economic modeling
4. Difficulty of evaluating incentives in general
Why is that important?

Vague goals and limited reporting = No evaluation

Decisions can’t be based on unreliable forecasting

ROI for incentives is already difficult to calculate
Goals

What do policymakers want to accomplish?

Vague goal: Create jobs

Measurable goal: Create jobs at a rate of growth exceeding the national average.
Metrics and Benchmarks

How will they know if they achieve that goal?

Potential metrics:

Amount of revenue lost due to incentives
Growth vs national averages
Cost per job
Number of new businesses
Investment or job creation by industry or geographic area
Cost of administration
Cost per job

Kentucky     $23,385
Louisiana   $6,705-27,390
Massachusetts $5,000
Massachusetts $31,500
Minnesota   $26,900-30,800
Nevada      $30,000
New Hampshire $13,000
New Mexico  $31,000
North Carolina $27,000
Washington  $40,000-50,000
Complications

➢ Is the incentive a lump sum or ongoing?

➢ Is the cost per job annual?

➢ How many jobs are actually due to the incentive?

➢ Are all incentives counted, or just those directly related to job growth?

➢ Is the goal of the program to create jobs?
Cost per job - NE

Our values: $42,747 – 234,568

Our complications:

Low value is compensation credits only, high value is all credits
Number of jobs was net, so only 23% of total new jobs
Some credits were for jobs hired in previous years
Large lump sum payment at the beginning of program
Economic Modeling

Programs available for economic impact studies:
TRAIN
IMPLAN
REMI

Programs are not intended for forecasting
Not well-understood by legislators
<table>
<thead>
<tr>
<th>Category</th>
<th>Actual FY 2010-2011 Values</th>
<th>2007 Projection</th>
<th>Difference</th>
<th>2010 Projection</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Generated by ITC</td>
<td>17,510,895</td>
<td>25,290,728</td>
<td>7,779,833</td>
<td>30.8%</td>
<td>13,144,425</td>
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<tr>
<td>Tax Credits Earned</td>
<td>79,055,041</td>
<td>51,027,028</td>
<td>(28,028,013)</td>
<td>-54.9%</td>
<td>69,184,184</td>
</tr>
<tr>
<td>Tax Credits Used</td>
<td>32,900,480</td>
<td>14,375,213</td>
<td>(18,525,267)</td>
<td>-128.9%</td>
<td>27,178,862</td>
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<tr>
<td>Direct Sales and Use Tax Refunds</td>
<td>8,814,299</td>
<td>11,351,489</td>
<td>2,537,190</td>
<td>22.4%</td>
<td>10,086,800</td>
</tr>
<tr>
<td>Net Revenue Gain (Loss)</td>
<td>(24,203,883)</td>
<td>(435,974)</td>
<td>23,767,909</td>
<td>-5451.7%</td>
<td>(24,121,237)</td>
</tr>
<tr>
<td>Cumulative Revenue Gain (Loss)</td>
<td>(41,626,540)</td>
<td>17,292,228</td>
<td>58,918,768</td>
<td>340.7%</td>
<td>(41,543,894)</td>
</tr>
</tbody>
</table>
States to look at

Evaluation:
Arkansas
Iowa
Louisiana
Rhode Island
Washington

Action:
Kansas
North Carolina
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Copies of our reports can be found at:

http://nebraskalegislature.gov/reports/audit.php