

An Examination of Nebraska Advantage Tax Incentive Programs

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Nebraska LAO

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.

Background

- Nebraska has had a comprehensive tax incentive package since 1987
- The Nebraska Advantage Act (2005) updated the former Employment and Investment Growth Act
- 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

Long-term projections for FY 2010-11 vs actual values

	Actual FY 2010-2011 Values	2007 Projection	Difference		2010 Projection	Difference	
Revenue Generated by ITC	17,510,895	25,290,728	7,779,833	30.8%	13,144,425	(4,366,470)	-33.2%
Credits Earned	79,055,041	51,027,028	(28,028,013)	-54.9%	69,184,184	(9,870,857)	-14.5%
Credits Used	32,900,480	14,375,213	(18,525,267)	-128.9%	27,178,862	(5,721,618)	-21.5%
Direct Sales and Tax Refunds	8,814,299	11,351,489	2,537,190	22.4%	10,086,800	1,272,501	12.6%
Net Revenue (Loss)	(24,203,883)	(435,974)	23,767,909	-5451.7%	(24,121,237)	82,646	-0.3%
Cumulative Revenue Gain (Loss)	(41,626,540)	17,292,228	58,918,768	340.7%	(41,543,894)	82,646	-0.2%

States to look at

Evaluation:

Arkansas

Iowa

Louisiana

Rhode Island

Washington

Action:

Kansas

North Carolina

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