

2013 Nebraska Tax Incentive Programs' Reports By the Legislative Audit Office

Nebraska Department of Revenue: An Examination of Nebraska Advantage Tax Incentive Programs (February 2013)

In this report, the Audit Office reviewed the performance of four state tax incentive programs: the Nebraska Advantage Act, Nebraska Advantage Rural Development Act, Nebraska Advantage Microenterprise Act, and Nebraska Advantage Research and Development Act. The key question was how the performance of each program compared with the goals established by the Legislature when the programs were created. The audit also reviewed the economic modeling program used by the Department of Revenue, which administers the programs, and described challenges in evaluating tax incentive programs.

The report's overarching finding was that the program goals originally expressed by the Legislature were too general to permit a meaningful evaluation of whether the programs were accomplishing what the Legislature intended them to accomplish. At the broadest level, the Legislature expected the tax incentives to stimulate business activity and expand the state's tax base. Additionally, for two of the programs, including the Advantage Act, which has the largest impact on the state budget, the Legislature set no limit on the programs' costs in terms of foregone state revenue. By these standards, any activity could be deemed a success and any cost acceptable.

In response to the audit findings, the Performance Audit Committee committed to work with the Revenue Committee to initiate a comprehensive review of Nebraska's tax incentive programs to assess whether the programs are producing the results the Legislature intended and, if so, whether they are doing so at a cost the Legislature can support.

Comparison of Selected Nebraska Tax Incentives with Tax Incentives in Other States (September 2013)

In this report, the Audit Office compared selected Nebraska tax incentives to the incentives provided by nine competitor states—Arkansas, Colorado, Iowa, Kansas, Missouri, Oklahoma, South Dakota, Texas, and Wyoming—and provided information on ways other states evaluate and report on their tax incentive programs.

Specific Goals and Measurements, Periodic Reviews Recommended for Incentive Programs (November 2013)

This report focused considerations in developing a program for evaluating Nebraska's tax incentive programs. Periodic review of Nebraska tax incentive programs, guided by specific program goals and measurements, would better enable policymakers to assess

the effectiveness of the incentives. Regular reviews and well-articulated goals and metrics would help lawmakers to identify incentive approaches that are not being used, and to determine if specific benefits outweigh program and administrative costs.

The report recommended the Legislative Performance Audit Committee consider introducing legislation to add precision to the relatively vague program goals language now in state law. For instance, statutory language for the major tax incentive program, the Nebraska Advantage Act, indicates a purpose of the Act is to create “better jobs.” The report stated this goal should be more specifically defined—expressed, for example, in terms of number of jobs, salary levels, or benefits in addition to salaries—although the degree of specificity would be determined by the Committee and ultimately the Legislature.

In addition, if the Committee decides to establish more specific goals, it should also develop metrics to measure progress toward the goals. It should consider metrics that reflect statewide economic activity as well as micro-level measurements that describe the economy of a region where a project is located, the report recommended. Finally, the Committee may want to consider requiring periodic evaluations of the programs conducted by some entity within state government. According to the report, several states recently have developed bodies within their legislatures to conduct these evaluations.

The reports are available at: <http://www.nebraskalegislature.gov/reports/audit.php>. To obtain hard copies, call the Legislative Audit Office at 402-471-1282.