Legislative Tax Incentives Evaluation Committee
Discussion to date (July 24, 2014)

Committee intention: to consider systematic evaluation of tax incentive programs in order to improve their effectiveness, not to eliminate the programs.

Representatives of The Pew Charitable Trusts recommended that the LR 444 Committee develop a plan for Nebraska tax incentive evaluation based on the following key issues. This document summarizes the options the Committee is considering. This is a draft document, the Committee has not taken any votes that would establish its formal decision.

Key Issues

1. **Design a strategic evaluation schedule**
2. **Identify metrics**
3. **Collect and assess relevant data**
4. **Determine what office should conduct the evaluation**
5. **Measure the economic impact with and without economic models**
6. **Ensure the evaluations inform the policy process**

1. **Design a strategic evaluation schedule**

Suggestion from The Pew Charitable Trusts:

Evaluate each tax incentive once every three years on a multi-year schedule. To the extent practicable, evaluate tax incentives prior to their sunset dates.

Organize the schedule so incentives with similar goals are reviewed at the same time. Based on legislative findings, Nebraska's tax incentives are designed to achieve three broad goals:

1. To strengthen the state's economy overall (such as by attracting new businesses to the state, increasing employment, creating high-quality jobs, and increasing business investment).

2. To revitalize rural areas and other distressed areas of the state.

3. Diversify the state's economy and position Nebraska for the future by stimulating entrepreneurial, high-tech, and renewable energy firms

Committee Discussion

The Committee generally agrees with the three broad goals and that programs be evaluated every three years.

The Committee is considering whether the smaller incentive programs should be evaluated in the first year (following legislation to establish the evaluation process) and recognizes that in order for that to happen, existing statutory sunset dates for the Nebraska Advantage Act would have to be changed.

2. Adopt Guidelines and Identify Metrics

Suggestion from The Pew Charitable Trusts: The following guidelines should be considered as the Committee develops metrics for measuring program success.

Select metrics that reflect the goals of incentives.
Consider what data is available.
Use clear and consistent definitions.
Coordinate to allow for comparisons between programs with similar goals.
Choose and define metrics to rigorously measure the economic impact.

Additionally, The Pew Charitable Trusts provided the Committee with a selected list of metrics used in evaluations of programs in other states with similar goals. The Pew Trusts staff emphasized that the metrics they suggested are not the only available metrics.

Committee discussion

The Committee generally agrees with the above guidelines.

The Committee also selected some of the metrics suggested by the Pew Trusts staff for its initial consideration. (See attachment.) The Committee will request stakeholder input on the appropriateness of these and other metrics and the extent to which any of them would require businesses or state agencies to report additional information.

3. Collect and assess relevant data
Suggestion from The Pew Charitable Trusts: Consider whether a comprehensive review of tax incentive reporting requirements for businesses and state agencies would be valuable. Identify whether data that is not currently being reported is needed to measure each tax incentive's success at the same time metrics are developed for each incentive.
Committee Discussion: The Committee has not discussed having a comprehensive review of tax incentive reporting. The Committee is considering the potential need for additional reporting requirements.

4. Determine who should conduct the evaluation
Suggestion from The Pew Charitable Trusts: Legislative Audit Office takes the lead. Other agencies play a role in data collection and sharing. Options for measuring economic impact: 1. The Legislative Audit Office develops internal expertise. 2. The office partners with the Department of Revenue. 3. The office partners with a university or consulting firm.
Committee Discussion: The Committee generally agrees that the Legislative Audit Office should take the lead in the evaluations.

5. Measuring impact with and without economic models
Suggestion from The Pew Charitable Trusts: Ensure that the office in charge of conducting the evaluations has access to TRAIN or another economic model. The specific model used may depend on which office is selected to lead the evaluations. Provide the evaluators with flexibility on whether and how to use the model for each evaluation. Whether or not a model is used, ensure that evaluations address key questions about tax incentive effectiveness, such as: • To what extent did the incentive change businesses' behavior? • Will the incentive produce a net economic benefit? • Is the tax incentive an effective approach to achieving its goals compared to alternative policies?
Committee Discussion: The Committee has not discussed this issue.

6. Ensuring evaluations inform the policymaking process
Suggestion from The Pew Charitable Trusts: Create a new legislative committee to oversee tax incentive policy, with a composition similar to the Tax Incentive Evaluation Committee. Potential Responsibilities: Hold hearings on evaluations. Make recommendations to the full Legislature.
Committee Discussion: Committee members have expressed concerns about creating a new committee.

6. Ensuring evaluations inform the policymaking process
Instead, the Committee has discussed having the Legislative Audit Office, under the supervision of the Legislative Performance Audit Committee, conduct the evaluations and having the evaluation results and recommendations be presented to the Revenue Committee for consideration of relevant policy issues.

Other Discussion
Following are questions raised by Committee members that were felt to be outside the scope of the LR 444 resolution, but of interest for other legislative consideration. Should the number of state sales tax exemptions be reviewed? Should other programs be included in any tax incentives evaluation process that is created, such as the New Markets and historic preservation credits? Should the Legislature examine whether companies that receive tax incentive program benefits receive other benefits as well? Should the Advantage Act statutory investment and job creation thresholds be analyzed to determine whether they are set at the most effective levels? How could the state better coordinate with local jurisdictions that may be impacted by business growth resulting from the tax incentive programs? How can the state increase the use of tax incentives in rural areas?

Prepared by the Legislative Audit Office
August 2014