



# Business Incentives and Economic Development Expenditures: An Overview of Nebraska's Program Investments and Outcomes

## Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Nebraska's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Nebraska.

In Fiscal year (FY) 2014, the most recent year for spending data are available for all program types, the state spent \$36 million on economic development program expenditures and \$1.8 billion on economic development tax expenditures.<sup>1</sup>

## Overview of Business Incentives

Nebraska has a moderate number of incentive programs, with a total of 30 active programs in 2014. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives, as well as through non-tax programs, such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

<sup>1</sup> Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.



**Figure 1: Nebraska State Business Incentives by Agency, 2014**

State Agency	Number of Programs
Nebraska Department of Economic Development	16
Nebraska Department of Revenue	5
Nebraska Enterprise Fund	2
Nebraska Center for Rural Affairs	1
Nebraska Department of Labor	1
Nebraska Tourism Commission	1
Nebraska Investment Finance Authority	1
Nebraska Energy Office	1
Invest Nebraska Corporation	1
Nebraska State Historical Society	1
Nebraska Department of Agriculture	1

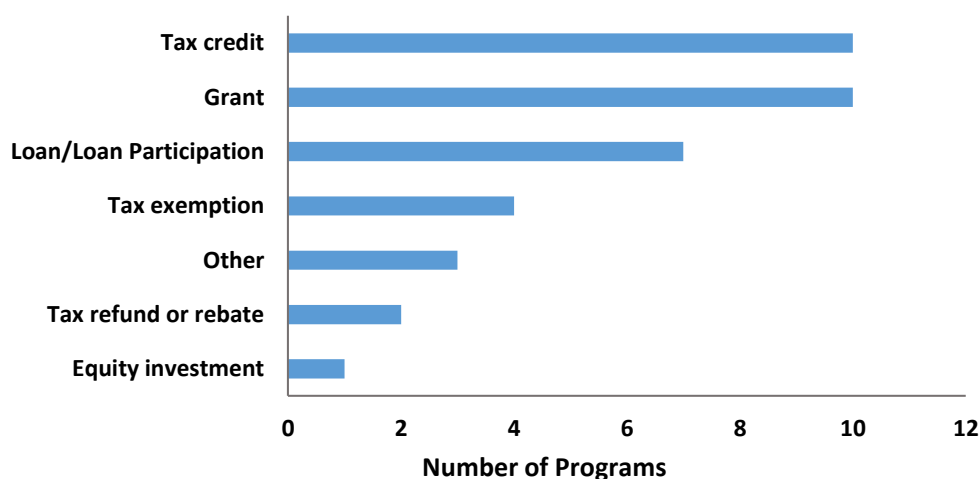
Source: C2ER State Business Incentives Database

or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.<sup>2</sup>

In Nebraska, the responsibility for administering these incentive programs is spread across 11 different state agencies. The primary agencies responsible for administering incentive programs are the Department of Economic Development, Department of Revenue, and Nebraska Enterprise Fund. (See

**Figure 2: Incentive Programs by Type\*\***

**Nebraska Incentive Programs by Type (2015)**



Source: C2ER State Business Incentives Database

\*\* Note: Programs may appear more than once if they provide multiple incentive types.

<sup>2</sup> The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Nebraska. For a current list of incentive programs as defined by the state, please see the [Nebraska Department of Economic Development](#) website.

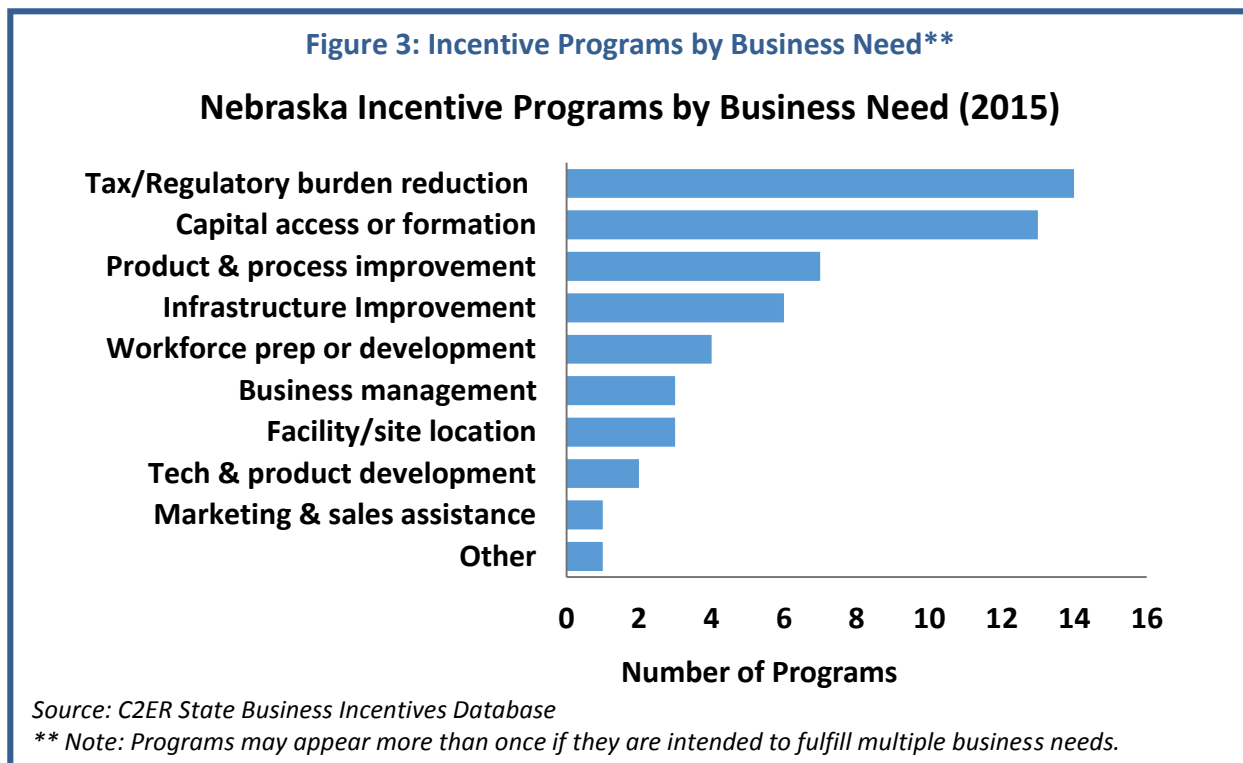


Figure 1.) The Department of Revenue exclusively administers tax incentives (primarily exemptions and tax credits), while the Department of Economic Development and other state agencies administer a mix of tax (primarily credits) and non-tax programs.

Over the past couple of decades, the state has moved from a focus on direct business financing with grant and loan programs toward an emphasis on tax incentives, especially tax credits. However, the state has created a number of new business financing programs in recent years. About half of Nebraska’s active incentive programs offer some kind of tax-related benefit. By comparison, tax incentives represent 45 percent of all state business incentive programs across the nation. A little less than half of the Nebraska’s incentive programs provide direct business financing, while about 25 percent offer indirect business financing and 7% offer direct community financing. (See Figure 2.)

Programs launched in earlier decades emphasized business operational support, such as developing workforce, technology, and products. The emphasis of the state’s current portfolio of incentives is on tax burden reduction and capital access or formation, with a smaller number of programs addressing business operations improvements. Compared to other states, Nebraska’s program portfolio places a strong emphasis on addressing tax burden reduction. (See Figure 3.)

There has also been a recent trend in the state toward the development of technology transfer programs, technology transfer, and business management assistance programs, such as the Nebraska Innovation Fund (2011) and the Economic Gardening Program (2011).



## Economic Development Program Expenditures

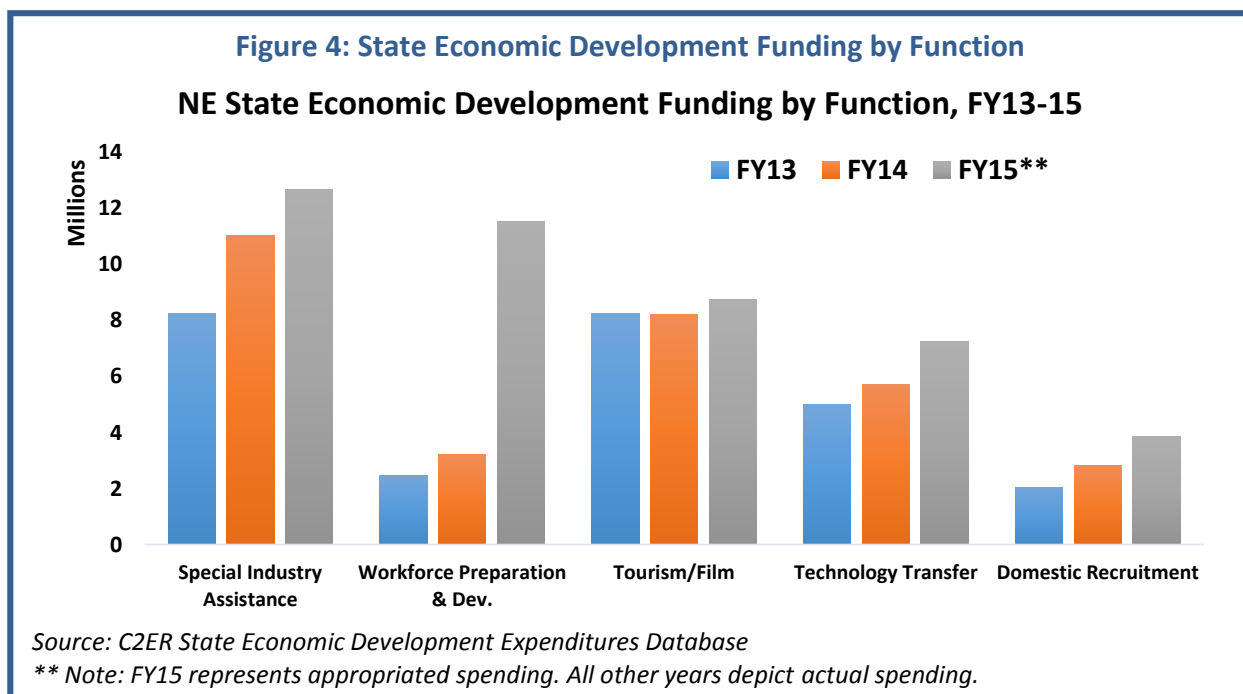
Examining Nebraska’s budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs.

Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.<sup>3</sup>

According to Nebraska’s [FY 2015-2017 Biennial Budget Requests](#), which details actual FY 2014 spending, the state spent \$36 million<sup>4</sup> on economic development in FY 2014. This level of spending represents an average of \$493 per business, which is considerably lower than the median average of \$877 per business spent in other states for that fiscal year.

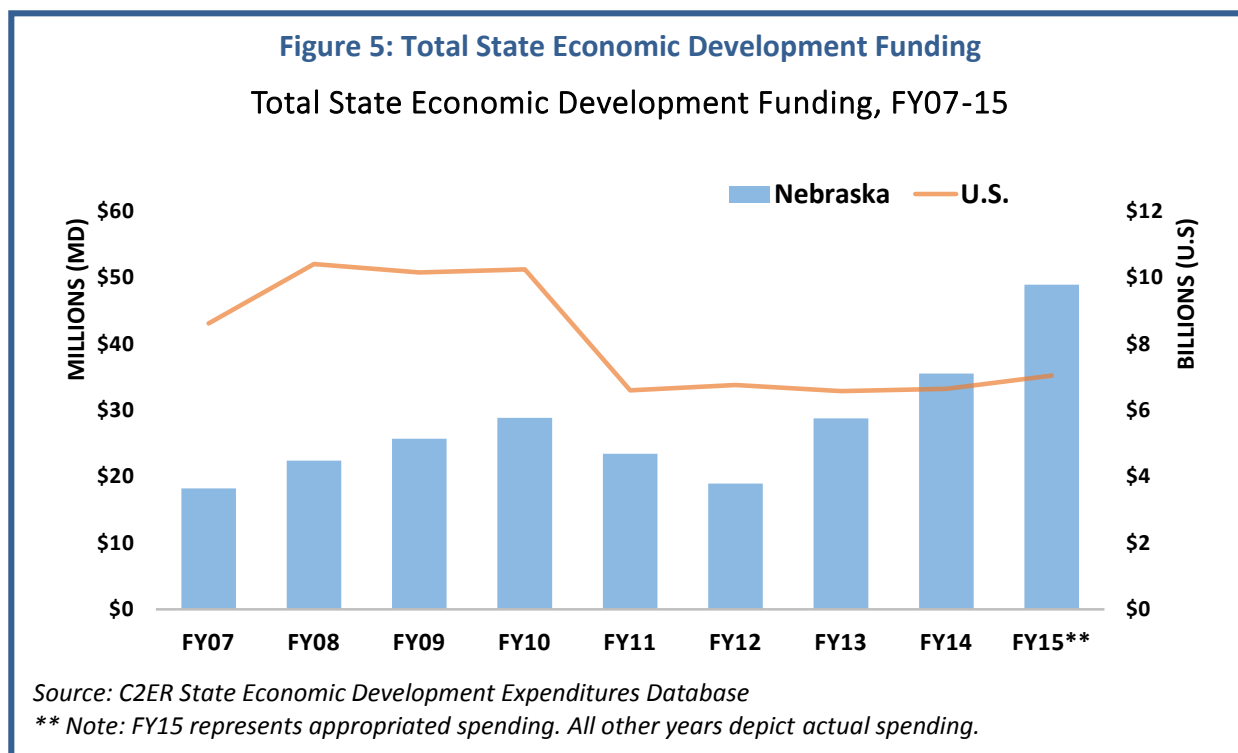
The majority of Nebraska’s economic development expenditures went to the Department of Economic Development, Nebraska Tourism Commission, State Board of Agriculture, and Department of Agriculture, with the remainder going to various state agricultural boards and commissions. The Department of Economic Development received the bulk of funding, with around 45 percent of total state spending.

- ### State Economic Development Expenditures Function Areas
- Business Finance
  - Strategic Business Attraction Fund
  - Business Assistance
  - International Trade and Investment
  - Domestic Recruitment/Out-of-State
  - Workforce Preparation & Development
  - Technology Transfer
  - Entrepreneurial Development
  - Minority business development
  - Community Assistance
  - Tourism/Film
  - Special Industry Assistance
  - Program Support
  - Administration
  - Other Program Areas



<sup>3</sup> See Glossary definitions here - [http://www.stateexpenditures.org/about/Definition\\_of\\_ED\\_Functions.pdf](http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf)

<sup>4</sup> This total excludes all federal and local economic development expenditures.



In comparison to economic development expenditures nationally, in FY 2014 Nebraska spent a greater proportion of its budget (relative to other states) on programs related to domestic recruitment, technology transfer, tourism and film, and special industry assistance (especially agriculture), and a lower share on programs related to community assistance, business finance, and business assistance.

Between FY 2007 and FY 2010, economic development spending steadily increased in Nebraska, increasing from \$18 million in FY 2007 to \$28 million in FY 2010. Economic development program expenditures then decreased to their lowest point in FY 2012 before increasing substantially to exceed pre-Recession spending levels by FY2014. Nebraska appropriated \$49 million to spend on economic development in FY 2015, representing a large 38% increase over FY 2014 levels. This is fairly consistent with national trends in economic development spending, as most states decreased spending in FY 2011 following the Great Recession and have since made very gradual spending increases. (See Figure 5.)

### Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”<sup>5</sup> *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The [Nebraska Tax Expenditures Report](#) for FY14, published by the Nebraska Department of Revenue in October 2014, and the [2013 Annual Report to the Nebraska Legislature](#), published by the Department of Revenue in July 2014, were used for the analysis in this section. Data was collected by reviewing and

<sup>5</sup> *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: [www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm](http://www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm)



recording all line items in the report related to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. For a small number of tax credits, only FY2013 usage data was available, so that fiscal year was included as a proxy for FY2014 totals. In other cases, the tax incentive is listed as having no tax expenditures for that year because the data was not available, or available but not reported to maintain confidentiality.

In FY 2014, the state of Nebraska's economic development tax expenditures totaled approximately \$1.8 billion, which was much greater than the \$36 million Nebraska invested in economic development program expenditures for that fiscal year. Nebraska administered its tax expenditures related to economic development primarily through the Department of Revenue, although for some incentives state agencies like the Department of Economic Development were involved in marketing the incentives and evaluating applicants for discretionary incentives.

For FY 2014, approximately 91 percent of Nebraska's economic development tax expenditures were for sales and use taxes. The remainder fell under individual income, state property, and other tax types. The primary economic development functional goals of these tax expenditures were to encourage community assistance, domestic recruitment, special industry assistance, technology transfer, and workforce preparation and development.

The majority of Nebraska's economic development tax expenditures went towards special industry assistance (87 percent) and domestic recruitment (13 percent). Nebraska used tax incentives to assist many different industries in the state, with almost two thirds of line items going toward specific industries. The primary industries that received tax assistance in FY 2014 were agriculture (84 percent) and manufacturing (15 percent).

## Analysis of Available Outcome Data

The state of Nebraska currently uses two methods for evaluating the outcomes of its tax incentive programs. The Nebraska Department of Revenue has been publishing the previously mentioned *Annual Report to the Nebraska Legislature* since 1997. This report provides incentive descriptions and data on incentive usage for a selection of economic development tax incentives, including detail on incentive recipients and project outcomes metrics for some incentives. The Department issues the previously discussed *Nebraska Tax Expenditures Report* on a biennial basis. This report provides a review of all tax and fee (tax) expenditures by the state in order to help legislators "better determine those sectors of the economy which are receiving indirect subsidies as a result of tax expenditures."

In 2013, Nebraska's Legislative Performance Audit Committee issued [three reports](#) on the state's tax incentive performance. These reports examined the performance of each program compared with the goals established by the Legislature when the programs were created. The reports also reviewed the state's current methodology for tax incentive evaluation, compared the state's tax incentive portfolio to "competitor" states, and considered ways to develop a program for better evaluating Nebraska's tax incentives. The overall conclusion of these reports was that the incentive goals as originally expressed in statute were too general to permit a meaningful evaluation of whether the incentives were accomplishing their set goals. The reports recommended the Legislative Performance Audit Committee introduce legislation to add precision to the incentive goals language in state law, as well as metrics to measure progress toward the goals.



In response to these recommendations, the state created the [Nebraska Legislature's Tax Incentive Evaluation Committee](#) to recommend tax incentive program goals and metrics, and develop a process for the regular evaluation of tax incentives. In December 2014, the committee released a [report](#) recommending that the state's tax incentives be evaluated by the Performance Audit Committee and Revenue Committee at least every three years to make sure they were meeting the goals of the legislature.

In March 2015, the legislature gave first-round approval to bill [LB538](#) that would require the Legislative Audit Office to conduct a performance audit of each tax incentive program every three years. Legislative performance auditors would also be required to analyze the economic and fiscal impacts of the tax incentive programs by taking into account effects on businesses and state and local governments, economic development strategies, and the specific emphasis of individual programs.

## Conclusion

Nebraska currently administers a relatively low number of incentives, with an emphasis on tax over non-tax incentives. The state's economic development program spending per business establishment in the state is similarly relatively low, although spending has been increasing since FY2012. The bulk of the state's current economic development expenditures are through tax expenditures, especially agricultural sales and use tax exemptions. Overall, Nebraska places a strong emphasis on using incentives to develop the state's traditionally important agricultural sector, but has recently created several new incentives for encouraging innovation and entrepreneurship in the state.

Over the past few years, Nebraska has made significant progress in developing a well-defined and comprehensive process for examining the overall outcomes of the state's incentive portfolio and ensuring that its incentives effectively meet the state's overall economic development goals.



## Appendix A: Full List of Nebraska State Business Incentives (2015)

Program Name	Program Provider	Business need	Type
<b>Nebraska Angel Sidecar Fund</b>	Invest Nebraska Corporation	Capital access or formation	Loan/Loan Participation
<b>Rural Assistance Enterprise Project (REAP)</b>	Nebraska Center for Rural Affairs	Capital access or formation; Product & process improvement	Loan/Loan Participation
<b>Beginning Farmer Tax Credit Act</b>	Nebraska Department of Agriculture	Tax/Regulatory burden reduction; Business management	Tax credit
<b>Angel Investment Tax Credit</b>	Nebraska Department of Economic Development	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
<b>Community Development Assistance Act</b>	Nebraska Department of Economic Development	Infrastructure Improvement	Tax credit
<b>Customized Job Training Program</b>	Nebraska Department of Economic Development	Workforce prep or development	Grant
<b>Economic Gardening Program</b>	Nebraska Department of Economic Development	Product & process improvement; Business management	Grant
<b>Enterprise Zones</b>	Nebraska Department of Economic Development	Infrastructure Improvement; Capital access or formation; Tax/Regulatory burden reduction	Tax credit; Grant
<b>InternNE Grant Program</b>	Nebraska Department of Economic Development	Workforce prep or development	Grant
<b>Nebraska Advantage Act</b>	Nebraska Department of Economic Development	Tax/Regulatory burden reduction; Product & process improvement; Workforce prep or development	Tax credit; Tax refund or rebate; Grant; Tax exemption
<b>Nebraska Advantage Research and Development Credit</b>	Nebraska Department of Economic Development	Tax/Regulatory burden reduction; Tech & product development	Tax credit
<b>Nebraska Advantage Rural Development Act</b>	Nebraska Department of Economic Development	Product & process improvement; Tax/Regulatory burden reduction	Tax refund or rebate
<b>Nebraska Innovation Fund</b>	Nebraska Department of Economic Development	Capital access or formation; Product & process improvement	Equity investment
<b>Nebraska Microenterprise Assistance Program</b>	Nebraska Department of Economic Development	Business management; Capital access or formation; Tech & product development	Loan/Loan Participation; Other; Grant





<b>Nebraska Progress Loan Fund</b>	Nebraska Department of Economic Development	Capital access or formation	Loan/Loan Participation
<b>Nebraska Research and Development Grant Program</b>	Nebraska Department of Economic Development	Product & process improvement; Capital access or formation	Grant
<b>Site and Building Development Fund</b>	Nebraska Department of Economic Development	Facility/site location; Infrastructure Improvement	Grant
<b>Tax Increment Financing</b>	Nebraska Department of Economic Development	Other; Tax/Regulatory burden reduction; Infrastructure Improvement; Facility/site location	Other; Tax exemption
<b>Nebraska Worker Training Program</b>	Nebraska Department of Labor	Workforce prep or development	Grant
<b>Capital Gains and Extraordinary Dividend Exclusion</b>	Nebraska Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
<b>Manufacturing Machinery and Equipment Sales Tax Exemption</b>	Nebraska Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
<b>Nebraska Advantage Microenterprise Tax Credit Act</b>	Nebraska Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>New Markets Job Growth Investment Tax Credit</b>	Nebraska Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Renewable Energy Tax Credit</b>	Nebraska Department of Revenue	Tax/Regulatory burden reduction	Tax credit
<b>Dollar and Energy Saving Loans</b>	Nebraska Energy Office	Capital access or formation; Infrastructure Improvement	Loan/Loan Participation
<b>Microenterprise Development Fund Enhancement</b>	Nebraska Enterprise Fund	Capital access or formation; Product & process improvement	Loan/Loan Participation
<b>Small and Micro Business Financing</b>	Nebraska Enterprise Fund	Capital access or formation	Loan/Loan Participation
<b>Industrial Development Bonds</b>	Nebraska Investment Finance Authority	Facility/site location; Tax/Regulatory burden reduction; Capital access or formation	Other
<b>Nebraska Historic Tax Credit</b>	Nebraska State Historical Society	Tax/Regulatory burden reduction; Infrastructure Improvement	Tax credit
<b>Tourism Marketing Grant Program</b>	Nebraska Tourism Commission	Marketing & sales assistance; Capital access or formation	Grant



## Appendix B: NE Economic Development Program Expenditures (2014)

Function	Activity	Total State Funding
Administration	Info systems, accounting, human resources, etc.	\$1,245,302
Business Assistance	Other Business Assistance	\$4,113
Community assistance	Community development	\$256,066
Community assistance	Project-specific infrastructure	\$1,885,076
Domestic Recruitment/Out-of-State	Other Domestic Recruitment/Out-of-State	\$1,750,902
Domestic Recruitment/Out-of-State	Prospect Site Location Assistance	\$1,056,802
Entrepreneurial Development	Seed/venture capital	\$16,545
International Trade and Investment	Other International Trade and Investment	\$650,732
Program Support	In-state regional offices	\$490,785
Special Industry Assistance	Agriculture/agribusiness	\$10,511,525
Special Industry Assistance	Energy & energy-related	\$542,265
Technology Transfer	Modernization/mfg. extension	\$20,361
Technology Transfer	Technology commercialization	\$5,698,053
Tourism/Film	Major events/festivals	\$3,970,216
Tourism/Film	Tourism development	\$4,262,908
Workforce Preparation & Dev.	Customized training	\$3,206,353
<b>TOTAL</b>		<b>\$35,568,004</b>



## Appendix C: NE Economic Development Tax Expenditures (2014)

Description	Total Funds
Agricultural Chemicals	\$140,974,000
Agricultural Machinery and Equipment	\$75,509,000
Agricultural Machinery Repair Parts Refund	\$156,000
Angel Investment Tax Credit*	\$0
Animal Life Whose Products Constitute Food for Human Consumption or for Human Apparel	\$664,356,000
Beginning Farmer Tax Credit	\$830,000
Biochips	\$581,000
Business and Agricultural Inventory*	\$0
Commercial Artificial Insemination	\$392,000
Community Development Tax Credit	\$39,000
Containers	\$23,156,000
Credits for Franchise Tax Paid by Financial institution	\$110,000
Data Centers	\$3,516,000
Dividends and Capital Gains Deduction	\$25,600,000
Employment and Investment Growth Act (LB 775) Tax Incentive Credits	\$101,603,239
Energy Used in Agriculture	\$37,690,000
Energy Used in Industry	\$118,335,000
Grains (including animal feed) for Animal Life that Constitute Food for Human Consumption or Human Apparel	\$226,281,000
Invest Nebraska Act Credits**	\$6,613,366
Manufacturing Machinery	\$77,913,000
Mineral Oil as Dust Suppressant	\$429,000
Minerals, Oil, and Gas Severed from Real Property	\$12,874,000
Molds and Dies	\$7,504,000
Natural Gasoline Purchased by Producers for Use as Denaturant	\$9,550,000
Natural Gasoline Used As A Denaturant by a Nebraska Ethanol Facility	\$350,000
Nebraska Advantage Act Credits	\$88,591,822
Nebraska Advantage Act Microenterprise Tax Credit Act**	\$2,000,000
Nebraska Advantage Research and Development Act Credits**	\$2,427,176
Nebraska Advantage Rural Development Act Credits**	\$1,005,040
New Markets Tax Credit*	\$0
Oxygen For Use in Aquaculture*	\$0
Pollution Control Facility Refund*	\$0
Quality Jobs Act*	\$0
Renewable Energy Tax Credit*	\$0
Sale of Used Business or Farm Machinery and Equipment*	\$0
Seeds Sold to Commercial Producers and for Agricultural Purposes	\$64,524,000



Water and Veterinary Medicines for Animal Life that Constitute Food for Human Consumption or for Human Apparel	\$42,101,000
Water for Irrigation and Manufacturing	\$35,214,000

\* Data not available in budget

\*\* Data represents amount of tax credits used for FY2013 or FY2012. To maintain confidentiality, the amount of wage benefit credits and investment credits allowed under the Invest Nebraska Act were combined and reported in total for 2010 through 2013.