Legislative Audit Office Report Overview

New Markets Job Growth Investment Act: Performance on Selected Metrics

The Legislative Audit Office is a nonpartisan division of the Legislature, directed by the Performance Audit Committee. The Committee selects topics for the Office to audit, details the scope of such audits, and makes recommendations as to how the Legislature should proceed with audit findings after the Office completes its report.

New Markets Job Growth Investment Act

The Nebraska New Markets Job Growth Investment Act tax incentive program was passed by the Legislature in 2012, inspired by the federal New Markets program. The general theory behind New Markets tax credits is that it facilitates investment in businesses in low-income areas.

In Nebraska, investors can earn credits up to 39% of investments in a community development entity, which are spread out over seven years. The total amount of credits awarded for the program are capped at $15 million per year.

Audit Overview

While the majority of the audit results are tied to the metrics used, the Audit Office also made two other findings:

- Several of the goals stated during legislative debate of the New Markets Job Growth Investment Act are not reflected in the language or requirements of the Act, specifically the expectation that the state New Markets program would bring federal New Markets dollars to the state and create jobs.
- The Office encountered difficulties in data matching between state agencies and unemployment insurance account analysis.

Program Structure

The structure of the New Markets Act is more complicated than most tax incentive programs. For simplicity's sake, we focus on three main parties in the New Markets program: the Credit Investors, the Community Development Entities, and the Local Businesses.

Credit Investors make funds available for investment, often combining their money with funds from another type of investor called a "leverage lender." The Credit Investors (who may or may not be in Nebraska) are then eligible for tax credits based on their investments. The investments are not made directly to the participating businesses. Instead, the Community Development Entities (CDEs) act as a middleman between the investors and the businesses. The CDEs receive the funds for investment, help identify businesses, and provide funds to qualified low-income local businesses.

New Markets Program Participants: Investment

Between 2013 and 2018, 13 CDEs participating in the New Markets program provided $284.9 million in qualified investments to 39 projects in Nebraska.

New Markets Investment, in Millions

Calendar Year	Investment
2013	$68.3
2014	$89.2
2015	$16.0
2016	$4.5
2017	$1.3
2018	$105.7
Total	**$284.9***

*Total does not sum due to rounding.

Direct Job Creation & Cost per Job

For 35 businesses that received investment through the Act, we estimate that the businesses created 323 full- and part-time jobs in the local area of the sites that received the program investment. Statewide, the businesses created 520 full- and part-time jobs. Of the statewide jobs, 368 were full-time positions.

Our cost per job estimates take two factors into account: which job creation count is included in the equation and how many of the jobs created are attributed solely to the Act. Taking these factors into account, we provide nine estimates for the cost per job.

Estimates Using 100% of Jobs Created

The total credit use through 2018 was $45.6 million. If it is assumed that *all* of the employment increase is directly attributable to the Act—a 100% but-for assumption—the cost per job would be $87,607 using all statewide jobs, $123,793 using statewide full-time jobs, and $141,039, using only local full- and part time jobs.

Direct Cost per Job Estimate, 100% "But-For" Assumption, through 2018

Type of Employment	Total Net Increase in Employment	Total Credits Used (in millions)	Cost per Job—100% "But For" Assumption*
Local Full- and Part-time	323	$45.6	$141,039
Statewide Full- and Part-time	520		$87,607
Statewide Full-time Only	368		$123,793

*The percentage of jobs assumed to be created due to the program benefit.

Estimates Using a Portion of the Jobs Created

However, according to subject matter experts, if the incentive did not exist, some of the jobs would have been created anyway. Academic research suggests that tax incentives are responsible for tipping 12%-25% of business decisions, meaning 12%-25% of location and expansion decisions would not have been made "but for" the incentive. We use these percentages to estimate what a reasonable employment increase and cost per job estimate would be.

If we assume that the New Markets incentive was responsible for 25% of the employment increase in businesses that received investment, the cost per job increases four-fold. In this case, the cost per job would be $350,428 using all statewide full- and part-time jobs, $495,170 using only statewide full-time jobs, and $564,157 using local full- and part-time jobs.

Using a 12% but-for assumption would result in a cost per job of $730,059 using all statewide jobs, $1,031,605 using statewide full-time jobs, and $1,175,327 using only local jobs.

Direct Cost per Job Estimate, Research-based "But-for" Assumptions, through 2018

Type of Employment	Total Net Increase in Employment	Total Credits Used (in millions)	Cost per Job Using Different "But For" Assumptions*	
			12%	25%
Local Full- and Part-time	323	$45.6	$1,175,327	$564,157
Statewide Full- and Part-time	520		$730,059	$350,428
Statewide Full-time Only	368		$1,031,605	$495,170

*The percentage of jobs assumed to be created due to the program benefit.

Additional Metrics Reviewed in Report

- Average Wages
- Unemployment Insurance Claims
- New to Nebraska
- Rural Areas
- Distressed Areas
- Administrative Cost
- Fiscal Protection