



Investing for Nebraska's Future:

Re-balancing Our
Economic Development Portfolio

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in response to Legislative Resolutions (LR) 388 and 389

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All opinions are those of CREC and do not necessarily reflect the opinions or recommendations of those interviewed or supporting this effort. Furthermore, all errors remain the sole responsibility of the CREC team: Kenneth E. Poole, Ph.D., Allison Forbes, Ph.D., Marty Romitti, Ph.D., and Mereb Hagos.

Executive Summary

The Nebraska Legislature seeks to develop a proactive legislative strategy to implement state policies and programs that reflects a vision for a growing next generation economy in Nebraska. In response to Legislative Resolutions 388 and 389 of the 105th Legislature, the Economic Development Task Force commissioned this study to examine the criteria for economic development tools funded by the Legislature and issues related to updating the Nebraska Advantage Act with funding support from the Pew Charitable Trusts and the Open Sky Policy Institute.

The Task Force worked with a national nonprofit research and policy group, the Center for Regional Economic Competitiveness (CREC www.creconline.org). CREC reviewed recent economic development studies, engage with stakeholders, and elicit ideas for strategic priorities that would help in refining or reforming the Nebraska Advantage Act programs as well as to re-imagine Nebraska's current economic development portfolio. CREC's mission is to improve the practice of economic development in U.S. states and regions. To that end, CREC has worked with many other states and regions to develop pragmatic public policy solutions to economic and workforce development challenges on a nonpartisan basis. As part of its work, CREC convenes a network of state economic development agency leaders, conducts individual incentive and economic development studies, and maintains one-of-a-kind national databases on state economic development budgets and incentives designed to improve policymaker and practitioner understanding of state investments in economic development.

For this effort, CREC's research included examining Nebraska's budgeted programs and tax expenditures and comparing those to other states. CREC also interviewed more than 55 stakeholders – including representatives from businesses, economic development, workforce, academia, the executive branch, and the legislature to understand their perspectives about the state's economic development incentives (See Appendix 1). On October 26, 2018, CREC facilitated a focus group with 25 legislators to understand their priorities and assess how best to align those with current or potential state program or incentive offerings. This report summarizes that research and offers ideas for the Nebraska Legislature to consider in developing an economic development toolkit that better meets today's economic challenges and would allow the state to respond in a more nimble fashion to shifting economic forces.

Recent economic research reports agree that Nebraska has a lot of competitive advantages in attracting and retaining businesses, but the state's advantage is at risk because businesses cannot find an adequate supply of skilled workers and many companies or communities are ill prepared for the rapidly changing economy. Even as the economy continues to expand, economic development remains important because the state should (1) seed future sources of growth, (2) provide economic opportunity, and (3) address the most significant barriers to a level playing field. The state should also be preparing now for the potential that the economy will slow, ensuring its people and companies are ready to compete and prosper.

Designing a Framework for Economic Development in Nebraska

Economic development initiatives need to demonstrate a long-term pay-off to the Nebraska taxpayer. Well-designed economic development investment plans should help Nebraska generate new growth and expand the tax base, returning dividends to taxpayers in terms of new jobs, economic activity, and new tax dollars. However, one size does not fit all. Like other states, Nebraska's economy (and its economic development needs) vary for different stakeholders. Rural central and western Nebraska has different needs than does the faster growing southeast part of the state. Likewise, distressed urban

areas have different challenges than do smaller cities that are all trying to compete against other communities around the world. In discussing economic development investments, legislative leaders should consider (1) the disparate impacts of these investments across Nebraska's communities, (2) some of the unique challenges that rural and underserved areas face, (3) how to better connect communities to key inputs, and (4) how to leverage areas of strength across the state.

Currently, Nebraska's economic development efforts include a mix of taxpayer investments including directly appropriated programs as well as tax incentives. The largest investments are through state tax incentives (especially those available in the Nebraska Advantage Act) that do not show up as appropriated expenditures in the annual budget. Statutory tax expenditure programs, such as the Nebraska Advantage Act, function as an entitlement for eligible companies. On the surface, statutory tax incentives appear to be cost efficient for government because administrative costs are low. The company does all the work in filing their return and providing evidence of their eligibility to receive the credit. However, this can be a false economy because some companies may receive tax credits for investments they would have made without the incentive. Discretionary incentives, on the other hand, require active staff management to ensure the state is making the 'best' investments and that the state is achieving its intended outcomes.

Grant and loan programs as well as discretionary tax incentives can be targeted to a smaller set of companies that need the incentive to rationalize their investment, but they also often require annual economic development agency staff and related appropriations. An economic development agency that actively manages these investments can more closely assess costs and help the Department of Revenue better understand which beneficiaries are likely to use tax credits or appropriated expenditures and when those resources will be needed.

Nebraska's Current Economic Development Approach

The Nebraska Advantage Act is the largest of the state's incentive programs. In 2017, it represented \$144 million in foregone revenues according to the Department of Revenue (DOR) estimates. The Act contains several provisions to help different kinds of companies, in the form of program "tiers." Created initially in 1987 to respond to the potential loss of a corporate headquarters, the Legislature has added new tiers over the years to address other economic development challenges while previous tiers remained in place, creating layers of benefits that no longer hang together as a coherent program. Because Nebraska Advantage has so many tier options, it is also hard to explain to potential business beneficiaries. This complexity makes it difficult for businesses to understand which benefits are relevant while it makes state costs uncertain. Each of the program's offer of incentives over several years seem valuable on the surface; however, businesses highly discount the out-year benefits and do not likely value at all offered incentives that they cannot easily understand (without the help of accountants and lawyers). Most stakeholders agree that streamlining the program should make the program easier to describe to business decision makers, easier to use incorporate into business decision making modes, and more valuable as a tool for incentivizing businesses to decide on an Nebraska investment that they might not otherwise have made. DOR projects that these business incentives costs will rise in future years, but an important by-product of a streamlined program would be to make its cost more predictable (and perhaps lower).

While Nebraska Advantage may be the largest, the state also has established innovation as a key strategy for growing new companies and expanding economic opportunity. The Nebraska Innovation

Fund (NIF) provides about \$6 million in annual financial assistance to Nebraska businesses and entrepreneurs seeking to grow their companies by investing in technology, promoting new product development, and expanding commercialization efforts that lead to new business growth (and eventually job creation). A 2018 impact study suggests that the program has the significant potential positive return to the state and has helped to expand its entrepreneurial ecosystem.¹

Policy Options for Re-balancing Nebraska's Economic Development Portfolio

Based on its research, CREC identified four key challenges facing Nebraska that should frame its economic development portfolio:

- 1) Preparing existing workers and developing a **talent** pipeline for Nebraska's existing employers
- 2) Promoting emerging new economic opportunities through **innovation** and entrepreneurship
- 3) Retaining the economic viability of rural **communities**
- 4) Ensuring that Nebraska can compete for major **high-wage, high impact investment opportunities**

Following are a series of policy options that the Legislature might consider that would help to address each of the four strategies, including actions that might be taken to streamline Nebraska Advantage, enhance the Business Innovation Act, and improve on other programs that the Legislature has already authorized and, in some cases, funded.

Suggested state investment levels in these programs are illustrative and are based on a combination of factors including: an assessment of existing need as described in interviews, typical amounts for programs of similar size in other states, and a review of available resources where relevant. These proposed dollar amounts are intended to provide a placeholder as part of a broader discussion about the total amount of investment that might be available if Nebraska Advantage Act were streamlined, the appropriate level of investment in economic development for Nebraska, and the relative priority of various elements of the proposed programs within a broader portfolio. In addition, benchmark metrics are offered as illustrations that the legislative priorities should be clearly stated, and that program implementation should include meaningful metrics that are important to the Legislature but also feasible to implement.

Strategy: Preparing talent for today and tomorrow

- 1) Expand Nebraska Talent Advantage to help growing and innovating firms by assisting them in identifying talent, pre-qualifying potential workers, and offering expanded resources for customized job training.
 - **Provide dedicated funding to the customized job training program**
 - **Authorize a set-aside from payroll taxes to the State Unemployment Insurance Trust Fund annual payments (set at a rate to raise about \$5 million per year based) for five years**
 - **Expand the customized job training program authority to allow funds to be used for technical assistance that could help with talent sourcing and placement activities for new investments or large expansions**
 - **Identify appropriate program objectives and benchmark metrics tied to program goals of improving worker performance and engaging small- and medium-sized companies that might not be able to pay for training without assistance (e.g., total number of trainees employed in targeted industries, total value of wage improvements for participants 6 months after training, total number of small or medium-sized companies from targeted industries participating in the program, total value of company match supporting the funded training, etc.)**

¹ Bureau of Business Research, University of Nebraska-Lincoln, *The Annual Economic Impact of Businesses Supported by Nebraska Business Innovation Act Programs: 2018 Update*, July 2018.

2) Create Nebraska Talent Connect

- ✓ Reimagine and reinvest in Intern NE to provide grants to intermediary service organizations (e.g., local and statewide nonprofits, local governments, and trade groups) (InternNE funding has been exhausted and no replacement funding is available)*²
- ✓ Develop an Apprentice NE program that provides matching funds to leverage state participation in Federal competitive apprenticeship proposals
- ✓ Expand and integrate the existing DED program, Developing Youth Talent Initiative (an industry-driven approach to career exploration), with internship and apprenticeship opportunities created through Intern NE and Apprentice NE
- **Redesign the Intern NE program and Apprentice NE program to provide more program and staff resources that support intern or apprenticeship matching and to link interns/apprentices with wrap-around services available through existing social service programs**
- **Integrate these initiatives to work collaboratively with the Governor's Developing Youth Talent Initiative program to ensure DYTl grantees are also working with Intern NE and/or Apprentice NE as appropriate**
- **Provide staff resources to increase awareness about apprenticeship options, expand the apprenticeship registry, and actively seek federal funding to support apprenticeships and expanded career awareness**
- **Provide \$2.5 million in matching funds to support training wages for 500 workers to help smaller firms employing their first interns and/or apprentices as they develop internal capacity to manage these programs effectively**
- **Identify specific program objectives and benchmark metrics tied to program goals of placing Nebraska youth in earn-and-learn opportunities in targeted industries (e.g., total number of placements, total number of small or medium-sized companies from targeted industries participating in the program, total value of company match in support of intern wages, etc.)**

3) Enhance ACE Scholarships to provide tuition assistance to students enrolled in programs important to economic development target industries and NEDOL-recognized in-demand occupations (ACE Tech Plus)

- **Expand authority of ACE to include ACE Tech Plus program**
- **Provide staff resources to promote the enhance program and manage the increased program resources**
- **Provide \$5 million in scholarship funds for 1,000 scholars in the first year**
- **Identify specific program objectives and benchmark metrics tied to program goals of increasing enrollment and completion of Nebraska youth in careers important to targeted industries (e.g., total number of scholars by field (and the relevant industries for those fields), number of companies providing matching scholarship dollars to the program, total scholarship match leveraged from industry-provided donations, etc.)**

Strategy: Fostering innovation and economic dynamism

- 4) Assist start-up support firms
- 5) Foster growth and scale-up firms
- 6) Encourage technology adoption
- 7) Expand small business introductions to state research centers Modernization and product ideation
- 8) Enhance capital formation

² Programs with an asterisk (*) already exist within DED's portfolio of programs and can be built upon.

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- Increase funding for Innovation Act programs from current levels (\$7 million) to \$14 million per year
- Expand efforts to link entrepreneurs and small businesses to technology resources (especially companies located in rural areas)
- Identify specific program objectives and benchmark metrics tied to program goals of fostering new investment in innovation and expanding entrepreneurial opportunities (e.g., total number of entrepreneurs engaged, number of new companies or new investments supported, total value of new private investment leveraged, total value of federal investment leveraged, number of entrepreneurs and amount of investment leveraged in rural areas, etc.)

Strategy: Preparing stronger communities

- 9) Regional competitiveness grants that support regional sub-state initiatives to undertake marketing, implement regionally impactful projects, and to diversify local (especially rural) economies
- 10) Broadband investment fund that provides bond financing for efforts to enhance broadband speeds in key commercial areas, including Main Street or industrial locations in state designated enterprise or federal Opportunity Zones
- 11) Site and development fund targeted to community satellite work centers and incubators, especially those operating in Main Street or established commercial areas of Nebraska's smaller cities and towns
- 12) Provide matching funds for "new resident welcome centers" tied to local leadership groups
- 13) Develop local leadership capacity building funds to help develop the skills of elected and appointed officials as well as local economic development practitioners to ensure that they are well prepared for changing state priorities and are leveraging incentive programs as intended*
 - Authorize \$3 million for a competitive pilot program to create rural telework centers
 - Create a \$2 million competitive grant program for local partners proposing major community initiatives that would help attract or retain companies in target sectors or the talent that those companies employ
 - Allocate \$500,000 for staff and related resources to a rural economic development leadership development program
 - Identify specific program objectives and benchmark metrics tied to expanding investment in rural Nebraska (e.g., number of rural communities and leaders engaged; number of new community initiatives; value of non-state investment leveraged including private, federal, or local dollars; economic impact from the investments in terms of companies or jobs assisted, etc.)

Strategy: Leveraging high wage, high impact opportunities

- 14) Streamline Nebraska Advantage 2.0 into a tax credit targeted to high impact, high wage economic opportunities.
 - Authorize up to \$30 to 50 million annually for new (not previously obligated) Nebraska Advantage credits, implementing a flexible cap that limits the amount of future credits made available each year
 - Reduce the terms of credits to no more than 5 years with investment impacts measured for two years beyond the credit period
 - Offer a "tax credit buy-out" program for any companies with outstanding credits for years 6-10 that is designed to close-out tax credit obligations under the old Advantage Act program
 - Authorize DED to take a more active role in the process in conducting due diligence and monitoring compliance and provide the staff resources to do so effectively
 - Simplify the data reporting and validation process
 - Identify specific program objectives and benchmark metrics tied to promoting high impact projects (e.g., number of businesses in target industries using the credit; combined total annualized value of wages and capital investment for 7 year to reflect the economic value of both human capital and capital expenditures on the state's economy; projected and actual economic benefits as a ratio to total tax expenditures reported in target industries updated annually; and projected and actual fiscal benefits as a ratio to total tax expenditures reported in all industries updated annually, etc.)

- 15) Create a deal closing fund to be used in partnership with other programs (e.g., job training, site & building, and Nebraska Advantage 2.0)
- **Authorize up to \$5 to \$15 million for a deal closing fund to help level the playing field for Nebraska**
 - **Set basic standards for qualifying projects, including the amount of investments, the number (and quality) of jobs to be created, and the expected economic and fiscal return on investment**
 - **Establish procedures for ensuring transparency in the application, project review, and reporting process**
 - **Identify specific program objectives and benchmark metrics tied to promoting high impact projects (e.g., number of businesses in target industries receiving assistance; combined total annualized value of wages and capital investment for 7 year to reflect the economic value of both human capital and capital expenditures on the state's economy; projected and actual economic benefits as a ratio to total investments updated annually; and projected and actual fiscal benefits as a ratio to total investments updated annually, etc.)**

Process Improvements: Demonstrate Value and Ensure Transparency

Integrate Pew principles for good program design to enhance the effective execution of legislative initiatives. These include the following recommendations:

- 16) Clarify economic development program goals
- **Encourage continued progress in data sharing between state agencies and the Legislature**
 - **Engage the DED in monitoring timely performance goals and metrics that are feasible to collect**
 - **Empower DED to direct investments according to metrics**
 - **Ensure DED has the staff capacity to succeed in this role.**
- 17) Assign DED the responsibility to manage economic development incentive programs
- **Authorize DED to serve as the primary agency monitoring the state's economic development incentives, including discretionary tax credit programs**
 - **Ensure DED has the resources to attract the staff needed to succeed in this role.**
- 18) Improve program and portfolio analysis and reporting
- **Mandate (subject to expansion of DED staff resources) that DED report economic and fiscal return on investment results (benchmarked to expectations) for discretionary economic development programs**

Based on its research, CREC concluded that the patchwork nature of Nebraska Advantage makes it simply difficult to develop a 'fix' that redesigns the credits to more closely align with the Legislature's identified economic development strategic priorities. Instead, this report offers a new framework that integrates a streamlined Nebraska Advantage tax credit program into a larger set of strategies. CREC suggests that Nebraska Advantage's role be focused and targeted toward a few "economy-defining" projects (i.e., projects that have the potential to change the state's or a region's economic trajectory) with both tax credits and discretionary grants.

With these refinements to Nebraska Advantage, the state should be able to generate more business tax revenue that might otherwise be foregone in future credits taken. These collected revenues could, in turn, be invested in developing a world class talent pool, investing in innovative businesses, and producing more attractive communities. In today's global economy, businesses can choose from many places to locate their facilities and jobs – even companies already located in the state. Other states and nations are vigorously competing to lure these businesses with many different types of monetary incentives – not just tax credits. Nebraska needs a mechanism to compete. While Nebraska Advantage

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has an important role to play, these economic development efforts should complement direct state investments in programs that upskill the state's talent pool, enhance its rural communities, encourage innovation, and high-impact projects. In the end, a re-balanced economic development portfolio that includes a streamlined Nebraska Advantage 2.0 must not only contribute to the state's excellent fiscal health, but also help achieve economic benefits for the state.

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Background

Nebraska competes economically on a global stage in an increasingly uncertain world. The purpose of this report is to examine Nebraska's current position and its economic development portfolio to ensure that the state helps its businesses to succeed and readies its people for the challenges and opportunities ahead. While Nebraska's economic development toolkit must meet today's challenges, the state must also remain nimble, shifting in response to ever-changing economic forces.

The looming December 2020 sunset of the state's largest economic development program, the Nebraska Advantage Act, serves an important catalyst for re-examining the state's investments in economic development. Nebraska's business leaders have come together through Blueprint Nebraska to build consensus around policy proposals that reflect their perspective about the state's economic development needs. Meanwhile, stakeholders expressed concern that many critical economic development issues (such as the state's severe talent shortage) cannot be easily addressed through the existing portfolio of state programs. Clearly, now represents a unique opportunity to engage the stakeholders in a shared vision for the state's economic future.

The Nebraska Legislature seeks to develop a proactive legislative strategy that reflects a vision for a next generation economy in Nebraska. Legislative Resolutions 388 and 389 called for interim studies to examine the criteria for economic development tools funded by the Legislature and issues related to updating the Nebraska Advantage Act. The Economic Development Task Force has led this effort with a report in 2017 and the sponsorship of this study to provide economic development policy options for the Nebraska Legislature to consider.

With funding support from the Pew Charitable Trusts and the Open Sky Policy Institute, the Legislature's Economic Development Task Force commissioned the Center for Regional Economic Competitiveness (CREC) to review current research, talk with myriad stakeholders, identify strategic priorities, and recommend reforms to Nebraska's current economic development portfolio, especially refinements to Nebraska Advantage Act programs. CREC is an independent national not-for-profit organization based in Arlington, VA.

Founded in 2000, CREC engages with an array of federal, state, local, and philanthropic clients to develop pragmatic public policy solutions to economic and workforce development challenges. CREC (www.creconline.org) has been a national leader in exploring innovative ways to make the economic development practices more impactful and in identifying bringing together state economic development agency leaders to share best practices. CREC currently manages a network of state economic development agency executives, has conducted several studies of how individual states are implementing business incentives, and maintains one-of-a-kind national databases of budgeted state economic development expenditures and state-level business incentive programs. CREC was a key partner with the Pew Charitable Trusts on the multi-state Business Incentives Initiative and has worked recently with several states including Michigan, Ohio, Virginia, Maryland, Wisconsin, Arizona, Maine, and many others in evaluating their state incentive programs.

Methodology

CREC began its research by examining the state's current budget, its recent appropriated economic development expenditures, and the state's reported tax expenditures during the past few years. In addition, CREC gathered profiles of the state's economic development programs, managed in many agencies, not just the Nebraska Department of Economic Development. The project team also talked with more than 55 stakeholders – including representatives from businesses, economic development, workforce, academia, the executive branch, and the legislature.

With many reports already written about Nebraska's economy, the key challenges are well documented and potential policy solutions offered. CREC compared how existing and proposed economic development programs align with the state's most significant economic challenges and how other states are addressing them. Furthermore, this research informed a series of working discussions with legislative leaders, including a focus group with 25 legislators held on October 26, 2018.

This process provided CREC with important context for understanding the current set of policies. CREC paid particular attention to understanding the role played by the Nebraska Advantage Act tax credits. The report summarizes that research and offers policy options for the Legislature to consider.

In short, CREC's assessment finds that Nebraska leaders have traditionally relied on tax incentives to drive much of the State's economic development policy. This preference seems to be closely tied to the philosophy that the market can be incentivized to provide the most desirable socioeconomic benefits and that Nebraskans want to keep government small. While research suggests that these incentives may indeed leverage new private investment, it is less clear how much of that investment might have happened without the incentive. Furthermore, the Nebraska Advantage incentives addressed legislative priorities important in the past (such as job creation), but it appears that the current incentive mix may not be as relevant in address today's priorities effectively (such as better aligning talent with business growth needs). This document explores Nebraska's economic opportunities and challenges, reviews existing economic development programs, examines current efforts underway, and describes options for implementing a vision that re-focuses economic development efforts (including Nebraska Advantage) to meet today's most pressing economic challenges.

Synopsis of Nebraska's economy

By several jobs and economic development measures, Nebraska is doing quite well.³ The state excels with its high labor force participation rate and low unemployment.⁴ Both are among the best rates in the country. These measures paint a picture of Nebraska citizens as willing and able workers. While Nebraska's labor force participation rate remains higher than most states, the number has declined in recent years due to three key factors: (1) an aging baby boomer population that is retiring in large

³ The Governor's Office tracks important measures of how Nebraska ranks on key metrics related to Jobs and Economic Development; Education and Workforce Development; Fiscal Strength; Public Safety; and Health and Welfare. Governor's dashboard (<https://governor.nebraska.gov/statistics>)

⁴ The state's September 2018 report showed a very healthy 2.8 percent unemployment rate (sixth lowest in the nation), according to the Nebraska Labor Market Information agency, and preliminary numbers suggest the state's employment situation is likely to get even tighter, especially in the State's metro centers. Healthcare, administrative, and management occupations are leading the way in terms of available jobs. Even transportation and production occupations are seeking workers as more retire every day, opening many new positions, even in industries that are not growing.

numbers, (2) a young adult population that remains in school longer than previous generations and are less connected to employment in their early years, and (3) an increasingly large population of working age adults unattached to the work place due to physical or mental disabilities, current or previous periods of incarceration, or other socioeconomic barriers that preventing them from gainful employment.

Figure 1: How Nebraska Ranks

At the same time, the average annual wage in the state for all industries in the private sector is around \$46,500, well below the national average (see Figure 1). Along with recent growth in the state’s overall economy, as measured by real GDP growth, businesses are hiring but they continue to see Nebraska as a source for workers in lower-wage, non-traded industries.⁵ Modest job growth and lack of a greater amount of new capital investment accounts for the state being in the middle of the pack when ranked against its peers.

Despite the tight labor market, these comparative measures reveal only limited success in growing high-value, innovative, export-driven industries that pay workers high-wages. Of concern is that Nebraska’s on-going talent and skills shortage will make it even tougher to convince employers and workers that they need to invest continuously in upskilling. Simply put, the state does not have enough people to fill available jobs and because there is plenty of work to be had, the challenge to keep workers in education or training long enough to skill up means that the shortage of higher skill workers will likely continue.

Nebraska’s low unemployment rate signals to employers that businesses can only find talent by poaching from one another. Local labor availability studies conducted over the past few years find that hiring difficulties are often tied to an inability to find enough job applicants.⁶ According to recent numbers released by the state, there were more than 62,000 web-advertised job openings in Nebraska

Jobs and Economic Development			
Unemployment Rate	2.8%	Top 10	Source: USDOL, Bureau of Labor Statistics, September, 2018
Employment Growth	1.7%	Middle 30	Source: USDOL, Bureau of Labor Statistics, September, 2018
Per Capita Personal Income (PCI)	\$50,395	Middle 30	Source: USDOC, Bureau of Economic Analysis, 2017
Average Annual Wage	\$46,488	Bottom 10	Source: NEworks - Labor Market Services - Area Profile - Summary, 1st Quarter, 2018
Poverty Rate	12.4%	Middle 30	Source: U.S. Census Bureau, 2016
Growth in Real GDP (Quarterly)	0.9%	Bottom 10	Source: USDOC, Bureau of Economic Analysis 1st Qt 2018
Labor Force Participation Rate	68.7%	Top 10	Source: USDOL, Bureau of Labor Statistics, September, 2018

Source: <https://governor.nebraska.gov/statistics>

⁵ Nebraska’s Gross Domestic Product (GDP) in 2017 was \$121 billion, growing at about 4 percent annually during the past decade. However, during the last two years, growth has slowed to about 2.5 percent annually. Farming, durable manufacturing, and trade have all been drags on the state’s economy as they contracted.

⁶ A series of seven area Hiring and Training Needs Reports were conducted between 2016 and 2018. They can be found at <https://networks.nebraska.gov/gsipub/index.asp?docid=802>. The reports provide findings from local area business surveys. Each of the surveys asked companies about their hiring challenges, and most local area studies found the most common difficulty was “not enough job applicants.”

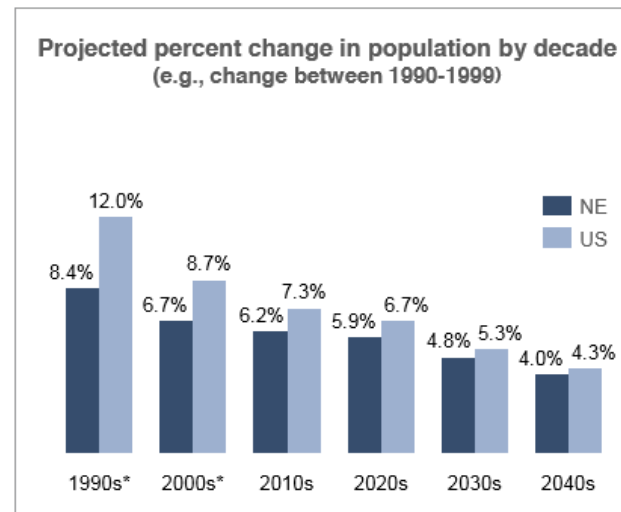
during October and only 27,000 jobseekers currently unemployed. Of course, the unemployed is not the only source of talent for companies seeking workers.

Certainly, colleges and universities offer a pool of skilled talent while career-bound high school students or those marginally attached to the workforce provide a source for unskilled workers. A measure of unemployment that identifies those marginally attached workers as those who could work but are too discouraged to seek jobs or those employed part-time when they prefer to work full-time. Called the ‘U-6’ rate, this number often runs higher than the traditional unemployment rate. As of January 2018, that number was about 6.1 percent for 2017, identifying about 61,000 jobseekers, discouraged workers, and underemployed workers.⁷

While theoretically, some portion of these available workers could fill the plethora of available jobs, the problem is that many of those unemployed or marginally-attached workers do not have the skills that job openings require. At the same time, many current Nebraska workers are combating a rapid obsolescence of skills among incumbent workers competing in a dynamic global economy. In addition, other socioeconomic barriers may be preventing otherwise well-prepared workers from taking jobs. Specifically identified state workforce challenges include:⁸

- Difficulty in retaining university graduates.
- A shortage of IT and other STEM graduates.
- An acute shortage of workers with qualifications in the building trades.
- A need to integrate underserved and non-English speaking populations.
- A significant skills gap between job seekers and available labor pool in high growth positions.
- Lack of available worker housing stock and public transportation in rural Nebraska communities.
- Lack of affordable, flexible child care for low- and moderate-income workers.

Figure 2: Slowing Population Growth, a Drag on the Economy



* Actual percent change

Source: Accelerate Nebraska-FSG Report, p. 6.

Workforce availability is an increasingly critical factor in the location and expansion decisions of businesses, and population growth is closely tied to economic growth. As Figure 2 illustrates, the state continues to experience overall population growth, but at a substantially lower rate than the U.S.⁹ This past year, *Area Development’s* annual survey of site consultants found that all respondents rated availability of skilled labor as “very important” or “important,” making this the top criterion among site selection factors.¹⁰ Additionally, nearly all (98 percent) of the

⁷ U.S. Bureau of Labor Statistics

⁸ SRI International, *Nebraska’s Next Economy*, Prepared for Nebraska Department of Economic Development, 2016. Note also that many hiring managers report soft skills challenges when seeking to hire employees.

⁹ UNO Center for Public Affairs Research, American Community Survey, U.S. Census Bureau

¹⁰ Area Development, *32nd Annual Corporate Survey & the 14th Annual Consultants Survey*, 2018

responding consultants say availability of skilled labor is affecting their clients' facilities plans or current operations, and a lack of advanced skills was cited by 92 percent of the consultants.

The recent announcement of Amazon's second headquarters illustrates this point. Northern Virginia and Long Island City did not have the lowest costs or best incentive packages; they had access to a deep pool of technology talent that Amazon sought, despite the cost disadvantages when compared to other location options. Today's economic development competition is less about lowering costs to companies and more about ensuring that they have quality community assets, especially top-quality talent.

Too many of Nebraska's highly educated workers leave the state to find higher paying jobs elsewhere. This reflects the lack of opportunities locally. Young people with bachelor's degrees are more likely to leave Nebraska than their counterparts, while low skill workers are more likely to move to Nebraska.¹¹ The problem of "brain drain" is even more acute in rural parts of the state. Nebraska's overall population has continued to grow, albeit modestly by national standards, due to net in-migration to metro areas.¹² However, rural areas continue to age as younger workers move out for better opportunities, leaving behind a declining population in search of the next generation of talent to drive local economies.

Nebraska's approach to tackling workforce challenges is inevitably intertwined with its effort to sustain and improve the state's economic growth. To better align the labor market to its talent supply, Nebraska needs to increase the number of high-skill, high-wage jobs and ensure that worker skills are aligned for high demand jobs.

Research completed by Battelle in 2010 highlighted those strengths (See Figure 3). Nebraska's leading competitive advantages in attracting and retaining businesses include workforce quality, business-friendly environment, central location with good transportation network, proximity to raw materials and customers (Agriculture and Department of Defense), and family friendly, low crime.¹³ Current data suggest that the state's

advantage in workforce is at risk, given the current tightness of the labor market and the inability of businesses to find an adequate supply of skilled workers.

According to the most recent study of the state's economic future by SRI, skilled workers will remain critical as high-skill jobs combined with technology intensive investment, innovation, and high-quality communities will

Figure 3: Nebraska Economic Strengths

Key Advantage	# Cited (out of 62 Interviews)	Typical Comments
Workforce Quality	44	Strong work ethic; good quality (especially compared to labor costs); strong education system
Business Climate	24	Low power costs; low taxes; good regulatory environment (especially financial services)
Central Location	19	Access to markets; good highway/rail access
Quality of Life	16	Family friendly, low crime
Customer Base	8	Either agriculture-related or DoD-related

Source: Battelle, 2010, p. 5

¹¹ Accelerate Nebraska-FSG Report, *Nebraska Statewide Story*, February 2016.

¹² UNO Center for Public Affairs Research, American Community Survey, U.S. Census Bureau

¹³ Battelle, *A Competitive Advantage Assessment and Strategy for Nebraska*, October 2010

drive Nebraska's Next Economy.¹⁴ Key industry clusters will provide the future foundation for the state's economy – including areas of current and developing strengths in traditional sectors such as agribusiness, food processing, financial services, e-commerce, logistics, tourism, business services, and health care as well as emerging sectors such as biosciences, renewable energy, advanced manufacturing, information technology, and data services. Nebraska will also need to invest in its economic future through increased private sector innovation; addressing gaps in the state's economic development ecosystem and promoting initiatives to generate risk capital, encourage more entrepreneurial behavior through improved connections between start-ups and existing firms, and developing the talent needed to innovate.

According to these recent studies, the state's next generation, globally-oriented economy will require a world-class workforce, a robust infrastructure of community facilities (including power, telecommunications, and transportation), and an economic development strategy that supports a more technology-intensive economy. For rural Nebraska, the challenges are more focused on the need for basic transportation and telecommunications infrastructure that helps connect that part of the state to its customers and suppliers around the world. It also means that rural Nebraska communities need investment to create the amenities that young people demand if they are to have a hope in competing to keep their best and brightest talent.

Rationale for continued commitment to economic development

With such a strong economy, some might ask why there is even a need for investing in Nebraska's economic development. The most important reason is that economic development investments do not drive economic growth, but instead guide it in areas in which growth provides socioeconomic benefits. Economic development provides the state's economy with a guiding hand to (1) seed future sources of growth that the private sector may view today as too risky, (2) provide economic opportunity to businesses and individuals that might otherwise benefit from economic growth, and (3) address the most significant barriers in ways that level the playing field for businesses and workers to prosper.

To this end, there are several ways that economic development is important to Nebraska. First, Nebraska had a brief recession in the 2012 and 2013 time period that did not occur at the national level. While national economic growth has continued uninterrupted for 10 years, Nebraska leaders know that GDP growth in the state has seen much more of a boom and bust cycle. Currently, the state is enjoying growth, but current economic headwinds from rising interest rates, global trade tariffs, and slowing consumer spending suggest that new challenges are on the horizon.

Second, the current tight labor situation is creating a drag on the state's economic growth. Slower growth could possibly be tied in part to the lack of talent to fill open jobs, reducing the ability of firms to meet client needs in a timely fashion and reducing the likelihood that the state's citizens will benefit fully from current economic prosperity. Existing and new businesses are important drivers in ensuring that future workers are trained and ready for new challenges that will keep Nebraska competitive.

¹⁴ SRI International, *Nebraska's Next Economy*, Prepared for Nebraska Department of Economic Development, 2016.

The aging workforce is leading to lower labor force participation rates (and more retirees to be supported with existing tax dollars) at a time when Nebraska needs every available skilled and able-bodied worker. Talent mismatches are leaving skilled jobs vacant while many less-prepared Nebraska workers struggle to make ends meet because they do not have the talent to fill those jobs. This challenge will likely increase in importance as high-paying science, technology, engineering, and math (STEM) jobs grow at a faster rate than all other jobs, putting increased pressure of the state to deliver high skill talent (See Figure 4). The key question facing the state’s leaders is how best to respond.

Figure 4: Average Annual Wages by Occupational Category in Nebraska

Occupation Types	Annual % job growth 2004-2014	Avg annual wage \$
All	0.7	\$41,080
STEM	1.8	70,684
Non-STEM	0.6	37,601

Source: SRI, Nebraska’s Next Economy, 2016, p. 39

Third, Nebraska businesses have long struggled to access sources of innovative ideas – available to companies and entrepreneurs in other parts of the country – due to the limited state investment in research, the large geographic distances to many national research facilities, and a lack of knowledge (especially in small companies) about how best to access innovative new product or business ideas.

How Economic Development Can Help

In this context, Nebraska and other states use their economic development capacity to monitor competitive disadvantages and provide incentives designed to level the playing field in the attraction, retention, and creation of firms that might otherwise locate in other states or nations. This is an important rationale for providing incentives to firms looking at alternative locations in the form of tax credits or grants to reduce relative costs.

In addition, economic development is often used to address disparities in economic opportunity that different communities face. For example, rural areas and distressed neighborhoods often encounter barriers to attracting private investment due to perceived risks or lack of opportunity. Economic development incentives can help to mitigate that risk and encourage private investment.

Likewise, economic development can also be used to encourage the development of new industries or new entrepreneurial activities. In this context, incentive investments can be used to seed emerging, high risk opportunities that could serve as a source of future growth. These resources help to offset the risk and help overcome barriers to private investment in potential new sources of economic growth.

Economic development incentives might also be used to encourage private investment decisions that might not have otherwise occurred, especially large business investments that could change the state’s economic trajectory. These types of large investments actively compare potential location advantages for the company and assess where it is most cost-effective operate among options in several states (or countries). Without economic development incentives, Nebraska signals to these business leaders that it is not even interested in competing for the investment, even if the state has a competitive business climate.

Finally, economic development can also help to guide public investments (such as infrastructure, education and training, or community facilities) in ways that make the state more attractive both to private investors and skilled workers. These investments can be vital in ensuring that communities and facilities are prepared when investment opportunities arise.

Nebraska leaders seek to ensure the state is ready to compete for growth as well as to help resolve the state’s most pressing economic issues while also ensuring that Nebraska government remains an excellent steward of tax dollars. In this context, the Governor and Legislature have a new impetus to offer a new vision for the state’s future. Through Blueprint Nebraska, the business community has indicated that it is willing to step forward and help frame a bold new vision.

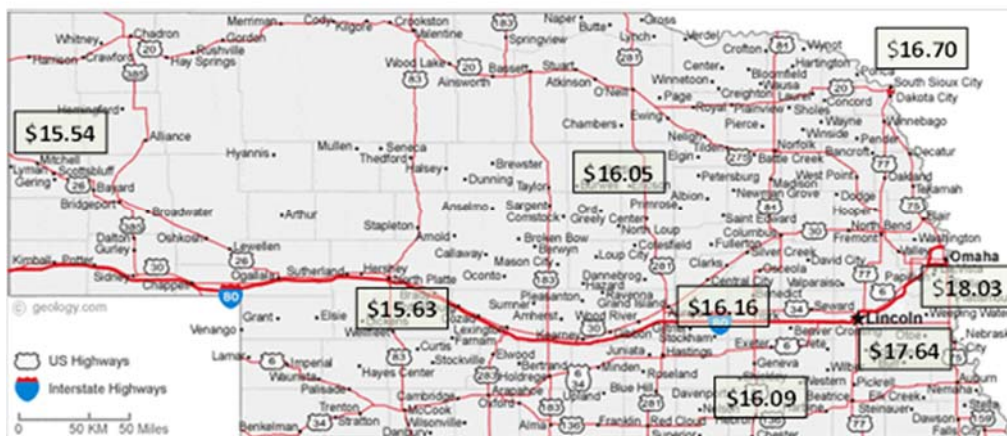
In short, well-designed and effectively implemented, economic development investment can help to generate new growth and expand the tax base. This investment should return dividends to the taxpayer in terms of new jobs, economic activity, and new tax dollars. The dividends should be realized both immediately and into the future. The key is understanding and calculating the return that the public receives from its investment over an appropriate time period.

Recognizing Nebraska’s multiple economies

Economic development must be offered in a portfolio because no single approach will work to address all these goals. Furthermore, the state is comprised of urban and rural communities that each have their own sets of mutually exclusive goals. Nebraska’s economic development investments will be judged based on how well they serve various constituencies across the state—large businesses in key sectors, small businesses, fast growing and innovative businesses—and it is critical to evaluate opportunities for investment from east to west. Local industrial and demographic trends help define which economic development investments are most critical. For example:

- Rural areas typically may have lower median incomes (see Figure 5), but large property owners pay substantial property and sales taxes. Support may be needed to ensure that businesses in these areas can invest in new technical equipment and that there is local talent to maintain and upgrade equipment.

Figure 5: Area Hourly Median Wages across Nebraska, May 2017



Source: US Bureau of Labor Statistics

- Some small cities and towns across the state are losing population (N. Platte, Scottsbluff, S. Sioux City, Lexington), while others are growing (Kearney, Grand Island, Columbus). These shrinking areas tend to offer workers lower wages, while growing areas are paying slightly higher wages. In many of these areas, improved broadband, basic infrastructure and business capital access are needed to attract new businesses, grow the local population, and increase quality of life.

- Small cities and towns along I-80, I-29, and other major thruways benefit from proximity to agricultural, manufacturing and distribution hubs across the state as well as critical end markets in the Lincoln-Omaha metro area, Denver and Cheyenne. High quality logistical connections are critical for existing industry, as well as for developing new businesses.
- Development and growth across the state will require investment in education and training, but the tax base for the K-12 education and community college campuses varies by location. Community colleges are key resources not only to connect the local areas to higher education but also to ensure that local areas develop and maintain the skills needed to sustain and grow local businesses and existing industry. Young scholars and business people increasingly need exposure to global markets and business practices as well as a wholistic introduction to their trade or industry. This kind of exposure and training is most readily available in large metros; other educational networks are needed to deliver this kind of exposure and training statewide.
- Large metro areas are the engines of economic growth and access to these metros is key to local areas. Most the research and development activities take place here. In this context, commercialization of new ideas proceeds more rapidly. Furthermore, much more of the state’s economic growth occurs in these areas and most of its people live here. To ensure a strong tax base and to continue attracting investment, it is vital that these areas are not neglected.

Figure 6 provides a summary of different types of places across Nebraska and highlights their unique economic trends. The mix of jobs and related wages differs by the type of economic area. Jobs in Omaha and Lincoln offer higher wages that reflect the mix of industries and relative cost of living in those areas. In addition, Omaha and Lincoln are the hubs of innovation and economic growth for the surrounding areas. Smaller cities and towns have lower median wages. At the same time, agricultural

Figure 6: Assets and Economic Conditions by Economic Area Type

Economic area type	Urban areas	Small cities and towns – east/central	Small cities and towns - western	Other rural areas
Economic areas	Omaha, Lincoln	Kearney, S. Sioux City, Grand Island, Columbus, Norfolk	N. Platte, Scottsbluff	
Economic base	Diverse, technology-intensive businesses and large anchor institutions	Town centers, manufacturing and distribution		Farms and ranches
Population growth	High	Medium	Negative (63/93 counties, 2010-2014)	
Median Wages 2017	Medium - \$17.64-\$18.03	Medium - \$16.05-\$16.70	Low - \$15.54 - \$15.63	Low (not available)
High-paying industries	Agricultural and medical biosciences		Food wholesaling	
Potential Capital investments	Technology-intensive businesses, transportation infrastructure, quality of place	Infrastructure, education, business capital, broadband, quality of place		
Unemployment	Low	Low	Low	Low

business owners often hold more of their capital in valuable fixed assets and property that are difficult to liquidate.

Figure 7 summarizes a set of prevalent economic pain points that many rural areas typically face. Dependence on a few industries makes smaller cities and rural towns especially vulnerable to industrial

change and sector-specific downturns. Long distances to markets and suppliers limit business efficiency and reduce opportunities for collaboration. Inadequate infrastructure for travel and communications can make it even more difficult for rural businesses to connect to markets and suppliers. Smaller labor markets in these rural communities can restrict both workers' and businesses' mobility and agility in responding to change. In addition, long physical and social distances create barriers to accessing centers of research and innovation (e.g., universities and large businesses) which can provide business owners with exposure to new ideas and technology. Many of these challenges also make it difficult for isolated areas to retain or attract talent.

Figure 7: Rural Economic Challenges



In discussing economic development investments, legislative leaders should consider (1) the disparate impacts of these investments across Nebraska's communities, (2) some of the unique challenges that rural areas face, (3) how to better connect communities to key inputs, and (4) how to leverage areas of strength across the state. It's also important to recognize that underserved urban areas face many comparable challenges and would benefit from a similar approach.

Investments that emphasize quality employment, defined by local areas, should put local businesses and residents on a path to upskilling of employees and upgrading of business processes. Currently, Nebraska's Department of Labor predicts that statewide employment is projected to increase by 8.8% from 2016-2026, but most of the growth will be in the health care and social assistance industry (NDOL 2017). This growth projection is based on the economy as it now stands, but how will economic growth play out in Nebraska? Will the new jobs being created increase or lower wages? Will it create an even greater demand on highly skilled talent that is already in short supply? How can the state achieve this projected employment goal if population growth during that same period is expected to be about 6 percent, and the state is already at full employment?

Economic development policy priorities

In order to connect with businesses worldwide, the Department of Economic Development (DED) highlights Nebraska's assets: workforce, costs of doing business, targeted industries, incentives, location (logistics) and quality of life (opportunity.nebraska.gov). Several recent reports have recommended further targeted investments to address current challenges.

The most recent and perhaps most relevant of these studies SRI International's 2016 report concludes that high-skill jobs, technology intensive investment, innovation, and high-quality communities will drive

Nebraska's Next Economy.¹⁵ The study identifies key clusters that are likely to provide the foundation of that economy – including areas of current and developing strengths in growing and emerging sectors (See Figure 8). The study serves as a key foundation for the Nebraska Department of Economic Development as the agency adopts a key set of principles that focus on helping today's "economic base" industries (i.e., industries that bring money into the state by selling their goods or services to buyers outside the state) succeed. Cluster-based strategies are an important approach in focusing state economic developments to those parts of the economy that sell goods and services to the rest of the world. These sectors help expand the state's gross domestic product (rather than simply recycling dollars already in the economy). Furthermore, wages for jobs in these sectors tend to be higher than wages paid to workers employed in sectors that serve local markets.

Figure 8: Nebraska's Growing and Emerging Sectors

Large and Growing Export-oriented Clusters

- Agribusiness & Food Processing
- Financial Services
- E-commerce
- Transportation and Logistics

Other Large Clusters

- Tourism
- Business Services
- Health and Medical Services

Emerging Clusters

- Biosciences
- Advanced Manufacturing
- Information Technology/Data Services
- Renewable Energy

Source: SRI International, 2016

SRI's study also emphasizes the need for Nebraska to invest in its economic future through increased private sector innovation. The research noted these as gaps in the state's economic development ecosystem and recommended initiatives to generate risk capital, encourage more entrepreneurial behavior through improved connections between start-ups and existing firms, and develop the talent needed to innovate.

To support this next economy will require a world-class workforce, a robust infrastructure of community facilities (including transportation, power, and telecommunications), and an economic development strategy that supports a more technology-intensive economy. For rural Nebraska, the issue is even more focused on the need for transportation and high-speed communications infrastructure to connect that part of the state to its customers and suppliers around the world. It also means that rural Nebraska communities need investment to create the amenities that young people demand if they are to have a hope in competing to keep their best and brightest talent.

Governor's budget and economic development priorities

Statewide budget trends and parameters

Nebraska has a long-standing commitment to fiscal conservatism, with streamlined government and strong fiscal management. Within the context, economic development policy remains a government role, but the goal is to keep it limited in scope and leverage as much as possible with those resources. Governor Ricketts has a demonstrated track record of limiting the size of state government and remains committed to continuing to manage the budget in a way that provides tax relief wherever possible.

¹⁵ SRI International, "Nebraska's Next Economy," Prepared for Nebraska Department of Economic Development, 2016.

Likewise, the Legislature has remained committed to prudent fiscal management. On October 27, 2018, the Nebraska Economic Forecasting Advisory Board released its latest revenue projections, which will guide budget preparations until updated forecasts are released in February 2019. Despite the \$69 million surplus expected for FY 2018, the Advisory Board reduced projections for the coming biennium, meaning that the projected general fund financial status is \$194.4 million short of the minimum statutory cash reserve (<http://update.legislature.ne.gov/?p=22578>). This estimate suggests that state leaders will want to carefully consider new tax expenditures expected through the Nebraska Advantage Act as it is currently designed as well as new investments proposed as part of a re-imagining of the state's portfolio of economic development incentives and program assistance.

Governor's 4 pillars of economic growth

The Governor has focused on growing Nebraska's economy throughout his first four years, and this focus is expected to continue as an important priority moving forward. As expressed during the past several months, the Governor's strategy is built on four key pillars: a well-prepared workforce, a responsive government, an efficient government, and selling the state's narrative as a good place to invest.

1: Develop Nebraska's workforce.

Nebraska's companies are struggling to find the workers they need. The solutions focus around training and career coaching to help Nebraskans navigate the labor market. In addition, the challenge facing Nebraska is the large share of workers employed in multiple low-wage jobs when improving skills might help workers work a single higher paying job that has more benefits and offers a better quality of life.

2: Eliminate red-tape.

Nebraska business can be more successful if they spend less time interacting with government. The solutions focus around reviewing and making process improvements that reduce the time, cost, and uncertainty associated with getting business licenses, permits, or approvals.

3: Improve the state's tax climate.

By restraining Nebraska government spending, the state will demand less from taxpayers, allowing them to invest more of that money back into the economy. Keeping taxes competitive with other states is one aspect; however, providing well-designed incentives to foster business investment is also important. In this context, incentives should help to enhance the state's standard of living while also being valuable to be the state and businesses by ensuring that the incentive investments are transparent, accountable, and easy to access for those qualified.

4: Tell Nebraska's story around the country and across the globe.

Nebraska offers companies a lot of advantages, especially companies located in other countries. The goal is to make sure that companies that might seek to locate an operation in Nebraska better understand how those advantages can help the company succeed in tapping both U.S. and global markets.

Economic development budget trends

In comparing state budgets with other states, CREC found that Nebraska is generally more frugal than its neighbors and competitors in appropriating funds for economic development. In FY 2019, Nebraska appropriated \$645 per business establishment to these programs. By comparison, neighboring states appropriated at least 30 percent more (See Figure 9 for spending per business establishment for Nebraska and its neighboring states).

Within its current economic and workforce development program portfolio, Nebraska has a wide array of tools available that are also appropriated through the legislative process. Appendix 2 describes 28 different programs offered, ranging tax credits for angel investors and new farmers to grants promoting tourism and sites and buildings. Several of these programs are directly funded through the legislative appropriations process, and they are implemented by the Department of Economic Development, Department of Transportation, and several independent boards. Nebraska’s total approved FY 2018 budget of state general or other funds appropriated for economic development programs was \$46 million, down from \$52 million in FY 2017, reflecting increasingly tight fiscal conditions.¹⁶ Job training program cuts accounted for a large share of this net reduction.

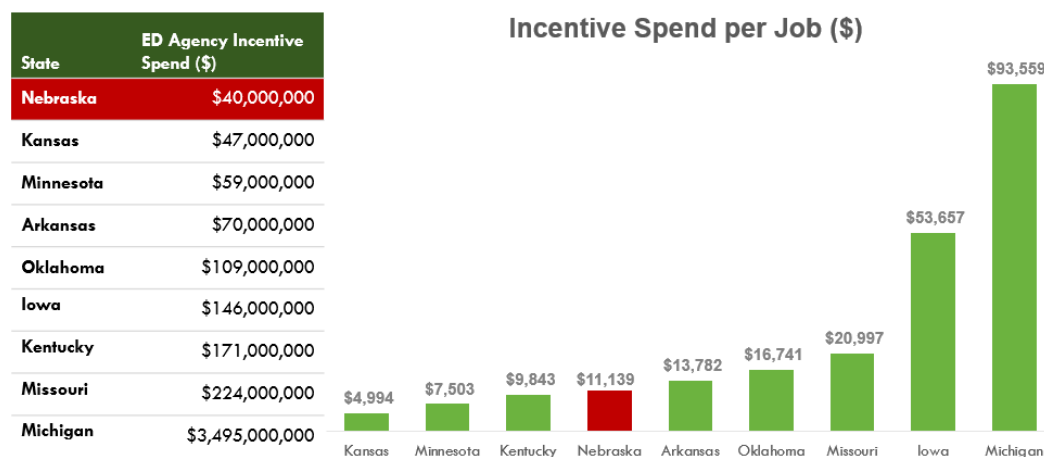
At the same time, data show that Nebraska allocated less in new incentive investments than other Midwestern states based on announced investments made between 2015 and 2017. Figure 10 illustrates that Nebraska announced that it leveraged approximately \$40 million during that period to assist companies in creating or retaining about 3600 jobs. That number equates to about \$11,139 per

Figure 10: State Economic Development Spending Per Business, Nebraska’s Neighboring States

State	Economic Development Spending per existing business
Nebraska	\$645
Missouri	\$942
Colorado	\$845
Kansas	\$1,057
Iowa	\$1,561
Wyoming	\$1,988
South Dakota	\$3,023

Source: Council for Community and Economic Research (FY 2019 State Economic Development Expenditures/2017 BLS Establishments)

Figure 9: Summary of Incentive Investments Per Job by State, 2015-2017



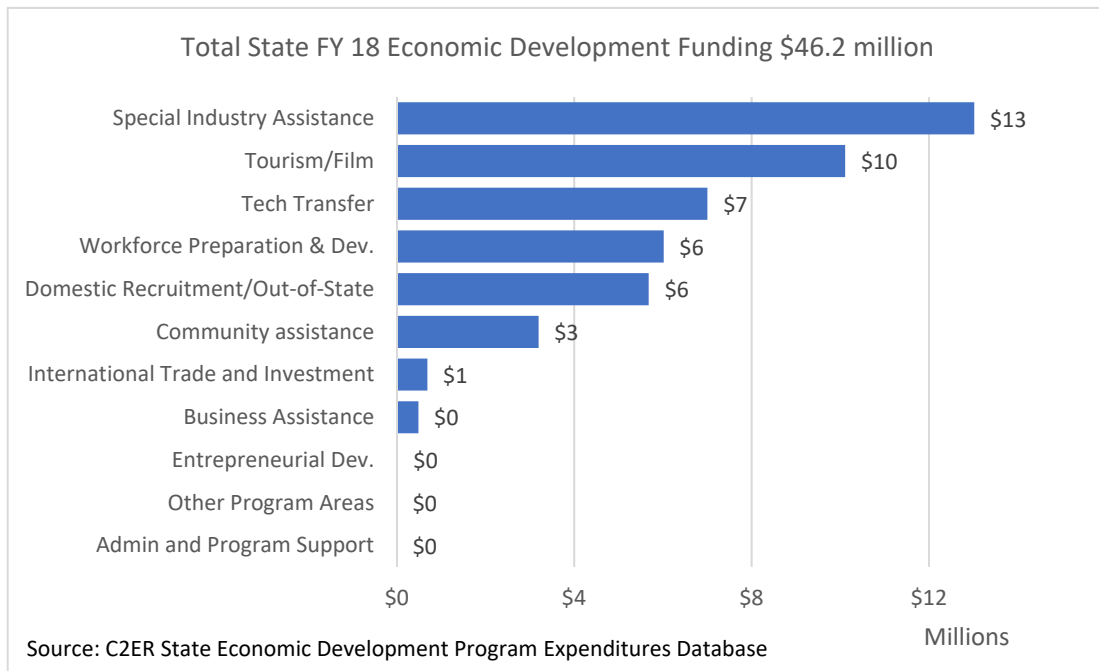
Source: Hawthorn Foundation (2018) Best in Midwest Talent for Tomorrow. Estimated incentive spending data derived from IncentivesMonitor database on announced business investment projects (2015-2017 average).

¹⁶ These numbers exclude federal grants and pass through funds.

job, certainly less aggressive than states like Iowa, Missouri, and Oklahoma but more aggressive than Kansas, Minnesota, and Kentucky which invested between \$13,782 and \$53,667 per job.

In the state’s FY2018 budget, Nebraska leaders prioritized special industry assistance, tourism, and technology transfer (See Figure 11). Special industry assistance programs account for nearly 30 percent of the state’s economic development program funding, which prioritizes agriculture and agribusiness sector. The largest of these programs, the Corn Development Board, receives roughly \$8 million. Tourism is also a major spending category, with a total of \$10 million being allocated to tourism promotion and fair improvement and support. The third largest category is technology transfer which encourages university - business innovation.

Figure 11: Nebraska Appropriated Economic Development Expenditures for FY 2018 by Function Area



Another element to highlight is that the state budget does not clearly identify resources for administration and program support. That number was zeroed out three years ago (see Figure 12), and it indicates that there are no clearly dedicated funds to support back office activities such as grants management and program compliance – an important priority when the state’s economic development agency is managing Nebraska’s limited resources allocated to economic development. On average, other states allocate about 8 percent of their economic development budgets to program support and administrative activities.

Figure 12: Nebraska Actual and Budgeted Economic Development Expenditures, 2015-2019)

Function Area	FY2015	FY2016	FY2017	FY2018	FY 2019	Change 2017-2018	Change 2018-2019
Special Industry Assistance (Agriculture/Energy)	\$ 12,657,797	\$ 12,626,979	\$ 14,028,082	\$ 13,020,965	\$ 13,120,739	\$ (1,007,117)	\$ 99,774
Tourism Product Development and Promotion	\$ 8,760,471	\$ 9,876,610	\$ 10,262,007	\$ 10,112,491	\$ 10,123,884	\$ (149,516)	\$ 11,393
Technology Innovation and Commercialization	\$ 7,241,220	\$ 6,286,925	\$ 7,140,581	\$ 7,004,675	\$ 7,002,194	\$ (135,906)	\$ (2,481)
Domestic Recruitment/Out-of-State	\$ 4,699,936	\$ 4,302,688	\$ 6,262,355	\$ 6,169,126	\$ 6,193,682	\$ (93,229)	\$ 24,556
Workforce Preparation & Dev.	\$ 11,542,872	\$ 2,149,899	\$ 10,640,720	\$ 6,018,262	\$ 6,260,383	\$ (4,622,458)	\$ 242,121
Community and infrastructure development	\$ 1,193,319	\$ 2,925,157	\$ 2,795,012	\$ 3,196,742	\$ 3,198,589	\$ 401,730	\$ 1,847
International Trade and Investment	\$ 695,256	\$ 681,069	\$ 696,901	\$ 690,748	\$ 697,822	\$ (6,153)	\$ 7,074
Entrepreneurial Development (inc. Seed/venture capital)	\$ 15,907	\$ 21,169	\$ 21,008	\$ 21,071	\$ 21,536	\$ 63	\$ 465
Program Support (Regional Offices/Dedicated Research)	\$ 696,015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Administration (IT, accounting, HR support)	\$ 1,457,833	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
All Activities	\$ 48,960,626	\$ 38,870,496	\$ 51,846,666	\$ 46,234,080	\$ 46,618,829	\$ (5,612,586)	\$ 384,749
					Year over Year Change	-10.8%	0.8%

Source: State Expenditures Database, Council for Community and Economic Research, 2019
 Includes budgeted programs administered by Nebraska Corn Development Marketing Board, Nebraska Dairy Industry Development Board, Nebraska Department of Agriculture, Nebraska Department of Economic Development, Nebraska Ethanol Board, Nebraska Grain Sorghum Board, Nebraska Tourism Commission, Nebraska Wheat Board

Nebraska Department of Economic Development Budget

The discussion above focused on the state’s overall economic development investments, but the state-funded resources allocated to DED is more limited. Overall, including federal funds, DED manages a total FY 2019 budget of \$65 million (See Figure 13). However, a more detailed review of that budget identifies approximately \$44.2 million in state and cash funds (plus an additional \$21.2 million in federal funds).¹⁷ The agency budget has declined by \$2.1 million during the past two years. While federal resources have declined by \$5.1 million, the state increased funding for civic/community center financing designed by \$2.4 million. The rest of the budget increased by about 1.4 percent over two years.

DED’s economic development program investments are managed with about \$6.2 million in state and cash operating funds combined with \$2.3 million in federal funds to support staff. This amount has changed little since 2016-2017, demonstrating the state’s commitment to keeping the agency lean, but it also reflects the agency’s limited ability to take on new responsibilities without more authority and flexibility to make hard choices about which strategic activities the agency should pursue.

¹⁷ State of Nebraska Executive Budget, 2017-2019 Biennium, published, January 12, 2017, p. 273; State of Nebraska, Program Operations/State Aid/Construction Summary, by Fund Type, 2017-2019 Biennium, As of 105th Legislature, 2018 Legislative Session, downloaded from [http://budget.nebraska.gov/assets/program-appropriations-summary-by-fund-type-\(2018-session\).pdf](http://budget.nebraska.gov/assets/program-appropriations-summary-by-fund-type-(2018-session).pdf), December 7, 2018.

Overview of state economic development incentive programs

With modest appropriated resources, Nebraska’s economic development efforts rely heavily on tax expenditures to provide companies with incentives. These expenditures do not show up in the program appropriation budget and are monitored by the Department of Revenue (DOR). This means that DOR policies and procedures play a very important role in guiding Nebraska’s state economic development priorities.

Statutory tax expenditure programs, designed like the Nebraska Advantage Act, function as an entitlement for eligible companies. DOR reviews and approves business participation in the program based on standards written into statute. The incentive, then, is a reward to business taxpayers that have made certain types of investments or have created jobs. DOR reviews eligibility and compliance, but there is no staff requirement to determine whether the incentive was required before the company would have made the incentivized investment.

On the surface, statutory tax incentives cost less for government to administer because the company does all the work in filing their return and providing evidence of their eligibility to receive the credit. It does have costs as Revenue has two to three staff dedicated part-time to conducting reviews of the tax credit filings. However, in instances in which firms receive a benefit for something they would have done otherwise, statutory programs can cost the state more than smaller discretionary incentives that are laser focused and targeted toward those firms that will only make the investment if the credit were available. The process of state agencies managing applications and conducting due diligence about the company provides an opportunity for the agency to assess whether the incentive influences the company’s investment decision or whether the company might make the investment anyway without the incentive.

Furthermore, in Nebraska’s economic development programs, the tax revenues are first collected and then returned as a credit after the company achieves its objective, often requiring the company to wait years after the initial investment before they know for sure that they will receive their credited incentive. This causes companies to highly discount the value of the incentive in making their decision about whether to invest. Under a discretionary program model in which the company must apply for the credit, other states enter into performance agreements with the company that pays out the benefit in tranches as they achieve intermediate performance goals. Those payment more closely track the

Figure 13: Nebraska DED Budget by Program and Fund Type

Agency / Program Name	FundType	FY 2016-17 Appropriation	FY 2017-18 Appropriation	FY 2018-19 Appropriation
072 Economic Development (Total)		67,448,684	64,523,311	65,391,876
601 Community & Rural Development				
Operations	General	267,862	256,205	259,393
Operations	Cash	688,787	768,983	857,885
Operations	Federal	1,874,694	1,888,665	1,901,439
State Aid	General	500,000	500,000	470,000
State Aid	Cash	11,250,000	14,645,665	15,063,965
State Aid	Federal	23,937,950	18,841,043	18,841,043
Subtotal Community & Rural Dev		38,519,293	36,900,561	37,393,725
603 Industrial Recruitment				
Operations	General	4,849,393	4,539,345	4,591,015
Operations	Cash	499,011	500,093	501,046
Operations	Federal	247,630	247,630	247,630
State Aid	General	6,585,600	6,195,776	6,020,352
State Aid	Cash	14,397,194	11,389,194	11,887,247
State Aid	Federal	249,341	249,341	249,341
Subtotal Industrial Recruitment		26,828,169	23,121,379	23,496,631
655 Civic/Community Center Financing				
Operations	Cash	36,222	36,371	36,520
State Aid	Cash	2,065,000	4,465,000	4,465,000
Subtotal Civic/Community Ctr Financing		2,101,222	4,501,371	4,501,520

Source: 2018 Nebraska Legislative Session Program Appropriations Summary by Fund Type

business' planned investment timeline and make a clearer link between performance and the receipt of an incentive payment.

Nebraska also has several direct grant and loan programs that receive annual appropriations. The Legislature knows how much will be spent for those programs in advance based on budgeted expenditures, and the Legislature receives program report reports about the benefits received. In addition, the program managers are also much more likely to closely track performance to ensure that the company achieves its goals and can report a positive outcome. This means that the monitoring system is typically more performance oriented than with statutory tax incentive programs. For statutory programs, the foregone revenues go unknown until well after the company has made its investment and requested the credit. This makes program "costs" much more difficult to predict than is the case with budgeted programs that have expenditure caps.

The Legislature also expects that program agencies (e.g., Department of Economic Development, Department of Labor, Department of Agriculture, and the Department of Transportation) with an economic development mission will manage the incentive program. In contrast, the Department of Revenue's mission, rightly so, is to collect tax revenues. If the goal is to use the tax code to help generate socioeconomic benefits, then a program agency needs to be involved in helping to assess what benefits the state achieved. That role is not DOR's. Moreover, discretionary incentives require that program agencies get involved to help determine which companies are providing the benefits. They should also be determining on behalf of all of Nebraska's taxpayers whether the benefits are worth the program's costs. A detailed list of existing Nebraska programs and the managing agency is included Appendix 2.

About Nebraska Advantage: The State's Largest Incentive Program

The state's largest and most visible program is Nebraska Advantage. Legislators designed the basic elements of the program a generation ago to help keep the state competitive in retaining and recruiting high impact projects. The origins of the use of tax credits to support industry retention and recruitment date to the passage of the 1987 LB 775 (Employment and Investment Growth Act) as part of an ultimately unsuccessful effort to retain ConAgra's headquarters in the state.

The foundations of the Nebraska Advantage Act as it is currently structured was initially passed in 2006. Designed primarily as a statutory tax credit program, the program served as a popular vehicle for many policy changes aimed at promoting job creation, especially to support investment in which Nebraska may be competing with other states for an investment. Since that time, the Legislature added other 'tiers' and other program element to the Act in response to new economic opportunities and threats.

Today, Nebraska Advantage provides multiple tiers of tax breaks depending on the size of investment with Tier 1 benefits being offered to companies making investments as small as \$1 million and resulting in as few as 10 new full-time jobs (See Figure 14). Some of the other five program tiers offer greater incentives, but each tier provides a unique set of benefits designed for larger projects, rural projects, or other types of activity that benefit those companies creating jobs or making new investments (even in some cases when they make investments without resulting in net new job creation). In addition, the program includes components focused on encouraging customized job training, investing in R&D, and promoting microenterprises.

Figure 14: Quick Summary of the Nebraska Advantage Tiers

Tier	1 Exporters, R&D, MFG, IT	2 A Economic Base Industry	2 B Data Centers,	3 Job Expansion No New Investment	4 Investment Credit	5 Investment inc. Renewable Energy (Rnew)	6 Super Advantage	Rural Rural Level 1 (R) OR Small Town Level 2 (SmT)
New Jobs	10	30	30	30	100	0	75 / 50	2 (1R) OR 5 (2SmT)
New Investment	\$1M	\$3M	\$200M	\$0	\$11M	\$35M or \$20M (Rnew)	\$10M / \$103M	\$125K (1R) OR \$250K (2SmT)
Incentives	Wage Credits/ Partial Sales Tax Refund	Wage Credits/ Sales Tax Refund/ Prop Tax Exemption	Sales Tax Refund/ Personal Property Tax Exemption	Wage Credits	Wage Credits/ Sales Tax Refund/ Prop Tax Exemption	Sales Tax Refund on capital purchases	Wage credit/ Sales Tax Refund/ Prop Tax Exemption	Refundable wage credit

Assessment of Nebraska Advantage Act activities

Created in 2017, the Nebraska Economic Development Task Force is reviewing the future of the Nebraska Advantage act as part of a larger effort to set state economic development priorities. Concerns about the viability of some programs and the relevance of Nebraska’s mix of programs to broader economic development challenges facing the state.

Performance Audit Committee’s assessment

The first Economic Development Task Force report focused on a 2017 Performance Audit Committee report that the costs associated with the Nebraska Advantage Act may not be sustainable. Figure 15 shows that the program resulted in nearly \$300 million foregone revenues during a seven-year span, and the study estimated that the Act would have already accumulated more than \$473 million in net obligated foregone revenues by 2025.¹⁸ In response to the Performance Audit Committee report, the 2017 Task Force report calls for reforming or replacing the Nebraska Advantage Act to require companies to:

- increase wages,
- simplify business qualification,
- clarify evaluation benchmarks,
- control costs, and
- enhance the budget predictability.

These recommendations were driven in large part by findings from an evaluation conducted by the Legislative Audit Office, which examined Nebraska Advantage Act program outcomes for companies receiving benefits between 2008 and 2014.¹⁹ Currently, the program has 116 companies

Figure 15: Total Revenue Foregone for all Nebraska Advantage Act Benefits Used, By Year

CY2008	\$1,073,130
CY2009	\$1,001,191
CY2010	\$53,191,055
CY2011	\$28,971,057
CY2012	\$42,747,129
CY2013	\$108,739,647
CY2014	\$59,125,841
Total Revenue Foregone to Date	\$294,849,050

Source: Audit Office analysis of data from the Revenue Department’s tax incentives database.

¹⁸ Nebraska Economic Development Task Force, “2017 Report.”

¹⁹ Legislative Audit Office, Nebraska Legislature. *Nebraska Advantage Act Performance on Selected Metrics*, prepared for the Performance Audit Committee, November 2016.

participating; however, during the study period, 78 companies received benefits for 79 projects. The report suggested the program was responsible for creating roughly 3,000 new jobs in those 78 companies and that incentive projects typically paid workers higher than average wages.²⁰ Most of the companies received Tier 2 level benefits (41), followed by Tier 1 (13) and Tier 4 (11).

The Legislative Audit Office report noted that the Advantage Act has largely functioned as a business retention tool rather than supporting new company attraction. Only 9 of the 78 companies reviewed were not previously established in Nebraska in the two years before applying for the incentives.²¹ In addition, many of the Advantage Act companies “stack” other state economic development and revenue incentives. The report found that 58 (74%) of the 78 reporting companies received a benefit from at least one other Department of Economic Development or Department of Revenue program. In total, 35 Advantage Act companies received over \$14.6 million from other Department of Economic Development tax incentive programs, and 46 Advantage Act companies received over \$548 million from other Revenue Department programs.²² Most companies received benefits from other programs before they applied to the Advantage Act for a tax credit. Finally, more companies sought the incentives based on new investments rather than adding more jobs. The report shows that participating companies are earning much higher amounts of tax credits for their financial investments than for compensation credits earned on the FTEs created.

The audit report reflected an important concern about rising program costs and uncertainty about the fiscal impact of credits taken. The number of qualifying projects has been increasing every year (73 in 2014; 94 in 2015; 114 in 2016; 132 in 2017—according to the 2017 tax incentive audit report). As stated in the report, “The Advantage Act has some fiscal protections in place, including performance-based incentives and a recapture provision should a company not meet its obligation. However, it does not have the types of protections that would prevent the program from increasing substantially beyond the state’s expectations.”²³ The audit report estimates that the average cost per full-time equivalent (FTE) ranged from \$24,500 to \$320,000 per Advantage Act project.²⁴

This report reflects the concerns among many stakeholders about the program’s long-term sustainability given these rising costs. A review of the Department of Revenue’s annual report on tax incentives provides more current data about historic and predicted tax expenditure costs for the Advantage Act and its predecessor, the Employment and Investment Growth Act, as well as annual projections for the costs of both these programs. The report shows that since 2014 taxpayers have typically used around \$130-145 million a year in credits associated with the two programs.²⁵ However, in 2016, the dollar

²⁰ According the Audit report, in 12 of the 15 industry sectors represented, incentivized projects had higher yearly average wages than the corresponding statewide industry sectors (page E).

²¹ Legislative Audit Office, p. 30.

²² Of the DED-administered programs, Customized Job Training and InternNE were most used by the Advantage Act companies. Of the Revenue administered programs, the Employment and Investment Growth Act (LB 775) and the Advantage Act Research and Development program were the most used (pages P-Q).

²³ In 2013, program costs (revenue foregone) exceeded the expectations when the program was created (\$24 to \$60 million per year) and economic modeling suggests that it will happen again (page R).

²⁴ The averages vary due to considerations in our calculations, such as which program benefits to include and the number of new FTEs credited to the Advantage Act. (page N).

²⁵ Note that these numbers do not include personal property tax exemptions because Revenue’s report does not estimate the cost of these benefits.

value spiked to around \$250 million. In coming years, Revenue estimates that tax credit and rebate claims under the Advantage Act will ramp up to the point that, by 2020, combined annual claims under the two programs will begin to exceed \$200 million, even as claims under the Employment and Investment Growth Act decline (See Figure 15).²⁶ However, it is unclear how much of this growth is due to new taxpayers qualifying for credits or to taxpayers already qualified continuing to claim credits previously obligated. This distinction is important for the Legislature to really understand what has already been committed under Nebraska Advantage and the prospects for the program’s future growth in the form of foregone tax revenues.

Despite Revenue’s best efforts, however, projecting the costs of the programs is extremely difficult either annually or over the long term. To earn the credits for which they are authorized, companies must hit their job creation and investment targets—and not all end up doing so. Companies also cite the complexities in the credit validation and compliance process, which may lead them to not take the full “face-value” of the credits for which they are eligible. Forecasting what year businesses will use the credits is equally challenging because their ability and desire to use the credits is dependent on hard-to-predict factors such as the size of their tax liability.

The uncertainty places strains on the state’s budgeting process, and it reflects poorly on the state when companies are not receiving the credit the state promised. Consequently, many leaders are concerned that the current program’s design and execution is not sustainable over time.

Geographic Analysis of Nebraska Advantage Benefits

To augment the analyses provided by the Department of Revenue and legislative audit committee (described above), CREC examined project specific information to explore the mix of investments in major Nebraska population centers (including Omaha, Lincoln, Sioux City, and Grand Island Metropolitan Statistical Areas/MSAs²⁷) compared with those in more rural counties. This analysis was motivated by an interest in better understanding how benefits from Nebraska Advantage credits are distributed across the state. This research looks at the total number of projects, the dollar value of tax credits used, and the value of refunds approved based on annual reports from 2009 to 2017 (See Figure 16). Based on a designation of project location and county as “metro” or “non-metro,” CREC found that 74 percent of

Figure 15: Total Credits and Rebates (LB 775 and Nebraska Advantage Act)

Year	Total Credits and Rebates
2014	\$ 132,593,584
2015	\$ 133,425,275
2016	\$ 247,376,560
2017	\$ 144,240,141
2018	\$ 161,987,573
2019	\$ 182,383,066
2020	\$ 202,982,390
2021	\$ 207,825,310
2022	\$ 212,591,170
2023	\$ 215,667,228
2024	\$ 214,495,014
2025	\$ 216,391,489
2026	\$ 187,985,939
2027	\$ 183,346,268

2018-2027 Data are projected credits

Figure 16: Total Revenue Foregone for all Nebraska Advantage Act (NAA) Benefits Used, By Year

	% Nebraska Population (2010)	% NAA projects	% NAA tax credits used and refunds approved
Metro	63.7	74	52.5
Non-Metro*	36.3	26	47.5

*The non-metro projects include projects with statewide coverage, including projects that include but are not contained in metro counties.

²⁶ Nebraska Department of Revenue. (2018). Nebraska tax incentives: 2017 annual report to the Nebraska Legislature. Retrieved from http://www.revenue.nebraska.gov/incentiv/annrep/17an_rep/17_annrp.html

²⁷ Counties in these MSAs include Lancaster, Seward, Douglas, Sarpy, Saunders, Washington, Dakota, Dixon and Hall. If projects were not contained in these counties, they were counted as non-metro projects. This includes six projects that have multiple locations in the state.

projects were implemented in metro areas (26% in non-metro) and 52.5% of spending/benefits were in projects located in metro areas (47.5% in non-metro areas). Given that 63.7% of the population (2010 Census) is in metro areas, this mix of projects and project spending seems reasonably well distributed.

However, looking at individual beneficiaries, CREC found that spending/benefits for some projects were very large. Four projects constituted more than 10 percent each of total non-metro spending; one of these projects constituted 30 percent of total non-metro spending. These very large projects represent unusual opportunities, and models other than a statutory tax credit may be more effective in supporting these types of programs. It was also notable that six of the non-metro projects had multiple project locations, and these highly dispersed projects likely disperse any job and investment benefits.

Nebraska Advantage Act Relevance to Industry Targets

Regarding the industries prioritized by Nebraska Advantage Act funding, in the past several years, key industries include manufacturing, finance insurance and real estate (FIRE), and professional, scientific and technical services (See Figure 17). Manufacturers represented more than half the project recipients (54 percent), Finance and Insurance (15 percent), and Professional, Scientific and Technical Services (10 percent).

More detail would be needed to know if these are meeting the more clearly defined targets that SRI identified in its 2016 study. For this exercise, it would also be helpful to evaluate industry targets across rural areas and metro areas separately. Without additional detail, any evaluation or gap analysis will be imprecise. Furthermore, the uncertainty in projects receiving Act benefits obscure future expectations about what companies will receive their full or partial credit.

It is important to note that the companies utilizing the Nebraska Act are self-selected from a wide variety of industries, some of which are not among the state’s economic development target sectors. SRI’s 2016 study identified targeted sectors for support and suggested that Nebraska take a more proactive approach to seeking out firms that are most likely to foster the state’s economic development goals.

Figure 17: Comparison of Key Industries Funded versus Nebraska Target Industries

Nebraska Advantage Funded the Last 3 Years	SRI Identified Targets
Manufacturing	Advanced Manufacturing, Agribusiness, & Food Processing
Finance Insurance and Real Estate	Financial Services
Professional Scientific and Technical Services	Business Services, Biosciences, & Information Technology and Data Services
	E-commerce Renewable Energy Logistics Tourism Health Care

Stakeholder Perspectives on the Nebraska Advantage Act

As part of its research, CREC conducted a series of interviews with dozens of key stakeholders to gain a better understanding about how the Nebraska Advantage Act supports economic development priorities. These individuals represented groups from across the state, but the responses are described for three of the most important stakeholder groups: economic development organizations, rural leaders,

and participating businesses. Following is a summary of the perspectives that the interviewees in each group offered about the Nebraska Advantage Act and about economic development more generally.

Chambers of Commerce and Economic Development Organizations

In general, the key issues raised among economic development intermediaries relate to the management of the Nebraska Act program and the need for a hard-hitting and easy-to-describe tool that can be used to convince companies to invest in Nebraska when they might invest almost anywhere in the world. Most of these agencies reflected comments from their client companies about the complexity of the tax credit program and the uncertainty and delays associated with accessing credits. Several economic development intermediary organizations questioned why the job of managing the program has fallen to the Department of Revenue when economic development is not its mission.

All appeared agreeable to increasing wage goals, simplification, and a more clearly articulated purpose for the Advantage Act program. Economic development and chamber organizations agreed with the 2016 SRI study that the state needs to diversify its economic base and promote new technologies as a source of long-term growth. The key question is how the Advantage Act (or some other program) might be adapted to that end.

Furthermore, economic developers concerned about skills mismatches are increasingly focused on helping companies source talent and/or ensure that the education and training community is providing the skills that companies demand, especially as the companies invest in new technologies that make them more globally competitive. Some of these investments may dislocate lower skilled and lower wage positions, but the resulting higher wage jobs will most benefit the state if workers are prepared.

The Nebraska Advantage program could be more relevant as an economic development tool if it were simpler, more transparent, and offered greater relative value to both the state and the firm. That means that the program needs to be more business friendly. The resulting impacts need to be clearer and more widely shared with businesses and the general public. Finally, the state needs to take a more calculated approach to ensuring that the investment being made is returning the desired economic benefits to the state. Not all these changes would require legislative action to implement, but it would help to simplify the program to have fewer (or no) tiers and to provide a way that companies can pre-qualify their investments and achieve the promised state incentive sooner in the investment cycle.

Rural Nebraska Stakeholders

In speaking with rural leaders, CREC found that many were concerned about the perception that the program has been used only in a limited way outside the Lincoln and Omaha metro areas. Several interviewees described the rural area funding allocations as 'program caps' (even though they appear to be target percentages that need to be achieved). In addition, the Nebraska Advantage Act model may not be relevant to meet the needs of most farmers and ranchers that make relatively smaller equipment and facility investments when compared with other larger companies. These types of job creation activities are less likely to meet Advantage Act standards, and there may simply be better ways to encourage smaller investments or investments in modernizing farm and ranching facilities.

In examining funding allocations, CREC found 47 percent of the tax credit value allocated between 2009 and 2017 went to projects outside the two major metro areas. However, CREC also found that a sizable share of Advantage Act funding in rural areas went to railroad-related projects and that these projects happened earlier in this decade, reinforcing concerns about the program's relevance to rural

communities. CREC expects that these railroad investments are vital to rural areas by providing critical rail links that tie large grain loading facilities to international markets. Furthermore, these investments mean that the program has been particularly valuable for a few large-scale capital projects that had limited direct job creation impacts beyond the initial construction phase.

One might also consider whether the investment may have been made even without the credit given that customer demand for distribution of bulk grains has continued to grow. However, as Nebraska Advantage is currently designed, the program rewards companies well after an investment is made rather (often years later), and it does not include a determination about whether the incentive is needed to make the investment happen. Furthermore, some expressed concerns that about whether the Department of Revenue's compliance monitoring procedures were less onerous for companies seeking credits for capital expenditures than those seeking job credits; thereby, encouraging companies to rely more on the Advantage Act's capital expenditure credits.

Business and Industry Program Users

CREC interviewed representatives from 15 companies that have used the Nebraska Advantage program to get a perspective of how the program is perceived from those expected to deliver jobs and investment to the state. These companies are mostly Nebraska Advantage Act champions, and all wanted to see the program work better. The consensus response from business clients was that the Nebraska Advantage Act benefits were frequently cited as indispensable in influencing their corporate decisions to make an investment in the state. Most felt that a program of some type like the Advantage Act should remain a tool for Nebraska to level the playing field with other states as they made decisions that could have resulted in investment in other states. In fact, many business representatives admitted that this form of targeted business incentive may have been more important to them than a lower corporate tax rate.²⁸ Several companies cited the Advantage Act as a key factor for making their decision to grow in Nebraska rather than elsewhere, but they frequently noted that other economic development programs also influenced their decision to remain in Nebraska.

For the most part, businesses noted that compliance with the Advantage Act is seen as "extremely complicated," requiring them to dedicate significant finance staff hours or hiring legal counsel to navigate the process and meet compliance requirements. This is a significant burden, especially for smaller companies that don't have this capacity in-house.

Businesses would prefer a program that is easier to use. They also indicated that it would be better if the credit operated as an exemption and was given up front rather than provided as a refund offered after the fact. The business perspective also sees the current jobs requirements tied to investment as difficult to attain. Several suggested adding an "investment only" threshold given the workforce shortage and how low unemployment is in the state. The logic of including this credit is that companies in key target industries (like renewable energy) that offer higher paying jobs need to build their capital assets in the state in ways that set the stage for future employment growth.

Synopsis of Perspectives about Nebraska Advantage Act

Many program champions maintain that, in its current form, Nebraska Advantage Act is best suited to support existing businesses making a significant capital investment. Past adjustments to both the

²⁸ Many companies in Nebraska are not subject to corporate tax, but rather are more concerned about Personal Income Taxes, especially for income passed through to business owners.

original Employment and Investment Growth Act (LB 775) and Nebraska Advantage made the incentive more complex by adding program tiers to meet different goals. The challenge is that these tiers are difficult to retire once they have served their purpose and new tiers simply layer over old ones. In addition, the Nebraska Advantage Act, as currently designed, is best suited to foster large investments, and the state has very limited ability to guide the direction of those investments, given the breadth of eligible companies. This is one reason why, when considering how to encourage targeted state development efforts (such as technology-intensive or small business investment), stakeholders often point to other programs as being more useful tools.

Because Nebraska Advantage has so many tiers, it is hard to explain to potential beneficiaries. The multiple tiers place a lot of burden on the Nebraska Advantage programs to meet all economic development needs. This complexity makes it difficult for businesses to understand and make using the program more uncertain. Furthermore, beneficiary companies reported that they are using only a portion of the available credits and consequently discount the value of the program in seeking out the incentive. As a result, it takes a greater commitment of state incentive dollars to leverage what Nebraska would like to achieve. Most agree that the program could be simplified by streamlining eligibility to a more limited number of companies and make the process for using the credits easier. This would make the program more valuable to beneficiaries and the fiscal costs more predictable.

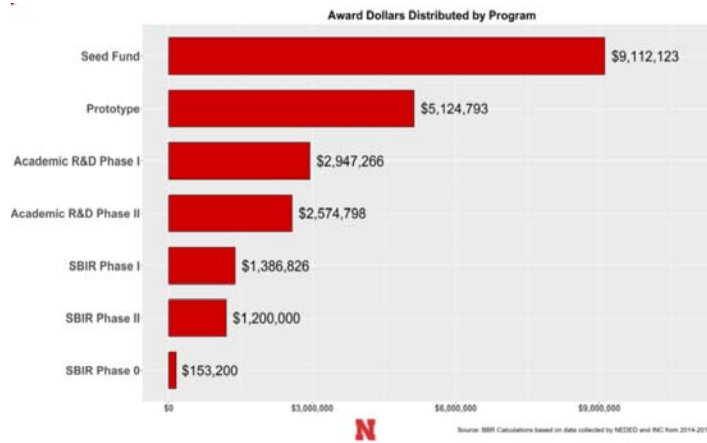
Assessing Business Innovation Act Programs

While not a major focus for CREC's research effort, innovation as an economic development priority frequently arose as a topic of conversation during stakeholder interviews. The Nebraska Legislature passed the Business Innovation Act (BIA) in 2011 to address this issue, partially in response to the SRI study raising the issue's profile among policy makers. As part of the BIA, the state created the Nebraska Innovation Fund (NIF), a financial assistance program designed to help Nebraska businesses and entrepreneurs undertake product ideation and commercialization activities. The Legislature provides DED with about \$6 million in appropriations to support grants or investments in several agency activities, such as seed investment, prototype development, federal Small Business Investment Research or Small Business Technology Transfer (SBIR/STTR) co-funding, academic research and development, and microenterprise technical assistance and lending. The stated goal of the NIF was to:

1. Stimulate private investment in Nebraska-based high growth companies;
2. Accelerate knowledge transfer and technological innovation, improve economic competitiveness, and spur economic growth in Nebraska-based companies;
3. Support feasibility, concept development, and commercialization activities that have clear potential to lead to scalable, commercially successful products, processes, or services;
4. Stimulate growth-oriented enterprises within the Nebraska;
5. Promote commercialization activities that are market-oriented; and
6. Support small and medium-sized companies.

Program applicants must match state funds, and these resources can be used to create a market or commercialization strategy; develop product prototypes; conduct proof of concept work or product tests; support commercial development activities; launch new products; file for intellectual property protection; and support related activities. The program has five components: (1) pre-seed prototype grants; (2) SBIR/STTR matching grants; (3) academic research and development grants; (4) seed/commercialization assistance; and (5) microenterprise loans and related technical assistance. Funding is largely used to support seed funding and prototype development activities (See Figure 18).

Figure 18: Distribution of Business Innovation Act Funding, 2014-2018



The Bureau of Business Research (BBR) at the University of Nebraska—Lincoln evaluated the impacts from Nebraska Business Innovation Act Programs and found that businesses raised \$55.1 million in matching funds. Firms reported raising \$100.3 million in capital after receiving BIA support (\$4.46 for \$1 in state support), and businesses reported having earned \$100.6 million in revenue as a result of the state investment (\$4.47 in \$1 in state support). Overall, the BIA programs are credited with supporting nearly \$285 million in economic activity, support 1,436 jobs, and helping to generate an additional \$6.5 million in state and local taxes annually.²⁹

The stakeholder interviews suggest that efforts to foster Nebraska’s innovation sector remain a high priority, but it is not clear what the benchmark is for determining whether the state has the right mix of innovation programs. Even so, the BBR study reveals that the current portfolio of innovation program is having a significantly positive impact on the state’s entrepreneurial ecosystem.

Recommended Responses from Prior Studies

In addition to examining the state’s tax credits and its innovation activities, the SRI report and other relevant reports also note that these efforts should ensure that previously underserved communities have access to new opportunities and that racial disparities are reduced. The opportunities and challenges identified in these reports further suggest that the path to a more advanced and globally competitive economy is not straightforward, especially given the key challenges of population loss, aging population, and the disparate trends in urban and rural areas. The challenges and opportunities highlighted by these reports will require targeted policy responses.

Figure 19 includes a selection of the most tangible recommendations from four reports (1) the SRI report (2016), (2) AccelerateNE (2016), (3) the ED Task Force including Pew Charitable Trust insights (2017), and (4) the Nebraska Department of Labor (2017).

²⁹ Bureau of Business Research, University of Nebraska-Lincoln, *The Annual Economic Impact of Businesses Supported by Nebraska Business Innovation Act Programs: 2018 Update*, July 2018.

Figure 19: Relevant Economic Challenges and Related Recommendations from Recent Studies

Relevant Challenges	Recommended responses
<p>Workforce</p> <ul style="list-style-type: none"> • College readiness • Racial disparities and isolated, underserved communities • IT and STEM skills • Building trades capacity • Faculty support • Aging population • Low unemployment rates limiting the potential to attract new investment 	<p>Investments in education and attraction/development of high-tech businesses will, together, advance the state’s capabilities (SRI)</p> <p>Focus on helping today’s “economic base” industries will bring money into the state, as these industries sell their goods or services to buyers outside the state (SRI)</p> <p>Focus on continuing to grow “middle-skill” trades, business and financial operations and STEM occupations (SRI)</p> <p>Maintain international connections and support immigrant communities. Nebraska gained 15,500 people from international immigration from 2010 to 2014. (SRI)</p>
<p>Infrastructure, housing and community development</p> <ul style="list-style-type: none"> • Disparities in development opportunities • Low wage jobs lead to underemployment and brain drain 	<p>The Community Development Block Grant and Site and Building Development fund help businesses expand – increase investment in these programs</p>
<p>Business attraction and development gap</p> <ul style="list-style-type: none"> • Gap in serving high-technology, high-skill, fast-growing firms with modest capital needs • Succession planning needed for older business owners 	<p>Continue to foster the role of small- and medium-sized businesses engaged in global industries, especially those linked to the automotive and other global supply chains, and those that can link rural areas and small towns to global trade. (SRI)</p> <p>Increased private sector innovation with greater access to risk capital, more entrepreneurial activity between start-ups and existing firms, and related talent development (consider the role of K-12, trade and technical training, as well as university-led research and talent development) (SRI)</p> <p>Use discretionary incentive programs to target state resources to support key private sector partnerships. (SRI and Pew Charitable Trusts)</p> <p>Maintain international connections and support immigrant communities. (SRI)</p> <p>Support Nebraska Business Innovation Act programs with a positive impact on the state (Task Force)</p>

Going forward: Policy Options for Consideration

CREC combined its research and interviews with input generated during an October 26, 2018 focus group session with 25 legislators to identify Nebraska's four most critical economic development issues:

- 1) Preparing existing workers to provide a **talent** pipeline for Nebraska employers
- 2) Promoting emerging new economic opportunities through **innovation** and entrepreneurship
- 3) Building on the strengths to retain the viability of rural **communities**
- 4) Ensuring that Nebraska can compete for major **high-wage, high impact investment opportunities**

These issues reflect the need for a comprehensive economic development plan that addresses these four issues. This section offers ideas about how to make the most of Nebraska's economic development expenditures by implementing a four-pronged set of economic development strategies that promotes: (1) **Talent**, (2) **Innovation and Economic Dynamism**, (3) **Community Building**, and (4) **High Wage, High Impact Investment**.

CREC recognizes that Nebraska already has many of the foundations for this comprehensive strategy, and Nebraska Advantage and the Business Innovation Act will likely play important roles. For instance, a reformed and reinvigorated Nebraska Advantage should take its place as the principal mechanism to promote high wage, high impact investment opportunities for the state. Meanwhile, Business Innovation Act investments help to promote innovation and economic dynamism.

A comprehensive economic development plan will include tactics associated with each of the four strategies. Those tactics are formulated based by keeping in mind the four key principles that Pew Charitable Trusts offered in designing state incentive programs.³⁰ First, Pew suggests that Nebraska target high-impact businesses—ones with “high-multipliers” and whose activities will cause substantial ripple effects in the economy. This includes firms that offer relatively higher wages, companies with local supply chains, and/or exporters who will bring new income into the economy. This is often implemented as a cluster-based strategy that focuses on industries that bring new dollars from sales into the state from customers located elsewhere. Second, Pew recommends that the state maximize the perceived value of the incentives to companies by providing benefits to businesses in a shorter timeframe.³¹ Ideally, this approach will make the incentive more valuable to the company and reduce the total cost of the incentive to the state. Third, Pew suggests that the state offer the most generous incentives when the economy is struggling and setting more stringent limits on the use of incentives when the economy is doing well. The idea is that investments made during good times should focus on seeding the future and leveling the playing field. Fourth, Pew recommends that Nebraska design programs to make the incentive and investment cost of more predictable from year to year to protect the state budget. This will make those programs more sustainable and ensure that they are more likely to provide a positive return on investment to the taxpayer.

³⁰ The Pew Charitable Trusts, *Examples of Incentive Programs that Reflect Best Practices*, memo to Nebraska State Senators dated October 5, 2018.

³¹ Businesses typically apply a high discount rate to money promised to them in the future. That means that incentive programs that provide benefits to businesses in a shorter timeframe are potentially more cost-effective. Services such as customized job training also can potentially provide more value to companies than their cost, if they are designed well.

The recommendations from Pew align well with the recommendations from the 2016 SRI report. In that report, not only did SRI highlight the need for innovation programs to support high value companies and create well-paying jobs, but they also noted the importance of using a analytic tools that examine the state's economic return on investment, calculate the net present value of incentive benefits and offers, and then make incentive awards using a process that is more closely linked to the company investment and that also has mechanisms that allow program managers to easily monitor the award to ensure the company is delivering the promised benefit.

Policy Options: A Framework for Designing a Stronger Economic Development Portfolio

Offering tactics aligned to the four strategies associated with talent development, innovation and economic dynamics, community building, and high wage, high impact opportunities would align well with the findings of the 2016 SRI report on "Nebraska's next economy," the 2010 Battelle³² report, and the state's Workforce Development Plan.³³ It would also be important to consider how economic development efforts promote growing and emerging industry clusters as well as foster entrepreneurship and growth from existing companies already operating in the state.

Furthermore, these efforts would complement desired Nebraska Advantage Act reforms by focusing tax credits and related programs on areas that other state programs are not addressing. A reformed Nebraska Advantage Act would align state economic development investments with workforce, rural, innovation, and state economic competitiveness issues. Given economic realities, CREC expects that this package must be prudent, generating enough fiscal (as well as economic) returns on investment to demonstrate value to Nebraska taxpayers. Not only should the tactics associated with this economic development strategy help the state move along a path to improve its long-term fiscal position, but it also should position Nebraska to attract and retain the businesses and talent needed to continue growing.

Within each of the policy proposals, CREC offers preliminary suggestions for state investment levels. These recommended budget levels are illustrative and are based on a combination of factors including:

- (1) an assessment of existing need as described in interviews,
- (2) typical amounts for programs of similar size in other states, and
- (3) a review of available resources where relevant.

The proposed dollar amounts are intended to provide a placeholder as part of a broader discussion about the total amount of investment that might be available if Nebraska Advantage Act were streamlined, the appropriate level of investment in economic development for Nebraska, and the relative priority of various elements of the proposed programs within a broader portfolio.

In addition, each of the policy options include suggested goals and relevant benchmark metrics that the Legislature might use. These suggestions are offered as illustrations that the legislative priorities should

³² Battelle Technology Partnership Practice, "Growing Jobs, Industries, and Talent: A Competitive Advantage Assessment and Strategy for Nebraska," Nebraska Dept. of Economic Development and Nebraska Dept. of Labor, October 2010.

³³ Eric Zeece, "Nebraska Workforce Landscape Assessment," Prepared for Accelerate Nebraska, December 29, 2017

be clearly stated and useful. In addition, it is vital that the metrics identified be feasible to implement without undue burden on the company or the agency to administer and/or validate.

Strategy: Preparing talent for today and tomorrow

Nebraska’s vision is for a workforce system that meets the needs of both employers and workers.³⁴ To this end, a talent development strategy should enhance the state's economic prosperity by focusing on improving the state’s human capital assets within the existing and future workforce. Creating a state-coordinated human-resources strategy is particularly helpful to smaller firms that cannot afford to make the investments alone. Workforce development involves both place-based strategies that attempt to address the needs of people living in a community and sector-based strategies that focus on matching workers' skills to the region’s industry needs. Proposals that build on the success of existing efforts (highlighted with asterisks) include:

- 1) Expand Nebraska Talent Advantage to help growing and innovating firms by assisting them in identifying talent, pre-qualifying potential workers, and offering expanded resources for customized job training.
 - ✓ Assist firms in developing effective job descriptions
 - ✓ Provide help to companies in identifying talent
 - ✓ Pre-qualify applicants based on company criteria
 - ✓ Offer expanded funding for customized job training*

Currently, Nebraska’s customized job training program provides the state’s primary short-term response to talent gaps. If the program does not already do so, it should be focused on helping growing companies that seek to add well-paying jobs or upgrade incumbent skills so that their workers can add greater value to the company and earn more. However, the program is difficult to use because it is often out of money and has no dedicated funding. Furthermore, the assistance for firms focuses solely on training, but companies investing in new technologies or adding new workers often also need help in identifying and recruiting skilled talent.

To be successful, customized job training efforts need to focus on making incremental improvements to skilled talent that will help Nebraska companies compete better. In addition, the program needs to be consistently available (which requires a predictable funding stream). In addition, the program needs to help firms to source talent, especially in this tight labor market. This significantly expands economic development’s role in helping companies and creates more opportunities to coordinate with the Nebraska Department of Labor programs. The **Louisiana Fast Start** program provides a model for an aggressive talent development strategy that engages economic

The **Louisiana FastStart** programs helps new or expanding employers by providing (free of charge) customized employee recruitment, screening, training development and training delivery. These activities go beyond what a state workforce agency might offer, including providing resources, such as graphics development, curriculum design, instructional design, leadership instruction, organization development, photography and videography support, project management, advice in talent recruitment and selection tactics, social media campaign implementation, technical instruction, and web design support.

³⁴ State of Nebraska, [Combined State Plan for Nebraska’s Workforce System](#), 2016-2020. Under the Workforce Innovation and Opportunity Act, the Governor must submit a Unified or Combined State Plan to the U.S. Secretary of Labor that outlines a four-year workforce development strategy for the State’s workforce development system.

development intermediaries with businesses that are searching for talent during an expansion or new location.

To implement an expanded workforce program that will likely gain traction requires a legislative commitment to funding. One possible funding source might be a set aside of the existing unemployment insurance tax payments to support the program. This approach has been taken in other states as a surcharge, but this proposal would involve a set-aside of existing taxes being paid. Setting aside funds that would generate approximately \$5 million annually would help to build the state's job training program back up and would represent only one percent of the total State Unemployment Insurance Trust (SUIT) fund balance.

Grant funds from the program could be made available to companies on a competitive basis. The Legislature should allow unused funds in any fiscal year to be carried over, thus creating a mechanism for building up the fund when the program may be needed less so that it is available during economic downturns when the fund may be most needed (reflecting Pew's suggestion that incentives be available during periods in which funding for such programs may not be readily available). Eligible firms would be those that are adding a significant number of jobs, that are investing substantial resources in new technologies (including information technology or equipment), or that are adding significant new product lines that will be sold to customers outside the state.

Under this approach, those companies that are both making a large investment and adding high quality jobs (i.e., jobs that employed skilled Nebraska talent for jobs offering wages well above average) would receive extra points in competing for the training funds. The funding would allow companies to train their workers in new technologies or on new products as well as to recruit talent for newly created jobs. The companies would be encouraged to use the state's higher education institutions to provide the training but would be given flexibility to use private or out-of-state trainers if others were needed. In determining the program's cost to the taxpayer, the analysis should also recognize that the efforts would reduce the amount of time skilled workers would likely be out of work and thus could reduce costs to the unemployment insurance system.

Possible Legislative Action:

- **Provide dedicated funding to the customized job training program**
- **Authorize a set-aside from payroll taxes to the State Unemployment Insurance Trust Fund annual payments (set at a rate to raise about \$5 million per year based) for five years**
- **Expand the customized job training program authority to allow funds to be used for technical assistance that could help with talent sourcing and placement activities for new investments or large expansions**
- **Identify appropriate program objectives and benchmark metrics tied to program goals of improving worker performance and engaging small- and medium-sized companies that might not be able to pay for training without assistance (e.g., total number of trainees employed in targeted industries, total value of wage improvements for participants 6 months after training, total number of small or medium-**

Between 2001 and 2015, **Arizona** imposed a 0.10% **Job Training Tax** on taxable wages that was paid as part of the state's Unemployment Insurance tax payments. The Arizona program generated an annual \$25 million job training fund immediately prior to the 2009 recession. The program was terminated in 2015 after the state's legislature swept the funds to help balance the budget during the recession and it became politically infeasible to fund the job training program until the UI fund had been replenished. Thus, using the approach would also require a mechanism to protect the dedicated funding stream, especially during times that the job training program would be most needed.

sized companies from targeted industries participating in the program, total value of company match supporting the funded training, etc.)

2) Create Nebraska Talent Connect

- ✓ Reimagine Intern NE to provide grants to intermediary service organizations (e.g., local and statewide nonprofits, local governments, and trade groups)*
 - Identify Small and Mid-Sized Enterprises (SMEs) (less than 100 employees) in target industries to host interns
 - Assist SME representatives in developing intern job requirements that both help the company and offer good short-term (6-12 week) work opportunities (full or part-time) that pay an appropriate wage (at least \$13-\$17 per hour depending on location)
 - Recruit and place interns in jobs
 - Provide appropriate wrap-around services including job coaching for all interns and financial assistance for child care, transportation for low income workers or legal help with sponsoring international students
 - Provide matching funds (25-50% of total salary) for eligible low-income or first-generation college students participating in internships
- ✓ Develop an Apprentice NE program that provides matching funds to leverage state participation in Federal competitive apprenticeship proposals
 - Identify companies in target industries to host apprentices
 - Provide tuition support for apprentices in in-demand occupations tied to the target industries
 - Recruit and place apprentices
 - Provide job coaching and other appropriate wrap-around services (e.g., child care, transportation, housing, etc.)
 - Provide matching funds to subsidize wages for employers taking on apprentices with known barriers (e.g., formerly incarcerated, disabled, or vet job seekers)
- ✓ Expand and integrate the existing DED program, Developing Youth Talent Initiative (an industry-driven approach to career exploration), with internship and apprenticeship opportunities created through Intern NE and Apprentice NE

Since the most significant issue facing many employers today is access to qualified workers, these may be some of the most important initiatives for Nebraska to address both short- and long-term skills shortages. InternNE is a highly regarded effort that needs to be reinforced and expanded. Currently, we understand that there is much more demand for the program than can be filled. One important role that InternNE plays is the process of matching students with employers seeking to create new opportunities. This is particularly important for smaller companies that may not have their own human resources capability.

In addition, expanded access to apprenticeships offer an opportunity for developing the state's talent pipeline. Internships work well as a strategy for connecting students in post-secondary education (i.e., college and universities) to employers, but it does little for workers and jobseekers out of school. Apprenticeships can connect new and incumbent workers of all ages to well-paying technical occupations in key industries. Congress has dedicated federal funding to initiatives that expand apprenticeship programs nationwide, and more federal funding opportunities are likely. Expanded resources for DED and DOL could help to connect employers with more interns and apprenticeships to position the state in competing for further federal apprenticeship funding opportunities.

These efforts to expand earn-and-learn opportunities are vital, but they should build on expanding career awareness and exploration. Much of these activities are typically workforce system responsibilities, but the Governor has committed to a pilot program – Developing Youth Talent Initiative (DYTI) that engages with industry leaders to drive career exploration. Any effort to expand internships and apprenticeships should be closely aligned with this important initiative by linking the industry-driven DYTI (targeted to 7th and 8th graders) to internship and apprenticeship initiatives targeted to older youth.

Possible Legislative Action:

- **Redesign the Intern NE program and Apprentice NE program to provide expanded staff resources that support intern or apprenticeship matching; link interns/apprentices with wrap-around services available through existing social service programs; and intentionally link those efforts with expanded career awareness and exploration initiatives for youth**
 - **Provide staff resources to increase awareness about apprenticeship options, expand the apprenticeship registry, and actively seek federal funding to support apprenticeships and expanded career awareness**
 - **Provide \$2.5 million in matching funds to support training wages for 500 workers to help smaller firms employing their first interns and/or apprentices as they develop internal capacity to manage these programs effectively**
 - **Identify specific program objectives and benchmark metrics tied to program goals of placing Nebraska youth in earn-and-learn opportunities in targeted industries (e.g., total number of placements, total number of small or medium-sized companies from targeted industries participating in the program, total value of company match in support of intern wages, etc.)**
- 3) Enhance ACE Scholarships to provide tuition assistance to students enrolled in programs important to economic development target industries and NEDOL-recognized in-demand occupations (ACE Tech Plus)
- ✓ Provide expanded tuition assistance to students enrolled in short-term (less than 2 year) programs that are recognized as important to economic development target industries and that are in NEDOL-recognized in-demand occupations
 - ✓ Tuition would be provided as loans that are converted to grants over five years if the worker remains employed in the field
 - ✓ Provide job coaching and wrap-around services to help students in finding careers and preparing for the job search process

The Nebraska Legislature authorized the Access College Early (ACE) Scholarship Program in 2007 to help pay tuition and mandatory fees for qualified, low-income high school students enrolled in college courses through either dual-enrollment or early enrollment agreements with Nebraska colleges and universities. Students qualify to participate in ACE through federal need-based programs including the Free or Reduced-Price Lunch Program, Supplemental Security Income, Temporary Assistance to Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), or Special Supplemental Assistance Program (WIC).

This proposal builds on the ACE Scholarship program. “ACE Tech Plus” would provide scholarships to ACE scholarship recipients pursuing a post-secondary certificate diploma or associate degree if they complete at least two high school courses in a Nebraska Department of Education career cluster and enroll full-time at a community college or the Nebraska College of Technical Agriculture in a program tied to an in-demand occupation. Expanding ACE to support post-secondary technical education for those with economic need would help Nebraska reduce key barriers for individuals that may not be able to afford college, but who could contribute toward meeting the state’s skilled shortage talent shortage.

Possible Legislative Action:

- **Expand authority of ACE to include ACE Tech Plus program**
- **Provide staff resources to promote the enhance program and manage the increased program resources**
- **Provide \$5 million in scholarship funds for 1,000 scholars in the first year**
- **Identify specific program objectives and benchmark metrics tied to program goals of increasing enrollment and completion of Nebraska youth in careers important to targeted industries (e.g., total number of scholars by field (and the relevant industries for those fields), number of companies providing matching scholarship dollars to the program, total scholarship match leveraged from industry-provided donations, etc.)**

Strategy: Fostering innovation and economic dynamism

A growing body of research suggests that most companies are relatively stable and that only a few firms account for nearly all net new job creation and GDP growth. These high-growth firms account for up to 50 percent of new jobs created, differentiate themselves from other companies by expanding not just in size but also in number of new locations—creating new opportunities in diverse geographic areas, and encourage subsequent employment growth in their related industries.³⁵ Clearly, job creation efforts can benefit from supporting entrepreneurship, innovation, and by identifying these “cheetah” firms, especially when modest forms of assistance (like management guidance, capital access, or technical problem solving) could make the biggest difference. To this end, a continuum of strategic innovation and economic dynamism investments would include several existing programs (highlighted with asterisks):

- 4) Assist start-up support firms through programs such as:
 - ✓ SBDC business planning*
 - ✓ Microenterprise credit*
 - ✓ Beginning farmer*
- 5) Foster growth and scale-up firms through programs such as:
 - ✓ Export promotion (including Expotech)*
 - ✓ Economic gardening*
 - ✓ Procurement technical assistance*
 - ✓ MEP supplier scouting*
- 6) Encourage technology adoption such as:
 - ✓ SBIR/STTR grants* (need additional programming to foster more Phase 3 investments)
 - ✓ Nebraska Advantage R&D credit*
 - ✓ Expanded small business introductions to state research centers (modeled after *New York’s FuzeHub*)
- 7) Expand small business introductions to state research centers, business modernization, and product ideation through programs such as:
 - ✓ Manufacturing Machinery Exemption*
 - ✓ MEP TDMI (program done by RTI under contract with MEP centers)*
- 8) Enhance capital formation through programs such as:
 - ✓ Business Innovation Fund*
 - ✓ Angel investment credit*
 - ✓ Angel sidecar fund (all available funds are deployed and held by Invest NE)*
 - ✓ Rural Enterprise Assistance Project*

Nebraska has a wide array of programs supporting innovation and entrepreneurship. Created as a result of the Business Innovation Act, these programs are only partially funded. The 2016 Act built on prior

³⁵ Kauffman Foundation, [The Economic Impact of High-Growth Startups](#), 2016

efforts starting as early as 2001 with the creation of Invest Nebraska to develop an innovation ecosystem. The Act authorized up to \$22 million in funding for several programs, including the Innovation Fund, the R&D Grant program, and the SBIR/STTR programs. Currently, funding for these programs total \$7 million. In 2011, the Nebraska Seed Fund and Angel Sidecar Fund received \$3.9 million in one-time federal funds made from the now-sunset U.S. Treasury's State Small Business Credit Initiative. These one-time funds have not been replenished and current investments are managed by Invest Nebraska.

In addition to expanding existing Business Innovation Act programs, Nebraska must also ensure that more small businesses and entrepreneurs access the state's technology resources. States are paying closer attention to this issue as they invest significant resources in research and technology, but not seeing economic spin-offs. States recognize that introductions between research centers and technology entrepreneurs often require intermediation. New York took the approach that this intermediation needed public investment (in the form of FuzeHub) because neither the research centers nor the entrepreneurs had the resources or appropriate networks to implement this role successfully such that new deals resulted.

FuzeHub (www.fuzehub.com) is a non-profit organization supported by the state's economic development agency and serving as the state's Manufacturing Extension Partnership center. Partially funded through state and federal dollars (from the National Institute of Standards & Technology), the FuzeHub provides a team of business professionals knowledgeable about state and federal technology, research, engineering, and equipment assets. The organization's specialists work one-on-one with companies to connect them to the best solution for their manufacturing and innovation needs.

Possible Legislative Action:

- **Increase funding for Innovation Act programs from current levels (\$7 million) to \$14 million per year**
- **Expand efforts to link entrepreneurs and small businesses to technology resources (especially companies located in rural areas)**
- **Identify specific program objectives and benchmark metrics tied to program goals of fostering new investment in innovation and expanding entrepreneurial opportunities (e.g., total number of entrepreneurs engaged, number of new companies or new investments supported, total value of new private investment leveraged, total value of federal investment leveraged, number of entrepreneurs and amount of investment leveraged in rural areas, etc.)**

Strategy: Preparing stronger communities

Community building for economic development involves improvements to the general business climate, including upgrades to the infrastructure and physical appearance of commercial areas, the quality and quantity of residential housing, and attention to transportation systems. These efforts pay attention to the needs of rural communities and those in areas of high need, and they help strengthen the economic well-being of areas to encourage businesses to locate there. Community building also seeks to empower individuals and groups of people with the skills they need to effect change within their communities. To this end, a continuum of community building investments would include:

- 9) Regional competitiveness grants that support regional sub-state initiatives to undertake marketing, implement regionally impactful projects, and to diversify local (especially rural) economies
- 10) Broadband investment fund that provides bond financing for efforts to enhance broadband speeds in key commercial areas, including Main Street or industrial locations in state designated enterprise or federal Opportunity Zones

- 11) Site and development fund targeted to community satellite work centers and incubators, especially those operating in Main Street or established commercial areas of Nebraska's smaller cities and towns
- 12) Provide matching funds for "new resident welcome centers" tied to local leadership groups
- 13) Develop local leadership capacity building funds to help develop the skills of elected and appointed officials as well as local economic development practitioners to ensure that they are well prepared for changing state priorities and are leveraging incentive programs as intended*

These proposed programs would be used to directly help rural Nebraska by replacing the Nebraska Advantage Rural program with more impactful investments. Since many small communities lack the resources to invest in community amenities that make their communities attractive to employers and young workers, tax incentives are not enough to meet the need. Instead, public investments are needed – and these small communities do not have the resources to make those investments.

Currently, many view the state's 'site and building development fund' as helping to develop greenfield industrial facilities, but much more is needed to build a sense of place for sites that are already developed in rural communities. An annual \$3 million rural pilot initiative would help several rural communities to improve their Main Street, expand the use of sites and existing buildings for rural telework centers (to attract employers and draw workers from a larger commuter shed), and provide related programming that leverages local funding. A \$2 million competitive grant program would help other communities develop projects with the help of local matching funds.

Possible Legislative Action:

- **Authorize \$3 million for a competitive pilot program to create rural telework centers**
- **Create a \$2 million competitive grant program for local partners proposing major community initiatives that would help attract or retain companies in target sectors or the talent that those companies employ**
- **Allocate \$500,000 for staff and related resources to a rural economic development leadership development program**
- **Identify specific program objectives and benchmark metrics tied to expanding investment in rural Nebraska (e.g., number of rural communities and leaders engaged; number of new community initiatives; value of non-state investment leveraged including private, federal, or local dollars; economic impact from the investments in terms of companies or jobs assisted, etc.)**

Strategy: Leveraging high wage, high impact opportunities

Today, every state offers at least some sort of tax incentive to encourage businesses to add jobs and increase investment. To remain competitive, Nebraska should maintain incentives designed to retain investment that might leave the state or to attract new employers. At the same time, Nebraska's economic development programs rely too heavily on statutory tax incentives that leave little discretion to its economic development professionals to make the most strategic investments. Other states have discretionary programs (both in the form of tax and direct grant or loan investments) so that their economic developers have the flexibility to make investment choices designed to capture the best possible economic impacts with available resources.

Presently, in a normalized dollar comparison (per business establishment), Nebraska spends the lowest amount on state economic development compared with all its neighboring states.³⁶ However,

³⁶ C2ER State Economic Development Program Expenditures Database

Nebraska's existing portfolio of appropriated programs provides little motivation for businesses to make high wage, high impact investments and to select Nebraska over other states. Because of the program design, there is also no available information to evaluate whether the tax incentives made any difference in the companies' decision to expand or locate in Nebraska.

Nebraska should have resources available when a company is making a final decision to locate a high wage, high impact project that could readily be directed to any of several states or nations. In return for offering these incentives, the state should also have a clear sense of the expected return (in terms of economic and fiscal benefits) on public investment to ensure that the programs are delivering value to the public. To this end, Nebraska should refine its Nebraska Advantage tax credit program and supplement it with a discretionary fund for high-impact projects.

14) Streamline Nebraska Advantage 2.0 into a tax credit targeted to high impact, high wage economic opportunities.

A streamlined Nebraska Advantage program would be re-oriented to focus on high impact projects that have the potential to change the local economy. To that end, the program redesign should reflect a focus on helping firms that pay higher wages and a desire to make the program more customer oriented. The proposal would define these opportunities as projects related to large investments (over \$20 million or so) or large job creation activities (over 500 or so jobs paying an average of 110% of the 'median wage'). The investment and job creation levels might be reduced to a lower amount for:

- ✓ High-impact projects in targeted industries (200 jobs or \$10 million investment);
- ✓ High-impact projects in which the company can 'demonstrate' (definition TBD) that it is competing; with alternative locations in other states or countries (200 jobs or \$10 million investment);
- ✓ High-impact projects in rural communities (25 jobs or \$3 million investment); or
- ✓ High-impact projects in opportunity zones or enterprise zones (25 jobs or \$3 million investment).

This streamlining effort should address legislative concerns about costs by allowing DED discretion to invest in the programs that are likely to have the greatest impact and requiring DED to report on their efforts. Following provides more detail about how the changes might work.

Nebraska Advantage should support high wage companies. At a minimum, if other reforms are not possible, Nebraska Advantage should raise wage thresholds to a standard that is higher than the area average wage. CREC's research found few, if any, companies currently using Nebraska Advantage that paid their workers less than the state's average wage, so none saw any concern about raising wage thresholds to meet a standard of 110% of area wages. Furthermore, there is legitimate concern about allowing Nebraska Advantage to subsidize companies that offer wages that might drag down the state's average or whose may be paying so little that their workers require further public subsidy (such as TANF recipients, etc.). The benefits to the state from establishing some type of "above average" wage is that it both helps secure "good jobs" for Nebraskans and ensures a greater overall economic impact for the state from the program. One compromise suggested to accommodate a different wage structure in rural areas is to differentiate the average wage standard applied to beneficiaries in the greater Omaha and Lincoln area from the average wage standard applied to the rest of the state. In addition, non-metro area projects involving the state's target industries might be automatically qualified on the wage standard since those industries typically pay above 110% of the median wage.

Nebraska Advantage could be simpler, less complex, and more customer friendly.

Businesses using the program will find greater value in the incentive if the program had fewer tiers and compliance was relatively straightforward (especially in documenting job creation). Shortening the business' required performance and compliance monitoring period will help. With improvements such as these, a smaller tax credit commitment may leverage as much (or more) business investment because the credit would be focused on those companies likely to generate the best impacts. Since companies noted that they often do not use the full face-value of the program and that reporting or auditing barriers are high for job-creation requirements, DOR staff should review the current program operating procedures to identify ways to reduce the burden while ensuring business compliance. DED testified to the Economic Development Task Force that the agency would like to see the program achieve greater transparency, simplicity, and value for all stakeholders.

Under its current design, Nebraska Advantage costs are relatively large and uncertain. A key concern is that the amount of credits obligated and taken each year cannot be easily projected, making budget forecasting a significant challenge. Proposed solutions to this issue include capping the total value of the tax credit provided and/or shortening the benefit attainment period for meeting investment and job requirements.

Other states have designed caps on tax incentives in ways that offer more certainty for budget writers while providing flexibility for economic development officials to respond to opportunities. For example, Iowa has an aggregate cap—currently set at \$170 million—that applies to many of its economic development tax credits. Iowa's Economic Development Authority largely has discretion to determine how the \$170 million is divvied up between the tax credit programs. Additionally, the authority can exceed the cap by up to 20 percent in any year, but those dollars then count against the following year's cap. Nebraska could consider a similar model to facilitate pursuit of

Several states have tax credit programs targeted primarily to high quality job creation. Arizona, Georgia, Iowa, Louisiana, and Oklahoma provide particularly relevant examples. Four of the states operate the programs through their state economic development agency while Georgia relies on their Department of Revenue to manage the program.

The **Arizona** Quality Jobs Tax Credit, managed by the Arizona Commerce Authority, provides tax credits to employers creating a minimum number of net new quality jobs and making a minimum capital investment in Arizona.

The **Iowa** High Quality Job Creation Program, managed by the Iowa Economic Development Authority, provides qualifying businesses offering jobs that exceed certain wage thresholds with tax credits and direct financial assistance (including loans and forgivable loans) to off-set some of the costs incurred to locate, expand or modernize an Iowa facility.

The **Louisiana** Quality Jobs Program, managed by the Louisiana Economic Development Department, provides a cash rebate to companies that create well-paid jobs and promote economic development.

The **Oklahoma** 21st Century Quality Jobs, managed by the Oklahoma Department of Commerce, rewards businesses with a highly skilled, knowledge-based workforce through benefits of up to 10% of the taxable wages earned by the new jobs. A companion ODOC Quality Jobs Program provides companies with quarterly cash rebates of up to five percent (5%) of taxable wages for up to 10 years while a Small Employer Quality Jobs Program provides similar quarterly cash rebates for up to 7 years.

The **Georgia** Department of Revenue manages the Georgia Quality Jobs Tax Credit. The credit provides companies with credit if, during a 12-month period, they create and maintain at least 50 net new jobs that pay at least 110 percent of the county average wage. The QJTC value ranges from \$2,500 to \$5,000 per job, per year, for up to five years.

high-impact projects, while perhaps requiring key legislators such as the chairs of the Revenue and Appropriations committees to sign off on authorizations in excess of the cap.

Since businesses also heavily discount the value of out-year tax credits,³⁷ companies may be amenable to reducing the amount of credits provided if those credits are made available earlier in the term of the agreement and if compliance monitoring were more customer friendly.

As part of this reform, the Legislature should consider reducing the performance period for the Advantage Act tax credit from its current 10-year period to 5 years. In addition, companies would receive partial credits as they ramp up their investment and job-creating activities, adjusted for the proportion of promised benefit achieved in each year. Furthermore, the Legislature should explore ways to reduce the current fiscal note for Nebraska Advantage by considering a program that would offer heavily discounted current year pay-outs (e.g., 20 to 25 cents on the dollar of the face value of credits) for companies willing to relinquish promised future credits already obligated.

How lawmakers deal with future credit obligations under the current version of Nebraska Advantage will likely play a role in determining the amount of resources available for a new version of the program and other investments the state may consider, such as the deal closing fund described below. As noted earlier, in recent years tax credit and rebate claims under Nebraska Advantage and the Employment and Investment Growth Act have typically totaled around \$140 million, but Revenue's (uncertain) projections show claims rising above \$200 million by 2020. There is no easy way for lawmakers to determine the "right" amount of money to commit to economic development incentives—it depends on the state's budget situation and how highly leaders value other priorities. But Revenue's current and projected figures can serve as guideposts as lawmakers consider how much money to commit to the current version of Nebraska Advantage, a potential new version of the program, and other programs.

Possible Legislative Action:

- **Authorize up to \$30 to 50 million annually for new (not previously obligated) Nebraska Advantage credits, implementing a flexible cap that limits the amount of future credits made available each year**
- **Reduce the terms of credits to no more than 5 years with investment impacts measured for two years beyond the credit period**
- **Offer a "tax credit buy-out" program for any companies with outstanding credits for years 6-10 that is designed to close-out tax credit obligations under the old Advantage Act program**
- **Authorize DED to take a more active role in the process in conducting due diligence and monitoring compliance and provide the staff resources to do so effectively**
 - **Develop an application process for the credits that reflects an analysis of the expected economic and fiscal return on public investment**
 - **Make the compliance process more business friendly and authorize DED to manage the compliance process**
 - **Implement performance agreements with successful applicants that clearly spell out company hiring and investment requirements as well as the documentation required to receive credits**
 - **Provide staff resources for DED to manage the application and compliance process associated with these credits**

³⁷ Timothy J. Bartik, A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States, W.E. Upjohn Institute for Employment Research, February 2017, pp. 35-36.

- Simplify the data reporting and validation process
- Identify specific program objectives and benchmark metrics tied to promoting high impact projects (e.g., number of businesses in target industries using the credit; combined total annualized value of wages and capital investment for 7 year to reflect the economic value of both human capital and capital expenditures on the state’s economy; projected and actual economic benefits as a ratio to total tax expenditures reported in target industries updated annually; and projected and actual fiscal benefits as a ratio to total tax expenditures reported in all industries updated annually, etc.)

15) Create a deal closing fund to be used in partnership with other programs (e.g., job training, site & building, and Nebraska Advantage 2.0)

The Advantage Act tax credit should be supplemented with a Governor’s strategic business investment fund that could be used to help the state compete for the largest business investment opportunities. The goal is to level the playing field for Nebraska in which project can document that it is competing with alternative locations in other states or countries. The Fund would be used to promote very large high-wage job creating opportunities that meet pre-determined job creation, average wage, and capital investment thresholds. The size of the eligible job-creating activities would be smaller in rural Nebraska than in Omaha or Lincoln (i.e., two tiers – urban and rural), but the fund would provide DED with the discretion to provide performance-based grants or loans that could be used for a few eligible projects each year that have a significant impact on the state (and local) economy in those areas.

Many other states have these types of discretionary funds and they are implemented as companions to a tax credit program (e.g., Arizona, Oklahoma, and Iowa). These programs require the state and company to enter into performance agreements that ensure taxpayers receive a high return on investment and that the company performs as promised. Pay outs to companies are typically made based on milestones that represent partial completion of their performance requirements. The size of these programs varies widely from \$4 million in Oklahoma to \$75 million in Arkansas (See Figure 20).

Possible Legislative Action:

- Authorize up to \$5 to \$15 million for a deal closing fund to help level the playing field for Nebraska
- Set basic standards for qualifying projects, including the amount of investments, the number (and quality) of jobs to be created, and the expected economic and fiscal return on investment
- Establish procedures for ensuring transparency in the application, project review, and reporting process
- Identify specific program objectives and benchmark metrics tied to promoting high

Figure 20: State Funding for Deal-Closing Incentive Programs

State	Program Name	State Funding (millions), 2019	State Funding Per Capita
North Carolina	One North Carolina Fund	\$7.5	\$0.75
Oklahoma	Quick Action Closing Fund	\$4.0	\$1.03
Iowa	Strategic Investment Fund	\$4.7	\$1.50
Arizona	Arizona Competes Fund	\$15.0	\$2.20
Virginia	Commonwealth’s Development Opportunity Fund	\$20.8	\$2.48
Arkansas	Quick Action Closing	\$75.0	\$25.19

Source: Council for Community and Economic Research (FY 2019 State Economic Development Expenditures/ Census Bureau (2017 American Community Survey (ACS) 5-Year Estimates

impact projects (e.g., number of businesses in target industries receiving assistance; combined total annualized value of wages and capital investment for 7 year to reflect the economic value of both human capital and capital expenditures on the state's economy; projected and actual economic benefits as a ratio to total investments updated annually; and projected and actual fiscal benefits as a ratio to total investments updated annually, etc.)

Process Improvements: Demonstrate Value and Ensure Transparency

While outside the scope of this study, program management issues arose during the course of stakeholder interviews, and it is notable that two of Pew's principles for economic development focus include two such topics: (1) maximizing the value of economic development investments for both companies and the state as well as (2) protecting the state's budget by ensuring incentive and investments are predictable over time.

16) Clarify economic development program goals

In its report, the Legislative Audit Committee recommended that economic development program analysts could conduct more meaningful evaluations. Implementing this recommendation begins with clearer metrics in each of the state's economic development program to help evaluate whether they are making progress toward the Legislature's goals. The Department of Revenue and the Legislative Audit Committee have made important progress in helping to assess the value of economic development investments made through Nebraska Advantage. These lessons can be extended to other economic development program efforts.

Moving forward, the Legislature should continue to support continued collaboration in this area and the agencies should continue to expand collaboration with DED and the state's Department of Labor (where unemployment insurance data are managed). Furthermore, integrating the state's mission-driven agencies into a more rigorous program monitoring and evaluation process could result in state staff more quickly adapting to the evaluation findings to make programs more responsive to changing priorities, or program deficiencies. In particular, the Legislature should continue working closely with DED to identify ways the agency can better utilize program evaluations and metrics to improve economic development targets and to enhance economic (not just fiscal) return on investment.

Through these efforts, DED should be more directly involved in helping to design the metrics, especially if the intent is for the agency to have greater accountability for results. In 2014, the Tax Incentive Evaluation Committee offered a series of 19 questions that are quite useful to help DED in evaluating the state's business incentive programs.³⁸ Guidance such as this can be invaluable to program managers as they determine how best to design their evaluation efforts and report investment outcomes. Economic developers need to be engaged with the Legislature to assess not only individual programs, but also the entire portfolio.

With a few mandated metrics (and flexibility to adapt those metrics to reduce administrative burden and reflect realistically collectable data), the Legislature could help program managers do a better job of

³⁸ Legislative Resolution 444 (2014) created the Tax Incentive Evaluation Committee, which was tasked with developing recommendations on specific and measurable goals for our tax incentive programs. The committee also is to recommend a process for regular evaluation of tax incentives and determine who should conduct the evaluations, what type of metrics should be used, and how often the evaluations should be conducted.

working toward desired goals and establishing meaningful benchmark measures for all programs. Clarity with flexibility is important. For example, the Legislature could suggest appropriate wage standards to focus economic development toward creating higher wage jobs, but the standards should be flexible if economic conditions or leadership priorities were to change.

Possible Legislative Action:

- **Encourage continued progress in data sharing between state agencies and the Legislature**
- **Engage the DED in monitoring timely performance goals and metrics that are feasible to collect**
- **Empower DED to direct investments according to metrics**
- **Ensure DED has the staff capacity to succeed in this role.**

17) Assign DED the responsibility to manage economic development incentive programs

Proactive program management requires a mission-oriented agency not only to implement economic development programs but also to actively manage reporting and monitoring activities. DED should be the agency that oversees all related economic development programs to ensure that they are achieving their mission. This includes any incentive performance agreements that businesses may sign with the state as well as discretionary tax credit programs (such as the proposed streamlined Nebraska Advantage tax credits). A model for developing an appropriate incentive management process is included in Appendix 3.

DED peer agencies in other states typically manage discretionary tax credit programs. DED is in the best position to do so in Nebraska for several reasons. Business leaders indicated that they would prefer to interact with the economic development agency in the applying for and reporting investment outcomes because DED is more likely to understand the investment goals and are more likely to negotiate terms that respect both the spirit and intent of the tax credit program as well as understand when business or economic conditions warrant flexibility.

However, DED does not currently have adequate staff capacity to take on this role nor the flexibility in its current personnel rules to successfully recruit staff with the business analysis and finance skills to fulfill the intended roles. This proposed shift would require the Legislature to provide DED with more robust resources for staffing as well as greater flexibility to hire the best staff. Other states have provided this flexibility within the state agency or have moved some of these functions into state-chartered economic development authorities.

Maryland's Department of Commerce (MDOC) manages the process in which companies apply for the state's **Job Creation Tax Credit**. Companies provide a letter of intent to MDOC indicating the company's expansion plans and committing to completing by the end of the next year. MDOC provides the preliminary application and employment affidavit (which sets the baseline for current employment level) and begins counting net new employees created based on that level. The preliminary application also asks for data on expected wage levels and industry sector and allows the state to certify the eligibility of the company.

After meeting the minimum job creation target for 12 months, the company can then apply to claim its tax credit. Then, after claiming its credit, a company must demonstrate on-going compliance by annually self-certifying that these new jobs are retained. After three years, a CPA review (shared with the state Comptroller's office) ensures that the company has continued to meet its requirements. The reports that many of the pre-application steps were put into place in response to concerns raised by legislative audits seeking more complete reporting and management of the credits.

Given that it would likely take a period of several months to a year to shift from the current statutory program to the proposed discretionary program, the interim period should focus on developing the systems required to do best-in-class due diligence and compliance monitoring. These activities would require modest staffing levels in the first year or so as the program operating procedures are put into place. Thus, during the transition period, DED likely would require about one or two staff persons working on the program design and application review process as well as the performance agreement terms and conditions while one or two persons (with some resources borrowed from DOR) allocated to re-designing the performance monitoring and compliance process. CREC's work with other states (see Appendix 3) can provide an important starting point in this process,³⁹ but the DED and DOR teams will need to customize these issues to respond to Nebraska's needs. Once the system is in place, activity volume would dictate the staffing needs. Most other states undertake all these activities with a small team of several people with specialized skills in business management, financial services, regulatory compliance, as well as administrative and business law. This would require DED to have the flexibility to hire individuals with these skills in a very competitive labor market.

Possible Legislative Action:

- **Authorize DED to serve as the primary agency monitoring the state's economic development incentives, including discretionary tax credit programs**
- **Ensure DED has the resources to attract the staff needed to succeed in this role.**

18) Improve program and portfolio analysis and reporting

The Legislature should encourage DED to develop rigorous investment due diligence and evaluation monitoring. In this context, metrics matter, and they should include, but not be limited to, an analysis of economic and fiscal return on investment for different programs compared to a benchmark set out in advance.

The first step in this process is to develop a logical framework for the incentive that helps policy leaders in identifying metrics that are connected to the program's goals.⁴⁰ That means that Nebraska should develop and document a 'logic model' that describes the use case for each of its programs (including the proposed discretionary fund), and then explicitly articulates how the investment or tax incentive is expected to translate into the desired outcome – tied to improvements in business or worker prosperity. The state should build consensus among legislators around the most critical performance indicators that address the preferred outcome, whether it is tied to job quality or business dynamics.⁴¹

DOR has some experience in developing ROI models focused on an analysis of fiscal impacts, but their model does not necessarily tie to the economic goals of the program. Once the desired outcomes are clearly articulated and adopted with stakeholder consensus, then the ROI models can be better calibrated to assess the socioeconomic value of the investments as well as the fiscal benefits.

³⁹ Center for Regional Economic Competitiveness, Wisconsin Economic Development Corporation Management Review and Recommendations, Prepared for WEDC, February 2016.

⁴⁰ Center for Regional Economic Competitiveness, State Economic Development Performance Indicators White Paper, September 2016.

⁴¹ Center for Regional Economic Competitiveness, Redefining Economic Development Performance Indicators for a Field in Transition, July 2017.

DED has already noted in its testimony to the Legislature that it would like to use economic returns on investment to help in targeting companies and to better describe the value of Nebraska Advantage to the state and to the companies participating. This is DED's mission, and legislators should support DED efforts to develop a better return on investment analysis model that helps the agency make better decisions and helps policy makers expect how well projects do in achieving expected ROI. CREC is currently conducting research for the Michigan Economic Development Corporation on alternative models in practice and has highlighted efforts in Michigan, Minnesota, and North Carolina.

Such a model should not by itself drive investment decisions; nor should it be the only determinant as to whether DED should make an investment. Maximizing ROI is not necessarily the most important reason to make an investment. Nebraska has many other policy reasons to make a program or project investment, and many of these reasons would likely lower investment returns (e.g., risk mitigation, support for distressed areas, etc.). However, ROI analyses can be an important guide to help DED allocate scarce resources, especially for discretionary programs in which Nebraska has an option to invest in one or more of multiple investment opportunities.

In addition to the ROI analysis, DED should also have a system in place to verify that companies achieve their metrics. This can be done through data sharing, and Nebraska has made great strides in that regard (and could do more to make enhanced wage record data available for program performance evaluation).⁴² Another way to help program monitoring is by ensuring that performance agreements are in place, highlighting the performance metrics required, the process for collecting that information, and the timeline. Furthermore, DED needs to have the staff capacity to manage the agreements. Finally,

Return on Investment Approaches in 3 States

The **Michigan** Business Development Program uses the Regional Economic Models Inc. (REMI) analysis to calculate the economic return on investment (ROI). This method utilizes projected personal income generated through direct jobs created by the companies, indirect jobs as a result of the projects and projected capital investment. Projected ROI is calculated on weighted average.

The **Minnesota** Job Creation Fund also uses the REMI model to calculate projected ROI, with additional inputs. Factors considered in the state's ROI calculations include the project's location, projected job creation and earnings, projected investment, and projected other expenditures, less any public expenditures in support of the project. Minnesota calculates a project's ROI according to its ability to provide direct, indirect, and induced economic benefits to the state in the form of impact on employment, earnings, and investment in the state.

The **North Carolina** Job Development Investment Grant (JDIG) uses a proprietary economic model, the Walden Model, to calculate the fiscal ROI of each potential awardee. Factors considered in the state's ROI calculations include the number of newly created jobs; the duration of newly created jobs; total project investment; project industry; company sales output; project location in a development zone or similar distressed county; and the amount and duration of total state and local incentive support received by the project, including from the JDIG.

⁴² Kenneth E. Poole and Ellen D. Harpel, "Advancing State Data Sharing for Better Economic and Workforce Development," Center for Regional Economic Competitiveness, prepared for the State Data Sharing Initiative, March 2018.

states also mandate that the performance agreements be made public to demonstrate greater transparency similar to that used in Indiana.

Possible Legislative Action:

- 19) Improve program and portfolio analysis and reporting
 - **Mandate (subject to expansion of DED staff resources) that DED report economic and fiscal return on investment results (benchmarked to expectations) for discretionary economic development programs**

The **Indiana Economic Development Corporation Transparency Portal** (<https://transparency.iedc.in.gov>) to provides detailed information about performance requirements for the state’s economic development projects. The site provides public users with links to individual business performance agreements. The agency collects data on performance from the company (and the individual data remains proprietary), but the agency must report the aggregated outcome information about the incentive investments.

Concluding Thoughts

This effort began as a process for exploring options for the Nebraska Advantage Act, set to expire in December 2020, and examine the mix of economic development tools that complement the tax credits offered through that program. Any effort to reform the Advantage Act alone will not be adequate without considering a more expansive re-prioritization of economic development in Nebraska. CREC’s research looks at the state’s entire economic development portfolio and seeks to align existing and potential new programs with changing legislative priorities. Few disagree that there is a need for investing in economic development in different ways than Nebraska Advantage allows; however, almost everyone is cautious about the nature of any proposed program changes.

Among legislators and the Governor, talent development issues represent a top priority followed closely by the de-population of rural Nebraska. The Legislature remains committed to investing in innovation and entrepreneurship to seed the state’s future. Despite its position as the state’s largest economic development investment, Nebraska Advantage is not well suited to address these legislative priorities in a meaningful way.

Over time, Nebraska Advantage has grown into a cacophony of tax credit programs that reflected changing legislative policy priorities. But with each change, there was little appetite in eliminating old credits and replacing them others that were more highly valued. Each of the Nebraska Advantage tiers has a constituency, but many of their priorities could be better achieved through other means. The problem is that Nebraska has relied largely on the tax code, hoping that the market (with a modest assist from targeted tax cuts) would address the state’s most important priorities. Other states are more expansive in their approach and they have been successful in generating new business investment as a result.

Despite this misalignment in the total investment occurring in the Nebraska Advantage program and the state’s changing priorities, some stakeholders believe that small adjustments to the Advantage Act might still be possible. Perhaps, shortening the credit period and making the program more business friendly could help to increase the program’s usage, but the Legislature must ask whether increasing the program’s usage (to create more jobs) is the most pressing challenge. Others argue, instead, that it would be more productive to terminate the program and use the “savings” to start over with a new toolkit of budgeted economic development programs and related tax incentives. Current reports make it difficult to understand what the “savings” might actually be from terminating or reducing the

Nebraska Advantage program. A revised Nebraska Advantage could incorporate a re-balanced economic development portfolio that includes directly funded program that are more closely aligned with the Legislature's desire to improve worker skills, enhance the viability of rural areas, and promote investment in a next generation economy (often by entrepreneurs not yet paying taxes because they are investing more in their business than they are earning in revenues).

CREC has concluded that the patchwork nature of Nebraska Advantage makes it simply too difficult to 'fix' Nebraska Advantage by shifting the program to meet all the state's economic development strategic priorities. This report provides a framework for how to integrate a streamlined Nebraska Advantage tax credit program into a larger set of strategies. CREC suggests that Nebraska Advantage's role be focused and targeted toward a few "economy-defining" projects (i.e., projects that have the potential to change the state's or a region's economic trajectory). Furthermore, a tax credit will not make the difference alone; the state will also need to provide supplemental discretionary resources to close the most significant deals. In this way, revamping Nebraska Advantage would target help to a few companies in growing or emerging sectors that are most likely to make a difference to the state economy. For these projects, the state needs to compete aggressively, but it also should seek to generate the highest possible ROI from the investment. By investing in fewer and more targeted projects, Nebraska Advantage would require fewer credits in total and would have a lower impact on the state's tax expenditures while leveraging more economic benefits per dollar invested over the short and long term.

With these refinements to Nebraska Advantage, the state should be able to generate more revenue that could be used to develop a world class talent pool, invest in innovative businesses, and produce more attractive communities. In today's global economy, businesses can choose from many places to locate their facilities and jobs – even companies already located in the state. Other states and nations are vigorously competing to lure these businesses with many different types of monetary incentives. Nebraska needs a mechanism to respond better. When designed properly, incentive programs provide the flexibility and are potentially responsive to meet specific company needs, solve a business problem, and support bigger strategies. Many rural and urban stakeholders agree that a targeted business incentive is necessary for Nebraska to compete with other states for the expansion of facilities, new company locations by out-of-state businesses, and good new jobs for Nebraska. These stakeholders see the current Nebraska Advantage program as a strategy for "leveling the playing field," and tax credits alone will not suffice.

Thus, Nebraska Advantage has an important role to play in the state's overall economic development strategy, complementing investments in upskilling the state's talent pool, enhancing its rural communities, and encouraging innovation. The dilemma is that talent, innovation, community building, and even targeted efforts to recruit high-impact projects all require direct cash investment from the public sector, not just tax credits that re-direct business investments. The resources for these programs must come from reducing the total credits allotted to Nebraska Advantage while also recognizing the net fiscal impact that results when higher skill people earn more and pay more income taxes, successful new companies make a profit and pay more in corporate taxes, and stronger rural communities can meet their financial obligations, reducing the burden on the state to offset lost local fiscal revenues. In the end, however, Nebraska Advantage 2.0 must not only contribute to the state's excellent fiscal health, but also help achieve economic benefits for the state.

Appendix 1: Summary of Key Stakeholders Providing Input

Nebraska Legislature Economic Development Task Force Members

- Senator Sue Crawford, Chair, Member at Large (CD 1)
- Senator John McCollister, Vice Chair, Member at Large (CD 2)
- Senator Joni Albrecht, Business & Labor Committee Chair
- Senator Mike Groene, Education Committee Chair
- Senator Brett Lindstrom, Banking, Commerce & Insurance Committee Chair
- Senator Paul Schumacher, Planning Committee Chair
- Senator John Stinner, Appropriations Committee Chair
- Senator Dan Watermeier, Member at Large (CD 3)
- Senator Justin Wayne, Urban Affairs Committee Chair

Legislative Council (Oct 26, 2018 Focus Group)

- Senator Joni Albrecht
- Senator Carol Blood
- Senator Kate Bolz
- Senator Bruce Bostelman
- Senator Lydia Brasch
- Senator Tom Brewer
- Senator Tom Briese
- Senator Robert Clements
- Senator Sue Crawford
- Senator Curt Friesen
- Senator Robert Hilkemann
- Senator Rick Kolowski
- Senator Mark Kolterman
- Senator Bob Krist
- Senator Brett Lindstrom
- Senator Lou Linehan
- Senator John McCollister
- Senator Mike McDonnell
- Senator Jim Scheer
- Senator Paul Schumacher
- Senator Dan Quick
- Senator Tony Vargas
- Senator Lynne Walz
- Senator Dan Watermeier
- Senator Justin Wayne

Legislative Appropriation Committee (Nov 14, 2018 Hearing)

- Senator Kate Bolz
- Senator Robert Clements
- Senator Robert Hilkemann
- Senator Bill Kintner
- Senator John Kuehn
- Senator Mike McDonnell
- Senator John Stinner, chairperson
- Senator Tony Vargas
- Senator Dan Watermeier
- Senator Anna Wishart

Selected Agencies and Organizations Interviewed

- Blueprint Nebraska- Jim Smith, Executive Director
- City of Scottsbluff - Starr Lehl, Economic Development Director
- Lincoln Chamber of Commerce - Bruce Bohrer, Executive Vice President and General Counsel
- Nebraska Bankers Association - Richard Baier, President
- Nebraska Community College Association - Greg Adams, Executive Director
- Nebraska Department of Economic Development - Dave Rippe, Director; David Dearmont, Director of Research
- Nebraska Department of Labor - Phil Baker, LMI Administrator; Scott Hunzeker, Research Supervisor
- Nebraska Department of Revenue – Tony Fulton, Tax Commissioner; Glen White, Deputy Tax Commissioner; George Kilpatrick, Attorney, Policy Section
- Nebraska Economic Developers Association - Pat Haverty, Vice President Pat Haverty, Vice President, Lincoln Chamber of Commerce
- Nebraska Farm Bureau - Jay Rempe, Senior Economist
- Nebraska Legislature - Legislative Audit Office - Anthony Circo, Performance Auditor
- Nebraska Public Power District - Courtney Dentlinger, Government Affairs Manager
- Nebraska State Chamber of Commerce & Industry - Joseph Young, Executive Vice President
- Omaha Chamber of Commerce

- University of Nebraska Omaha - Doug Ewald, Vice Chancellor for Business, Finance and Business Development
- University of Nebraska Omaha - Nebraska Business Development Center- Catherine D. Lang, State Director

Company Representatives Interviewed

- Archer Daniels Midland
- Burlington Northern Santa Fe Railroad
- CFO Services
- Chief Industries
- Cox Communications
- Duncan Aviation
- First Data Corporation
- Mueller Robak
- Nelnet, Inc. & Subsidiaries
- Paypal, Inc
- Peetz & Company
- Peter Kiewit Sons, Inc
- Smithfield Foods
- Yahoo! Inc
- Zulkoski Weber LLC

Appendix 2: Summary of Key Nebraska Programs

Program Name	Program Provider	Program Description	Website
Angel Investment Tax Credit	Nebraska Department of Economic Development	A refundable state income tax credit for high-risk investments of at least \$25,000 in start-up businesses	https://opportunity.nebraska.gov/program/angel-investment-tax-credit/
Beginning Farmer Tax Credit Act	Nebraska Department of Agriculture	Qualified owners of agricultural assets who agree to rent to an eligible beginning farmer for three (3) years are eligible to receive a 10% Nebraska income tax credit on the amount of cash rent received, or 15% on the owner's share of the cash equivalent of the share rent received each year for three (3) years.	http://www.nextgen.nebraska.gov/
Business Retention & Expansion Program	Nebraska Department of Economic Development	The Department of Economic Development's Business Retention and Expansion (BRE) Program allows discussion with existing businesses in Nebraska through personal interviews that provide important information on the local and state business climate.	https://opportunity.nebraska.gov/program/business-retention-expansion-program/
Capital Gains and Extraordinary Dividend Exclusion	Nebraska Department of Revenue	Exemption from state personal income tax on capital gains realized from selling or exchanging stock of one corporation acquired by an employee with that corporation.	http://www.revenue.nebraska.gov/tax/current/2016_indiv_bklt/line_16_sch_l_capital_gains.html
Community Development Assistance Act (CDAA)	Nebraska Department of Economic Development	CDAA empowers the Nebraska Department of Economic Development to distribute a 40 percent state tax credit to businesses, corporations, insurance firms, financial institutions, or individuals that make eligible contributions of cash, real estate, and services or materials to approved community betterment projects in areas identified as economically distressed.	https://opportunity.nebraska.gov/program/community-development-assistance-act/
Customized Job Training Program	Nebraska Department of Economic Development	The Customized Job Training Program provides training assistance on projects that offer an opportunity for economic development in Nebraska.	https://opportunity.nebraska.gov/program/customized-job-training/

Program Name	Program Provider	Program Description	Website
Developing Youth Talent Initiative	Nebraska Department of Economic Development	The Developing Youth Talent Initiative (DYTI) connects 7 th - and 8 th - grade youth to learning opportunities in the Manufacturing and IT industries. Grants are available to partner industry groups representing manufacturing or IT occupations that work with schools to provide students with hands-on career exploration and relevant workplace-learning opportunities. DYTI provide at least two grants per year for up to \$250,000 to support these projects.	https://opportunity.nebraska.gov/program/nebraska-developing-youth-talent-initiative/
Dollar and Energy Saving Loans	Nebraska Energy Office	Nebraska Dollar and Energy Saving Loans are offered statewide by the Nebraska Energy Office and the state lending institutions. The simple interest rates are 2.5%, 3.5% and 5%. Businesses are eligible to receive loans of up to \$500,000.	http://www.neo.ne.gov/loan/index.html
Economic Opportunity Program	Nebraska Department of Transportation	The Nebraska Department of Transportation's rapid response Economic Opportunity Program helps attract and sustain economic growth across the State by making local grants for strategic transportation improvements that better connect businesses to Nebraska's statewide, multi-modal transportation network.	https://dot.nebraska.gov/projects/tia/economic-opportunity/
Enterprise Zones	Nebraska Department of Economic Development	Enterprise Zones consist of areas of "economic distress," meaning conditions of high unemployment, poverty, and declining population. DED accepts applications from Nebraska cities, villages, counties, or Tribal Government Areas that wish to apply for an Enterprise Zone designation.	http://www.neded.org/business/enterprise-zones
Industrial Development Bonds	Nebraska Investment Finance Authority	Tax exempt bonds make it possible for jurisdictions to offer their constituents below market interest rates.	http://nifa.org/programs/index.html?topic=desc&ps=choose&prog_name_sent=Development+Financing
InternNE Grant Program	Nebraska Department of Economic Development	The InternNE program facilitates relationships between Nebraska employers and college students through an online environment and offers financial assistance to companies creating new internships in Nebraska.	http://internne.com/

Program Name	Program Provider	Program Description	Website
Manufacturing Machinery and Equipment Sales Tax Exemption	Nebraska Department of Revenue	The Manufacturing Machinery and Equipment Exemption exempts from tax the sale, lease, rental, storage, use, or other consumption in Nebraska by a manufacturer of qualified manufacturing machinery, equipment, and repair labor.	http://www.revenue.nebraska.gov/legal/regs/salestax/1-107.html
Nebraska Advantage Act	Nebraska Department of Revenue	The Nebraska Advantage is a comprehensive economic development incentives package that meets the needs of businesses expanding in or relocating to Nebraska.	http://www.revenue.nebraska.gov/incentiv/neb_adv/312_info.html
Nebraska Advantage Microenterprise Tax Credit Act	Nebraska Department of Revenue	The Nebraska Advantage Microenterprise Tax Credit Act (Act) provides a refundable individual income tax credit to individual applicants who are actively involved in operating a microbusiness based on demonstrated growth of the business over two years.	http://www.revenue.ne.gov/incentiv/microent/microent.html
Nebraska Advantage Research and Development Credit	Nebraska Department of Revenue	Offers a refundable tax credit for qualified research and development activities undertaken by a business entity for 21 years.	http://www.revenue.nebraska.gov/incentiv/r_and_d/r_and_d.html
Nebraska Advantage Rural Development Act	Nebraska Department of Revenue	Provides qualified businesses with refundable tax incentives for projects that create 2 new jobs and invest \$125,000 in counties with less than 15,000 residents. Tele-workers count as new employees. In addition, the \$250,000-investment and 5-job thresholds remain in place for counties with populations 15,000-25,000.	http://www.revenue.ne.gov/incentiv/rural/608app_guide.html
Nebraska Angel Sidecar Fund	Invest Nebraska Corporation	The Invest Nebraska Angel Sidecar Fund provides early investment capital that matches private angel investment in start-up businesses developing, modifying, or employing new technologies. (Note: No new funds are available. All available funds were invested and are being held by Invest Nebraska.)	http://www.opportunity.nebraska.gov/files/businessdevelopment/NebrProgressLoanFund/Invest_Nebraska_Angel_Sidecar_Fund_guidelines.pdf
Nebraska Historic Tax Credit	Nebraska Department of Revenue	The Act provides \$15 million in Nebraska Historic Tax Credits (NHTCs) to be allocated annually, beginning January 1, 2015 and ending December 31, 2022. This credit is equal to 20% of eligible expenditures incurred for improvements to qualifying	http://www.revenue.nebraska.gov/incentiv/hist_tax_cred_gen_info.html

Program Name	Program Provider	Program Description	Website
		historically significant real property and is limited to a \$1 million tax credit per project.	
Nebraska Innovation Fund	Nebraska Department of Economic Development	The Nebraska Innovation Fund (NIF) Prototype Grant is a matching grant that provides financial assistance for product development to businesses operating in Nebraska. The NIF consists of three core programs: (1) Pre-seed Fund (prototyping), (2) Seed Fund (commercialization stage), (3) Value-Added Agriculture.	https://opportunity.nebraska.gov/program/prototype-grant/
Nebraska Research and Development Grant Program	Nebraska Department of Economic Development	The Research and Development Grant program provides an opportunity for the State of Nebraska to partner with Nebraska businesses, Nebraska Colleges and Nebraska Universities to fund research and development activities that lead to new or better products, process, and innovations that might not result without state assistance.	https://opportunity.nebraska.gov/program/nebraska-academic-research-and-development-grant/
Nebraska Worker Training Program	Nebraska Department of Labor	The Worker Training Program supports the retraining and upgrading of Nebraska's current workforce. Training is central to preparing Nebraskans to excel in the workplace and in marketplace today and in the future.	https://dol.nebraska.gov/EmploymentAndTraining/Training/WorkerTrainingProgram
New Markets Job Growth Investment Tax Credit	Nebraska Department of Revenue	The New Markets Job Growth Investment Act allows individuals, corporations, estates and trusts, financial institutions, and insurance companies to claim nonrefundable, nontransferable tax credits for an investment in a qualified community development entity (CDE).	http://www.revenue.nebraska.gov/incentiv/job_growth_gen_info.html
Rural Assistance Enterprise Project (REAP)	Nebraska Center for Rural Affairs	The Rural Enterprise Assistance Project's (REAP) Loan Programs focus on providing capital for rural Nebraska based start-up and existing businesses.	http://www.cfra.org/reap
Site and Building Development Fund	Nebraska Department of Economic Development	Communities will provide matching funds toward projects that can involve demolition, new construction, and rehabilitation. State funding will be focused on land and infrastructure costs with 40 percent of funding available to non-metro areas.	https://opportunity.nebraska.gov/program/site-and-building-development-fund-sbdf/

Program Name	Program Provider	Program Description	Website
Small Business Innovation Research/Small Business Tech Transfer (SBIR/STTR) Grant	Nebraska Department of Economic Development	The Nebraska Small Business Innovation Research / Small Business Technology Transfer Initiative (SBIR/STTR) is a matching grant that provides financial assistance to Nebraska businesses that have received a Federal SBIR or STTR grant.	https://opportunity.nebraska.gov/program/nebraska-small-business-innovation-research-small-business-tech-transfer-sbirsttr-grant-program/
Tourism Marketing Grant Program	Nebraska Tourism Commission	Grants are given for three purposes: Promotion of an Event, Promotion of a Region, and General Marketing. The maximum grant amount that can be requested is \$25,000.	https://visitnebraska.com/media/industry/category/marketing

Appendix 3: Incentive Management Process

STEPS FOR MANAGING INCENTIVES FOR TRANSPARENCY & ACCOUNTABILITY

Explaining incentives is one of the top communication challenges economic developers face. Following these steps will help you deploy data to tell the story of how and why incentives are used in your community.



smartincentives.org



www.crec.net