

Nebraska Historic Tax Credits: A Performance Review of the Job Creation and Mainstreet Revitalization Act



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

The Job Creation and Mainstreet Revitalization Act

The Job Creation and Mainstreet Revitalization Act tax incentive program, commonly referred to as the Nebraska Historic Tax Credit (NHTC), was created by the Legislature in 2014. The intent of NHTC is to facilitate renovation of older buildings, encouraging economic growth in previously vacant or underutilized spaces.

Investors can earn tax credits up to 20% of eligible historic preservation expenditures. A project can receive between \$5,000 and \$1 million in credits. The program is capped at \$15 million in allocated credits per year.

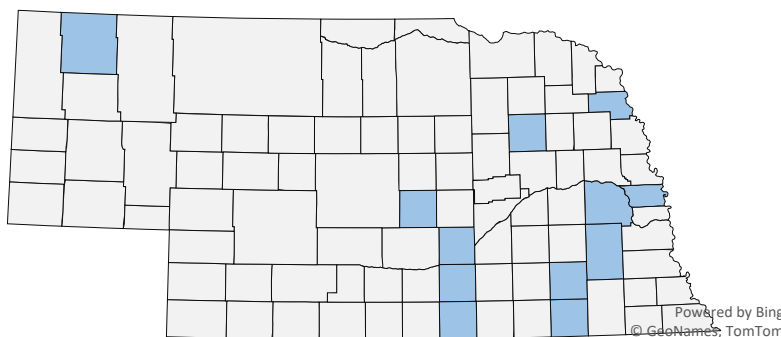
Program Participation

A total of 146 applications were submitted between 2015 and 2019. Of those, 68 had completed construction, allowing the us to examine total investments. Audited expenditures were available for 39 completed projects, allowing the us to look at credit usage.

Geographic Locations

Of the 68 completed projects, Douglas County had 52 projects. Lancaster County had 4 projects, and Jefferson County and Thurston County had 2 projects each. The remaining counties—Adams, Dawes, Madison, Hall, Saline, Saunders, Sherman, and Webster—each had 1 project.

Twelve counties had at least one NHTC project.



Source: Audit Office analysis of NHTC data.

Additional Audit Findings

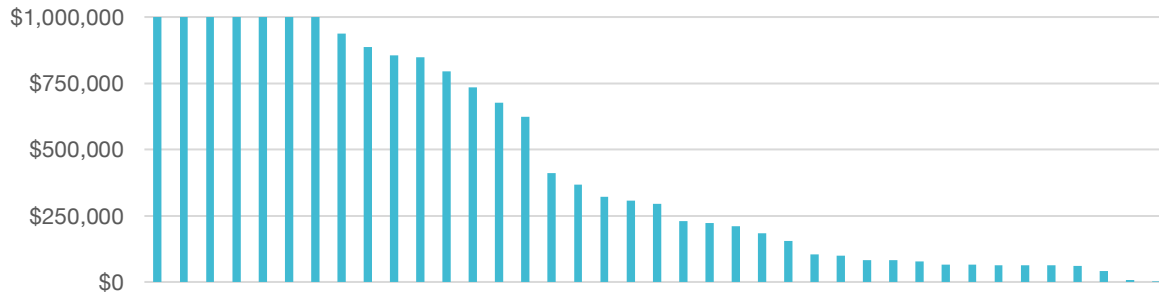
While most of the audit results are tied to the metrics used, the Audit Office also found the following:

- There may be more efficient options for stimulating historic property preservation.
- Restrictions on transferability do not limit legal credit transfers but do make them more costly.
- Certain goals described during legislative debate are not currently reflected in the law. These include encouraging use by nonprofits, for smaller projects, and in varied geographic locations.
- Information on participant syndication agreements and tenant businesses would assist future audits.
- An annual report to the Legislature would help monitor current and forecast future costs of the program.

Investment and Credits

Between 2015 and 2019, 68 projects invested more than \$232 million in historic preservation. Nearly \$200 million, or 86%, was in Douglas County. Of these 68, 39 were issued nearly \$17 million in tax credit. Seven projects received the maximum \$1 million in credits, while 19 projects received less than \$250,000.

The program attracted projects of varying sizes.



Source: Audit Office analysis of Department of Revenue data.

Independently Viable Projects

According to tax incentive experts, some of these preservation projects would have proceeded without the tax credit. Academic research suggests that tax incentives are responsible for tipping 12%-25% of business decisions, and we have used these estimates in previous tax incentive audits. However, this program presented an opportunity to look at participating projects on a case-by-case basis to estimate whether it was more likely or less likely the project would have taken place without the credit.

Tax credit programs are intended to “tip” projects that are not financially viable into viability, and we identified three factors that can suggest the credit was *not essential* to project viability. The first two factors are construction before the program application had been submitted and the amount of the credit was a small proportion of the total project costs. The third examined publicly available Tax Increment Financing program applications, which have more detailed budgeting information for projects, to determine if the NHTC was necessary for viability.

Of the 68 projects reviewed, we identified 14 (21%) that we believe were likely independently viable, meaning the projects would likely have been undertaken even without receipt of the Nebraska Historic Tax Credit. Of these 14 projects,

- Seven were under construction at least 6 months before the application was filed, including four projects that were under construction for at least a year prior to the start of the program;
- Six had small amounts of credit in proportion to the total project cost; and
- Six publicly attested to financial viability without the credit.¹

Metrics Reviewed in Report

- Job Creation
- Average Wages
- Investment
- New to Nebraska
- Compliance Cost
- Rural Areas
- Distressed Areas
- High-tech and Renewable Firms
- Cost per Job
- Cost versus Benefit
- Federal Credits
- Administrative Cost
- Fiscal Protection
- Local Impact

¹ The number of projects totals more than 14 because 4 projects met more than one factor.