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From the UNL College of Business Administration

Final Report

The Annual Economic Impact of the Nebraska Job Creation and Mainstreet Revitalization Act

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Executive Summary

This report examines the economic impacts of the Nebraska Historic Tax Credit authorized by the Nebraska Job Creation and Mainstreet Redevelopment Act. The program provides incentives for the redevelopment of historic properties and districts in Nebraska, and encourages private investment in historic buildings and neighborhoods. The program is intended to spur the rehabilitation of historic buildings throughout the state, which is likely to promote both direct and indirect economic benefits to the state economy. In 2015, 46 projects were allocated tax credits, reaching the cap of \$15 million for that calendar year. In the same year, 13 of these renovation projects were completed. Five projects were completed in midtown Omaha and four projects in the general downtown area of Omaha. Another three projects were completed in Boys Town. One project was completed in Norfolk, in the northeastern portion of the state. This report covers the data for these projects. Data from the Nebraska Department of Revenue indicate that there were \$67.17 million of total expenditures on projects completed during 2015 which took advantage of the NHTC. Key findings regarding economic impact from these projects are listed below.

- Economic impact models show that these projects had a \$79.84 million impact on the Nebraska economy.
- The projects yielded 1,033 full time jobs in Nebraska and generated over \$35.07 million in wages for Nebraska workers.
- The projects contributed \$45.26 million to the state's gross state product.
- The projects contributed \$3.22 million in state and local taxes.

The numbers provide strong evidence that the Nebraska Historic Tax Credit has already had a number of positive impacts on the Nebraska economy. The program is likely to continue to have significant impacts as developers continue to take advantage of tax credits in coming years. The specific annual impact will need to be estimated based on the expenditures of completed projects.

1. Introduction

This report provides initial estimates of the economic impact of the Nebraska Historic Tax Credit. Estimates are based on projects which utilized the tax credit and were completed during 2015, the first year for which data are available. The report utilizes information provided by the National State Historical Society, the Nebraska Department of Revenue, and gathered through a survey of project developers.

The report begins with an overview of the tax credit program. The second portion of the report outlines the data to be collected and the estimation procedures to be used by researchers. The third section of the report discusses the projects which utilized the historic tax credit and were completed in 2015. The final section of the report provides initial estimates of the economic impacts of the historic preservation redevelopment projects completed in 2015.

2. Overview of the Nebraska Historic Tax Credit

The Nebraska Historic Tax Credit (NHTC) was authorized by the Nebraska Job Creation and Mainstreet Redevelopment Act. The program offers a total of \$15 million in state historic preservation tax credits for each calendar year from 2015 to 2022. The program provides incentives for the redevelopment, rehabilitation, and revitalization of historic properties and districts in Nebraska, and encourages private investment in historic buildings. Such investment has a number of benefits, such as providing new uses for underutilized buildings, the creation of new housing units in potentially underserved areas, and the revitalization of communities in neighborhoods and downtown “main streets.” Ultimately, one of the primary goals of the program is to promote economic development and the creation of jobs across Nebraska.

In order to qualify for the tax credit, a historic property must meet several criteria. The property must be listed individually in the National Register of Historic Places, located within a district listed in the National Register of Historic Places, listed individually under an approved local preservation ordinance, or located within a historic district designated under an approved local preservation ordinance. The property may qualify if it is in the process of being nominated or listed as a historic property in any of these cases.

There are a number of basic provisions of the NHTC. There is a maximum of \$1 million in credits for a single project, with a dollar-for-dollar reduction in state income tax liability. Tax credits can be transferred with some limitations. Rehabilitation work must meet generally accepted preservation standards. Finally, detached, single-family homes and residences do not qualify. The minimum project investment must be the greater of \$25,000 or 25% of the property’s assessed value, for properties in Omaha and Lincoln. Elsewhere in Nebraska, project investment must equal or exceed \$25,000.

In accordance with Nebraska Revised Statute 50-1209, a performance audit of the NHTC must take place at least once every three years. The purpose of the performance audit is to assess whether incentive programs are: 1) strengthening the state’s economy overall by attracting new business to the state, expanding existing businesses, increasing employment, creating high-quality jobs, and increasing

business investment; 2) revitalizing rural and other distressed areas of the state; 3) diversifying the state's economy and position Nebraska for the future by stimulating entrepreneurial, high-tech, and renewable energy firms; and 4) any other program-specific goals found in the statutes for the tax incentive program being evaluated. The performance audit must also analyze the economic and fiscal impacts of the tax incentive program; assess whether adequate protections are in place to ensure the fiscal impact of the tax incentive does not increase substantially beyond the state's expectation in future years; assess the fiscal impact of the tax incentive on the budgets of local government; and recommend any changes to statutes or rules and regulations that would allow the tax incentive program to be more easily evaluated in the future, including changes to data collection, reporting, sharing of information, and clarification of goals.

3. Data Collection and Estimation Procedures

To estimate the economic impacts of the NHTC, investigators will rely upon the Preservation Economic Impact Model (PEIM). The PEIM was developed by leading researchers at the Center for Urban Policy and Research at Rutgers University. Characterized as an input-output model, the PEIM utilizes information about rehabilitation expenditures to generate estimates of the economic impacts of rehabilitation programs. Indices of economic impacts include jobs, income, wealth (gross state product), outputs, and taxes. The National Center for Preservation Technology and Training pioneered the PEIM, which has been adopted by the National Park Service and the National Trust for Historic Preservation.

The PEIM has been used to estimate the effects of the federal Historic Tax Credit, demonstrating that the federal program generated 1.8 million new jobs and \$198 billion in total output between 1978 and 2010.¹ The model has been used to conduct annual economic impact estimates of the federal program by the National Park Service. A large number of state agencies have utilized the PEIM to estimate the economic impacts of state-level programs as well. Nebraska's regional peers that have recently utilized the PEIM to estimate economic impacts include Kansas² and Oklahoma³. The PEIM has shown that historic tax credit programs in these states have yielded considerable economic benefits.

In order to use the PEIM to estimate the economic impacts of historic preservation incentives, specific pieces of data are needed. First, the total project costs and the total expenditures eligible for the tax credit are needed. In addition, the percentage of total cost that was allotted to 18 specific categories of construction is needed (see Table 1). The percentage of labor within each category is also required, though the PEIM allows for "default" values, computed by the PEIM based on national and regional data, to be entered into the model. It is important to note that developers are currently required to provide data on eligible expenditures to the Nebraska Department of Revenue (Form 4, Schedule 1). Such expenditures fall into three broad categories: Site Work, Work on Contributing Subject Property, and Additional Expenditures. It is possible to align the categories of expenditures listed on Form 4, Schedule 1 with the 18 categories of expenditures required for the execution of the PEIM.

¹ <http://bloustein.rutgers.edu/wp-content/uploads/2015/03/EJB-NTHPrelease1.pdf>

² http://www.kshs.org/preserve/pdfs/kansas_40_page_report.pdf

³ <http://www.okhistory.org/shpo/econimpact.pdf>

Architecture and Engineering	General Requirements
Attorney/Other	Masonry
Concrete	Mechanical
Conveying Systems	Metals
Doors and Windows	Site work
Electrical	Special Construction
Equipment	Specialties
Finishes	Thermal and Moisture
Furnishings	Wood and Plastic

Therefore, when possible, researchers seek to reduce the administrative burden on developers by collecting expenditure data from developers as reported on Nebraska Department of Revenue Form 4, Schedule 1. Table 2 below provides an illustration of how data collected from Form 4, Schedule 1, can be mapped to the expenditure data necessary for the PEIM model.

Nebraska Department of Revenue Part 4 Schedule 1	Applicable PEIM Expenditure Categories
Site Work	
Site Grading and Excavation	Site work
Landscaping, Surface Parking, Roads, Sidewalks	Site work
Site Utilities	Site work
Work on the Contributing Subject Property	
Appliances	Furnishings
Cabinetry	Furnishings
Demolition	Special Construction
Doors	Doors and Windows
Electrical, Mechanical, Plumbing or Sprinkler Systems	Electrical
Foundation	Concrete
Interior Finishes	Finishes
Lighting	Electrical
Masonry	Masonry
Metal	Metals
New Construction (additions, bulkheads, etc.)	Special Construction
Roofing and Associated Decking, Insulation, Flashing	Thermal and Moisture
Signage	Specialties
Wood	Wood and Plastic
Windows	Doors and Windows
Vertical Movement Systems (elevators, stairs, etc.)	Conveying Systems
Additional Expenditures	
Accountant Fees	Attorney/Other Fees
Attorney Fees	Attorney/Other Fees
Architectural Fees, Engineering Fees	Architecture and Engineering Fees
Consultant Fees	Attorney/Other Fees
Contractor Fees	Attorney/Other Fees
Other	Attorney/Other Fees

In addition to the specific information needed to execute the PEIM, investigators collected a range of other variables from developers in a performance audit questionnaire. In particular, a survey was sent to developers to collect data on whether the project was funded internally or externally, whether other tax credits or grant programs were utilized, how the property was/will be used (residential, commercial,

mixed use, etc.) before and after rehabilitation, and the amount of residential/commercial space created. As the tax credit program matures, and more developments take advantage of the tax incentives, the additional data will allow researchers to examine whether there are geographic or other differences in the extent to which the NHTC is utilized across the state. It will be possible to examine whether the tax credit program yields the intended economic benefits in various parts of the state.

4. Completed Projects Utilizing the Nebraska Historic Tax Credit

As of May, 2016, there were 13 completed rehabilitation projects (see Table 3) in calendar year 2015. Seven separate developers were responsible for the 13 projects, with several developers undertaking more than one rehabilitation project. As Table 3 indicates, nine rehabilitation projects were completed in Omaha, with three additional projects occurring in Boys Town in the Omaha metropolitan area. One additional project was completed in Norfolk. The vast majority of rehabilitation projects completed in 2015 and taking advantage of the NHTC are in the Omaha area. Already (as of the date of this report) projects have been generated in many communities other than Omaha utilizing the calendar year 2016 allocation of tax credits. As this trend continues, future measures will provide more understanding of the distribution and overall community impacts of the NHTC.

Project	City	Project	City
Dining Hall	Boys Town	Dewey Avenue Rowhouses	Omaha
Dormitories	Boys Town	Duplex – 2316 Howard	Omaha
Gatehouse	Boys Town	Flatiron	Omaha
US Post Office and Courthouse	Norfolk	Hay Exchange	Omaha
Bartlett Apartments	Omaha	Mayfair Apartments	Omaha
Bosworth Apartments	Omaha	Northwest Bell Telephone	Omaha
Burlington Station	Omaha		

As noted above, investigators developed a brief performance audit questionnaire regarding the details of each development. Eight of the projects used tax credit incentives to rehabilitate apartment buildings, three were for institutional use, and two of the projects utilized tax credits to rehabilitate a building for commercial use. On May 9, 2016, all developers that had completed a project at that time were sent a request via email to complete the performance audit form. The email was delivered from the State Historic Preservation Officer (SHPO). By early June, 2016, the SHPO’s office had received information from developers of six separate projects. Given that survey responses were covered just six of the 13 completed projects, it is not possible to provide statewide totals. However, some key findings are provided below based on the information received for those six projects.

Of the five residential projects that responded to the survey, total costs for the projects were just over \$7.46 million. Across these five projects, a total of \$1.61 million in tax credits were requested. In sum, the five residential properties had an assessed value of \$251,000 prior to rehabilitation; the combined assessed value was \$2.45 million after the projects had been completed. Reports indicated that the five projects resulted in 65 residential units available for rent. The reports also indicate that nearly all of the

full-time labor to renovate the properties was obtained from firms from Nebraska and their respective local area. Each of the five renovation projects supplemented the NHTC by taking advantage of other incentive programs. In particular, each of the five projects took advantage of the Federal Historic Tax Credit, as well as Tax Increment Financing. The one commercial property was substantially larger in scope than the five residential rehabilitation efforts. The commercial project cost \$27 million, which included construction, office space and a technology build out. The project resulted in \$12.50 million of total eligible expenditures, and a maximum of \$1 million in tax credits were requested. The commercial property value was assessed at \$617,000 prior to rehabilitation; after rehabilitation the property was assessed at \$6.47 million. The rehabilitation resulted in over 35,000 square feet of office space, and over 5,000 square feet of studio space. The project obtained 98% of its labor from workers/contractors located in Nebraska, and 2% of labor/contract work was obtained from out of state firms. Similar to the residential properties, this commercial property took advantage of the Federal Historic Tax Credit and Tax Increment Financing to supplement the NHTC.

5. Initial Estimates of Economic Impacts of the Nebraska Historic Tax Credit

In order to estimate the economic impacts of the NHTC, investigators requested data on the entire universe of completed projects in 2015 that have taken advantage of the NHTC. Table 4 contains the details on these numbers.

	Dollar Amount	Percent of Total
Site Work		
Site Grading and Excavation	\$0.00	0.00%
Landscaping, Surface Parking, Roads, Sidewalks	\$132,645.50	0.49%
Site Utilities	\$147,944.33	0.55%
Appliances	\$0.00	0.00%
Cabinetry	\$718,093.68	2.66%
Demolition	\$740,389.68	2.74%
Doors	\$709,023.54	2.62%
Electrical, Mechanical, Plumbing or Sprinkler Systems	\$7,234,820.41	26.78%
Foundation	\$92,964.00	0.34%
Interior Finishes	\$3,328,909.14	12.32%
Lighting	\$0.00	0.00%
Masonry	\$936,776.68	3.47%
Metal	\$210,429.72	0.78%
New Construction (additions, bulkheads, etc.)	\$0.00	0.00%
Roofing and Associated Decking, Insulation, Flashing	\$1,380,482.50	5.11%
Signage	\$0.00	0.00%
Wood	\$457,327.33	1.69%
Windows	\$614,681.97	2.28%
Vertical Movement Systems (elevators, stairs, etc.)	\$213,094.06	0.79%
Accountant Fees	\$233,964.07	0.87%
Attorney Fees	\$131,971.37	0.49%
Architectural Fees, Engineering Fees	\$807,725.14	2.99%
Consultant Fees	\$1,262,551.63	4.67%
Contractor Fees	\$5,151,292.58	19.07%
Other	\$2,512,744.57	9.30%
Total Eligible Expenditures	\$27,017,831.90	100.00%

In late July, 2016, the Nebraska Department of Revenue supplied aggregate financial information regarding the eligible and non-eligible expenditures for projects that had taken advantage of the NHTC. Project-specific data were not made available by the Nebraska Department of Revenue. As Table 4 shows, in 2015 there were \$27.02 million dollars of eligible expenses claimed by developers using the NHTC. In sum, there were \$67.17 million of total expenditures (both eligible and non-eligible expenditures) on projects taking advantage of the NHTC. Using the data supplied by the Nebraska Department of Revenue, researchers then applied expenditure data to the categories required by the PEIM. Table 5 presents data on eligible expenses, and illustrates how data from Nebraska Department of Revenue forms were used to obtain the numbers needed to execute the PEIM.

	Dollar Amount	Percent
Architecture and Engineering	\$807,725.14	2.99%
General Requirements	\$0.00	0.00%
Site Work	\$280,589.83	1.04%
Concrete	\$92,964.00	0.34%
Masonry	\$936,776.68	3.47%
Metals	\$210,429.72	0.78%
Wood and Plastic	\$457,327.33	1.69%
Thermal and Moisture	\$1,380,482.50	5.11%
Doors and Windows	\$1,323,705.51	4.90%
Finishes	\$3,328,909.14	12.32%
Specialties	\$0.00	0.00%
Equipment	\$0.00	0.00%
Furnishings	\$718,093.68	2.66%
Special Construction	\$740,389.68	2.74%
Conveying Systems	\$213,094.06	0.79%
Mechanical	\$0.00	0.00%
Electrical	\$7,234,820.41	26.78%
Attorney/Other	\$9,292,524.22	34.39%
Total Eligible Expenditures	\$27,017,831.90	100.00%

Using these spending totals, researchers applied the figures to the PEIM to generate estimates of the economic impact. Economic impact was estimated based on all project expenditures (\$67.17 million), including both eligible and non-eligible expenditures. The results presented in Table 6 provide a detailed breakdown of the impact that these projects completed in 2015 had on the Nebraska economy. Focusing on the rows included under the “Distribution of Effects/Multiplier,” we can see a breakout of the aggregate direct, indirect, and total effects. The table shows that NHTC rehabilitation projects in 2015 had a direct impact of \$53.97 million and a \$25.87 indirect impact, for a total impact of \$79.84 million. With regard to employment, rehabilitation projects resulted in the direct employment of 647 full time workers, with an additional 386 full time workers through indirect and induced effects. In total, rehabilitation projects using the NHTC program resulted in 1,033 jobs in Nebraska.

Rehabilitation projects also had a considerable impact on worker salaries. As the table indicates, renovation projects resulted in \$26.21 million in wages and an additional \$8.86 million in wages through indirect and induced effects; the total impact on wages was \$35.07 million. Rehabilitation projects

supported by the NHTC also contributed to over \$45 million to Nebraska's state gross product. Notably, completed projects have contributed \$1.61 million in local taxes and an additional \$1.61 million in state taxes (\$3.32 million total).

	Output (000\$)	Employment (jobs)	Income (000\$)	Gross State Product (000\$)
I. Total Effects (Direct and Indirect)				
Private				
1. Agricultural	189.9	1	9.3	29.0
2. Agri. Service, Forestry and Fish	88.6	3	43.6	79.8
3. Mining	160.9	1	54.5	75.9
4. Construction	20,370.9	360	11,937.6	14,802.5
5. Manufacturing	11,377.4	86	3,200.0	5,345.2
6. Transportation and Public Utilities	3,043.4	20	816.9	1,370.3
7. Wholesale	3,562.3	36	14,48.6	1,801.3
8. Retail Trade	5,438.0	159	2,008.1	3,093.8
9. Finance, Insurance, & Real Estate	59,09.3	59	1,967.6	3,711.9
10. Services	29,322.4	306	13,473.3	14,769.7
Private Subtotal	79,463.1	1,031	34,959.4	45,079.4
Public				
11. Government	375.0	3	113.1	175.1
Total Effects (Public and Private)	79,838.1	1,033	35,072.6	45,254.5
II. Distribution of Effects/Multiplier				
1. Direct Effects	53,972.2	647	26,212.3	32,036.3
2. Indirect and Induced Effects	25,865.9	386	8,860.3	13,218.1
3. Total Effects	79,838.1	1,033	35,072.6	45,254.5
4. Multipliers (3/1)	1.479	1.597	1.338	1.413
III. Composition of Gross State Product				
1. Wages-Net of Taxes				29,994.1
2. Taxes				6,136.6
a. Local				756.6
b. State				730.2
c. Federal				4,649.8
General				889.5
Social Security				3,760.3
3. Profits, dividends, rents, and other				9,123.8
4. Total Gross State Product (1+2+3)				45,254.5
IV. Tax Accounts				
	Business	Household	Total	
1. Income-Net of Taxes	2,994.1	35,072.6	---	
2. Taxes	6,136.6	7,134.1	13,270.7	
a. Local	756.6	850.5	1,607.1	
b. State	730.2	877.9	1,608.1	
c. Federal	4,649.8	5,405.7	10,055.5	
General	889.5	5,405.7	6,295.2	
Social Security	3,760.3	0.0	3,760.3	
Effects Per Million Dollars of Initial Expenditure				
Employment (Jobs)				15.4
Income				522,112
State Taxes				23,939
Local Taxes				23,924
Gross State Product				673,687
Initial Expenditure in Dollars				67,174,347

Appendix: About the UNL Bureau of Business Research and Key Personnel

A. The Bureau of Business Research

The Bureau of Business Research is a leading source for analysis and information on the Nebraska economy. The Bureau conducts both contract and sponsored research on the economy of Nebraska and its communities including: 1) economic and fiscal impact analysis; 2) models of the structure and comparative advantage of the current economy; 3) economic, fiscal, and demographic outlooks, and 4) assessments of how economic policy affects industry, labor markets, infrastructure, and the standard of living. The Bureau also competes for research funding from federal government agencies and private foundations from around the nation and contributes to the academic mission of the University of Nebraska-Lincoln through scholarly publication and the education of students.

B. Key Personnel

Dr. Eric Thompson – Principal Investigator

Dr. Eric Thompson will be the principal investigator on this project. Dr. Thompson is the Director of the Bureau of Business Research and an Associate Professor of Economics at the University of Nebraska-Lincoln. Dr. Thompson has conducted a broad group of economic impact studies including impact studies of Nebraska agriculture, Sandhill Cranes migration, the Nebraska child care industry, the Omaha Zoo, the Nebraska horseracing industry, Husker Harvest Days, and the UNL Athletic Department. Dr. Thompson also works on demographic projections, and analyses of economic development programs for Nebraska and cities in Nebraska. He also has conducted numerous economic impact studies for the Lincoln Department of Economic Development, the Omaha Chamber of Commerce, the Nebraska Department of Economic Development, various Nebraska industries, and Nebraska tourism attractions. Dr. Thompson's research has received support from the United States Department of Labor, the Robert Wood Johnson Foundation, the Center for Economic Analysis, the Nebraska Health and Human Services System, as well as Lincoln, Omaha, and Nebraska organizations and agencies. In his previous employment, Dr. Thompson served as the Director of the Center for Business and Economic Research and a Research Associate Professor of Economics at the University of Kentucky. Dr. Thompson received his Ph.D. in agricultural economics from the University of Wisconsin-Madison in 1992. His research fields include regional economics, economic forecasting, and state and local economic development. His research has been published in *Regional Science and Urban Economics*, the *Journal of Regional Science*, the *American Journal of Agricultural Economics*, the *Journal of Cultural Economics*, and the *Economic Review of the Federal Reserve Bank of Cleveland*.

Dr. Mitchel Herian – Research Associate

Dr. Mitchel Herian will serve as a Research Associate through the Bureau of Business Research. Dr. Herian also serves as a faculty fellow at the University of Nebraska Public Policy Center, and an adjunct professor in the Political Science department at UNL. Dr. Herian has conducted applied research for agencies such as the U.S. Army, the National Aeronautics and Space Administration (NASA), the Nebraska Supreme Court, the Nebraska Department of Education, and the Kansas Department of Corrections. His research has received support from agencies including the National Science Foundation and the National Institute of Justice. Dr. Herian's research has been published in a variety of peer reviewed journals including the *Journal of Public Administration Research and Theory*, *American Review of Public Administration*, *Policy Studies Journal*, *State and Local Government Review*, and *Ecology & Society*.