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LR444 Tax Incentive Evaluation Committee
August 27, 2014

[LR444]

The Committee on Tax Incentive Evaluation met at 1:30 p.m. on Wednesday, August 27, 2014, at Ockinga Seminar Center, University of Nebraska at Kearney, 2505 20th Avenue, Kearney, Nebraska, for the purpose of conducting a public hearing on LR444. Senators present: John Harms, Chairperson; Dan Watermeier, Vice Chairperson; Al Davis; Galen Hadley; Bob Krist; Heath Mello; Paul Schumacher; and John Wightman. Senators absent: Greg Adams; and Annette Dubas.

SENATOR HARMS: I think I'm going to go ahead and call the meeting to order or start the hearing if I can, please. My name is John Harms. I represent the 48th Legislative District and I am Chair of the LR444 Committee. I welcome you coming today. We appreciate it. We wanted to bring this hearing out to...closer to rural Nebraska to get the comments from people like you that are here today. So we appreciate you coming and being a part of this. Let me just give you a little bit of background and the purposes of this hearing and what we're hoping to accomplish out of this. This is...LR444 was introduced in regard to the response that we received through the Legislative Performance Audit Committee. In 2013 they did a report and did a study on these programs and it was amazing to me, when we looked at the audit report, it was just almost impossible for us to determine whether or not these programs are actually accomplishing their goals, and there's no way to determine the goals they're so loosely written, and no way to really measure. There's no metrics there to be able to measure this. And so if you have an interest in looking at the findings in the report, which probably would make it easier for a lot of people, you can find that report on the Performance Audit Committee's Web site, and I would encourage you to look at it. We've had a...matter of fact, we have a couple of reports that are there that dealt with this same subject. We...the Tax Incentive Evaluation Committee is working with policy experts from Pew Charitable Trusts in hopes that we can develop specific measuring goals that would be helpful to each of these tax incentives that we're looking at and in the process of evaluating. The committee also has the responsibility to create a

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strategic evaluation schedule and then what appropriate office would do these evaluations. We don't want this to, once we put this together, to stop here. We'd like to have periodic reviews of this to make sure that we are, in fact, reaching our goals and that the metrics that we have are actually measuring what we want it to measure. So this is important. So the purpose of this hearing today is simply to get comments on what you think are...how you feel about the goals and the metrics that we are giving some consideration to. I want you to understand that we have made no decisions about any of these. You'll just find a list of things we're considering. That's why it's so important to hear your comments about it. It'll help us as we begin to put this together. Tomorrow there will be another hearing. It'll be at Lincoln...in Lincoln at 1:30. It'll be in the State Capitol, in Room 1113, a hearing again getting testimony for people to tell us what their views are, what their thoughts are about these programs, and the kind of goals and metrics we might be looking at to measure. So I would be in hopes that you would share your views and thoughts with us. Now I'd like to start if I could to introduce our...self-introductions of our...my colleagues that are here. To my right and to your left, Senator Mello. [LR444]

SENATOR MELLO: Heath Mello, state senator from District 5 in south Omaha and parts of midtown. [LR444]

SENATOR HADLEY: Galen Hadley from right here in Kearney, and if you go through that door and the next door, for nine years that was either the nerve center or the nerd center of the campus because it was my office for nine years right next-door here. (Laughter) [LR444]

SENATOR WATERMEIER: Senator Dan Watermeier from Syracuse, southeast corner of the state, and I'd be interested to see if it was nerds. I bet it was. [LR444]

SENATOR HADLEY: (Laughter) It was. [LR444]

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SENATOR SCHUMACHER: Paul Schumacher from District 22; that's Platte and parts of Stanton and Colfax Counties. [LR444]

SENATOR HARMS: I'd also like to introduce Martha Carter. Martha is the...our head of our...director of our Performance Audit Committee. She's head auditor, director, chief of police, you name it, she has it all. And then I'd also like to introduce Diane Johnson who is our clerk today. And so just a couple things I'd like to do if I can. This...Al, would you like to introduce yourself? [LR444]

SENATOR DAVIS: Al Davis, District 43, which is north-central and northwestern Nebraska. [LR444]

SENATOR HARMS: Thank you very much. Let me just do a little bit of housekeeping duties, if I can, for you. It's if you have cell phones, please turn them off. If you have any handouts, we would require you to have 15 if you could, just give them to our clerk. If you're going to testify there's an orange sheet over there. We'd like to have you fill that out and print it as clearly as possible so we have that information about basically what you want to cover. And then give that form to our clerk as...before you testify. That would really be helpful. When you come before us, if you'd just spell out your name, spell your first name and your last name, that would be helpful to us. We do that because, for the Transcribers Office, it's a little easier for them to understand who's talking, and sometimes it's easy to get this lost. We have a lighting system but, no more than we have today, I don't think we're going to use the light system. If you are not testifying we would appreciate it that you would give us your written testimony and at the end, if you'd give it to our clerk or to one of us, we'd be happy to take it for you, from you, if I can. So also on that table I believe you'll find the agenda, and you should also...I'll give you a chance to review the agenda of kind of the topics we want to cover. And I'd invite our first testifier to come before us and we'd be happy to start. Is there anyone that would like to testify? Oh, you're so wonderful. Is somebody going to come up? [LR444]

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MARTHA CARTER: Everybody is just here to listen? [LR444]

_____: Everything's perfect. (Laugh) [LR444]

SENATOR WATERMEIER: I'm curious. [LR444]

MARTHA CARTER: (Laugh) Okay. [LR444]

SENATOR HARMS: Okay, well, anyone at all that has an interest in testifying, we would like to have you do that. [LR444]

_____: Sure. [LR444]

SENATOR HARMS: For my colleagues, I'd just like to encourage you, if you have your cell phones, make sure you turn them off; even if you have them on vibrate or texting, it does interfere with the speaker system. So welcome. [LR444]

JONATHAN NIKKILA: Hi. My name is Jonathan Nikkila, and that's J-o-n-a-t-h-a-n and last name is N-i-k-k-i-l-a, and I'm a member of the Kearney City Council. And I'm just...I'm here mostly just to inform myself and am interested to hear what you're finding. I don't have a question so much as I just want to certainly thank the state, the Legislature for the actions that they took over the last couple of years, especially as we were trying to attract the Facebook facility here to Kearney and open us to using the incentives to do that even though we fell short. You know, we certainly feel like the Legislature, you know, cared about what was...for the opportunity we had here and almost made it a reality. But certainly tax incentives are something that we deal with on a daily basis, different types of programs both state and local, and so it takes up a lot, could potentially take up a lot of tax money. And so I'm just commenting. I thank you for your...for looking into that because I think it's a good question that both people on the

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right and left are kind of scratching their head about, you know, what's, you know, what's the value of this. And so we're certainly watching it closely and thank you for coming to Kearney. [LR444]

SENATOR HARMS: Jonathan, do you have any specific recommendations or thoughts or issues that have confronted you or your community with in regard to these programs? [LR444]

JONATHAN NIKKILA: You know, it's always difficult. I know some of the programs are anonymous, and so that's always challenging for our tax base when we don't know what's...who's asking for the credits. I understand why you have those things in place. I don't know a lot of the details myself. But, you know, that's a challenge. I'm not sure I have really a recommendation. [LR444]

SENATOR HARMS: Jonathan, do you know, are your thoughts in regard to these smaller rural communities, have any idea about these programs? [LR444]

JONATHAN NIKKILA: You know, I can't speak for outside Kearney. [LR444]

SENATOR HARMS: Okay. [LR444]

JONATHAN NIKKILA: I think people in Kearney have a high level of knowledge about them. [LR444]

SENATOR HARMS: Sure. [LR444]

JONATHAN NIKKILA: We're very blessed here with the economic development staff here that they know how to utilize the programs and I think work well with the state. I think that's shown time in, time out. I can't speak for outside of our city or county, so. [LR444]

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SENATOR HARMS: Okay. Thank you. Do you have any questions for Jonathan, anyone? Senator Mello. [LR444]

SENATOR MELLO: Thank you, Senator Harms, and thank you, Jonathan, for coming today. A question maybe more from your budgeting side. [LR444]

JONATHAN NIKKILA: Uh-huh. [LR444]

SENATOR MELLO: We've heard over a number of years the challenges that sometimes city governments have in respects to the loss of sales tax revenue due to some of the tax incentive programs. [LR444]

JONATHAN NIKKILA: Sure. [LR444]

SENATOR MELLO: Nebraska Advantage would be probably the biggest one. [LR444]

JONATHAN NIKKILA: Yeah. [LR444]

SENATOR MELLO: Is that an issue that as a city councilman and dealing with your mayor and city government, is that something that you wrestle with in regards to identifying when that sales tax is going to be taken out of your budget, how you as a city prepare your budget moving forward? I know we've tried to address that in the last couple of years with some of the first-class cities in the state, but could you shed any potential light or feedback in regards to have we done a good job, would we have more work to do in that area? [LR444]

JONATHAN NIKKILA: You know, I don't know how much more you can tell us. It's still, to some degree, a surprise, and we watch it closely. I think our...when it happens. But our city budget has not been hit very hard by it. I don't know what it was like when

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Senator Hadley was in my seat but, you know, it hasn't been as difficult. And some of the other communities I know have had major hits in their sales tax receipts. And theoretically, our city would be more vulnerable to it because we rely so heavily on sales tax and our property tax levy is the second lowest in the state for a city. So we rely almost exclusively on sales tax for our general revenue. And so I don't think there's any doubt that it gives us concern, but we haven't had any...it hasn't really bit us yet, so. [LR444]

SENATOR MELLO: Okay. [LR444]

JONATHAN NIKKILA: But as a general principle, when we rely that heavily on it, it certainly...it could be an issue someday, yeah. [LR444]

SENATOR HARMS: Thank you, Senator Mello. Is there any other questions? Seeing none, Jonathan, thank you very much. [LR444]

JONATHAN NIKKILA: Yep. Thanks for coming to Kearney. [LR444]

SENATOR HARMS: Thank you. You're welcome. Anyone else who would be...has an interest in testifying? [LR444]

DARREN ROBINSON: Have to leave that pen since neither one of us brought one today. [LR444]

JONATHAN NIKKILA: Oh, yeah. Can you fill out my address? [LR444]

DARREN ROBINSON: (Laugh) Yeah. I am Darren Robinson, it's D-a-r-r-e-n R-o-b-i-n-s-o-n. I'm the economic development director here in Buffalo County. Want to thank you for coming out today. I hadn't planned on testifying. I was going to kind of listen in the background, but I want to make sure I get some of the information that

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we've experienced over the last few years out to you folks while you're here. So thank you for your time in evaluating the program. First off, without the Nebraska Advantage program, we would have never competed with the Facebook project. Buffalo County is the fourth least-stressed county in the United States. Associated Press puts that out. That's based on bankruptcy, foreclosure, and unemployment rate. So if you look at kind of what makes Buffalo County successful, it's a diversity of industries and certainly the university is a tipping point for the community. With such a low unemployment rate, I have 500 jobs available right now in Buffalo County that I don't necessarily need more jobs. I need more probably high-paying jobs to get people to relocate. So we went after high-tech as a...further diversify our industry and not compete with our manufacturers or educational jobs that the university has or with our medical jobs from our hospitals. And so I would say that without that tool we would have never had a look from Facebook to even look at high-tech in Kearney. So I...this will be, I guess, my opinion, not necessarily that of the economic development council: I don't feel that Nebraska Advantage is so rich that we're giving away the farm, because we're certainly losing projects to Iowa and to some of our neighbors, but I do feel it's competitive. But I say that a little bit without looking at the performance review that's put together, so I don't know how it's been utilized across the state as to whether the outcomes are really reaching the objectives of what was originally put forth. But certainly, from our standpoint, we're thankful we had Nebraska Advantage to compete on that project and continuing to work on additional technology projects that would utilize Nebraska Advantage. The pain point that you referenced, Ravenna, is in my district. They were certainly a community that got hit pretty hard a few years ago because of Abengoa, the...our ethanol plant. And as we're working on potentially another expansion up in Ravenna, the discussion came up about Nebraska Advantage and I asked them would they rather not have Abengoa, right, or Nebraska Advantage, and they said it was well worth Nebraska Advantage to convince Abengoa to be in their community and create the jobs. And it's actually the largest taxpayer in Buffalo County from a real estate tax standpoint. So I would say that was a success story. I know, echoing what Jon had said, the not-so-successful part about that was the lack of heads-up as to what they were

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going to get hit with on their budget. And so I think you guys did a great job of taking care of that last year. I haven't heard any complaints going, you know, so far. A couple things Nebraska Economic Developers Association met last week to talk about kind of our thoughts on Nebraska Advantage and some of the tax advantages, and I think it was going around the room, felt that we've been happy to have those tools in our toolbox. Right? But one of the comments that I took from it was I'm not sure that we need to boost more low-income jobs in the state when we have so many available. So, you know, maybe the program should be geared at a little bit higher-paying job from that standpoint. So anyway, any questions for me? [LR444]

SENATOR HARMS: Darren, do you...if we went to the higher-paying jobs, do you think that we'd have the qualified work force, the educated work force to deal with that? Because with the higher-payer jobs comes another classification of people. [LR444]

DARREN ROBINSON: Right. [LR444]

SENATOR HARMS: And I'm just curious about, as you look at your community and then you look at rural Nebraska, probably a stark difference. [LR444]

DARREN ROBINSON: Sure. [LR444]

SENATOR HARMS: So I'm just curious about what your thoughts were. [LR444]

DARREN ROBINSON: Well, you'll hear a common theme of lack of available or affordable housing within the state. [LR444]

SENATOR HARMS: Um-hum. [LR444]

DARREN ROBINSON: So right now it'd be very difficult to relocate a skilled worker to Kearney because of our housing. That's not really unlike the housing available in

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Ravenna or some of our other communities, and certainly at our roundtable it was echoed by Hastings, North Platte, and Grand Island. So we have this little bit of a challenge. We have lots of jobs available, but our housing market is so expensive that it's hard for us to fill those jobs because they can't afford to relocate for the jobs that are available. So I guess the hope is the that if you're planning on it being a little higher of a skill set of a job that you're attracting, maybe they can afford to move into the market. I really don't have a good answer for you. It's really a tough problem; work force and housing across the country is really a tough challenge. [LR444]

SENATOR HARMS: When you look at a higher-paying job, what would you guess that we'd be paying people, at what level, in order to make the move here and be able to adjust to the kind of housing cost that's here? [LR444]

DARREN ROBINSON: I would say that a good entry point would be, for example, Xpanxion. We have a software programming company, you know, they're hiring developers. Some of those positions are \$95,000, right, but I would say \$60,000 would be the entry point to relocate a family into our market with the housing stock that's available. [LR444]

SENATOR HARMS: Okay. [LR444]

SENATOR HADLEY: You can buy five senators for that. [LR444]

DARREN ROBINSON: (Laughter) Yeah, yeah, yeah. [LR444]

SENATOR HARMS: Do you have any questions for Darren? Senator Hadley. [LR444]

SENATOR HADLEY: Darren, you hit on what I was going to ask about. I've been hearing more and more that affordable housing is a drawback... [LR444]

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SENATOR HARMS: Yes. [LR444]

SENATOR HADLEY: ...that you could have the economic development tools, but if they come in and are trying to steal workers from other companies, it doesn't do us...all it does is drive wages up and... [LR444]

DARREN ROBINSON: Right. [LR444]

SENATOR HADLEY: And supply doesn't change, right? [LR444]

DARREN ROBINSON: Yeah. [LR444]

SENATOR HADLEY: And so that...you're saying that the housing is a concern for economic development. [LR444]

DARREN ROBINSON: Absolutely, yeah, absolutely. Right now what we're looking at is every avenue we can for education. So if we can continue to grow our own work force and keep them here and get them the skill sets that we need, that, to me, that's our priority at this point in time. I know that changes, of course, with the national economy as to what might be needed. But if I had a pot of money today, I would probably have some kind of customized career education center, to be honest with you, and try to put more of the locals to work as opposed to have them maybe not get the experience that, you know, could be CNC machinist, which we could put a ton of them to work at Baldwin's and Eaton's and other manufacturers. And so I don't know if I answered that directly but, yes. [LR444]

SENATOR HADLEY: Well, I just keep hearing it across the state that... [LR444]

DARREN ROBINSON: Yes. [LR444]

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SENATOR HADLEY: ...and whether it's Sidney or wherever it is, that affordable housing is really limiting...I was talking to somebody about Cabela's, and they're having workers drive from Wyoming, Colorado, and Nebraska to go to work. [LR444]

DARREN ROBINSON: Yeah, well, and the company even took down 400 acres of their own to be their own housing developer. [LR444]

SENATOR HADLEY: That's right,... [LR444]

DARREN ROBINSON: Yep. [LR444]

SENATOR HADLEY: ...be their own housing developers for... [LR444]

DARREN ROBINSON: Yeah, which is a pretty far-out move to expect. I kind of understand that. And Sidney being the major...you know, the amount of jobs that they create, but that would be pretty...a pretty big ask for an Eaton's or a Baldwin's or a national company to, you know, develop their own housing, so. [LR444]

SENATOR HADLEY: Thank you, Darren. [LR444]

SENATOR HARMS: Thank you, Senator Hadley. Do we have any other questions? [LR444]

SENATOR DAVIS: A couple. [LR444]

SENATOR WATERMEIER: Go ahead, Al. [LR444]

SENATOR DAVIS: Just to kind of dig into this housing situation a little more. [LR444]

DARREN ROBINSON: Uh-huh. [LR444]

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SENATOR DAVIS: And I come from a very small town, so we're not in the same league as you. But the problem that exists there is not number of structures. It's the caliber of the structures. [LR444]

DARREN ROBINSON: Right. [LR444]

SENATOR DAVIS: So is that what we're really talking about here, the housing stock being really old and sort of outdated? [LR444]

DARREN ROBINSON: No, not in our case. Ours, really, what it comes down to in our market, we could...the amount of houses on the market. I'm sorry. I should...I didn't plan on testifying today. I would have brought you more statistics as opposed to just me talking, so I apologize for that. You know, we have about a fourth of the houses on the market that we really need. We recently...normally the economic development office does not get involved in housing, but a few months ago the economic development board had asked to kind of do an inquiry as to how we come up with some affordable housing options. And so we did find a project. We started working on the project. We know that \$170,000 is a good entry point house, right? May be a little high, but you've got to keep the quality up there. You don't want...we don't want...trying to avoid slab housing, right? And what ended up being the case is when we started looking at infrastructure which would be really a very similar case in wherever you're at. By the time you put in sewer, water, concrete, electrical, natural gas, whatever you need there, we were up to \$36,000 per lot. And so if you think you're going to build a \$175,000 house, when...by the time you're \$36,000 in the lot, plus your lot cost is probably \$7,000-12,000, just to even get a lot ready to develop is pretty...it's pretty fair to say that in most communities that's about \$50,000. So I don't see it as an easy proposition to go to the small communities and build a 1,200 square foot house or entry house. Given, I know that we have a developer that has tried to do that and, you know, he's still at \$190,000 for that house and they're...I mean it's tough. It's... [LR444]

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SENATOR DAVIS: So the issue, it's...housing is a complicated issue, and I realize that's not what we're talking about here. [LR444]

DARREN ROBINSON: Yep. [LR444]

SENATOR DAVIS: But I think it's an interesting discussion. Are the wages high enough to afford a \$100,000-200,000 home? Or is the housing stock too costly to build for the salaries that we have? [LR444]

DARREN ROBINSON: What I...yeah, I would say the...I don't know what the ratio is as far as jobs that can afford that or not and whether we have just a surplus of lower-income jobs that might be skewing that, and I can't tell you I know the answer to that. I do know that I was at a roundtable with South Central Economic Development District last week, and that's out of Holdrege, and a lot of the focus for the small communities there were programs to remove dilapidated structures. And so I know that there's been a lot of movement. I think Kearney is just kind of in one of those situations that we...they've already been kind of taken or renovated or worked in. I honestly don't know. That would be more of our city of Kearney folks to answer that one. [LR444]

SENATOR DAVIS: And then just a couple of other questions. You know, we've read a lot in the paper about the Facebook decision having to do with green energy. Is that valid? Do you know if that's valid? [LR444]

DARREN ROBINSON: Well, that would be pure speculation on my part, so I think I'll pass on that one. I think there were a lot of reasons. I do believe that their desire to go to Iowa was a major factor from a senior management standpoint. We did try to explore as part of that project some wind energy programs and also, as we talked about, having a go at some of the cellulosic wind or bioenergy solutions. I think it's certainly important for their portfolio that Facebook has been called out repeatedly by Greenpeace. I think it

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would have been a little bit difficult for them to come to Nebraska without bringing on renewables of their own. Is that a fair answer? [LR444]

SENATOR DAVIS: I think so. [LR444]

DARREN ROBINSON: (Laugh) Yeah, I'm sorry. [LR444]

SENATOR DAVIS: So then just one other question: With the cheese plant in Ravenna shutting down, is... [LR444]

DARREN ROBINSON: Uh-huh. [LR444]

SENATOR DAVIS: Now was that ever a part of any sort of Advantage program or anything like that, that you know of? [LR444]

DARREN ROBINSON: You know, I don't know if they were part of Nebraska Advantage, but they've been around long enough I would imagine they were on the LB775 program at some point in time. Primarily, the closure of that plant had to do with their inability to continue to expand in the area. They were bringing in 20 tankers of milk a day and they were...there's only eight tanks produced in the region. And so it really became... [LR444]

SENATOR DAVIS: So the lack of dairy is then... [LR444]

DARREN ROBINSON: It really was the lack dairy, so...and that doesn't concern me. We, you know, we're seeing a lot of pressure on them. Milk prices have been good for them, so thankfully that's making it a little more attractive for them to stay in that market. But in the past the margin has been so low there's really not been any ability to expand and address the needs that Leprino was looking for. [LR444]

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SENATOR DAVIS: You know, Mr. Ibach talked a lot about trying to develop more of a dairy industry in the state, and so I think that sort of validated what I expected was the answer, so thank you. [LR444]

DARREN ROBINSON: Yep, you bet. [LR444]

SENATOR HARMS: Thank you, Senator Davis. Senator Watermeier. [LR444]

SENATOR WATERMEIER: Thank you, Darren, for being here. I just had an observation, and Senator Davis got into it just a little bit there. Of the 500 jobs you mentioned that you had just in the Kearney area, half of them service, half of them highly skilled, roughly? What would be a...just the gist that. [LR444]

DARREN ROBINSON: Ballpark would be about 90...or 85 percent would be probably that... [LR444]

SENATOR WATERMEIER: Skilled. [LR444]

DARREN ROBINSON: ...\$10 to \$14 an hour range. [LR444]

SENATOR WATERMEIER: Oh, is that... [LR444]

DARREN ROBINSON: Yeah. [LR444]

SENATOR WATERMEIER: Okay, so the service industries though. [LR444]

DARREN ROBINSON: Yeah, and I get that from the...that number more so from the staffing agencies. We've got four staffing agencies in the community, and the last roundtable that we had with them,... [LR444]

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SENATOR WATERMEIER: Okay. [LR444]

DARREN ROBINSON: ...that was their comment, was about 90 percent of the jobs. And it's been a little while since we met. [LR444]

SENATOR WATERMEIER: Okay. [LR444]

DARREN ROBINSON: We're in that \$10 to \$14 an hour range. [LR444]

SENATOR WATERMEIER: And Kearney is probably not that much different than a lot of communities, but maybe you are because of the university in the needy and more service possibly. [LR444]

DARREN ROBINSON: I don't know. I'd love to...I could certainly pull some information and get it...and send it in to the committee. [LR444]

SENATOR WATERMEIER: No, just...it was just more of a curious... [LR444]

DARREN ROBINSON: I think that would be good information to have, so. [LR444]

SENATOR WATERMEIER: Yeah. Thank you. [LR444]

SENATOR HARMS: Thank you, Senator Davis (sic). Senator Hadley. [LR444]

SENATOR HADLEY: Yes. Darren, if you might just take a couple of minutes, since we're talking about training and work force and such as that, talk about the potential that we have with Central Community College and the high school and how we're trying to make it more seamless for students for training in that area. [LR444]

DARREN ROBINSON: Sure, sure. So certainly one of our limitations is the lack of

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skilled training in Kearney. It's typically been handled by the community colleges in Columbus, Grand Island, and Hastings. And one of the challenges you have there, I'll give you anecdotal information so my...trying to find a direction for my nephew who is 19. And I said, well, do you want to be...how about welding. Right? And he said okay, so I was going to pay for his course in Grand Island. And he goes--and the course was really only about \$300, it was a summer course--and he goes, I can't afford the gas to go over there. So we sat down, we looked at the gas for him to make 20 trips, and it was \$650. So by the time we were done, just the gas to get...so the accessibility was certainly a limitation for folks to get skilled training, a prime example I think. And so Central Community College has agreed to build a new center in Kearney. Of course we want to...it's important to us that their focus is "offer skilled training," and, you know, certainly they will have some general studies and some nursing. But really the need for the community college to expand in Kearney is to address our skilled training. The...we have a little bit of a perfect storm, which I'm kind of interested to see how this will work with the new high school that the community passed last year. That will be built right across the street from the community college, so now we'll have a great opportunity for students to go over and start working with some of the...I don't know how you know you're going to be a CNC machinist when you're 18 years old if you never have been exposed to it. And so to me it seems like we have a lot of kids that are kind of dropping through the cracks and not getting them experience of some of the skilled trades that might really fit their interest. So I think that will be a tremendous shot in the arm. If I were to have my way, I would make...Kearney is also successful, of course, from the alumni that come through the university. That's very important. That adds a lot of diversity to our work force. If I had my way, Kearney would be the education center of the state because then I would know that I'm bringing people in to fill our jobs. So does that help address that--and a little extra? (Laugh) [LR444]

SENATOR HADLEY: I think it's important that we are trying to work on the partnerships that we need to work on the work force because, you know, economic development and work force work together. You could try and bring a company in, but if they don't feel

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that they can get the quality and quantity of work force that they need, they just...you're fighting an uphill battle. [LR444]

DARREN ROBINSON: I would add that there was a sizable donation from local business owner Scott Morris who owns Morris Press. They put \$1.75 million into the new high school to create a career institute. And so that's kind of like what's happening in Lincoln, right? I think the Southeast--is it Southeast?--Community College that's doing the career institute; Grand Island also has done a nice job with their Career Pathways Institute. To me both of them are models for what really should occur in the state. Southeast kids understand what careers are out there and then getting them exposed to the machinery, get them excited about something. So they may change their mind later, but let's get them out of the high school and hit the ground running, and then they can change their mind if they want to do something different with their career. [LR444]

SENATOR HARMS: Thank you, Senator Hadley. Senator Schumacher. [LR444]

SENATOR SCHUMACHER: Thank you, Darren, for coming before the committee today. Just a couple of questions. In your role as economic development director, you're probably on the front line of trying to hustle businesses to come into the community, one of your tools in the toolbox being the economic tax incentives. When you don't get a business, when you fail,... [LR444]

DARREN ROBINSON: Um-hum. [LR444]

SENATOR SCHUMACHER: ...what would you attribute that failure to? Not enough tax incentives? An absence of what kind of synergy? [LR444]

DARREN ROBINSON: I guess the best example is...let's use Facebook as an example. I think it was pretty ridiculous how many incentives Iowa put on the table for Facebook, right? So this will be a little bit off tax incentives. [LR444]

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SENATOR SCHUMACHER: Tax incentives. [LR444]

DARREN ROBINSON: I feel like if we would have offered any more tax incentives to Facebook, we probably should have looked at ourselves and said, is this really worth it, to be honest with you. They basically stepped into Iowa and they're not paying a single tax for 20 years on a technology investment. To me that...they gave away the farm. I think what we gave away was competitive through the Nebraska Advantage program. I really feel like it was way, way too aggressive in Iowa, in my opinion. Whether that had a bearing on whether they decided to go to Iowa or not, that was certainly not something that they told us. They...what we were...what was communicated to us is they felt that our tax incentives were aggressive enough to keep their attention here. I think it was ultimately other reasons that they went to Iowa, not because of the tax incentives, personally. [LR444]

SENATOR SCHUMACHER: Forgetting a minute maybe about some green energy or something like that, were there any other factors in that attempted acquisition or other ones that you've become aware of that, you know, we could leverage our tax incentives and their effectiveness by adding a nontax incentive feature to them? [LR444]

DARREN ROBINSON: I guess I don't know. Yeah, I don't know. I will tell you that Nebraska Advantage is very important for the project that I'm working on with Abengoa in Ravenna. And we are being compared against Illinois, Indiana, and Missouri. And I feel that if we didn't have the Nebraska Advantage, we wouldn't really have those discussions with them. I don't know if they'd continue their investment in the state. As far as any nontax incentive, a lot of the states around us are getting very aggressive about work force, right, putting money into academies and...because at the end of the day, if you have unlimited tax incentives but you have nobody to fill the job, those are some questions that any recruit coming into the community is going to want to ask, right? So I think you could probably have all the tax incentives in the world and still not

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necessarily get a business here because of the limitation of the work force within the state. [LR444]

SENATOR SCHUMACHER: And when you say "get a business here," does that mean attract an existing company to come in from someplace outside of the state? [LR444]

DARREN ROBINSON: Yes, attract a new business, yeah. [LR444]

SENATOR SCHUMACHER: The...I would guess that this area of the state, just like most of the rural areas of the state, has some pockets of fairly wealthy folks who have had some...worked hard and accumulated some capital. [LR444]

DARREN ROBINSON: Sure. [LR444]

SENATOR SCHUMACHER: And that capital tends to sometimes go into increased bidding on farmland; sometimes it gets shipped off to the stock market or the bond market; sometimes it's reinvested in the local business. Do you...are you aware in this area or in your discussions with other economic developers, is there any active effort being made to set up a business organization or a mechanism by which that extra capital would be diverted back here from either the stock markets or pressing up land prices into capital investments, maybe even including housing or something, right here so that we use that money and it's power to grow our own internally, rather than try to let it leave the state and help somebody else out? [LR444]

DARREN ROBINSON: I'm aware of...I think the angel investment tax credit is an excellent opportunity to do that. What I don't know is how the utilization of that...we've definitely had meetings, and you guys are familiar with Gary Hamer who was the former deputy director of Economic Development. He's certainly been pounding the pavement to talk about exactly that and putting together the angel investment tax credit. I guess sometimes our world is a little bit small. All right, Kearney seems like a big place, and

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then it's not such a big place at times. I do see a lot of reinvestment from our folks in the community to...for good things. As far as the big pockets of dollars being brought back into kind of an investment club, I would say that I guess I'm not...Galen, I'm not sure, Senator Hadley, I'm not sure if you're aware of any in Kearney. [LR444]

SENATOR HADLEY: I don't know of any. [LR444]

DARREN ROBINSON: I do think the angel investment tax credit is in the right direction and there has certainly been some utilization of that. What I'm hearing is that the certainty of what you may get back as far as a tax credit on that program is still a little bit undetermined based on how much is in the program. [LR444]

SENATOR SCHUMACHER: But the angel investment, it's something like \$4 million a year. [LR444]

DARREN ROBINSON: Right. [LR444]

SENATOR SCHUMACHER: I mean, more than that is spent on some land auctions. [LR444]

DARREN ROBINSON: Right, yes, yes. [LR444]

SENATOR SCHUMACHER: So it's fairly miniscule amount of money for the entire state. [LR444]

DARREN ROBINSON: Yep. I would say that I am certainly...I don't see any investment clubs in our area that are accomplishing that, yeah. [LR444]

SENATOR SCHUMACHER: So, I mean, is the option then to involve government to try to come up with some housing program instead of trying to create a mechanism that

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this pile of private capital can use to come up with its own housing program? Or is the economy just not there to sustain new houses? [LR444]

DARREN ROBINSON: I think that it's been...it's become very expensive to build housing. Yeah, I guess I don't know what the tolerance would be to ask some of our philanthropy folks to put money into a housing project, right? Is that what you're saying? [LR444]

SENATOR SCHUMACHER: Well, I mean, I'm not talking philanthropy; I'm talking making money. Is it not a good investment from a private perspective to develop, say, housing, if that's the need? Is the local economy and the \$14 an hour jobs just not enough to make...to float that boat? [LR444]

DARREN ROBINSON: So the meetings that we've had, we've had roundtables with developers and area bankers, and they'll be glad to build you a \$230,000-plus house. I would say that most of the emphasis today to make money in the housing market is on the customized homes. I do not see anybody putting spec homes on the market. One spec home, I guess, that is going up right now is \$205,000 and it's right across from Habitat for Humanity housing. It kind of surprises me that they're going to ask for that much for that house. So I would say the majority of our developers that have longevity right now are focused on granite counter tops, custom features, not spec houses, yep. [LR444]

SENATOR SCHUMACHER: Thank you. [LR444]

DARREN ROBINSON: Yeah. [LR444]

SENATOR HARMS: Thank you, Senator Schumacher. Senator Mello. [LR444]

SENATOR MELLO: Thank you, Senator Harms. Darren, one of the goals of the

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Nebraska Advantage program, and I'm just going to read you this, part of our LR444 committee is that one of the goals specifically says to revitalize rural areas and other distressed areas of the state. Part of what our responsibility is, is to try to identify some potential metrics where we as a Legislature can do an evaluation of whether or not the Nebraska Advantage or any other tax program, incentive program is meeting these objectives and metrics. And some of the objectives that our committee has come up with, I'm going to read you the three that relates to rural Nebraska since we're in Kearney. [LR444]

DARREN ROBINSON: Sure. [LR444]

SENATOR MELLO: Job creation from incentives in distressed areas compared to job creation from incentives in other areas of the state, primarily Omaha or Lincoln; percentage of residents of the state's distressed areas who have education to fill the jobs in those areas; and a portion of the incentivized jobs that do not require a bachelor's degree. Those are three metrics that we as a committee are going to start having more internal conversations about. [LR444]

DARREN ROBINSON: Sure. [LR444]

SENATOR MELLO: Do you have any suggestions for metrics as it relates specifically on whether or not Nebraska Advantage is really achieving a rural revitalization emphasis or focus that you think we should be considering as we're trying to develop this framework to evaluate whether or not it's meeting the intended focus of revitalizing rural parts of the state? [LR444]

DARREN ROBINSON: I think the objectives that you set out are perfect. I think they accomplish exactly what I would ask for, and I think your review makes sense. I wouldn't have any difference and, unfortunately, not enough time to think about it to come off the cuff as whether I would look for any specific metrics. You know, I... [LR444]

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SENATOR MELLO: That's all right. Is there an area at least then you think we should be considering? Maybe not a specific metric, but if we're...if we've got to come up with a way to judge whether or not this is really working in rural Nebraska in comparison to urban Nebraska, anything that we should be focusing on, you think, in regards to our internal dialogues as a committee? [LR444]

DARREN ROBINSON: Well, I would...I guess I would certainly look at the utilization across the state. As you see the program being utilized in the rural markets, that should be a pretty good indicator of whether it's really pushing your large metro markets and being utilized way more than your rural. That would be about the only metric that I could think of that you would look at. So I will tell you that without the toolbox, without the Nebraska Advantage toolbox, I wouldn't even be at the table with some of these companies. [LR444]

SENATOR MELLO: Okay. [LR444]

DARREN ROBINSON: Yeah. [LR444]

SENATOR HARMS: Thank you, Senator Mello. Senator Davis. [LR444]

SENATOR DAVIS: One thing about coming before a committee of the Legislature, you get asked a lot of questions. [LR444]

DARREN ROBINSON: Yeah, yeah, got it. (Laugh) [LR444]

SENATOR DAVIS: That's just the way it works. But I'd like to get back to this issue of the 500 jobs that you have, which about half of which are essentially no-skill or unskilled positions, and the other half are...so... [LR444]

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DARREN ROBINSON: Correct. I would say a higher percentage of those are unskilled positions, yeah. [LR444]

SENATOR DAVIS: So higher than 50 percent you mean? [LR444]

DARREN ROBINSON: Yeah. [LR444]

SENATOR DAVIS: So you talked a little bit about the career academy and the need for some of that, and I think the Education Committee is, you know, in this visioning process that we're going through right now, that will probably be discussed. [LR444]

DARREN ROBINSON: Sure. [LR444]

SENATOR DAVIS: But my question I have is, so are we not training the people to the point in Nebraska where they will qualify for a highly skilled job if we get them brought into Kearney, or is Kearney just not in the same league as, say, the metro areas in bringing in those kind of industries? I mean, is it a work force issue or is it something else? [LR444]

DARREN ROBINSON: I would say it's a skills...even the unskilled...I shouldn't say...I don't know how to say this properly. But even the...I shouldn't say that the percentage is unskilled. I should say at just that \$10 to \$14 range they're still skilled positions, could be entry level machinist, could be welder. I don't think we're doing a very good job yet of providing options of education. I don't...the skills gap is a problem across the entire country, right? There's a lot of folks sitting in the room right now today, somewhere else, trying to figure out how to address it. As far as, well...so let me give you a little bit of experience from the revisions process. Nebraska Department of Education has a revisions process, so I recently went through that with Elm Creek Schools, Elm Creek High School. What was interesting was certainly the...probably the primary comment that I took out of that was a lot of the kids coming out of high school are not...do not

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have problem-solving skills. A lot of those skills, you know, I grew up, I spent my summers on the farm, right, we're losing a lot of that skill set to problem solve, and I think that if we don't put some...if we don't provide opportunities in the...at the high school level, I think we're missing some opportunities to help them learn how to problem solve in real-world examples. I don't...that doesn't really address your question. But I don't believe...I believe at the high school level we're not doing a good job of getting opportunities there for our youth. And I...probably the toughest part is, if I had my way, I would focus that towards high-demand positions and not necessarily try to blanket across every career cluster, right? I'd probably...I think it needs to be a little bit more targeted approach, but I would think there's plenty that would argue opposite of that, so. [LR444]

SENATOR DAVIS: Well, I think one of the points that I would make is, you know, we've heard all across the state, not just...not on this committee but in a million other committees, we've got a shortage of welders and a shortage of plumbers and a shortage of electricians but, you know, and really we've got a surplus of bachelor's degrees in Nebraska. Coming from really rural Nebraska, you know, we say we export our kids to Lincoln and Omaha and we export those kids to the East Coast. So what we need to do is, in order to keep people here, we're going to have to pay them more, simply put. [LR444]

DARREN ROBINSON: I think we need to train them for the jobs that are available too. You know, in some cases, a lot of the employers are really trying to take a skill set that... [LR444]

SENATOR DAVIS: Doesn't fit. [LR444]

DARREN ROBINSON: ...and grow their own. I, you know, I'd tell you the...today in Kearney we could put 40 computer programmers to work. If I had 40 computer programmers, Xpanxion, (inaudible), Buckle, Cabela's, they would take them all. And

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right now Xpanxion is...they'll take...you know, they're looking at the physics students that come out and trying to convert them into computer programmers. They're...I think there is definitely four or five categories across this country that are really spot on for growth. Engineering, I hear that a lot in Kearney. We don't really get the engineers. I hear a lot about computer programming, and then I hear...on the other end I hear a lot about the CNC machinist, the tool and die trades. And those are the primaries that I hear about. Nursing, and, you know, I certainly want to thank the Legislature for their support of UNMC. I think that's a tremendous step. That's a perfect example of providing opportunities in central Nebraska. A lot of those folks will, you know, they'll come from Burwell, they'll come from Cozad, they'll have an opportunity to train and learn nursing, physical therapy, and they can stay here and...because once we lose them, you guys have...I'm sure Bruce Rieker, right, I think he's with the Nebraska Hospital Association. You know, we have less than a 3 percent chance of getting them back once they leave for medical school, so that's a pretty tough proposition if we don't train them here. I'm not exactly sure how you would expect to recruit them back and expect longevity. [LR444]

SENATOR DAVIS: Thank you. [LR444]

DARREN ROBINSON: So I think it's very similar, I think it's very similar with some of those high-demand positions. But I do believe every community is different. I think the demand for welders in Grand Island is significantly higher than demand for welders in Kearney. That's just because of the different industries. [LR444]

SENATOR DAVIS: Thank you. [LR444]

SENATOR HARMS: Thank you, Senator Davis. Do we have any other questions for Darren? Senator Schumacher. [LR444]

SENATOR SCHUMACHER: Thank you, Senator, just one follow-up question. I realize

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it's going to be kind of hard to quantify, but you probably have some gut feeling on it. What percentage of the new jobs in the area that you work are created by nonincentive businesses versus incentive businesses? [LR444]

DARREN ROBINSON: I don't think I can quantify that. I don't know who is on Nebraska Advantage program, to be honest with you. That's not some information that we receive. [LR444]

SENATOR SCHUMACHER: But you...when you do these negotiations with...try to attract a business, you're aware of whether or not they're applying, aren't you, usually? [LR444]

DARREN ROBINSON: We're...yes, we know to the extent that...until they apply, but we really, you know, once...then we're cut out from the Department of Revenue standpoint. It's... [LR444]

SENATOR SCHUMACHER: Would it be fair to say that far more jobs are created in nonincentive business than in incentive business? [LR444]

DARREN ROBINSON: I don't know if that's a fair statement. Now is it fair to say that...because there's other...there are certainly other programs that are utilized that I think are incentives for some of...for our businesses to grow. The new hire training I think is very important, right? There's a whole host of incentives that are out there that I think are important to address specific needs. [LR444]

SENATOR SCHUMACHER: That are apart from tax incentives? [LR444]

DARREN ROBINSON: No, they're all tax incentives, yep. [LR444]

SENATOR SCHUMACHER: All tax incentives. [LR444]

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DARREN ROBINSON: In some way or form they're a tax incentive. [LR444]

SENATOR SCHUMACHER: Thank you. [LR444]

DARREN ROBINSON: I'll give you a specific example. Baldwin has just completed their \$40 million warehouse in Kearney. They want to know how to expand. They know that their best option is...they want to know how to address the work force. They basically sat down and said, we're going to have to move lines to a different state if we can't meet the job-hiring demands here in Kearney. Right. And the first question is, what kind of support can we get? And when they ask that, they mean tax incentives, whether it be to train unskilled work force, right, or it could be relocation incentives, right. They're...I think a lot of our businesses are looking for us to come up with some solutions to help them expand in the state. I have no doubt that it's difficult in Nebraska to expand at this point in time, so, yeah. [LR444]

SENATOR SCHUMACHER: Thank you. [LR444]

SENATOR HARMS: Thank you, Senator Schumacher. Do we have any other questions? Darren, thank you for your excellent testimony. Appreciate it. [LR444]

DARREN ROBINSON: Sure. Thanks. Yep. [LR444]

SENATOR HARMS: You didn't realize it was going to be that long. [LR444]

DARREN ROBINSON: (Laugh) I did not, no, no. [LR444]

SENATOR HARMS: Anybody else that... [LR444]

SENATOR DAVIS: That will show the rest of you what this is like, so. [LR444]

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DARREN ROBINSON: (Laugh) Yeah. [LR444]

SENATOR HARMS: Do we have anybody else who would like to testify? Well, seeing none, we thank you very much for coming and...welcome. [LR444]

LORAN SCHMIT: Chairman Harms, you gentlemen...folks will learn it's not very often a former legislator has the opportunity to dispose of their cumulative wisdom over the years, and so... [LR444]

SENATOR HARMS: I know who you are. Would you spell your name and...so we... [LR444]

LORAN SCHMIT: (Exhibit 1) Yes. My name is Loran Schmit, L-o-r-a-n S-c-h-m-i-t. And I'm pleased to be here today to testify and pleased to listen to the line of questions that has taken place here. And perhaps I might digress to a certain extent from my testimony and comment upon some of the questions because I think that you as committee members have touched upon many of the issues that affect the situation which you are trying to address. And I'm a little bit embarrassed, I guess, that we do not have in this community more people who would come forward and testify as to what is important to the businesses/industry in this community. During the middle-late 1980s, many states found themselves in the midst of an economic recession. Unemployment was on the increase, and states began to compete with each other for new and existing industries. Businesses always alert to new opportunities began to actively seek special tax concessions and other incentive programs that would make location of their plant in a new area more profitable. Nebraska businessmen, Governor Kay Orr, and a group of Nebraska legislators actively proposed an aggressive program designed to keep existing businesses in the state and to lure out-of-state businesses to relocate in Nebraska. Speaker Bill Barrett introduced LB775 on behalf of Governor Orr. Senator Vard Johnson, who was the Chairman of the Revenue Committee, became a strong

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proponent of the bill and a leading advocate for the passage of the bill. In response to questioning, Senator Johnson estimated that 8 to 12 companies would take advantage of the bill. He also estimated that the revenue loss to the state over the life of the program would not exceed \$100 million. Senator Johnson's revenue loss was quite low. I now have current numbers which I did not have when I wrote this testimony. But instead of 8-12 companies, 942 companies applied for benefits under LB775. The benefits at that time when I last checked were in excess of \$2 billion, which represent a revenue shift to the state. Interestingly, under LB312, 470 companies have applied for benefits for the...out of the program. I do not know exactly what their economic impact is in the state. I talked to Mary (inaudible) this morning and she is trying to look that information up for us. And with your permission I would like to add that corrected information to my testimony, Mr. Chairman. I cite these numbers not because they are positive or negative but simply as an example of how a well-planned program may eventually go far beyond the original intent of the proponents of the bill. During the debate, I asked Senator Vard Johnson if he would give me an estimate of the cost. At that time he came up with this \$100 million estimate. I said, do you think, Senator, that it might be five or ten times that much? He smiled and he said, well, Senator, as usual, you exaggerate. When he was back for the 75th anniversary of the Legislature, I commented about that to him and he said, well, Loran, I was a little low, he said. (Laugh) You folks are very capable to calculate the percentages that I am, but it was typical Vard Johnson understatement. But in any case, Vard came in as kind of an ACLU lawyer and became very much the corporate attorney during the course of his time in the Legislature and a very strong proponent of business. I want to call this to your attention because, given the increase in the impact of LB775 and LB312, I know that this committee will want to take a long, hard look at what might be the cost of the Nebraska Advantage Rural Development Act, the Nebraska Advantage Microenterprise Act, the Farmer Tax Credit Act, which is under the jurisdiction, I believe, of the Department of Agriculture, and the Angel Investment Tax Credit Act. I've got to commend the legislators for these innovative names that they attach to these bills because, as you know, that makes a difference. As always happens after the passage

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of a bill, its successful implementation depends upon a positive interpretation of the language of the law by the several agencies of state government. Some of the participants in the program enjoyed a smooth implementation of the bill while other participants experienced years of delay before receiving promised and earned benefits. One of the proponents, one of the participants that I worked with filed her application under LB312 in 2007. As of six weeks ago, they still had not received their sales tax refunds of approximately \$1,600,000. During the course of the discussion we had with Department of Revenue, the person in charge said, I can't give you the sales tax on that item. I haven't...I can't see it. The plant manager said, the damn thing wore out; I bought it, we used it, it's five years old, I had to trade it off, it was no good anymore. Well, I can't give you the tax exemption since you don't have it in place anymore. I said, if you follow that procedure, you won't owe the company anything because all of this equipment will wear out someday. So all of you passed these bills, we all do, and we expect the participants to work with the agencies and get some kind of cooperation. The cooperation, I can tell you, is directly proportional to the oversight you provide. The problem you have with Corrections today is one problem. But I can tell you, having worked with Environmental Quality, HHS, Revenue Department, all those, there are various times when each of them have some of the same problems that you have today with Corrections. They're just not visible. And so it's not all their fault if you have a program where the introducer expects it to have 8-12 participants and you wind up with 942. You have to understand there has to be additional revenue vetted for the staff to have them with those programs; otherwise, you can't explain that to the people who are trying to work for them. I spoke yesterday to an individual and he was talking about housing. He's very active in the housing development. He is calling me from Kansas. I said, what are you doing down there, Cliff (phonetic)? He said, it's a lot easier to build these projects in Kansas than it is in Nebraska. He said, I made the comment publicly a few weeks ago. He said, it has improved some, but, he said, it's a lot easier. One of my plants built a new soybean processing plant in Iowa. You might have heard about it. The ADM people invited the Lincoln legislators to visit their plant at Lincoln, and they had a map of all of their soybean plants in the area, several of which were across the river in

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Iowa. Senator (inaudible) said, why are those plants in Iowa, why aren't they in Nebraska? The manager says, it's easier to permit them in Iowa. That's a shame; that's unforgivable. The...when the Cargill plant was built in Nebraska, the management of that plant said, we built it in Nebraska because of LB1127. That was the first ethanol incentive bill. But I've worked with those plants and they have tremendous difficulty from time to time on the permitting process. Some of it is federal; some of it is not. And so it doesn't do any good for the Legislature to enact these programs unless the word comes down that you shall work with business and industry and agriculture to carry them out. One person, the lowest common denominator in an agency, can stop a program dead. And interestingly, this gentleman that talked to me yesterday about housing said that an individual had held up a program for, I think, 11 or 13 months and he retired and the gentleman who took it over got him the necessary paperwork in a week, one week. Now that's not incompetence; that's arrogance, that's insolence, call it whatever you wish. But it should not exist in government and the directions need to come from the top, from the Legislature, need to come from the Governor's Office, and there needs to be follow up. We can no longer just pass a bill and think that because the Legislature said it's law it's going to be followed. You've all learned that very quickly. I hate to get emotional about it, but I've been around long enough to know that things do not happen unless you follow up. And just kind of telling your kids to clean up the room, you know, depends upon their perspective, and so that's the way it happens. One of the questions raised recently by legislators is, how many of the expansion programs or how many of the companies who have relocated to the state would have done so if we had not enacted the incentive program? And I think the gentleman testified earlier sort of answered that. There's been a tremendous amount of businesses that have come to the state because of the programs. I was not an early enthusiast for the program. I felt very strongly that it would cost more than it would and I wanted the Legislature to require that if they benefited...if a plant or a business benefited from the program that the amount of the benefit would become public notice. That was not a part of the bill and later on the Legislature followed a different procedure when we enacted the first ethanol incentive bill. Very frankly, I copied the program that was used in LB775 for letting contracts

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between the state and those people who wanted to build ethanol plants. The first bill was passed in 1990 and it specified financial benefits to any company who built an ethanol plant in the state and produced a specific number of gallons of ethanol over a five-year period. The public, therefore, knew to the exact dollar the amount of revenue earned by the company for the production of ethanol. If the plant did not produce ethanol, no revenue was earned. The success of the first bill resulted in the introduction and the passage of LB536 in 2001. During the life of what we called the EPIC program, the benefits to the participants under LB1127 enacted in 1990 and LB536 in 2001 totaled \$312,643,539. That specific enough for you? Kind of gives you an idea of where the program came. Interestingly, of that number, \$117,992,000 came from the state General Fund; \$182,135,724 came from farmer contributions either through fertilizer tax or checkoff or some other source. Another \$12,570,000 came from interest earned on the fund that was accumulated. As of today, the ethanol industry has invested more than \$5 billion in capital improvements in the state, investments which continue every day at some of our 24 ethanol-producing plants. More than 1,300 direct well-paying jobs and more than 5,000 indirect jobs have been created. In addition, partly because of the addition of the availability of distillers feed grains, Nebraska has become the number one cattle-feeding state in the nation, which has also added hundreds of millions of dollars to the Nebraska economy. It wasn't easy to displace Texas in that spot, but we did it because of the availability of the distillers grain. Interestingly, I got a phone call two days ago from a cattle feeder. He said, why don't you guys produce more ethanol? He said, you ought to...everybody should be using 15 percent ethanol. He said, I can't get enough distillers out here, I'm tired of driving 200 miles to get distillers. And that's a cattle feeder who a few years ago had serious complaints about ethanol. The value of Nebraska's corn crop has more than doubled due to the demand for ethanol production. This has contributed additional billions of dollars to the Nebraska economy. The ethanol industry is a new industry and there would undoubtedly be some ethanol production in the state if the Legislature had not enacted LB1127 and LB536, but it would not be nearly as extensive as it is today because other states have enacted similar kinds of programs to bring the industry to their state. Right or wrong, it's...we got into that kind of

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a deal and we're locked into it. This information should be able to allow the committee to determine if the \$117 million invested by the state has made a good return. We talked about jobs in rural communities, jobs in Madrid, Nebraska, town of 287 people; jobs in Cambridge; jobs in Trenton; jobs in Bridgeport; jobs in Plainview and other small communities where 40-50 jobs are very important. Interestingly, also, the average job, manufacturing job in those ethanol plants today pays about \$20,000 more per year than the average manufacturing job, which is about a \$39,000 a year job. So you have your manufacturing job, and the ethanol plant is around \$59,000, well-paying jobs in a town of 200 or 400 people. Companies who benefited from LB775 and LB312, read like a "Who's Who of Nebraska Businesses." There's been no outcry that I've heard in opposition to these companies who have received those benefits. I believe the Legislature would be able to better identify any weaknesses of the program if they were able to learn the exact amount of benefits earned by each company as is true with those companies who earned benefits under LB1127 and LB536. Some of the companies actually were able to secure benefits without adding new jobs. The bills are complicated, as you know, and if you learn the system you can game it to a certain extent. And some of those companies did, in fact, create jobs and then had reductions. One of my good friends is also a lobbyist in Nebraska Legislature, told me that one of his clients learned, to their chagrin, that the Legislature meant business. And when they moved jobs out of Nebraska, they lost their benefits, which is what it should be. And so I think that after 25 years of business incentive programs in the state, I believe the overall benefits have been positive. Other states continue to enact such programs. This does not mean that such programs should not be reviewed and perhaps revised. I call your attention to the fact that the ethanol production incentive program was terminated, finished in 2014. I'd like to bring up one more issue. When we first started the ethanol program many, many years ago, we went to the Governor, Governor was Charles Thone, and said, would you put the state fleet on E10? Our people were being told you can't burn ethanol in your automobiles. And Charlie looked at it and he said, well, he said, let's try the Highway Patrol. Let's put half the Highway Patrol on E10, half on regular gasoline, see what it...how it works. We tried it for six months, it worked well. He

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said, put the whole state fleet on. When Bob Kerrey came on board, he did the same thing. Later Governors did the same thing. When the EPA approved E15 for all automobiles manufactured after 2001, we asked the state of Nebraska to put the state fleet on E15. We met a roadblock, frankly, and there were a number of issues raised, warranties and that sort of thing. The Nebraska Corn Board said, if you have an engine that goes bad and it's proven to have been damaged because of E15, we will pay for the repairs--still haven't done it. We have, I think, five E15 stations in the state. We need...we could use all of the ethanol that we can produce if we were using E15. It's a proven, safe, economical tool. Should be priced 60 cents per gallon under E10 or under regular gasoline. So they said, we are debating whether we should ask the Legislature; do you have to pass a bill to put the state on E15 or is it necessary action? You know, there are a lot of people who can say, well, it's not that important. It is important. The perspective that the people, the public look at if they know the state has our vehicle fleet on E15 would be a very positive factor and would encourage the retailers to install that kind of equipment. They don't want to install it today because no one knows if they'll use it or not. Several retailers have in fact installed that equipment and not had sufficient use and have taken it back out. So I would hope that the Nebraska Legislature would encourage the Governor, whoever he is, to adopt that kind of a policy and, if not, we might come to you with a proposal. That should not be...you shouldn't have to pass a bill for that kind of a situation. I'd be glad to answer any questions and I apologize for my ineptness here. But I do believe that the bills have enacted have been beneficial. They have been...made the state competitive, and they have brought some people to the state and kept some people here who might have left otherwise. [LR444]

SENATOR HARMS: Loran, thank you much for your testimony. Do you have any questions? Seeing none, thank you very much. [LR444]

LORAN SCHMIT: Thank you very much. [LR444]

SENATOR HARMS: Do we have any other testifiers? Welcome. [LR444]

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LARRY SCHERER: Thank you. For the record my name is Larry Scherer, and I'm the director of research at the Nebraska State Education Association, and I would just like to offer a few comments from the education side of this. The state spends about a billion dollars for TEEOSA, and some component of that goes out to school districts to replace property taxes; that's better not collected because of TIF and other exceptions. That's fine. Education in itself is an economic development role, and so we're not against economic development incentives. But at least we appreciate what the committee is doing with the annual reviews and setting up a schedule to look at these. And the criteria are difficult to come up with, but ones we've looked at...and I haven't read the report completely, but I listened in on some of the hearings early on, on video. So that is...the impact on TEEOSA specifically, I don't know what it is, has...but I would imagine that it predominantly goes in urban areas where there are more TIF projects and such. So the effect of that is to shift more aid to the urban areas and, you know, since that's where the businesses are, that makes sense. You have to look at it in terms of the impact on the state as a whole though. Competition for state dollars, annually the Appropriations Committee...every other year they come up with a \$3 billion budget. I don't know what percentage...if you looked at the total amount of tax expenditures the state has, it would probably be fairly a large number too. Those, I think what the committee is doing with the annual review is it's not an annual approval, an annual appropriation for these, because that would be impossible. I think Congress tried it and was not too successful with it. But I think what is suggested here with this review is a good idea. In terms of accountability, many of you know that Nebraska school districts are now...all students must take a test and then there is some accountability in terms of how those schools are doing. Senator Adams' new legislation that deals with priority schools will really focus on helping those that need it the most. And I don't know how that...the counter of that is in economic development. You know, you tend to put money where people can take advantage of it. And schools that aren't doing well, you know, you have a measure, but they're a metric for, you know, for help and eventually some sort of a consequence. So those are the things we as an organization are supporting.

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We have a program called TEF, which is taxation, economic development and school funding, because we recognize that they are inseparable. And so we have been monitoring these types of issues for half a dozen years, really, or more, and that's why I'm here today. I didn't plan to testify but appreciate the opportunity. As someone who used to sit on the other side of the table and when there wasn't too many people in the audience, you know, you want to talk to people that are local first, and that's why I waited until the end. But I appreciate the opportunity to talk to you, and we do have an interest in this and think the general direction the Legislature has been going has been a good one, so. [LR444]

SENATOR HARMS: Thank you, Larry, for your testimony. Do we have any questions? Seeing none, thank you very much. [LR444]

LARRY SCHERER: Yeah, thank you. [LR444]

SENATOR HARMS: Anybody else who would like to testify? Seeing none, then this will close the hearing for LR444. Thank you for coming. [LR444]