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Appropriations Committee  
February 19, 2014

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[LB1019 LB1023 LB1047 LB1114]

The Committee on Appropriations met at 1:30 p.m. on Wednesday, February 19, 2014, in Room 1003 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB1023, LB1047, LB1114, and LB1019, and agency budgets. Senators present: Heath Mello, Chairperson; John Harms, Vice Chairperson; Kate Bolz; Danielle Conrad; Bill Kintner; Tyson Larson; John Nelson; Jeremy Nordquist; and John Wightman. Senators absent: None.

SENATOR MELLO: Good afternoon and welcome to the Appropriations Committee. My name is Heath Mello. I'm from south Omaha, representing the 5th Legislative District, and serve as Chair of the Appropriations Committee. I'd like to start off today by having members do self-introductions, first starting down at the end of the table with Senator Bill Kintner. Senator Kintner represents the 2nd Legislative District that incorporates Sarpy County, Cass County, and parts of Otoe County. Sitting next to Senator Kintner is Senator Jeremy Nordquist, who represents the 7th Legislative District in downtown and south Omaha. John.

SENATOR NELSON: Oh, sorry. Senator John Nelson, District 6, central Omaha.

SENATOR HARMS: John Harms, 48th District, Scotts Bluff County.

SENATOR WIGHTMAN: John Wightman, District 36, Dawson and Custer County and a small part of Buffalo County.

SENATOR MELLO: Sitting next to Senator Wightman is Senator Danielle Conrad, who represents the 46th Legislative District and incorporates north Lincoln.

SENATOR BOLZ: Senator Kate Bolz, representing District 29, south-central Lincoln.

SENATOR LARSON: Tyson Larson, District 40, Dixon, Cedar, Knox, Holt, Boyd, and Rock Counties.

SENATOR MELLO: Assisting the committee today is Anthony Circo, our committee clerk; and Matthew Ruiz, who is a senior, studying international business at the University of Nebraska-Lincoln and is our committee page. Sitting to my immediate left is Doug Gibbs, who is one of the fiscal analysts who will assist us throughout today's public hearings. On the cabinet to your right you will find some yellow testifier sheets. If you're planning on testifying today, please fill out a sheet and hand it to Matthew, our page, when you come up to testify. It helps us keep an accurate record for today's public hearing. There is also a white sheet on the cabinet if you do not wish to testify but would like to record your position on a specific bill or agency request. When we hear testimony regarding state agencies, we will first hear from a representative of the

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agency. We will then hear testimony from anyone who wishes to speak on the agency's specific budget request. We will then hear bill testimony in the following order. First will be the introducer of the legislation. We will then hear those in support, followed by those in opposition, then those testifying in neutral capacity, and we will end with a closing statement by the bill introducer. If you have any handouts, please bring up at least 11 copies and give them to Matthew, our page. If you do not have enough copies, please inform him and he will make additional copies for the committee. We ask that you begin your testimony today by giving us your full first and last name, and spelling it for the public record. The committee will be using a five-minute light system today. When you begin your testimony, the light on the table will turn green. The yellow light is your one-minute warning. And when the red light comes on, we ask that you wrap up with your final thoughts. At this time, I would ask all of us, including Senators, to look at our cell phones and be sure that they are on silent or vibrate mode at this time. That will lead us to our first bill of the afternoon, LB1023.

SENATOR HARMS: Welcome, Senator Mello. [LB1023]

SENATOR MELLO: Good afternoon, Vice Chairman Harms and members of the Appropriations Committee. My name is Heath Mello, H-e-a-t-h M-e-l-l-o, and I represent the 5th Legislative District in south Omaha. LB1023 would update statutory references for two budgetary reports that are prepared by the Department of Administrative Services, as well as require a copy of those reports to be filed with the Legislative Fiscal Analyst. Over the interim, my office reviewed a number of statutory sections dealing with fiscal policy and identified these two reports as ones which were not clearly spelled out in state statute. Under LB1023, Nebraska Revised Statute 81-1125.01 would cite "The Annual Budgetary Report" and "The Comprehensive Annual Financial Report" specifically by name. "The Comprehensive Annual Financial Report" is the primary means by which the state's financial activities are reported to the Legislature, while the purpose of "The Annual Budgetary Report" is to show compliance with the Legislature's appropriation mandates at the program level, as well as provide additional information on expenditures over the past fiscal year. Under current statute, each of these reports must be submitted at least 20 days prior to the commencement of each regular session of the Legislature. Thank you for your time and I'd be happy to answer any questions you may have. [LB1023]

SENATOR HARMS: Thank you, Senator Mello. Do we have any questions for Senator Mello? You'll let him off that easy? I guess you're pretty lucky. [LB1023]

SENATOR MELLO: Thank you. [LB1023]

SENATOR HARMS: Thank you, Senator Mello. Do we have any other people here that would like to speak in favor of or a proponent of this bill, LB1023? Seeing none, do we have any opponents that would like to speak on behalf of LB1023? Seeing none, do we

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have anybody who would like to speak in a neutral capacity? Seeing none, Senator Mello, would you like the choice of closing? [LB1023]

SENATOR MELLO: Will waive. [LB1023]

SENATOR HARMS: He waives closing. This closes the hearing on LB1023. [LB1023]

SENATOR MELLO: Efficiency at its finest. (Laughter) With that, we'll move to LB1047 by Senator Carlson. [LB1047]

SENATOR CARLSON: Good afternoon, Chairman Mello and members of the Appropriations Committee. I am Tom Carlson, T-o-m C-a-r-l-s-o-n, State Senator from District 38 here to introduce LB1047. Funds were provided through the Nebraska Resources Development Fund for the Antelope Valley Flood Control Project which was sponsored by the Lower Platte South Natural Resources District and the U.S. Army Corps of Engineers. After the final project costs were settled with the U.S. Army Corps of Engineers, it was determined that the Lower Platte South NRD had paid more than their share and were issued a settlement from the Corps near the end of fiscal year 2013. The amount was \$838,409. This money has been returned to the General Fund. It originated in the Resources Development Fund and the bill would ask that that money go back to the Resources Development Fund. However, I've had a conversation with Senator Mello concerning this and part of the difficulty with this, it's a different fiscal year and so there are dollars being returned from the Water Sustainability Task Force, which was money that was authorized by the Legislature and the Appropriations Committee, and Senator Mello has talked about that money taking the place of this. And if that's the way the Appropriations Committee wishes to handle it, I have no problem with that. That's the opening on my bill. Thank you. [LB1047]

SENATOR MELLO: Thank you for your testimony, Senator Carlson. Are there any questions from the committee? Seeing none, thank you, Senator Carlson. [LB1047]

SENATOR CARLSON: This is a little bit better than yesterday afternoon. (Laughter) And I thank you for your endurance with that. [LB1047]

SENATOR MELLO: We will first hear from proponents for LB1047. Seeing no proponents, we'll take any opponents for LB1047. Seeing none, is there anyone here in the neutral capacity who would like to testify on LB1047? Seeing none, Senator Carlson, would you like to close or waive closing? Senator Carlson waives closing. That will end today's public hearing on LB1047 and lead us to our next piece of legislation. [LB1047]

SENATOR HARMS: We now open the public hearing for LB1114. Senator Mello. [LB1114]

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SENATOR MELLO: Good afternoon, Vice Chairman Harms and members of the Appropriations Committee. My name is Heath Mello, H-e-a-t-h M-e-l-l-o, and I represent the 5th Legislative District in south Omaha. In 2010 the Legislature created the Innovation and Entrepreneurship Task Force, of which I was a member of. This task force, chaired by the committee's own Senator Conrad, developed a statewide strategic plan designed to cultivate a climate of entrepreneurship in the state of Nebraska focusing on innovation and high-wage employment. The Business Innovation Act, which was passed in 2011, was the result of the work of the task force as well as the Battelle study prepared by the department...prepared for the Department of Economic Development and the Nebraska Department of Labor in 2010. For the most part, traditional economic development policies in Nebraska have focused on attracting new businesses to the state through various tax incentive programs. In contrast, the Battelle study called for a more strategic and comprehensive approach to economic development, in part by focusing on technology-based innovation and high-skilled talent. Essentially, both the Battelle study and the Innovation and Entrepreneurship Task Force report called for a transition away from the traditional economic hunting model towards more of an economic gardening model. By way of background, the Business Innovation Act has four main components: first, has matching grants for Nebraska start-ups that have received federal Small Business Innovation Research grants, better known as SBIR grants; two, financial capital for prototypes and commercialization efforts by Nebraska-based high-growth start-ups; third, matching grants for Nebraska-based businesses that partner with Nebraska colleges and universities to fund research and development activities; and fourth, technical assistance for Nebraska microenterprises located in distressed rural and urban areas. LB1114 would move language from the pilot program in the Small Business Innovation Act under the umbrella of the Business Innovation Act, providing technical resources for Nebraska-based, high-growth businesses to foster growth and development. While this provision expands the range of projects and entities that could apply for funding under the Business Innovation Act, it would not increase the total cost of the existing program. LB1114 would also extend the sunset date of the Business Innovation Act for an additional five years from October 1, 2016, to December 1, 2021. This change would provide certainty to start-up businesses that utilize the existing act, and the move to October to December will improve grant time lines for the future use in DED. Finally, LB1114 provides funding for a study to make recommendations on ways to support and increase venture capital in Nebraska. The study would provide research, analyze best practices in other states, and present their findings and recommendations to the Legislature by December 1, 2014. While Nebraska has taken very positive strides to improve our entrepreneurial climate through both the Business Innovation Act and the Small Business Innovation Act, venture capital is an area where long-range planning will be critical in ensuring that we move forward in an effective and thoughtful manner. Recognizing that General Fund dollars are at a premium this legislative session, funding the venture capital study would be provided by temporarily reducing the amount of tax

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credits available under the Community Development Assistance Act by \$50,000 in fiscal year 2014-15 and transferring those funds to a new cash fund administered by the Department of Economic Development. Historically, tax credits under the Community Development Assistance Act has been underutilized and the temporary reduction in these credits have been used to fund one-time economic development efforts in the past. A number of testifiers behind me can speak to the success of both the Business Innovation Act and the pilot program in the Small Business Innovation Act as well as the long-range benefits of the proposed venture capital study. Thank you for your time. I'd be happy to answer any questions the committee may have. [LB1114]

SENATOR HARMS: Thank you, Senator Mello. First, I'd like to welcome Senator Conrad. She has now joined us. Thank you very much, Senator Conrad. Do we have any questions for Senator Mello? Seeing none, thank you, Senator Mello. [LB1114]

SENATOR MELLO: Thank you. [LB1114]

SENATOR HARMS: Do we have any other proponents that would like to speak on behalf of this bill? [LB1114]

MICHAEL DIXON: (Exhibits 1 and 2) Thank you, Chairman Mello and members of the Appropriations Committee. My name is Michael Dixon, M-i-c-h-a-e-l D-i-x-o-n. I'm president and CEO of UNeMed, the technology transfer and development organization at the University of Nebraska Medical Center. I've written out my testimony. It got long so, I know we're on a time limit, I'm going to speak more of some of the data that I've got and you can review the information that I've written as I speak. My background is I've been working in UNeMed and technology commercialization for ten years now. We are very focused on high-growth companies that are in the biomedical space. We work with existing companies as well as create new companies to develop products that come out of the university. In addition to my role at the university, I also work with Invest Nebraska as a board member in the venture world. I serve as a mentor for Straight Shot accelerator, NMotion accelerator, and the Pipeline entrepreneurship program. Furthermore, I serve on the board of directors for Trak Surgical, giving me a viewpoint of the industry side of this. So I wear many caps here in the state and it gives me the opportunity to see the entrepreneurship ecosystem from many different angles. I can unequivocally say that LB1114 is a very good plan to give us a longer runway with the Business Innovation Act. I think we've been very successful in the use of the funds thus far. The companies that we're funding through the use of this bill are companies that are very fragile. They have a long runway but they have amazing growth potential. They build products that have the ability to far surpass lifestyle companies. But there's a valley of death that occurs. That is, as an invention is created, it takes a lot of money to get it up and going. In the biotech space, it can be anywhere from five to eight years and it can be millions of dollars before you can make your first sale. However, once you start to get those sales, it can be a very successful company. Most recently, the

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World-Herald reported in 2013 that there were 23 Nebraska start-ups that have attracted 11 different venture capital groups for \$43 million in 2013. When I compare that to 2010, when the Battelle report was done, Battelle noted that Nebraska was last for SBIR applications and next to last behind...just ahead of Oklahoma for venture investment. The ecosystem has changed greatly in the last five years and I think the Business Innovation Act is a very important component of that. It's giving investors another outlet and it's giving small companies a chance that you'll hear more about later to get that first prototype and proof of concept done. A couple of quick stats from the university in what we're up to since the Business Innovation Act. We've had eight start-up companies. Six of them have participated in the program and those six are also raising capital both inside and out of the state. In this year alone we expect these companies to raise at least \$10 million, and most of it I think will be coming from out of state, so that's out-of-state money invested in companies here to help build products here, help hire employees here that will add value to the state and increase our tax base. In addition, we've seen an increase in the number of Nebraska companies that want to work with the university. The biotech sector is fairly small and for the biotech companies in Nebraska to have an incentive to work with the university is very big. So instead of subcontracting with Harvard or Stanford, there's now a reason for them to subcontract with the university and that helps us create collaborations, which are very important as we look to grow both our industry sector and our collaboration sector. Furthermore, I've received at least two requests from companies in California that want to collaborate with us about maybe renting lab space or building space here in Nebraska so they can better take advantage of some of the benefits Nebraska is now putting in place in increased collaborations with our researchers. Now while I think this is a long-term vision, I was very encouraged to see that they think this is a viable way for them to engage with us. I've given three examples of companies that we've started and I won't get into the details. You'll hear from Trak Surgical CEO later. I will say that we recruited an entrepreneur in residence from Wisconsin this...about two years ago. And in addition to having experience in the biomedical space, one of the reasons he came back to Nebraska is he saw the state programs as very incentive-laden for entrepreneurs to create new businesses. Had it not been for that program, it may have been more difficult to recruit him and we may not have been able to spin-off some of the companies we have. In conclusion, I think the programs are exactly what is needed. And by moving the sunset date out another five years, it's going to give us a chance to realize the full potential of the program and really help build the ecosystem so that we can have successful start-up companies and a much stronger innovation economy. [LB1114]

SENATOR HARMS: Thank you, Dr. Dixon. Do we have any questions for Dr. Dixon? [LB1114]

MICHAEL DIXON: Practiced that all night. [LB1114]

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SENATOR HARMS: Senator Kintner. [LB1114]

SENATOR KINTNER: Reading your testimony right here, it says, "Traversing the valley of death requires an intelligent blend of public and private sector investment, targeting the most promising innovations." [LB1114]

MICHAEL DIXON: Yeah. [LB1114]

SENATOR KINTNER: Now I traverse the valley of death, I'll take Jesus Christ with me. You seem to be more comfortable with tax dollars. Why should we put tax dollars behind something that...you know, why should someone work a couple extra dollars this month to pay taxes to subsidize a business endeavor? [LB1114]

MICHAEL DIXON: Sure. So, you know, with the full economic scope of programs that are out there, start-up companies are perhaps the most difficult to get going and get going. So there are many different ways that governments incentivize them to work. I think the programs that have been put in place with the Business Innovation Initiative, they're not dollars that are going to fully finance a company. This is the ability to get them over the hump. The valley of death really is the first dollars into a company to really get that prototype going, so that helps get the other dollars coming. Once you can start to get momentum in a company, you start to get the prototype developed, they see it works, additional investments come. So by priming the pump, so to say, what we can do is leverage and I think what we've shown is the first dollars in have allowed some of these companies to leverage tens of millions of dollars more to bring that investment into the state. So it's almost a down payment to start to see more money come into a program or a company and really start to build a product which will increase the tax base, which will increase the number of employees. So there have been studies out there that show that if you look at welfare versus venture capital, the number of dollars put into venture capital in investment into businesses has a higher return on investment than some of the social programs that are out there now. [LB1114]

SENATOR KINTNER: Yeah, I'm not suggesting we put money in social programs. [LB1114]

MICHAEL DIXON: Yeah. [LB1114]

SENATOR KINTNER: But have you ever heard of Solyndra? [LB1114]

MICHAEL DIXON: Yeah. [LB1114]

SENATOR KINTNER: Do you know what happened there? [LB1114]

MICHAEL DIXON: Absolutely. [LB1114]

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SENATOR KINTNER: Yeah. [LB1114]

MICHAEL DIXON: And I think that's a very big investment. I think this is a much smaller set of investments and this doesn't...the companies aren't going to live off this money alone. This isn't going to fund a company at all. This is going to get the company started and get that private investment money into the companies to allow them to really start to grow and attract that private investment. [LB1114]

SENATOR KINTNER: Does it just fund that one project? Might they be doing other things off on the side, or is that usually the sole thing they're funding? [LB1114]

MICHAEL DIXON: You know, usually with a start-up company, this gets them started. So the prototype may be a half a million dollars. The first \$50,000 in helps them build that prototype, show the investors that it works. Then the rest of the money is recruited in from private investment, allows them to build it out fully and then move along. For most of these companies, again, you know, with the \$10 million additional coming in, the state investment has been a very small part of that, but it's usually an early part, the biggest risk part. [LB1114]

SENATOR KINTNER: You know, going back in history, Thomas Edison had probably thousands of patents,... [LB1114]

MICHAEL DIXON: Uh-huh. [LB1114]

SENATOR KINTNER: ...at least hundreds and hundreds of failures,... [LB1114]

MICHAEL DIXON: Absolutely. [LB1114]

SENATOR KINTNER: ...ideas that just didn't make it. Should we have subsidized some of those to help them get through the valley of death? Would that have been a proper use of tax dollars? [LB1114]

MICHAEL DIXON: You know, I think there are several of his technologies that made it, several didn't. I think, you know, he would probably tell you that there are several great inventions that didn't see the light of day because they weren't developed and maybe we would have had some novel technologies a lot earlier that time. It's hard to know. [LB1114]

SENATOR KINTNER: How often would this program invest in...or has this program invested in something that's failed? [LB1114]

MICHAEL DIXON: Right now it's pretty early to tell. Typically, a company takes a few

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years to fail. But start-up companies, there are going to be failures, absolutely. There's going to be successes and failures. If you look at a venture capital portfolio, the goal is to have two or three big wins and the rest probably do fail, but the wins outweigh the failures. There's more return on that investment. [LB1114]

SENATOR KINTNER: Well, I know, you know, we talk about the government picking winners and losers and that aggravates taxpayers quite a bit, I think. [LB1114]

MICHAEL DIXON: Uh-huh. And I don't think that government necessarily should pick the winner or loser. [LB1114]

SENATOR KINTNER: Right. [LB1114]

MICHAEL DIXON: I think the market needs to dictate that, and that's where that private investment is very important. [LB1114]

SENATOR KINTNER: Well, here's kind of where I was going with that. So who kind of targets where this money is going to go and...? [LB1114]

MICHAEL DIXON: So the Department of Economic Development is...they oversee it. They make sure that the applications are appropriate, that it's a good, you know, at the time it's a good investment. It's always hard to know. We aren't picking winners and losers, but obviously you can weed out a company that doesn't deserve it, if it's, you know, not building or they don't have their documents in place. I can tell you from the companies that we've started and the companies that are being developed, they're being developed by qualified entrepreneurs, CEO types. They've got qualified technology coming out of usually millions of dollars of research at the university that needs to be developed into products, and these are products that will improve healthcare, that will, if made into a company, add jobs and good-paying jobs if they can be brought from that discovery phase into a product phase. [LB1114]

SENATOR KINTNER: Well, thank you very much for answering my questions. Appreciate it. [LB1114]

MICHAEL DIXON: Absolutely. [LB1114]

SENATOR HARMS: Thank you, Senator Kintner. Senator Conrad. [LB1114]

SENATOR CONRAD: Thank you so much for coming today. [LB1114]

MICHAEL DIXON: Yeah. [LB1114]

SENATOR CONRAD: I appreciated Senator Kintner's questions, I think, to provide

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some additional education and awareness on the context that this legislation is brought from. And while I appreciate those questions, I think what's unquestioned is the state of Nebraska's commitment to economic development efforts that spans decades. And the efforts put forward in the Nebraska Business Innovation Act and Small Business Innovation Act came as part of a very concerted effort by this body in partnership with Governor Heineman. And I'm so glad that you are here today to share your examples, your real-life examples of how these investments are paying great dividends to our state. So thank you for that. We really appreciate that. And I wanted to give you just an opportunity, or if there's a testifier behind you, to maybe clarify a little bit further on Senator Kintner's line of questioning about the very selective criteria that is utilized to make these investments. [LB1114]

MICHAEL DIXON: I don't think there's someone from the Department of Economic Development, so I'll go ahead and... [LB1114]

SENATOR CONRAD: Sure. [LB1114]

MICHAEL DIXON: ...since I've worked with them on some extent. For someone to qualify, they have to apply to get a prototype grant or the phase one, phase two R&D, or you have to actually obtain a Small Business Innovation Research grant. So SBIR grants, as the Battelle report put out, are one of the ways states benchmark how innovative they are. It's the government money coming in to help grant money to companies to develop technology. They're fairly competitive. They're not easy to get. They require companies with developing products and they're very well vetted. So the SBIR is a match. If you get the money from the federal government, the state will match that to help you advance that prototype even further and really develop that company, because that's been vetted there. When we get into the prototype and the phase one, phase two R&D, you submit the application to the DED. They meet with you, discuss it. If approved, then you have periodic reporting. They need to see what are you building, how are you building it. And so there's the typical oversight that one would expect. It's not a blank check but actually you have to prove that you're building what you say you are and then show to them on that report back. On the academic R&D, it's receipt-based so they...it's a reimbursement after spending money, collaborating with the university to develop your product. So goal of that part of the program is to really incentivize Nebraska companies to partner with the university because we have bandwidth, we have infrastructure, smart people that can help build and test what you need. That way when you come to the university, with that infrastructure, you get a pretty good deal. As you spend a dollar at the university, the receipt comes back, then you go to the state to get a reimbursement upon that dollar spent. So it's receipt-based as opposed to just a check that comes out. I think it's very well regulated and the entrepreneurs I know that are working with it seem to understand the process very well. I think the Department of Economic Development is doing a fantastic job of helping them understand how to walk through this, and that it's not just a blank check but it is

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certain criteria that need to be met at each step. [LB1114]

SENATOR CONRAD: That's helpful. And just the final question is I know that when we were putting together the statutory framework for many of these programs as a by-product of our Entrepreneurship and Innovation Task Force, one thing that became readily apparent to the committee and the Legislature was some of our existing economic development tools are good but are targeted to very large businesses... [LB1114]

MICHAEL DIXON: Uh-huh. [LB1114]

SENATOR CONRAD: ...and that there was, indeed, a significant void in state policy when it came to helping start-ups, helping entrepreneurs, and helping innovators who may not have the dollar or the employee threshold to qualify for tax incentive programs and things like that. [LB1114]

MICHAEL DIXON: Uh-huh. [LB1114]

SENATOR CONRAD: So in your experience then, is this meeting its intended purpose to help folks at the other end of the spectrum there? [LB1114]

MICHAEL DIXON: I think so, absolutely. And then to tackle that comment, as we were trying to start companies up, I think that was viewed from the entrepreneurial community as, you know, if Yahoo!, you're creating a datacenter with thousands of jobs, there are tax breaks. But as a prerevenue company trying to build a product, there weren't really any incentive programs to try to do that where other states, as Battelle and others pointed out, have a very strong...have a strong innovation package. So I think that this program is absolutely giving us a leg up or at least puts us on the same footing as other states that have similar programs. And as we see, Nebraska is now showing up on innovation top ten lists, you know, the Haymarket here in Lincoln. We're seeing businesses pop up in Omaha. We have Silicon Prairie coming up. We're really starting to see an innovation renaissance here in Nebraska and I think this, while it's not the only thing, I think it's one of the key components that has led to the venture capital, the entrepreneurs and, quite frankly, the investment in the innovation ecosystem that we're seeing here today. [LB1114]

SENATOR CONRAD: Great. Thank you. Thank you, Senator Harms. [LB1114]

SENATOR HARMS: Thank you, Senator Conrad. Do we have any other questions for Dr. Dixon? Senator Nelson. [LB1114]

SENATOR NELSON: Thank you, Senator Harms. Thank you, Dr. Dixon. "University has allowed me to recruit and retain a diverse staff with significant expertise in science,

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business and law--focused on translating." So my impression is, you know, a lot of the researchers that come to the Durham Center, not a lot but there are researchers there that run across things that they want to market or can market. Is that true? [LB1114]

MICHAEL DIXON: Yeah. Can I back it up a little before that? So they receive grants... [LB1114]

SENATOR NELSON: Okay. [LB1114]

MICHAEL DIXON: ...to research new ideas, and when they come up with an idea, the ideas come over to my team at UNeMed. Uh-huh. [LB1114]

SENATOR NELSON: That's my question. Then they can come over to you. [LB1114]

MICHAEL DIXON: Uh-huh. [LB1114]

SENATOR NELSON: And so they would be eligible for this...these other grants or contributions through this program. [LB1114]

MICHAEL DIXON: We aren't...we aren't eligible for any of these grants. These are...they have to move out to a company and there has to be matching investments coming into the company from the private sector for them to be eligible. [LB1114]

SENATOR NELSON: Well, when UNeMed, is that the way you... [LB1114]

MICHAEL DIXON: UNeMed, yes. [LB1114]

SENATOR NELSON: UNeMed. When you started in 1991, what was the impetus for starting that back then? [LB1114]

MICHAEL DIXON: So there was federal legislation called the Bayh-Dole Act, which gave universities the right to own federally funded inventions, and that's really the impetus for technology transfer. [LB1114]

SENATOR NELSON: Okay. [LB1114]

MICHAEL DIXON: When UNeMed was created in 1991, it was a very small organization. We patented a few things. And so the real goal of technology transfer is to identify the research coming out that's got potential to be a product or maybe start a company. Then you need to protect it. You need to patent it. And then you need to go out and find the right people that can build the company, get the product approved, and develop it. When UNeMed was created in 1991, it had half of a person working to patent and then do some out-licensing, and it really maintained a fairly small organization up

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until the 2000s. In 2007 we reorganized and that's where we got a chance to recruit in patent attorneys, experienced business people, as well as scientists that could help identify, protect, develop, market, license technology. We worked with big companies like Pfizer and Glaxo, small-, medium-size companies, as well as start-up companies like Trak Surgical that we help, help the entrepreneurs start the company and get it developed so that they can move it along. We'll work with really anyone who wants to develop a product out of the research that creates the invention. [LB1114]

SENATOR NELSON: Okay. But the big companies, like Pfizer, I mean they're not what you'd call entrepreneurial. [LB1114]

MICHAEL DIXON: No, and they don't qualify for these programs. [LB1114]

SENATOR NELSON: Yeah. Okay. [LB1114]

MICHAEL DIXON: It's the small companies like Trak Surgical, Radix (phonetic) Devices, or companies in Nebraska like LI-COR or Streck would also qualify if they wanted to partner with us. [LB1114]

SENATOR NELSON: If there's no one from the department here, do you have an idea of what the success rate has been as far as their evaluations and the grants that they've made? [LB1114]

MICHAEL DIXON: For the companies themselves? [LB1114]

SENATOR NELSON: Yeah. [LB1114]

MICHAEL DIXON: Some of the companies will be here to talk... [LB1114]

SENATOR NELSON: Okay. [LB1114]

MICHAEL DIXON: ...and I'll let them specifically say. I can tell you for the companies coming out of the university, we've seen significant follow-on investment, and during that follow-on investment, valuations have risen remarkably. [LB1114]

SENATOR NELSON: Okay. [LB1114]

MICHAEL DIXON: And you know, it's all on paper, yet we'd love to see products in that company exit so that they can really realize the full potential. And that's where in biomed the runways are fairly long; why programs like this it's tough to judge on two or three years. It's more five to seven because that's when we start to see the big significant exits. [LB1114]

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SENATOR NELSON: Okay. Thank you. [LB1114]

SENATOR HARMS: Thank you, Senator Nelson. Do we have any other questions for Dr. Dixon? Seeing none, thank you very much for your testimony. [LB1114]

MICHAEL DIXON: Thank you. [LB1114]

SENATOR HARMS: Do we have any other proponents who would like to speak on this bill? Welcome. [LB1114]

JOSEPH KNECHT: Good afternoon, everybody. Sorry I was a little late, hard parking. [LB1114]

SENATOR HARMS: You're fine. [LB1114]

JOSEPH KNECHT: Can I get started? [LB1114]

SENATOR HARMS: Yes, go ahead, please. [LB1114]

JOSEPH KNECHT: Well, good afternoon, everybody. Appreciate the time. For the record my name is Joseph Knecht, J-o-s-e-p-h, last name Knecht, K-n-e-c-h-t. I currently am serving as the managing director of VentureTech, a software product innovation company based here in Lincoln, with operations and ventures throughout the United States and abroad. I appear before you today to support LB1114 on behalf of the Nebraska Chamber of Commerce and Industry, where I serve on the board of directors and also chair the innovation and technology council. I am also here on behalf of the Greater Omaha Chamber and the Lincoln Chamber of Commerce. I would like to thank Senator Mello for introducing this legislation, for his support of the Nebraska entrepreneurial community, which I'll talk about here in a second. Let me begin by telling you a little bit about VentureTech, super sweet and short. VentureTech was originally a spin-out of the University of Nebraska by Dr. Don Nelson, who cofounded the computer science department at UNO in 1964. I was very blessed to be introduced to this gentleman in 1999 when I moved here from Long Island, New York, to get my master's degree and to get an internship in the company at that time. Since that time, Don's company along with three other owners, including myself, have grown that company into a world-class product development firm based here in Lincoln, Nebraska. We work with entrepreneurs across the country and corporations to build high-growth, SaaS-based tech companies basically. Quite simply, VentureTech is the next type and next generation business that is going to grow in our state. When the Legislature adopted the Talent and Innovation, TI2, in 2011, Nebraska sent a strong message about their proactive commitment to cultivating the entrepreneurial ecosystem as part of the state's economic development strategy, and we're very active in that. As you may recall, TI2 included creation of the Business Innovation Act, the angel investment tax

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credit program, and the Nebraska internship program and site building fund. By all accounts, these programs approved through TI2 have been a resounding success. Demand for the angel investment tax credit program remains strong, and the program typically is fully subscribed early in the allocation cycle, which is always good. Likewise, a growing number of Nebraska higher education students are connecting with Nebraska-based businesses through formal internships, just like myself. I would not be in Nebraska if I was not given the chance to get into the company back in 2000. Once exposed to the opportunities in Nebraska, a larger percentage of these students are choosing to remain in the state and grow here. New development sites, with funding approved through the state Site and Building Development Fund, have already become a major job creation project, like Travelers Insurance. The proposal before you today to extend the deadlines for the Business Innovation Act and the continued studying of venture capital availability will send an additional message that Nebraska is serious about its commitment to new business start-ups. Through a contract with the state, Invest Nebraska has professionally managed the Business Innovation Act program to successfully develop, test, and introduce new innovative products into the marketplace. Unfortunately, these new ventures take a significant amount of time to go from idea to full commercialization, and I can talk about that. Therefore, extending the program for an extended period is the best interest of the state and our business partners. One simply can read recent news to account and recognize Nebraska is beginning to distinguish itself as a sleeping giant in the Silicon Prairie. A recent Omaha World-Herald article noted Nebraska start-ups attracted as many deals in 2013 as there were in the previous five years, and local companies are increasingly capturing the attention and investments of investors in start-up hubs, like Silicon Valley and New York City. As we collaboratively prepare Nebraska for the next generation, we encourage you to extend the state's commitment to the Business Innovation Act by forwarding LB1114 to the full Legislature for debate. Thank you again in allowing me to share my comments, and I am open to any questions. [LB1114]

SENATOR HARMS: Thank you, Joseph. Do we have any questions for Joseph?  
Senator Kintner. [LB1114]

SENATOR KINTNER: You know, I'm going back and forth here in my mind and...  
[LB1114]

JOSEPH KNECHT: Sure. [LB1114]

SENATOR KINTNER: ...and there's one time you said government shouldn't be involved in any of this stuff. Why should government help a company with an idea? Take it to the market, see if the market works. There's other times, you know, I look at the angel investment tax credit and see the successes. Tell me why... [LB1114]

JOSEPH KNECHT: Sure. [LB1114]

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SENATOR KINTNER: ...should we have government involvement in helping companies get it off the ground or launch a product or launch themselves. [LB1114]

JOSEPH KNECHT: Sure. It really comes down to jobs and growth. So when you look at new products being developed, whether they're in a...we work with existing corporations to innovate, as you were mentioning earlier, Pfizer isn't real innovative but they do contract out to help build companies and products and then even start-ups. When a start-up company has an idea, it's a highly risky initiative to do that. I want to also clarify it isn't an open grant where an entrepreneur applies and a check is sent to the entrepreneur. There are preceding matching funds that the entrepreneur has to put forth and invest themselves and document their expenses in order to have sort of a matching 66 to 33 percent outcome as you use those funds. So there isn't a lump sum payment. It's used over the period of time as you are building your venture, so it really is truly more a partnership in trying to identify growth and new products. So that element of that...not anybody is just going to take on that challenge. The people who do that are going to be willing to take the risk and willing to put a lot on their lines to make something become successful. [LB1114]

SENATOR KINTNER: What's the downside of this program? What's...is there a risk? There's got to be some downside somewhere. [LB1114]

JOSEPH KNECHT: Well, there's inherent risks in everything. The largest risks in this program is probably not doing it. As mentioned in the state of Nebraska on a competitive level, we have operations in many of our ventures in other states, and we are highly recruited to leave this state with the size company that we have and the types of impact that we have on a state. So what happens is in the competitive market of small business and technology development, and I'll speak specifically for tech, we get calls very often to move our entire company and all of our teams out of here. And where the opportunity for the state of Nebraska is with tech companies and start-ups is a very small amount of people can generate a tremendous amount of tax generation because it's new money from outside the state's borders. So when a company is a start-up, for instance, we have a company that used the prototype grant. The company is called PitchBurner. It does business plan and quick pitch competitions for colleges around the United States. That idea went through the program approximately two and a half years ago and we have over 300 D1 schools and organizations around the U.S. using the product and have ten employees here in the state of Nebraska who are operating that. And that was obviously done with a prototype grant, angel investment from angel investors in the state of Nebraska, and including our corporation investing in that. So the real downside is not capitalizing on those true new opportunities that are out there because those are what retain the young talent, keep the economy growing, and provide those jobs that the state needs to continue to grow. [LB1114]

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SENATOR KINTNER: Thank you very much. [LB1114]

JOSEPH KNECHT: Yeah. [LB1114]

SENATOR HARMS: Thank you, Senator Kintner. Senator Conrad. [LB1114]

SENATOR CONRAD: Thank you so much for being here. [LB1114]

JOSEPH KNECHT: Yeah. [LB1114]

SENATOR CONRAD: In addition to the task force work that helped to bring forward the innovation acts, I think we've had a good discussion today about the very specific and selective tools that are available under this statutory framework... [LB1114]

JOSEPH KNECHT: Uh-huh. Yeah. Yep. [LB1114]

SENATOR CONRAD: ...with clear accountability at a very modest investment to the state. [LB1114]

JOSEPH KNECHT: Correct. [LB1114]

SENATOR CONRAD: But the other issue that rang loud and clear during the course of that work was really the ecosystem and culture issue which you touched upon as well. [LB1114]

JOSEPH KNECHT: Uh-huh. Yeah. [LB1114]

SENATOR CONRAD: And at that point, Nebraska had a lot of work to do. [LB1114]

JOSEPH KNECHT: Yeah. [LB1114]

SENATOR CONRAD: And as part of that work, we needed to build excitement. [LB1114]

JOSEPH KNECHT: Uh-huh. [LB1114]

SENATOR CONRAD: We needed to build an ecosystem. We needed to ensure there were mentorship opportunities... [LB1114]

JOSEPH KNECHT: Correct. [LB1114]

SENATOR CONRAD: ...for young innovators and entrepreneurs who had those great ideas and passion but needed help... [LB1114]

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JOSEPH KNECHT: Correct. [LB1114]

SENATOR CONRAD: ...walking it through the business cycle system. [LB1114]

JOSEPH KNECHT: Yeah. [LB1114]

SENATOR CONRAD: So there's also intangible benefits... [LB1114]

JOSEPH KNECHT: Correct. [LB1114]

SENATOR CONRAD: ...beyond just some of the numbers that we see. [LB1114]

JOSEPH KNECHT: You bet. [LB1114]

SENATOR CONRAD: And I'd like to give you an opportunity to respond to that.  
[LB1114]

JOSEPH KNECHT: Yeah. We're very passionate. We think, at least from what I've seen through our own ventures and clients throughout the state, is the InternNE program, getting young people integrated into organizations. And I know the Legislature lowered the age or it used to be juniors only or older and now I believe it's sophomores, which is great because in our companies we actually are bringing in high school kids as interns to get them earlier adopted to technology and trying to keep them in the state as they continue through their journey. So that program, InternNE, I know has been very successful in bridging that gap of the brain drain and getting young people when they only think cool, hip things happen on the Coast. Now I'm from New York. A lot of good things happen there. But a lot of great things happen here. It's great for them to get engaged with companies in the state and which, obviously, percentagewise, if they're engaged in the company, there's a very good chance that they will stay instead of departing after college. [LB1114]

SENATOR CONRAD: Great. Thank you. [LB1114]

SENATOR HARMS: Thank you, Senator Conrad. Do we have any other questions? Joseph, seeing none, thank you very much. [LB1114]

JOSEPH KNECHT: Thank you, everybody. [LB1114]

SENATOR HARMS: Do we have any other proponents that would like to speak on behalf of this bill? [LB1114]

MARCIA ANDERSON: Hello. [LB1114]

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SENATOR HARMS: Welcome. [LB1114]

MARCIA ANDERSON: (Exhibit 3) I'm one of those entrepreneurs who's trying to avoid the valley of death. (Laugh) My name is Marcia Anderson, M-a-r-c-i-a, Anderson, A-n-d-e-r-s-o-n. I'm an entrepreneur and my company, PipeWare Solutions, is a lucky participant in the Nebraska innovation prototyping program. I'm testifying as a proponent to LB1114 and the extension of the act. Why am I an entrepreneur? Well, I worked for Enron. Enron went bankrupt. I don't know if you heard that. (Laughter) Our unit was then sold to another energy company who then moved their jobs to Oklahoma and then we were...a unit of us was transferred to another energy company who then moved our jobs to Houston, Texas, in 2010. At that time a group of us got together and decided we needed to make our own opportunity. PipeWare Solutions develops information systems for the natural gas industry. Our first product is called Real Time Viewer, or RTV, and what we do is provide a software as a service, on-line service for industrial end users to display natural gas measurement information in real time. What this allows the end user to do is to manage their gas supply in real time and their natural gas transportation costs in real time. Although this past month has caused us a little bit of a delay in some of our development of the prototype, it was a perfect example of why our service can add benefit to an industrial end user when gas was trading at about \$10 and went up to \$120 on the East Coast and \$50 in the Midwest. We are in our first stage of the...our development. We have...we are seeking and use the money for the prototype to put equipment in at industrial end users, industrial end users, ethanol plants, manufacturing plants, any kind of plant that uses a large amount of natural gas for feedstock or fuel. I want to thank you for the grant. The grant is very important to us and we would probably not be in this position without the ability to use the money. We have to come up and pay for the equipment ahead of time. I believe a previous testifier indicated that it's a reimbursement. We submitted an application that had very specific description of what we would use the money for. That's reviewed before we get any sort of reimbursement, so there is a very good check and balance on how we use the money. We are very encouraged about the potential of our service. Potentially, it could reach any industrial user of natural gas, which there are hundreds of thousands. So we have great hope for our service. Once RTV becomes a viable commercial product, we hope to hire more staff. Currently, we are bootstrapping and doing everything ourselves so...and hiring consultants and independent contractors to help us. We worked with two Nebraska companies. We worked with a Nebraska marketing company to help their clients in this, in looking for opportunities and efficiencies in natural gas usage, and a gas supply management company in helping their clients look at efficiencies and increasing economics for their clients. I encourage you to support the bill. I worked for very large corporations that will move according to the economics of their choice. They're not necessarily invested here. These grants I think put money into entrepreneurs and people who are Nebraskans and are creating Nebraska businesses, so I think it's a very valuable investment. Thank you. [LB1114]

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SENATOR HARMS: Thank you, Marcia. Do we have any questions? Senator Conrad. [LB1114]

SENATOR CONRAD: Thank you so much for being here and sharing a real-life example of how successful this effort has been and advocating for its continuation. One thing that was very important to the Legislature when we were creating this statutory framework was to ensure that we were supporting good jobs in our community with high growth potential. I don't want to necessarily put you on the spot in terms of the wage and salaries in your business, but if you'd like to just talk generally on that topic I'd like to give you an opportunity. [LB1114]

MARCIA ANDERSON: Well, it's kind of interesting. It's very specialized so we'll have...we need measurement natural gas experts. And what we kind of foresee, because a lot of the natural gas experts are aging, is we're going to have to hire some young folks and train them. We're going to have to train them in measurement. We'll need, you know, field people to install equipment. We'll need people with knowledge of natural gas measurement in order to determine the equipment that we need to install. We need IT people because it is a software as a service on-line product. If we are successful with this product, we also have future expectations of developing other applications for natural gas participants, particularly interstate natural gas transporters. It's a funny...the natural gas business is a funny business. It's pipe in the ground and it doesn't change quickly. It takes a long time to put the infrastructure in. Once you get it in, they run the same way. And so it is hard also for a utility or these large energy companies to kind of have that innovation inside because they have the pressures of profit and sometimes doing the innovation within their company is not where they put their investment. [LB1114]

SENATOR HARMS: Do we have any other questions for Marcia? Senator Kintner. [LB1114]

SENATOR KINTNER: Well, thanks for coming. You finally put a face to what we're doing here and it might make some sense. First of all, if you are in the valley of death, I would try Jesus. It would save the taxpayers a lot of money. [LB1114]

MARCIA ANDERSON: No, we're avoiding the valley of death. No, no, no, I see it over there. [LB1114]

SENATOR KINTNER: (Laugh) Okay. [LB1114]

MARCIA ANDERSON: I'm over here. No, I do not plan to meet the valley of death. [LB1114]

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SENATOR KINTNER: Yeah, I work hard and pray hard. I don't want the taxpayers to subsidize anything I do, but that may just be me. Explain to me here, so you've got the company here. What does this investment by the taxpayers mean to you? Try to put it, if you didn't have it what would happen? [LB1114]

MARCIA ANDERSON: If we didn't have it, frankly, as a lot of times the development of this company is luck and timing. The very hardest part is this beginning. The grant did two things for us. Not only did it give us some funding, \$50,000. This is not a huge amount of money. It's an important amount of money, and as a Nebraska taxpayer I take it very seriously, so don't get me wrong there. But also the program gave our business validation. We sold it to...it's a rigorous application, many questions to answer, a business plan, economics regarding the investment. So it really validated our concept when we go and talk to these beta test participants and say, hey, we need you to take a risk on us and participate in our beta test. We've got the state behind us, believing in what we do. And so it's done two things: one, provided the ability to invest in that equipment; and two, a validation that our idea was worthy. [LB1114]

SENATOR KINTNER: So you leveraged the \$50,000, got more money and it went from there. Is that what you're saying; that once you got the grant... [LB1114]

MARCIA ANDERSON: If I didn't have the grant, I probably would not be able to put in and solicit this many beta test participants to get us to the commercialization value to take our business forward. [LB1114]

SENATOR KINTNER: So like a lot of young businesses, you're undercapitalized it sounds like. You just didn't have the capital to do this. Is that correct? [LB1114]

MARCIA ANDERSON: Well, or it would have taken us longer to get it or it would have taken us...or we would have had to do it with less and... [LB1114]

SENATOR KINTNER: It would have been (inaudible). [LB1114]

MARCIA ANDERSON: We may not have been as successful as we plan to be, yes. [LB1114]

SENATOR KINTNER: Yeah. It would seem to me in the old days, before the government got involved, you would wait maybe three years, save up your money. Then you've got your own money and then you go do it. [LB1114]

MARCIA ANDERSON: We put...we... [LB1114]

SENATOR KINTNER: You... [LB1114]

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MARCIA ANDERSON: ...we're putting our own investment in it. [LB1114]

SENATOR KINTNER: Oh, absolutely, that's how you got started. But you'd save up more money and... [LB1114]

MARCIA ANDERSON: For the first year, we funded it ourselves. [LB1114]

SENATOR KINTNER: Right, and... [LB1114]

MARCIA ANDERSON: Right. [LB1114]

SENATOR KINTNER: ...it's the only way to go, and then...but it would seem to me in the old days, before this program, you would save up your money, maybe you have to wait three more years before you expanded, and then you would take your own money and put it in there. What you did was say, well, let me see if we can go out and get some government money; I can do it a couple years quicker and get the ball rolling. Is that a fair representation of kind of what went on? [LB1114]

MARCIA ANDERSON: Get the ball rolling, be more successful, start hiring people, stay in Nebraska, invest in Nebraska. [LB1114]

SENATOR KINTNER: But you could have done that anyway if you would have waited three or four, two or three more years till you got an extra \$50,000, \$60,000, \$120,000, \$200,000 together. Is that correct? [LB1114]

MARCIA ANDERSON: We probably wouldn't have done it if we had to wait. [LB1114]

SENATOR KINTNER: If you had to wait and use your own money, you wouldn't have done it? [LB1114]

MARCIA ANDERSON: Well, I mean we probably would not have had...you know, at some point in time you got to eat. I guess I am...you need capital to start these businesses and the grant gave us that opportunity. Would we have done it had it taken us two or three more years? I really can't say because we got the grant and we're progressing. We bootstrapped this for the first year ourselves, made sure that we put one in, got the first prototype done to make sure that it was something that was worthy of applying for the grant and further investment. And that's what the...you know, that's what I had to prove with the Economic Development Department. This state gives an awful lot of support to large businesses. It seems to me that this is a fairly small investment in Nebraskans... [LB1114]

SENATOR KINTNER: If we're... [LB1114]

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MARCIA ANDERSON: ...with the opportunity of a higher return. [LB1114]

SENATOR KINTNER: For approximately 3,000 years people came up with their own capital. In the last 10-15 years they've been able to get a little help. I'm trying to wrap my arms around--and you've helped me, by the way--to try to figure out, you know, why all of a sudden today we need to put taxpayer money in it. We didn't need to put taxpayer money in it in 1910, didn't need to put money in it in 1860 or 1790. [LB1114]

MARCIA ANDERSON: But I think the other testifiers are showing you that the investment should pay off for Nebraska. It should pay off by keeping people here, it should...giving them opportunity, encouraging them to start these businesses because there's a huge risk in putting the time and effort here versus just going out and working for Enron. [LB1114]

SENATOR KINTNER: Thank you very much. I appreciate you having a little give and take with me. [LB1114]

MARCIA ANDERSON: I'm all right with that. [LB1114]

SENATOR KINTNER: All right. Thank you very much. Appreciate it. [LB1114]

MARCIA ANDERSON: Thank you very much. [LB1114]

SENATOR HARMS: Just a second. Thank you, Senator Kintner. Senator Bolz. [LB1114]

SENATOR BOLZ: Thanks for coming this afternoon. I think your story is really interesting because it speaks to larger economic dynamics. And being a part of Enron is historic. So I was just curious from your perspective, can you speak to the different change of pace we see in a global economy in the field of technology? Certainly, that's where our overall economy is going, but it seems like, given global competition, the speed and this pace is particularly important. Is that fair? [LB1114]

MARCIA ANDERSON: I think it is just changing unbelievably. I think in where...and I'm not sure I'm answering your question, but the innovation is usually coming again not necessarily from the large corporations because they're not that nimble. You know, you're in a budgetary cycle, you have to prove up your thought, you have to sell it, you know, up a chain of event with all of these other investments that are going up, you know, in an organization, you know, where people are down on the ground figuring out innovation, figuring out niches and solutions for people. And that's why in the natural gas industry, I cannot...when we were approached to develop this program, like surely there are other products out here to do exactly what we're describing, you know, that we've been asked to develop by this natural gas management company. And after

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research, there wasn't. There really was not. So there's all of this innovation and then there's some industries that are starting to catch up in that innovation, and it will be big because of the changing energy dynamics and how all of that is working. [LB1114]

SENATOR BOLZ: Uh-huh. Okay. Very good. Thank you. [LB1114]

SENATOR HARMS: Thank you, Senator Bolz. Do we have any other questions for Marcia? Marcia, thank you very much for your testimony. [LB1114]

MARCIA ANDERSON: Thank you. [LB1114]

SENATOR HARMS: Do we have any other proponents who would like to speak on this bill? Welcome. [LB1114]

BRUCE LICHOROWIC: Good afternoon. Thank you for having me. My name is Bruce Lichorowic, spelled B-r-u-c-e L-i-c-h-o-r-o-w-i-c. I am here in support of LB1114. I'm the president and CEO of Trak Surgical and you can probably tell by my gray hair I'm not a young entrepreneur. So Trak is a spin-off, as Michael Dixon had told you before, of University of Nebraska Medical Center, and Trak is an example of the effectiveness of how these funds were provided and where these funds have been spent and the leverage that we've got from them. [LB1114]

SENATOR HARMS: Bruce, would you be able to speak up a little louder for us? [LB1114]

BRUCE LICHOROWIC: Sure. [LB1114]

SENATOR HARMS: You're not coming quite through. Thank you. Sorry to interrupt you. Go ahead, please. [LB1114]

BRUCE LICHOROWIC: No worries. I reside in California. I reside in San Jose, Silicon Valley. I've lived there for 30 years. I'm a serial entrepreneur. I am a five-time CEO. I have over 30 years of experience and I've sold companies in technology to Microsoft, Amp/Tyco, eBay, and of late...not Netscape, I wish, Netflix. I've raised over a half a billion dollars in funding from venture capital and private equity, and my focus has been mostly in software. My career started off with Procter and Gamble and it ended me here in Omaha back in the '80s with Control Data. I was a vice president at the time. And from there we were transferred to California where my career took off. I had managed companies and divisions up to 4,000 employees, and I have, in 2001, when everything fell off the wheels in business and the crisis happened, I became a venture capital consultant for about five of the major tier one Sand Hill VCs. From 2001 to 2005 I went into 22 different companies. I was the CEO coach. I gave them financial evaluations. I did business models improvements. I helped the corporation to figure out what the

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problems were. Of those 22, 13 are still surviving today, 7 have been sold, and 2 of them were closed. In 2011 I had a call from another serial CEO and said I should get on a plane and come to Omaha to the University of Nebraska Medical Center, as they've got some interesting technology for hip and knee replacement, for total knee joint replacement. Once I got out here I realized the technology was not only revolutionary but it was evolutionary and also it set a paradigm shift in the way medical procedures are done for total knee replacements. The technology resided in the University of Nebraska Medical Center lab and it was a software-guided system using the current surgical devices for surgeons today. Dr. Haider is a mechanical engineer. He worked at the lab for the past 14 years developing the technology. He used money from the University Medical Center, from the University of Nebraska grants, and also from the Navy. The technology enables surgeons to perform total knee replacements without the expensive use of jigs or apparatuses that are put on the knee prior to the implant being placed. It's really a bone preparation procedure. This is an example of the saw. This is what the saw looks like. What happens here is this is your typical knee. The knee has to be prepped for the implant to go on. It has to be cut. There are five specific cuts at the knee that has to happen. Over a half a million knees will be done this year in the U.S. Over 1.5 million knees will be done worldwide. Over the next five years, there's a 673 percent increase in market as baby boomers, such as I, reach 65, 75, 70 years old, so it's a major market. We raised a half a million dollars from surgeons and angels and Nebraska...Invest Nebraska invested matching funds of a half a mill. That half a mill granted us basically a tipping point. I've done this, not a million times, but I've done this before, but that first million dollars or that first money coming in is absolutely critical for the start-up to get going to get started. Start-ups don't start up on their own. They do need capital. And at the same time, we qualified for the research grants for--I see I'm in red, I apologize--research grants for the academic R&D funds. We have created over a half a dozen jobs in Nebraska, averaging close to \$80,000 in salaries. We also retained the lab also on it with average salaries there of \$50,000. What's more important, we plan on opening a distribution center here in Omaha for the distribution once this product clears FDA. Again, what the million dollars did to us, so the half matching grant did to us, it got us to the point where we can now take the product into FDA. So with that, and I'm rushing because I'm red here and I'm going to skip along here, and I'm sorry I don't have paperwork for you. But what I've learned from my start-ups is start-ups create jobs. That's hands down, they create jobs. And just this little start-up, we've raised a million dollars from surgeons and a half a million from the state. We have a total of \$4 million already invested in Trak Surgical and I'm on a plane on Monday to talk to Johnson and Johnson for a follow-on investment and they want to be a strategic partner with us. So the process works with experienced entrepreneurs. There is risk, but at the same time these programs do provide early stage start-ups a start to get out of the chute, because the hardest money to raise is that first beginning money to raise. I thank you for your support. I thank you for your support. (Laugh) I thank you and I do support the bill. I think it's very, very effective. I wish California had a program like this; it does not. Back home you are on your own. You got to go look for dimes and nickels. Up

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and down Sand Hill, these VCs do not want to write \$500,000, \$50,000 checks. They want to write \$8 million, \$10 million checks. So they want a proven...they want you to be already proven. So this early stage money is really, really important for the start-ups and I think it's a tremendous opportunity for the state. You got me here. I think it's just a terrific opportunity. Thank you. [LB1114]

SENATOR HARMS: Thank you, Bruce. Any questions? Senator Wightman. [LB1114]

SENATOR WIGHTMAN: Thank you, Senator Harms. Thank you for being here. I lead the Legislature in the number of knee replacements, so. (Laughter) I had three in the same knee over the past five years, so...maybe six. I don't know. But at any rate, a lot of them. So it sounds like you're doing a lot of good in the area and doing it in Nebraska, at least a major part of it. [LB1114]

BRUCE LICHOROWIC: You know, the support I...we received was tremendous. The support we've received from Michael and the school, the support we receive from the state has been phenomenal. I mean of all my start-ups, this has been the easiest. If I need something, if I need to get to a surgeon or if I need to get in and watch what's going on, the Nebraska Medical Center opens up. You got great talent here. You do have really good talent here. You do have software developers that are world class, you know, and, you know, they just need that opportunity to be put into an environment to expand. I mean we will grow very fast now with J&J coming in and we're coming out of FDA this year. What the Invest Nebraska money did for us, it gave us the opportunity to move our calendar one year ahead. We didn't plan on being in FDA till end of next year, so by having that money hit, I was able to hire more talent, more team, and push these products through faster. And the opportunity, market opportunity of being first mover advantage is here. Now if we didn't get it, it just meant more time and, you know, whether it would be three months, six months, a year and you didn't reach that critical mass, well, this market is really aggressive. I mean you've got robotic companies out there and you've got a lot of companies out there fighting for this space. We seem to be really in a prime position and that's why J&J is on board. Zimmer is on board. Biomet is on board. We have 65 percent of the implant makers supporting this already, so we have a lot of traction. [LB1114]

SENATOR WIGHTMAN: Thank you. [LB1114]

SENATOR HARMS: Thank you, Senator Wightman. Do we have any other questions? Senator Nelson. [LB1114]

SENATOR NELSON: Thank you, Senator Harms. Thank you for coming back to Nebraska; hope you'll stay here for other projects. Is that a prototype that you have there? [LB1114]

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BRUCE LICHOROWIC: No, this is real. This is... [LB1114]

SENATOR NELSON: Well, but are you manufacturing them already? [LB1114]

BRUCE LICHOROWIC: It's getting ready to be put into submission for FDA. [LB1114]

SENATOR NELSON: Okay. What did it cost to have someone make that for you initially? [LB1114]

BRUCE LICHOROWIC: Well, this came out of the lab, so this came out of UNMC lab, the school. So to get to this point, there have been really millions put into the lab to get to do this. And not only was the money there but the years of research that the lab had to do for this. If we had to do it from scratch and start from where...it would probably be at \$10 million all in to this point. [LB1114]

SENATOR NELSON: Just to get to the point where you've got one that's working and that you could show. Okay. You're not confined to knees, are you? Can you use that on hips and other parts of the body? [LB1114]

BRUCE LICHOROWIC: Yeah, we're moving to hips and then we'll move to spine and then we'll move to shoulder. Why, you need a hip? [LB1114]

SENATOR NELSON: Okay. Based on the program's software? [LB1114]

BRUCE LICHOROWIC: Yes. [LB1114]

SENATOR NELSON: Yeah, okay. [LB1114]

BRUCE LICHOROWIC: The software guides, it's a 2-D, 3-D. You take your x-ray or whatever, and you have your screen and the surgeon can see where the cuts are made and then, you know, it then projects...the other...the bigger prototype projects a laser and projects. And so when the surgeon comes in and addresses the bone, the laser will actually address the bone so he'll know exactly where to cut. And there's five particular cuts that that Senator had to have in order for the implant to be put on. That's put on and that's weight bearing. Now the problem is you got surgeons out there...and I'm taking too much time, but you got surgeons out there that will fix your boy's broken arm and go fix, you know, your shoulder and then go tackle one of these, and that's the problem with the accuracy because they're not used to this. You want guys...you have surgeons doing 300-400 of these a year. They can do this blindfolded. What this provides is guidance to multiple surgeons, not only in the U.S. but in Third World countries, that they're not performing total knees on. And so that guidance is huge because they will be able to put the cuts in the right place and that explodes the market up in a big way. I mean it's...that's why J&J is talking to us. They want to take this and

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incorporate this technology into their saws, into their drills and reamers and everything else for hip, spine, shoulder, and ankle. So that's kind of where that's... [LB1114]

SENATOR NELSON: Thank you very much. [LB1114]

SENATOR HARMS: Thank you, Senator Nelson. Do we have any other questions? Bruce, thank you. It was great testimony. We appreciate that. [LB1114]

BRUCE LICHOROWIC: Thank you very much. [LB1114]

SENATOR HARMS: Thank you. Do we have any other proponents? Welcome. [LB1114]

TODD DICKIE: (Exhibit 4) Good afternoon. My name is Todd Dickie and I'm the president of Power Sports Nation, and it's T-o-d-d D-i-c-k-i-e. I'm going to talk to you about my low-tech company. Power Sports Nation is located in Norfolk, Nebraska, actually in Pierce County, and I could have my own reality TV show because my business is taking four-wheelers and making parts out of them. I am like any good business that's worth a lot. It started in my garage over ten years ago and has since grown. In 2011, when we received the prototyping grant, we had 19 employees and \$1.7 million in sales, and we just completed in 2013, we have \$3 million in sales and 26 employees. In 2011, my company received a prototyping grant or the approval for the prototyping grant. We used the grant to develop a software platform or engine to do cross-referencing. If you think of a part that fits a four-wheeler, we know what other four-wheelers it fits, and so we're able to market it under that presumption and it has allowed us to become the biggest at what we do in the United States. The neat thing about my business is 99 percent of people in my area don't even know it exists. It's all because of the Internet. It's great to be located in Nebraska because it's centrally located. With companies like Fed-Ex, UPS, the post office, you can reach literally the whole United States in just a few days. What receiving the prototyping grant did for us, it was a boost of confidence. I had had this idea for three, four years rolling around in my head saying, I could really increase my sales if I could do this, and heard about the opportunity. Worked with the Nebraska Department of Economic Development to do this. It went very quickly. I did have to jump through quite a few hoops. It was fun to have to put all my thoughts on paper, my business goals, my business plan. Was able to receive the grant. That allowed me to hire additional staff to do database programming and do database input. And so it allowed us to continue to grow our company. I think this grant is amazing in what it allows us to do. I did want to communicate that although my industry typically does not have high-paying jobs, it has allowed us to create jobs and it has allowed me to begin to pay my employees better. I pay my employees about 30 percent better than I did three years ago and we're continuing to grow the company because we want to pay even better. We want to be above pay or good or better in terms of pay. And so in an entrepreneurial sense, you'd

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love to say...in fact, in Norfolk there was a company that just was recruited to come there. They're going to pay really high-paying jobs. But a lot of those can also come from internal things, companies that grow and can grow what they pay. And I just have had a really great experience with the prototyping grant. It gave us a real boost of confidence. It allowed us to accelerate what we would do. We probably would have gotten there, but it would have been slower. And I'm actually just finishing adding a 10,000 square foot warehouse which will allow me to grow by another third, all of it without outside investment other than the prototyping grant. [LB1114]

SENATOR HARMS: Thank you, Todd. Do we have any questions? Senator Nordquist. [LB1114]

SENATOR NORDQUIST: Just for curiosity, how many four-wheelers do you process a year? [LB1114]

TODD DICKIE: We part out about 800 four-wheelers a year. [LB1114]

SENATOR NORDQUIST: And do you disassemble them completely, or do you store them part (inaudible)? [LB1114]

TODD DICKIE: We're a high-tech process to a low-tech business. We take a complete four-wheeler, take it apart, picture it, put it on the shelf, put it on the Internet, ship it, sell it, then we recycle what we don't sell. We support Nucor by giving them material to make more things out of. [LB1114]

SENATOR NORDQUIST: Sure. And do the sales all go through your Web site or do you use other vendors to? [LB1114]

TODD DICKIE: It's all ourselves. It's all our Web site and then we sell on eBay. [LB1114]

SENATOR NORDQUIST: Great. [LB1114]

SENATOR HARMS: Thank you, Senator Nordquist. Senator Kintner. [LB1114]

SENATOR KINTNER: Well, thanks for coming. It really helps to have someone who's actually part of the program to ask questions to. What would your company look like if you didn't get the grant? [LB1114]

TODD DICKIE: We would have grown slower. And I'll be brutally honest, I was horribly undercapitalized when I started. I almost killed it a couple times, like any great entrepreneur. I was profitable in the midst of it, but it just allowed me to accelerate and, you know, prove my concept that I had been working on for ten years. [LB1114]

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SENATOR KINTNER: You know, I drive a 12-year-old car, saving up money to buy a new car. [LB1114]

TODD DICKIE: Uh-huh. [LB1114]

SENATOR KINTNER: I mean I could take out a loan and buy a new car today, or I could just keep saving my money and buy a new car in a couple years. [LB1114]

TODD DICKIE: Uh-huh. [LB1114]

SENATOR KINTNER: Is that much different than you getting this grant? It gave you money to do something today that you would have probably done in three years. [LB1114]

TODD DICKIE: I would say for a lot of people, you know, some 80 percent of businesses don't make it past ten years, okay? So if you want Nebraska to grow, you need to provide more businesses the opportunity to start. Are they...the natural evolution, there is going to be failures. But if you don't have enough start-ups, then we'll eventually shrink or, you know, see brain drain, people moving to the coasts. You know, I have a fun business that I have young people approach me that they really want to work for me. They didn't know something like us existed. And so...and I'm like you. I'm very fiscally conservative. I don't like borrowing money. But when I see something I think will work, and I think in the future other people will invest in other businesses as we develop a climate where entrepreneurship happens. But you're going to have, you know, ten businesses and two of them are going to be grand slams and five are going to fail, and you'll have some that are base hits. [LB1114]

SENATOR KINTNER: Speculate for me for a second. How did we become the greatest economic power on earth without government grants? [LB1114]

TODD DICKIE: Hard work. [LB1114]

SENATOR KINTNER: Do we still have hard work? [LB1114]

TODD DICKIE: Nebraska has some of the best work ethic. I would hire any kid off of a farm or an ag background that I could find. [LB1114]

SENATOR KINTNER: Thank you very much. I appreciate you being here. [LB1114]

TODD DICKIE: Uh-huh. [LB1114]

SENATOR HARMS: Thank you, Senator Kintner. Do we have any other questions for

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Todd? Todd, seeing none, thank you very much for your testimony. Do we have any other proponents for this bill? Welcome. [LB1114]

TOM WHITE: Hi. Senator Mello and members of the Appropriations Committee, for the record my name is Tom White, spelled T-o-m W-h-i-t-e. Thank you for giving me the opportunity to testify in support of LB1114 this afternoon. I'm the founder and CEO of Phynd Technologies located in Kearney, Nebraska. For the record, Phynd is spelled P-h-y-n-d. Phynd is a software platform for hospitals and it allows them to manage their providers, so their physicians, their doctors, nurses, nurse assistants, any mid-level staff members that are licensed, allows them to manage all that data in one database and then flow that information into all their different systems. A hospital typically has about 30 different IT systems and so we feed all those core systems real time this data, and allows them to save money, produce more revenue, be...have more clinical quality within their operations. Our first customer is the Yale University New Haven Health System. They have 8,000 staff physicians and 40,000 referring physicians, so very large. As a comparison, there's about 25,000 doctors in Nebraska, so it's a very large organization. My background is I've started two software companies since college. The first one was a real-time news system that I sold in '97, and then the second one was a company called Vocada that I sold in 2007. And we had a real-time platform for communicating critical results out of hospitals. BryanLGH locally is a customer of ours. And I worked for the acquirer for five years and then I left to start Phynd Technologies. I live in Dallas and when I started the company and wrote the plan and was raising capital, I had every intention of building the company in Texas. But actually received a call from a partner of mine who's a software development...who owns a software development company in Kearney and said, fly up to Nebraska and come see it. And so I flew up. I met with the DED folks, went to Kearney, toured the campus as well in Kearney, and just felt like it was a great fit for building a software company. So I applied for the prototyping grant, received that in late 2012, and then I applied for the commercialization investment and I raised \$2 million, and part of that was Nebraska money. And what it's meant for me to receive those funds is I've been able to build a highly paid staff of great software developers in Kearney and really build a strong business there. So we have one client. We're revenue positive and we're on the cusp of several other customers in the next two or three months. And the things I've noticed about Nebraska, being from Texas, the strong work ethic, the quality of the work force is impressive, and then just the ability to help small companies like mine grow as well. And that's it. Thank you. [LB1114]

SENATOR HARMS: Thank you, Tom. Do we have any questions for Tom? [LB1114]

SENATOR KINTNER: I'll ask one. [LB1114]

SENATOR HARMS: Senator Kintner. [LB1114]

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SENATOR KINTNER: Tom, thanks for coming in. You must enjoy the lack of traffic around here. You can kind of get to where you want to go. [LB1114]

TOM WHITE: You have great roads. [LB1114]

SENATOR KINTNER: But look at our tax rate; you'll want to go back to Texas. If we give certain companies, I'm talking philosophically based upon your (inaudible), if we give certain companies some government money to expand, like yours, and they do well, wouldn't it follow that if we gave almost every company money they'd all expand, we'd have a lot more jobs and development? [LB1114]

TOM WHITE: My company didn't get expansion dollars, right? They were investment dollars. Yeah. [LB1114]

SENATOR KINTNER: Well, investment, it was start-up money, right? [LB1114]

TOM WHITE: It was start-up money, yeah. Yeah. [LB1114]

SENATOR KINTNER: Yeah, excuse me. So if we invested in a lot more start-ups, wouldn't that mean we'd have way more jobs and way more tax revenue, way more people working? [LB1114]

TOM WHITE: No. I mean obviously you have to apply criteria to your investments. You have to be intelligent about how you pick and choose what you do. And for Nebraska, from my perspective, it was a recruiting effort to bring skilled entrepreneurs into the state to build businesses, to build Silicon Prairie, to build a culture around technology that I don't know if it exists now, but I wasn't here before. But I think that I've seen that culture start, especially my company where I've actually brought in interns from the University of Nebraska at Kearney and now they're becoming more entrepreneurial. It's just interesting to watch how infectious it is. But, yeah, you have to apply criteria to any investment you make. [LB1114]

SENATOR KINTNER: Would you say that we need this to be competitive with other states? [LB1114]

TOM WHITE: I think any state. So from Texas, right, I have not seen this in Texas. You know, Bruce said he hasn't seen it in California as well. So I think that as seasoned entrepreneurs, we can pick and choose where we go and so I think it certainly helps Nebraska to have this. [LB1114]

SENATOR KINTNER: And I'm glad you chose Nebraska. Appreciate it. [LB1114]

TOM WHITE: Thanks. [LB1114]

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SENATOR HARMS: Thank you, Senator Kintner. Do we have any other questions for Tom? Seeing none, thank you very much for your testimony. [LB1114]

TOM WHITE: Thank you. [LB1114]

SENATOR HARMS: Do we have any other proponents? Welcome. [LB1114]

DEXTER MYERS: Good afternoon. I'd like to thank Senator Mello, members of the Appropriations Committee. For the record my name is Dexter Myers, that's spelled D-e-x-t-e-r M-y-e-r-s. I'm appearing this afternoon in support of the bill, LB1114. I am the vice president of Pacific Engineering, which is located in Roca. Pacific Engineering is a product development firm. Our expertise is in designing and analyzing and manufacturing complex composite structures. This includes designing and building parts that meet military shock requirements for ships, and meet fire, smoke, and low-toxin requirements as well. PI has competed and has won SBIR phase one contracts and two phase two contracts, SBIR phase twos from the Naval Sea Systems Command in Washington, D.C., and also from the United States Marine Corps at USMC Quantico, their engineering command. PI recently delivered key critical prototypes to the program executive office, submarines program office, which is part of Naval Sea Systems Command, to the PMS 415 program office managed by Captain Moises DeIToro. We developed and built under the SBIR program two engineered development models, Ready Stow Groups, which are launchers for the new antitorpedo torpedo system and also composite canisters that house the actual antitorpedo torpedoes. These were built here in Roca, designed here and built here in Roca. They are major components of the Navy's new Surface Ship Torpedo Defense System. Our equipment that we build hold and launch the antitorpedo torpedoes and the equipment was installed on the U.S.S. George W. Bush, which is one of our aircraft carriers, CVN-77, and was tested. This equipment was tested at sea in May of 2013 and passed the sea test successfully. As I mentioned, this was done on a small business innovative research project and it was done within nine months after contract award. The reason why, this was a CNO. The CNO was Vice Admiral Greenert, was a special high-priority project to install Surface Ship Torpedo Defense Systems on ships and everybody that was working on that, we had a very stringent deadline to meet. The U.S.S. George W. Bush actually just departed Norfolk on Saturday. It's on the Web, to go on deployment, and our equipment is on board the ship providing what they call the hard kill torpedo defense capability to the Bush, which is a high-value U.S. asset. So we're very proud of the work that we've done and proud that we did it here in Nebraska. We also, and this is why I'm here today, we're in support of the bill. Last July we became aware of the program, Talent and Innovation, TI2, program, and we applied for a pre-seed prototype grant for a different SBIR, for the Marine Corps project that we're working for. And what we were doing under that project, we were designing and building...well, we did design and build a Medium V Tactical Vehicle Replacement, multimission lightweight composite trailer. We

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were awarded a grant for \$35,000 from DED to assist us in building additional components that we installed on the trailer, which is actually ongoing right now, to give the trailer some more capabilities. The MTRV is a six-wheel truck, seven-ton truck, all-terrain multipurpose. It's used off-road. Over 2,000 saw service in Iraq and over another 800 saw service in Afghanistan. It's their major Marine Corps vehicle. The composite trailer we designed has been tested and carries a load of 12,000 pounds, and this is an increase over what they've had in legacy trailers, so this allows, when they take convoys to the forward operating bases to take supplies--ammo, water, food--to reduce the number of vehicles that they use in the convoys. This will allow them to do that and, thus, there will be less Marines exposed to IEDs because there will be less trucks on the road as they're driving out to these forward operating bases. We expect to complete the DED portion of the additional components this July. One last project I was going to mention to you, we're about to start work on another Naval Sea Systems Command SBIR phase two contract to design and build a lightweight ruggedized composite mission module for the Littoral Combat Ships. The Littoral Combat Ship is the Navy's newest surface combatant. It's been optimized for fighting in the littorals. A key fundamental metric of the LCS innovative design approach is to rapidly change out mission packages so they could change the function of the ship from being like an antisubmarine warfare function to a surface warfare function. And they do this by changing out the mission packages. So the key to the mission packages is the equipment is stored inside an ISO container, a 20-foot typical ISO container. But what they have been using in the past is metal ISO containers that corrode, and they've been having issues with the weight. The ship has a weight issue so they need to reduce the weight on the ship, which will allow them to carry more equipment and give the ships more capabilities. So that's where composites come in. We're designing a component. These containers will be 30 percent lighter than the current metal ones. And then also, because composites inherently do not corrode, they will not have corrosion problems so that will reduce the amount of maintenance that they have to perform on the mission modules, which will save a tremendous amount of maintenance costs over the service life of the Littoral Combat Ship. So I'm here today in summary to say that these SBIR contracts, we're a company that has won those and in recent years, as mentioned earlier that they said the amount of SBIR contracts being won by Nebraska companies has been increasing, we're one of those companies. The DED pre-seed grant did help PI and it's helping us. We have created ten new jobs since we've been expanding the company and these are high-tech engineering and manufacturing jobs. They're here in Roca. Those ten jobs equate to, in 2013, we paid \$663,000 in salaries and in 2012 it was \$640,000 in salaries. Another key thing is that because we're building and designing these products here, we have purchased over...we have purchased \$1,034,000 in services and materials from 54 different Nebraska-based businesses, so we're buying the components here locally and buying services that we use. And that equates to approximately \$22,411 in Nebraska sales taxes that we've paid. So we strongly believe in the Business Innovation Act. We intend to apply for additional grants for the new projects that are starting up that will help us, that will keep us out of the

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valley of death that was described today. It helps us, these grants help us reach what they call technology readiness level 9, which is production, and so that's important to reach that. So we'd like to see, we'd like to promote that the bill be extended for five more years. We believe that it will create more jobs at Pacific Engineering and peers. So I'd like to thank you for allowing me to address the committee this afternoon.  
[LB1114]

SENATOR HARMS: Thank you for your testimony. Your first name is Dexter? [LB1114]

DEXTER MYERS: Dexter. [LB1114]

SENATOR HARMS: Dexter. Thank you very much, Dexter. Do we have any other questions that...are there any questions you'd like to ask Dexter? Seeing none, thank you very much for your testimony. Do we have any other proponents? Seeing none, do we have any opponents? Seeing none, do we have anybody who would like to speak in a neutral capacity? Seeing none, Senator Mello, would you like the pleasure of closing?  
[LB1114]

SENATOR MELLO: I'll be very brief, as much as I'd like to have an extensive dialogue and debate with my good friend and colleague, Senator Kintner. The reality is the economy in the United States is completely different in 2014 than it was in 1910 or 1860 or 1790, as you mentioned, for a variety of economic reasons. And I don't want to go to great detail today but I think those of us in the Legislature, when the Legislature created the Innovation and Entrepreneurship Task Force that studied and evaluated why Nebraska was one of the worst-performing states in the country when it came to technology and innovation-based economic development, saw the need and at the same time, in conjunction with the Heineman administration's proposals through Department of Economic Development and Department of Labor, the need to focus on pro-growth policies where government investment would yield results. I can respect general philosophical economic difference of opinion in the sense of whether or not government should or should not do certain things. I think that the history of...history will prove that government has provided key strategic investments in certain kinds of business and research development along the way that has provided, I think, lifesaving medical cures to such, I would say, outrageous inventions called the Internet. But the reality is those investments have yielded results and sometimes those results take years to get there. What you heard today was from a number of businesses that are Nebraska-based, technology driven, technology focused that with, I would say, a meaningful yet very still relatively small investment from the state of Nebraska they are yielding economic growth potential further than what they would have had before. And it's not simply an urban issue. As you heard, there's a business from Roca, a business from Norfolk, business from Kearney. This is an issue that faces all of our state and I think extending this program, which once again we're not asking for new money even though in statute we could request for an additional \$2 million a year to fund this

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program, we're simply asking to extend a program for another five years because we've seen really good results right now. We've seen small businesses and start-ups create new jobs, high-wage-paying jobs, and create potential for future jobs and future business outputs and growth where we didn't have that prior, I would say, to 2010. It's my hope that the committee will look favorably upon LB1114 and at the end of the day we may have difference of opinions when it comes to certain economic and general government philosophy, but I think the proof is in the pudding in this particular case where we have seen real, tangible results from government investment in small start-up businesses, both urban and rural Nebraska, and we've seen a growing economy because of it. As you heard, states like Texas and California, one having no income tax and one having an outrageous income tax, neither does this kind of program. And that's why Nebraska is, I would argue, as you heard from testifiers, have really jumped in regards to a variety of different analysis and rankings that shows Nebraska as a growing innovation-based economy. And I think we can see more of that with extending the Business Innovation Act and the Small Business Innovation Act for another five years. With that, I'd take any questions from the committee. [LB1114]

SENATOR HARMS: Thank you, Senator Mello. Do you have any questions for Senator Mello? Senator Nelson. [LB1114]

SENATOR NELSON: Thank you. Thank you, Senator Mello. Did you talk about the new grant category at all? Did I miss that here? [LB1114]

SENATOR MELLO: I mentioned that in my testimony in regards to... [LB1114]

SENATOR NELSON: Okay. Yeah. [LB1114]

SENATOR MELLO: ...expanding the access, the ability of an entity to be able to apply, and it's more than anything else taking the Small Business Innovation Act and inserting that similar category into the Business Innovation Act for longevity purposes, so essentially taking two separate bills that the Legislature passed and kind of incorporating them into one bill in the part of the statute. [LB1114]

SENATOR NELSON: Okay. Well, is there any limit to what they could inject, \$50,000, \$500,000 I mean for that? I don't know. That's just up to the... [LB1114]

SENATOR MELLO: That's just what they can spend existing dollars on. It's simply giving a...it's giving a cap and some guidance to the department in regards to moving the Small Business Innovation Act components into the overall Business Innovation Act statutory language. It simply says that they can only spend up to a certain amount on that particular component. [LB1114]

SENATOR NELSON: Okay. Thank you. [LB1114]

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SENATOR HARMS: Thank you, Senator Nelson. Any other questions for Senator Mello? Seeing none, thank you, Senator Mello. [LB1114]

SENATOR MELLO: Thank you. [LB1114]

SENATOR HARMS: (See also Exhibit 9) This officially closes the hearing on LB1114. We'll now open the hearing for LB1019. Senator Schumacher. [LB1114]

SENATOR CONRAD: Welcome. [LB1019]

SENATOR SCHUMACHER: Pleasure to be here. And I'll... [LB1019]

SENATOR KINTNER: Talk slow. I got to go to the bathroom (inaudible). [LB1019]

SENATOR SCHUMACHER: Well, then I'll just hand these out slow. [LB1019]

SENATOR MELLO: Good afternoon, Senator Schumacher. [LB1019]

SENATOR SCHUMACHER: (Exhibit 5) Thank you, Senator Mello. It's a pleasure to be before the all-powerful Appropriations Committee (laughter) and ask that you return...well, I better tell you who I am. I'm Paul Schumacher representing Legislative...S-c-h-u-m-a-c-h-e-r, representing Legislative District 22 in the Legislature, here today to introduce LB1019 and ask you for a big, big pile of money, (laughter) okay, and to take that big, big pile of money and return it to the people of Nebraska. Fundamentally, to make an economy work, you need three things. You need organized capital. Big difference between disorganized capital thrown out amongst the consumers to maybe go buy something in the local super mart store and send money to an outside corporation who owns that, maybe employ a few people locally, maybe pay a little bit of local tax, but basically leaves the state to outside investors and maybe some guy in China who put the thing or sewed the thing together. That's disorganized consumer capital. And it's necessary but it's not where the zing is. The kind of capital that is really, really powerful capital is organized capital, and the more organized capital the more powerful it is. Certainly \$100 million is far more times powerful than ten times \$10 million. Big piles of money talk. Second thing you need is you need population to buy the product or the service or the whatever, or to make it, and that should be no problem in a world of 7 billion people to find some buyers. And really, in a country that has invested in education and in trying to get people up to snuff to be able to have the skills to build stuff and with young people supposedly sitting around the country in mamas' basements because they graduated and can't find a job, finding people is not too hard. And the third thing, you can have all the people you want and all the money you want, and the third thing that you need is know-how, know-how to do something, technology. That's housed in universities that we paid a lot of money for and we hold out bright

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promises for, and it's housed in the minds of young entrepreneurs who may have an idea and, quite frankly, should be investing their own money or at least private money rather than government money. So here I am today asking you to return a big pile of money to the people of Nebraska. I knew you'd like that, Senator Kintner. I'll show you how to do it. (Laughter) We've got some problems in Nebraska because we do not have a good investment vehicle to take all the money that's out there and organize it to dispatch it for corporate acquisitions, for investment in an entrepreneurial activity. It's pretty pathetic when you talk about, yeah, a couple million dollars a year for an Invest Nebraska. I mean in the real world, that's not much money. We got to talk about money. We have a real property tax problem in this state, for example, because the agriculture community has money, unbelievable proportions, and the only place they have to invest that money, that they know how to invest that money is to drive up the price of farmland. Oh, they can invest it in some bonds or down at the local bank at zero percent interest, or they could send it out and gamble on Wall Street. I almost said Las Vegas. That might be the same kind of gamble. But at any rate, they don't have a good investment vehicle to invest their money in. What do you do if you have some money? You've worked hard and you earned, you have an estate of, you know, \$2 million, \$10 million, \$20 million. Where do you put it? I mean there's only so many apartment buildings you can buy, only so much farmland you can overbuild and overpurchase, only so many...you know, you put in a CD at a bank or bonds, or you put in corporate investment and those kind of things you send that money out of state. And when you send that money out of state, you send its power away. And then we have to send our chambers of commerce and economic recruiters and all those people out to some big fancy boardroom looking over Manhattan and beg them to give us a little bit here, and they say, well, not unless you give us incentives. How is that smart business? Our savers have never learned to be very sophisticated. If you look back through our history, most of our history is poor people coming over from Europe and digging into the farmland. We haven't learned it. We're scared of losing our investment. We're hypercautious. We overcalculate the risk and undercalculate the opportunity. We've heard today the difficulty it is for people to get that boost to get a business started. That boost shouldn't be government money. That boost should be private money. Stock should have been sold to some local investors who are sitting on money, but the mechanism wasn't there. We don't think in terms of organizing our capital, our private capital where the power is at. And we go and try to do economic development by, well, let's create this program or that giveaway program, or this credit or that credit. We're competing against other states who beat us out of the chute on it and we're neutralizing each other. This idea is a new one. It is one that nobody has in operation to the extent I'm proposing it. And it recognizes that large sums of organized capital have power, lots of power. It also recognizes something that's probably in the modern corporate and business world. Over the last few years we've become way, way too focused on short-term return on investment. Our corporate decision makers, where we're sending our money now, what do they look for? What's the next quarter's return, because their salaries are based on it, multimillion dollar salaries. And if you can eke out an extra

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quarter percent return, your executive compensation goes way up. And we're paying for that. That's what pays for those big pretty buildings in downtown New York. So what do we do about it? We've got piles and piles of money, private, out there that doesn't know what to do with itself. We've got kids across the country with ability. We've got ideas crammed in the university that we paid lots and lots of money for all kind of innovation things, and so do other universities across the country. We can go acquire businesses. We can go acquire talent. The heck with trying to entice them; acquire them. We can look for good ideas and we can develop them. Risk? Most of the good ideas will end up paying off money if you're not afraid of getting burned on the ones that are going to fail. So here's the idea that tries to bring it all together, and if you take me seriously I might be enough of a gambler to even prioritize this. We get a pile of money. How do you get a pile of money? Well, you appeal to what appeals to money--greed. Okay? You take a pile of money, and I'm just going to, for the heck of it, make Senator Mello smile, let's say 40 million bucks. That's, you know, we've got that. Should be returned to our people. Part of the mechanism of how do you return it to the people, who gets a piece of it, well, how about those who buy a piece of it? Sounds fair. Okay. So we get a pile of money and let's just say that you...I've left some Xs in this bill. That's subject to negotiation. Say, okay, for every buck the state puts into the pile, returns to the people, the people have got to come up with five. Forty million dollars translates into two hundred forty million dollars. Two hundred and forty million dollars begins to be a blip on the radar screen, not a big blip in terms of billions but a serious blip. Do you think you'd invest if your profit was 20 percent just for sending the check in and buying the participation certificate? I'd probably be a big enough sucker to buy some of that, and if you think about it, you probably would too, particularly if the denomination was, say, 500 bucks a share or something reasonable. And we also are dealing with shares here, shares of an entity that really isn't a corporation but it's a state-chartered entity that's privately owned. And that entity, in selling out its shares, is governed by a board of directors that has the interest of the state at heart and is not concerned about short-term return. It's kind of a Berkshire Hathaway that anybody can get on the ground floor of. Okay. So we take an appropriation, we put a limited amount of time, and we say come up with five times the money at least. Now it might be investors will take a look at that and say, heck, that's a good deal, that's 20 percent instant return. In that case, they'll dilute it. Some more money will come in. May end up only being 10 percent that was originally the return to the taxpayers. But whatever it is, it will find it. If it doesn't meet the minimum standards you set, you're out a little administrative expense, probably less than \$1 million, quite a bit less than \$1 million probably. And everybody goes on and it was another idea that fizzled. That can happen, but nobody gets burned. Investors that put in get returned their money. State gets returned most of its money and life goes on. But should this thing work, should we get a big pile of money under really good management, I bet you we're all in with some of our own private money because it's just too good not to be in on. And so that's the idea and I'm really, really interested in Senator Kintner's questions because really part of this was his idea because he said let's return some of that money to the people. [LB1019]

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SENATOR MELLO: Thank you, Senator Schumacher. Are there any questions from the committee? Senator Conrad. [LB1019]

SENATOR CONRAD: Thank you so much for coming to visit the Appropriations Committee. I wish you came here more frequently, Senator Schumacher. I heard you say earlier this session that one of your criticisms of the body was a lack of inspiration. Well, let me be clear that certainly didn't apply to you. I continue to applaud your creativity in bringing forward innovative legislation like LB1019 and I am incredibly intrigued by the concept and would like to have more dialogue on it. On that topic, as part of the Innovation and Entrepreneurship Task Force and the related programs that that helped to establish, one area that we continue to see additional need in Nebraska is in the venture capital area. There has been, I think, some modest movement in that regard and some recent news stories detailing that maybe there's some differences of methodology in terms why we consistently rank so low in that regard. But nonetheless, we're low in that regard. I actually put in an interim study last session on the topic of venture capital. It was referenced to the Revenue Committee, and as you know, you were a little busy with some other tax issues. But one thing that I was able to understand, gleaned from initial research, is there are models that exist in other states about how to improve our venture capital landscape, but there are also some cautionary tales out there. And so did you model this after any of those other examples? Is it a completely novel idea? Did you have a chance to look at some of those other ideas and why would you discard those in favor of this? And it's really just an open-ended question in terms of that. [LB1019]

SENATOR SCHUMACHER: Usually, if you read about somebody else's idea, the zing is already taken out of it. So if you're really going to do the zing on an idea, it should be pretty new. I had some help from some folks who were interested in trying to organize capital, but basically this is a real simple idea. It's sell shares. That's not a new idea. That sits back to the 1500s or so. And so basically you get the capital organized, you get the king back in the Dutch East Indies time, say go sail around the world, only the king this time is this board that's created. You use basically a corporate format even though it's not a corporation subject to the business corporation's laws and some of the sticky parts of the securities laws. But think about it. If nobody is doing this and if really the key to success is highly organized capital then this isn't a half bad idea. And it's something that can be developed and just not only used for doing local venture investment but also playing hard capital acquisitions. And when a business comes, they shouldn't...you know, entrepreneurs, from my perspective at least, they shouldn't look for a government handout. They should have to sell some of themselves. I've done a couple businesses and the only way I've been able to get off the ground is sell part of me. And then you spend many, many years buying part of yourself back from your investors, and probably wish you'd have just borrowed the money. But nevertheless, this is just raw capitalism and it is leveraging what we've got. [LB1019]

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SENATOR CONRAD: Senator Schumacher, you touched on it in your opening as well, but there is considerable debate surrounding this kind of race to the bottom, so to speak, with some larger economic development and incentive-based programs. Do you...in fact, our own Performance Audit Committee has just underwent a significant study on the return on investment that some of these programs may or may not offer to our state and the price tag that comes with them. Do you see this idea as complementing those efforts or eventually replacing those efforts in terms of economic development tools? [LB1019]

SENATOR SCHUMACHER: I think those efforts long term are not going to...are not productive. Short term they are because you got every...since everybody else is doing it, you've got to play the game too. [LB1019]

SENATOR CONRAD: Right. [LB1019]

SENATOR SCHUMACHER: But are they meaningful? No. They're moving things back and forth from border to border. Well, who's got the best and the cheapest and the juiciest today? But if you want to really, really make sustained economic growth, you'll do it by owning the show and you own the show by putting money together and buying the show--simple, no dance around, no government middlemen. And in fact, this is not any government middlemen in here. These are people whose jobs are to make economic growth and, quite frankly, make the stock in this thing worth a lot of money so that it can be sold to somebody else. This is capitalism. [LB1019]

SENATOR CONRAD: Very good. Thank you. [LB1019]

SENATOR MELLO: Senator Larson. [LB1019]

SENATOR LARSON: Thank you, Paul. I don't mind the idea. I do have a few questions and concerns in terms of LB1019, though, and you can probably explain it. To start, the first one is your idea for obviously the capitalistic nature of getting people to invest in private equity, for a business that they would want to invest in. Would that business have to be located in Nebraska under LB1019? [LB1019]

SENATOR SCHUMACHER: I think it brings it into...I mean, no, you could go out and find a business in California and say, you know, that's a good business. [LB1019]

SENATOR LARSON: So the authority could invest... [LB1019]

SENATOR SCHUMACHER: The authority could invest. [LB1019]

SENATOR LARSON: ...in other states. [LB1019]

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SENATOR SCHUMACHER: I mean, we're going to acquire businesses, right. [LB1019]

SENATOR LARSON: Okay. That was my first question... [LB1019]

SENATOR SCHUMACHER: Yeah. [LB1019]

SENATOR LARSON: ...because that was a...I mean I get the...and I actually support that model but at the same time a lot of people will say let's help the local economies in having these businesses and these shops in Nebraska and, you know, a certain portion of the businesses that they invest in. [LB1019]

SENATOR SCHUMACHER: We'll probably bring the business back to Nebraska, so it will help the local economy. Yeah. [LB1019]

SENATOR LARSON: Yeah, and a, you know, a certain portion has to be in Nebraska. In LB1019, in the whole concept, does the state have equity? [LB1019]

SENATOR SCHUMACHER: No. [LB1019]

SENATOR LARSON: Why not? [LB1019]

SENATOR SCHUMACHER: Why? Because the state is going to get its share out of any dividends, if it ever pays dividends. It's called taxes, mean, nasty, corporate taxes. And so why...I mean this is the people's money. [LB1019]

SENATOR LARSON: Taxes if those companies are in Nebraska though. [LB1019]

SENATOR SCHUMACHER: Well, they're going to be here. This is... [LB1019]

SENATOR LARSON: But the authority could invest in other states, nonetheless. [LB1019]

SENATOR SCHUMACHER: Right, they could, but they will bring them back here. [LB1019]

SENATOR LARSON: How does the authority bring the businesses back? [LB1019]

SENATOR SCHUMACHER: Most of the businesses you're going to invest in these days are probably the type that are mobile. [LB1019]

SENATOR LARSON: Uh-huh. [LB1019]

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SENATOR SCHUMACHER: Once you own them, you move them. [LB1019]

SENATOR LARSON: And... [LB1019]

SENATOR SCHUMACHER: You don't have to move them right away but... [LB1019]

SENATOR LARSON: ...therein lies one of my...like I said, I love the idea, the concept, and I think you're thinking bold. I actually would prefer to see the state have equity. [LB1019]

SENATOR SCHUMACHER: You know, Senator, all things are negotiable. (Laughter) [LB1019]

SENATOR LARSON: And I think your concept is very unique but it's not completely unique in the sense that...I don't know if we've discussed this, but sovereign wealth funds across the world, and there's a number of states that have sovereign wealth funds that...in which the state does hold equity and does take returns and using those sovereign wealth funds. And to speak to Senator Conrad's point, Wyoming, for example, is taking mineral rights and they're putting into what they call their sovereign wealth fund and they're investing all across, not just businesses, but they're leveraging and hedging into other efforts to make sure that this sovereign wealth fund continues to grow. And that's why their taxes are so low. And this is an idea that I look at in Nebraska and the concept of this sovereign wealth fund, is if they could...if the state had equity and could continue to build that equity and continue to reinvest, essentially you'll get to the point to where if that fund grows to \$50 billion, \$100 billion, that just the dividends every year pays our entire state's bill. And so I think you're on the right path but I would love to see equity. And I like the fact that you say that we could invest inside/outside Nebraska. Under LB1019, could they...could the investment authority or the authority hedge with something a little safer, such as Berkshire, to ensure those constant...? You get what I'm saying, a hedge to say, you know, we took a lot of risk this year with three-quarters of our money; we need to hedge down and ensure a return for our investors to ensure that our investors stay in, like any good...? You get what I'm saying? [LB1019]

SENATOR SCHUMACHER: Well, some protection, right. This is a pile of managed money. Whatever works good to manage money it should do. [LB1019]

SENATOR LARSON: Okay. [LB1019]

SENATOR SCHUMACHER: And if these people are smart, they will. [LB1019]

SENATOR LARSON: I just didn't know if it had to be in all, you know, in Nebraska or... [LB1019]

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SENATOR SCHUMACHER: No. See, part of the magic of a pile of money is you don't want to assume you're so smart as to know where it should go. [LB1019]

SENATOR LARSON: Okay. And I like to hear that as well. [LB1019]

SENATOR SCHUMACHER: So what I want this to do is be your bill, because isn't it magic if you have an idea and you got the money and you got the power and you got a whole bunch of money out there that we can put it together? [LB1019]

SENATOR LARSON: Here's another question for you. So we have the investment authority and let's say we create it such as a business and you want to sell shares. I'm guessing the that authority determines how many shares they want to sell, obviously. What mechanism are we looking? We know where most...are we looking into we have so many shares and it's first come, first served and at that point...or who determines the fair market value of those shares? In moving forward we're talking about investment and returning this to investors. Are we looking towards being the first investment authority on the New York Stock Exchange? Or do you just really want to invest and don't really care about the schematics of it going back? [LB1019]

SENATOR SCHUMACHER: At this point, I think if you...what I would... [LB1019]

SENATOR LARSON: I mean these are all questions I ask. [LB1019]

SENATOR SCHUMACHER: ...my opinion, but that's not necessarily what the opinion of the board would be, is you market these shares about \$500 a pop and I... [LB1019]

SENATOR LARSON: And so if there's \$250 million in the fund, you divide that by \$500 and that's how many shares that... [LB1019]

SENATOR SCHUMACHER: That's shares. And you continue issuing shares at so much until the fund actually starts spending. If you have \$500, you just continue selling shares and see how much it brings in,... [LB1019]

SENATOR LARSON: So you're saying... [LB1019]

SENATOR SCHUMACHER: ...in the initial thing. [LB1019]

SENATOR LARSON: ...we take...let's say we took \$50 million Cash Reserve and then the state just started selling, say, the authority says we want to sell another, you know, 100 shares or... [LB1019]

SENATOR SCHUMACHER: We want to sell as many as we can at \$500. [LB1019]

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SENATOR LARSON: Just as many as we can at \$500, and whatever it brings in, it brings in. [LB1019]

SENATOR SCHUMACHER: And if we don't match money, you get your money back. [LB1019]

SENATOR LARSON: It returns back. Have you...and do we want to put the...you know, it reminds me of things such as we looked into the "crowd funding" area. I'm not sure if you're familiar with "crowd funding." [LB1019]

SENATOR SCHUMACHER: A little bit. [LB1019]

SENATOR LARSON: It's something I'm very interested in, is businesses go on to WeFund or even Kickstarter and they say I need a million dollars to do X, and if they raise the million dollars then they take the \$25 that everybody gave them out of their credit card or whatever it is, and if they don't make the million dollars then nobody actually pays into it for their share. [LB1019]

SENATOR SCHUMACHER: This is kind of the same idea, only this is going for real stock, real money. It's not... [LB1019]

SENATOR LARSON: Well, WeFund is real stock... [LB1019]

SENATOR SCHUMACHER: Okay. [LB1019]

SENATOR LARSON: ...and real money; Kickstarter is not. It's the other side of it. Like I said, I like the idea but the concept in which the state holds some equity scares me in the sense that if we really look at future generations 50-75 years down the road and mutual funds, all these...I mean the market has been proven to work for itself and return gains, but I mean Wyoming is easily on a path and Alaska as well. Both have sovereign wealth funds that do similar things to this. They're on the path to tax freedom to pay for their state budgets. And it's something that I'm interested in as well. [LB1019]

SENATOR SCHUMACHER: We're all on tax freedom. (Laugh) [LB1019]

SENATOR MELLO: Senator Nordquist. [LB1019]

SENATOR NORDQUIST: Thank you, Mr. Chair. Thank you for this discussion-provoking idea, Senator Schumacher. I know with the Nebraska Investment Council, and Senator Mello has brought resolutions to look at opening up greater investment from the Investment Council into Nebraska-based private equity and venture capital opportunities. Right now I think out of our state portfolio 70 percent is in equity, 30 percent in bonds. Out of that 70 percent that's in equity, I think it's between 5 and 10

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percent that we put into private equity. Would this essentially be creating the same thing as just saying the Investment Council can now take private dollars and expand that private equity portfolio and just make investments from there in their best interests? I mean isn't that just another way to do the same thing that we're looking at here? [LB1019]

SENATOR SCHUMACHER: It might be. But, you know, are they selling shares that then will be transferable? [LB1019]

SENATOR NORDQUIST: No, but they... [LB1019]

SENATOR SCHUMACHER: See, that's the difference I think. Now that's not to say that this pile of money and the people, management, cannot make alliances with various other entities that are already out there, but not on nearly as, you know, as grand a scale. I'm talking about pretty grand money here or it's not worth doing. [LB1019]

SENATOR NORDQUIST: But is our ultimate goal to make it easier for individuals to invest in private equity? [LB1019]

SENATOR SCHUMACHER: I think that our ultimate goal is to give people in this state, who are generally hard workers and generally savers, something to invest their money in and that something should grow and have value in accordance with its production. [LB1019]

SENATOR MELLO: Senator Bolz. [LB1019]

SENATOR BOLZ: Professor Schumacher, okay, count me in as one of those hypercautious, risk-averse Nebraskans. [LB1019]

SENATOR SCHUMACHER: Right. [LB1019]

SENATOR BOLZ: Okay. So talk to me about the risks. What's running through my mind is the recent mortgage crisis where collective wisdom was that these were good bets and these were the smart, strategic investments to make. So what happens in an economic downturn and just what kind of risk are we taking on with public money? [LB1019]

SENATOR SCHUMACHER: Well, this isn't public money. This is private money because if you're going to play with this, you're going to put some money in. What... [LB1019]

SENATOR BOLZ: Wait, wait, wait. I'm confused. You're asking for a \$40 million Cash Fund transfer, but you're calling it private. [LB1019]

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SENATOR SCHUMACHER: Right. [LB1019]

SENATOR BOLZ: I'm honestly confused. [LB1019]

SENATOR SCHUMACHER: Right. Okay. That once this transfer is made, that money is gone. The only way the state gets that money back is either maybe with a derivative of what Senator Larson was talking about or that there isn't enough private capital made for the match. It's gone. You've returned it to the taxpayers. And because you have started out with this cushion, you have diminished the risk, because to the private investor, that cushion is the risk softener. You'd have to lose 16-20 percent of your money before the private money was depreciated in value. The state is kind of taking the risk but it's the people's money anyway and they all can invest in it. Anybody can come up with 500 bucks. [LB1019]

SENATOR BOLZ: Okay. [LB1019]

SENATOR MELLO: Senator Kintner. [LB1019]

SENATOR KINTNER: I'm taking the bait. [LB1019]

SENATOR SCHUMACHER: All right. (Laughter) I knew I could get you. [LB1019]

SENATOR KINTNER: You are truly the mad scientist of semicapitalism. (Laughter) Congratulations, you have the largest statement of intent I've ever...the longest. It's in small type even. It's huge. Those on camera, look how big it is. Okay, I guess my question is so we create this fund and the people can invest in. What makes this a better investment vehicle than Fidelity Investments, than something that you can get from your bank that has investments, insurance companies' investments? Why would...you say this is so the people can invest. Why would this be something they'd want to invest in? [LB1019]

SENATOR SCHUMACHER: Okay. Good question. Why? Well, first of all, this has automatically got \$40 million that you're investing in, so you've got a cushion in your investment to take some of the risk away. You don't get that when you invest at the market rate in some of these other funds. Now why are we doing it this way? Because when you invest in these other funds, how much of that do you expect comes back to Nebraska? How...? Very little. If it comes back here, you've got to go campaign for it. You've got to give money in grants and credits and who knows what in order to get it here, TIFs and tax and whatever. So from the point of view of the investor, this is a good deal starting out because there's a pile of free money it's starting out with that you aren't going to get in any of the other ones. The market has already priced that out of the other ones. This is a good deal for the investor. That's why you're going to invest in it. The

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first \$500 that comes in, assuming there were no limit to investment, would own \$40,000,500 (inaudible) invest. It was a good deal. There's no other thing like that on the market. So we're going to...we would set the value of how many \$500, if that's the number for the stock market or this...to market the stock at, that we'll require before we complete the \$40 million or whatever the number is. That's why you'd invest, because it's a good deal. [LB1019]

SENATOR KINTNER: In terms of trying to be a win-win situation, what do the...what does the state get out of this? [LB1019]

SENATOR SCHUMACHER: Well, the state gets these businesses brought into the state. What the state gets is all that money out there, that's really the wealth of the state. Instead of it going scooting out to investments in other parts of the world and Third World countries and other parts of the economy, it's invested here. That's what the state is getting out of it. It's conserving its wealth. It's not letting that power flow out. And if you can keep the power here, that money produces here. [LB1019]

SENATOR KINTNER: Wow. Okay. It's interesting. You know, if...to digress a little bit, if I could harness your brain...but I don't know what your IQ is, 200-something. I don't know. It's way up there. I mean you think about things that I've never thought of and probably never will. If you could harness your thinking into a way to stop the Legislature from spending so much money, do you know what a benefit that would be to the state? It would be incredible. I mean I think that might do more than this. [LB1019]

SENATOR SCHUMACHER: Senator Kintner, at a point you got to almost realize that you're going to have to spend money and there's expenses you can't afford because people are people and you're going to have to spend it. The trick is to make far more money than you have to spend. It's not worrying about how much taxes you're paying; it's how much money you're making that's important. If you can make a million bucks and have to pay 10 percent tax, it's a better deal than making \$50,000 and having to pay 1 percent tax. The key is to make money and this is a way to make money. [LB1019]

SENATOR KINTNER: Okay, next...last question that I am going to ask is something if Senator Chambers was here, he might ask the question. How did you think of this? Just how did you wake up and come up with this idea? I mean you must have seen something that jogged your memory and you took it and ran with it or something, right? Or did you see this somewhere else? Where did this come from? [LB1019]

SENATOR SCHUMACHER: Well, you just look around. Look at...I look at the farmers who come in and say, I've got...I mean I look at them. They don't have any particular education. They work their butts off; suddenly they're sitting on land and they're worth 10 million bucks. And they're going out to the auction to drive up the price of land. I say

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why are you investing in land? Well, because there's nothing else to invest in. Well, after so many things...and then you hear stories of young entrepreneurs saying, well, you know, gosh, if government doesn't give us any money, we don't know where to go. What? And then you read the old history books that talk about the Dutch East Indies company and how you organize capital. There wasn't any stupid Securities and Exchange Commission or capital markets then. It was just a sovereign saying, let's go do something. You take the American spirit, Senator Kintner, and you run with it and maybe even listen to some marching music on XM Radio. [LB1019]

SENATOR KINTNER: Thanks. Sure appreciate it. [LB1019]

SENATOR MELLO: Senator Nelson. [LB1019]

SENATOR NELSON: Thank you, Senator Mello. Thank you, Professor Schumacher. Assuming I had \$10,000 to invest and I could go to the money fund store and they would have three different plans--one conservative, one moderate, one high risk--and I would have the benefit of all their researchers there to put me in the right plan and to make me money, or I could buy Class B Berkshire Hathaway stock and have the benefit of all of Warren's experts to gradually make money with almost guaranteed dividends--at least that's the way it's been so far--why would I want to put \$10,000 in a venture fund that has no track record, no expertise in particular? Yes, it's risk-free maybe, but if that fund invested in Enron, for instance, and lost 40 percent of its money then we've actually taken money away from the taxpayers of Nebraska, right? So now that's a hypothetical. Why would I want to go into this venture fund other than trying to do something for the state of Nebraska and maybe no guaranteed dividends or anything, so no losses but no guaranteed growth or dividends? [LB1019]

SENATOR SCHUMACHER: An investment in this is an individual decision. But if you feel that it's going to work, if it's feeling you're getting on the ground floor of something that has a 15-20 percent cushion on it so that you can lose up to that much money and still you not be hurt, and if it's staffed with people who are...or governed by people who are bright and capable in calling on...are perfectly free to use some of the money to call on the brightest experts, you make money. And it's an individual choice decision. It's a vehicle, not that you like the seats in this particular vehicle necessarily or the way it drives. But it is a vehicle and right now we have no vehicle to push to organize all that money and invest it here in something that would end up being a wealth producer for the state. That vehicle doesn't exist. [LB1019]

SENATOR NELSON: Okay. I didn't get a chance...it's allotted there in your bill, but I did read through John Munn's letter here. (Exhibit 6) And when you were talking, I was thinking about all the securities hoops and things of that sort that you have to go through, and he asked some good questions: Who's going to make the sales? If they're going to be made by third parties, aren't we going to need an extra measure of

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protection? And how do we, if I am an investor, how do I transfer some of my interest, my stock? [LB1019]

SENATOR SCHUMACHER: You sell your stock. The stock certificates would be freely transferable just as a stock certificate would. I would not look for third parties to make the initial sale. I think if you let the world know that this is what's going on, you'll find that they will be able to issue that, those initial shares. At some point maybe third parties will. It will be intrastate, in other words directed only to Nebraska investors, so hopefully that will mean minimum requirements with the Securities and Exchange Commission. To the extent that it's going to take involvement with the Securities and Exchange Commission and some bright lawyers, that's why part of the game in large money operations is that you need money to pay those lawyers to do that proper paperwork. So I've looked through Director Munn's letter. That's not a big stumbling block. That can be worked around. It will take some securities lawyers to play with it and make sure everything is fine. But basically, the first step is a very simple prospectus. You're organizing a pile of money and it's going to be managed by this organization. [LB1019]

SENATOR NELSON: Somebody is going to have to write up a thick prospectus... [LB1019]

SENATOR SCHUMACHER: They will. [LB1019]

SENATOR NELSON: ...not only for the state but for the federal people, aren't they? [LB1019]

SENATOR SCHUMACHER: Well, there will be no prospectus here because... [LB1019]

SENATOR NELSON: Well, if it's going to be interstate sales... [LB1019]

SENATOR SCHUMACHER: I don't anticipate, in fact, it to be interstate sales. Now at some point it might be, at which time somebody is going to have to write up a thick prospectus. But the initial thing, I don't want to take \$40 million or whatever of our money and let somebody in Illinois tap into it. [LB1019]

SENATOR NELSON: So only invest... [LB1019]

SENATOR SCHUMACHER: All I want... [LB1019]

SENATOR NELSON: ...only investors from the state of Nebraska. [LB1019]

SENATOR SCHUMACHER: Initially, yeah. I would think that's the way it would have to be. Now that's not to say you're locked into that forever, but, yeah. Why not, because there's where the...there's where our disorganized capital problem is. [LB1019]

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SENATOR NELSON: And who makes the pitch? Who persuades the average Nebraskan that this is going to be a good deal for them and that they should buy 100 shares of stock? [LB1019]

SENATOR SCHUMACHER: Well, I don't know. I kind of think that we'd have...if this thing got on the floor of the Legislature and started picking up votes, I think we'd have plenty of discussion and plenty of interest and (laugh) probably could sell it fairly easy. [LB1019]

SENATOR NELSON: Okay. Okay. Well, it's really innovative and thinking outside the box, as you usually do. But I think we're going to have some technical questions along the way. [LB1019]

SENATOR SCHUMACHER: Sure. Sure. And we'll pay somebody to take care of them. (Laughter) [LB1019]

SENATOR NELSON: (Laugh) Oh, that's the next question. Who's going to pay for that? It's going to be, according to the fiscal note, it's going to be the state of Nebraska. [LB1019]

SENATOR SCHUMACHER: There's only \$200,000 there. That's not even...that's not even...I mean that's small-fry to the kind of money we're looking at here. [LB1019]

SENATOR NELSON: Okay. All right. [LB1019]

SENATOR MELLO: Senator Conrad. [LB1019]

SENATOR CONRAD: Thank you, Senator. A couple questions: I want to get to the heart of timing and price tag. Now in your legislation, it essentially is kind of an open question mark, an XX for the amount of investment you're looking at from this committee and from the Legislature ultimately. I know you've been talking about \$40 million today kind of as a placeholder or an estimation or as an example. Is there minimal threshold needed to attract interest? [LB1019]

SENATOR SCHUMACHER: You know, I would...I mean if I look at my farmer friends out there, you're going to see \$10 million, that's just two of them and that's not the kind of level. If you put in \$10 million and say, okay, we're going to require \$50 million raised, I don't know if \$60 million gets you the kind of wow power that's necessary. But I would look that if this is out there as a serious option for investors and that it, in a year's time, you will know whether it sold or not. That's an experimental question. [LB1019]

SENATOR CONRAD: Do you have a suggestion for the committee as to how we should

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fill in those Xs on page 39 of your bill? [LB1019]

SENATOR SCHUMACHER: Forty million from the state and returned to the taxpayers and five times that from the private sector. [LB1019]

SENATOR CONRAD: Very good. And then the last question is to timing. Do you see the current debate and discussion surrounding Nebraska's performance or lack of performance in the venture capital arena as conducive to your effort? And how also do you see the current value issues which you noted in the ag economy, and then the generational transfer of wealth that is before us as conducive to your effort? [LB1019]

SENATOR SCHUMACHER: Well, I think that if we give people a vehicle to invest in, we can do something that I haven't talked about this year and may talk about next year if I'm here, and that is when...right now, let's just take the farm situation because that's the worst situation we have, and you have a piece of land that has appreciated \$5 million. Okay? It went up from where it was when it was bought to now \$5 million. When we...when that person with the \$5 million estate dies or maybe \$6 million because they paid something for it, but he dies, chances are in the estate with the baby boomer generation three of the kids live out of state if there are six kids, pretty good bet about 50 percent. So of that \$5 million of the growth and wealth of this state, \$2.5 million are going to leave and we aren't even going to ask for one nickel of tax on that money that leaves. Now what if we did this? What if we said, okay, we are going to deny you a step-up in basis on death for state tax purposes, so you're going to pay Nebraska income tax on that property just as would have had to been paid had Grandpa sold the property? Okay? Now, but we're going to let you take that tax you paid as a credit against your Nebraska income tax. Now suddenly those out-of-state kids have got a reason to invest that money back in Nebraska so it generates income tax here and they can take the credit. And we then leveraged ourselves into additional investment in Nebraska instead of a net outflow so they can build a new house in Wisconsin or someplace. [LB1019]

SENATOR CONRAD: Okay. Thank you. [LB1019]

SENATOR MELLO: Senator Nordquist. [LB1019]

SENATOR NORDQUIST: Thank you again, Mr. Chair. So looking at the 11-member board, I just want to talk about the fiduciary responsibility. So let's say you and I are the two. I guess we are ex officio so we can't vote but we're part of this board. And we go out and make an investment in company X. We buy a majority stake in it and we say you're going to move your operations to Nebraska. But along the way Iowa comes to us with their lucrative incentives and says, we're going to offer you \$50 million to relocate that business in Iowa. Now what do we do as board members? Do we take Iowa up on that offer and be...are we fiduciarily responsible to come up with the best deal for our

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shareholders, or do we have to bring it back to Nebraska? [LB1019]

SENATOR SCHUMACHER: I think right now I think there's a requirement that the business be... [LB1019]

SENATOR NORDQUIST: Oh, it is required right now? [LB1019]

SENATOR SCHUMACHER: ...in Nebraska, if I'm not mistaken. [LB1019]

SENATOR NORDQUIST: Okay. Okay. Okay. So right now it doesn't say that you can invest out of state. Okay. [LB1019]

SENATOR SCHUMACHER: No. But if you think that's an issue, that's something we can address. But you know, I think the idea...Iowa, when we control the business, the incentives, even if there were incentives, and I guess we're still playing the incentive games in Nebraska, we'd give ourselves the incentives, you know? (Laughter) Or the Legislature could work it that way. This is the advantage of actually having the money organized. [LB1019]

SENATOR NORDQUIST: All right. Okay. [LB1019]

SENATOR MELLO: Senator Larson. [LB1019]

SENATOR LARSON: Did you agree with Initiative 300? [LB1019]

SENATOR SCHUMACHER: Initiative 300? That didn't work out well. [LB1019]

SENATOR LARSON: And I ask because you're limiting or you've talked about limiting this to only Nebraska investors. I-300, very similar to that concept, you could only invest. I think if this were to work, you can't limit who is and is not able to invest. And the simple fact, and again as you said, you think...I'll come back to the point, any fund of this nature has to have that flexibility. You're not going to get the amount of money you need with just Nebraska investors. [LB1019]

SENATOR SCHUMACHER: That's an experimental question. Now that's not to say that if you don't get the...let's assume you get the \$240 million organized and all of a sudden you start looking at it and say, we need to leverage this with some more out-of-state money. We've tapped the Nebraska well. All right. Then... [LB1019]

SENATOR LARSON: But why would you even...why would you even hold it to Nebraska to begin with? [LB1019]

SENATOR SCHUMACHER: Because that's...our problem is...part of this thing is trying

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to solve a problem and that is that guy out there who has no place to invest but the land. [LB1019]

SENATOR LARSON: What I'm saying is, and I get that point, if the \$240 million comes and it's all from Nebraska, great, if it's 80 percent from Nebraska or we bring in \$500 million, whatever it is, obviously market to Nebraska. But you'll sell yourself short, just as we did with I-300, when we limit investment in the state and where that investment can come from. [LB1019]

SENATOR SCHUMACHER: Life gets immeasurably more complicated, particularly if you talk something lesser than the numbers I was just talking about, if you have to start messing with public offerings and Securities and Exchange Commission. [LB1019]

SENATOR LARSON: Not going to...I completely agree with you. [LB1019]

SENATOR SCHUMACHER: But at some point... [LB1019]

SENATOR LARSON: But where do you...I guess my point is the fund I think will struggle with just us. [LB1019]

SENATOR SCHUMACHER: And if it doesn't make it, let's just say it doesn't make it, things go back to square one and we've learned from it. [LB1019]

SENATOR LARSON: I appreciate... [LB1019]

SENATOR SCHUMACHER: We learned that we need to do... [LB1019]

SENATOR LARSON: But you understand what my point is. [LB1019]

SENATOR SCHUMACHER: I understand exactly and it's a valid point. [LB1019]

SENATOR LARSON: And the point of what happened with I-300 and... [LB1019]

SENATOR SCHUMACHER: And life is not static but you got to start somewhere. [LB1019]

SENATOR LARSON: Appreciate that. Thank you. [LB1019]

SENATOR MELLO: Senator Wightman. [LB1019]

SENATOR WIGHTMAN: I'm assuming...thank you for your bill. It is extremely interesting. You talk about the possibility of putting capital gains on sales if they're...or capital gains, yeah, which we'd have no federal tax on, say, if it was \$5 million or less.

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And of course I'm assuming that's just an example. It's nothing under your current bill that we would... [LB1019]

SENATOR SCHUMACHER: No, this...that deal... [LB1019]

SENATOR WIGHTMAN: ...has nothing to do with that. [LB1019]

SENATOR SCHUMACHER: ...has nothing to do with this but it was... [LB1019]

SENATOR WIGHTMAN: But it's some way of raising money, as I understand it, that you might be able. Do you know of another state anywhere, for example, that taxes capital gains differently than the federal does? There may be some but... [LB1019]

SENATOR SCHUMACHER: I don't know. That's one of those ideas where you say, look it, what we're doing here, if you look at the picture of how that money exits the state tax-free is a really dumb thing to do. And so how do we basically keep that money invested here? And that's a mechanism that does it. [LB1019]

SENATOR WIGHTMAN: I agree it would be an innovative idea if we were to do such a thing, but I'm not sure we wouldn't be alone in... [LB1019]

SENATOR SCHUMACHER: We might be. I did bounce it, and this is an entirely different discussion, but I did bounce that off of some farm organizations and I thought I'd get kind of pooh-poohed and I didn't, because it is a way of...if that money is going to leave the state, get a tax bite out of it on the way out of the door. [LB1019]

SENATOR WIGHTMAN: Thank you. [LB1019]

SENATOR MELLO: Any other questions from the committee? [LB1019]

SENATOR NORDQUIST: One. One more, just a quick one. [LB1019]

SENATOR MELLO: Senator Nordquist. [LB1019]

SENATOR NORDQUIST: Just generally, we're taking state dollars and kind of putting them out there, saying, here, make a risky investment. Couldn't we do the same thing on the angel investing credit by just expanding that and saying to those people, here, make this risky investment and we're going to give you more of a state tax credit? [LB1019]

SENATOR SCHUMACHER: Well, your angel investment kind of thing, right now that's pretty small-fry stuff. Four million dollars, you're relying on basically some in-state, some out-state investors to find a business, invest in it. I'm talking getting such a significant

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pile of money together that you'd be much better...that you now have control of your territory rather than asking...I mean this kind of puts things on its head. [LB1019]

SENATOR KINTNER: I have one more. [LB1019]

SENATOR MELLO: Senator Kintner. [LB1019]

SENATOR KINTNER: This is just too good. Sorry. In the initial \$40 million of the money that Senator Sullivan wants to put in, is that where we're getting the additional \$40 million that we have leftover from TEEOSA? Is that where you got the number from or...? [LB1019]

SENATOR SCHUMACHER: Now that you mentioned it, maybe that's where I came up with the number. (Laugh) [LB1019]

SENATOR KINTNER: Well, how are you going to pry the money out of her fingers? [LB1019]

SENATOR SCHUMACHER: Well, wait a minute, Senator. You have pointed out and there's certain people in this state that have pointed out that we do have a bit of a kitty of money, and generally it's kind of bad to dip into that reserve. But if there's a good bet and it's only \$40 million compared to some of the hundreds of million dollars of talk we've been hearing, then gee, roll the dice. You can't lose very much because you get your money back except for some expenses. [LB1019]

SENATOR KINTNER: Thank you. [LB1019]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Senator Schumacher. We'll first take proponents for LB1019. [LB1019]

RENEE FRY: (Exhibit 7) Just hand them out? Keep it here? Okay, thank you. All right. Okay. [LB1019]

SENATOR MELLO: Good afternoon. [LB1019]

RENEE FRY: Good afternoon, Senator Mello and members of the Appropriations Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute and I'm here in support of LB1019. While Nebraska scores quite well overall on business climate rankings, Nebraska tends to rank low on access to capital, technology and innovation and entrepreneurship. For example, CNBC's "Top States for Business 2013" ranked Nebraska 4th overall but 36th for technology and innovation, and 39th for access to capital. This low ranking for access to capital is important because 90 percent of new entrepreneurial businesses that don't attract

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venture capital fail within three years. This failure is typically attributed to the inability of start-ups to cross the valley of death, which you heard about quite a bit earlier, which refers to the difficulty of these new companies covering the negative cash flow in the early stages of the start-up. According to researchers Litan and Robb, while the economic environment remains uncertain, private investors will most likely continue to be risk-averse in making investments. This is clearly problematic for a state such as Nebraska that already ranks low in access to capital. LB1019 would address the uncertain fiscal climate facing private investors by creating several incentives for investment through LB1019, such as a pool of investments to minimize the loss of any single business failing and, most importantly, the initial state contribution to provide additional resources to soften any loss experienced by the Nebraska Venture Fund. There is also likely to be a significant benefit to the state. A 2010 study of industrialized countries found that venture capital is associated with lower unemployment rate, a smaller share of long-term unemployment, and a higher employment rate. The same study found that in all cases more readily available venture capital is correlated with better labor market performance in the following year, even after controlling for many factors. This study also found that while it is only a small portion of start-ups experience rapid growth, it is these companies that nationally account for a disproportionate share of net new jobs generated by start-ups in general, which until the recession accounted for virtually all net new jobs created in the U.S. economy since the late 1970s. Julia Sass Rubin, a professor at Rutgers University in Washington, D.C., and an expert on investment programs, has stated that "Venture capital is a slow business; it can take a decade to see a significant return. But it's still a good investment." Based on the body of research, we believe that an investment in venture capital would do far more for economic growth and job creation in Nebraska than cutting taxes. Income tax cuts don't necessarily lead to more investment in Nebraska. It is a global economy and many people will spend any tax cut they receive elsewhere. Conversely, LB1019 provides a vehicle and incentives for people to keep their money here in Nebraska, investing in Nebraska companies, and creating Nebraska jobs. As we testified yesterday, we would not recommend tapping into the Cash Reserve below the levels recommended by the Legislative Fiscal Office. But to the extent that the Cash Reserve exceeds these amounts, we believe LB1019 is a great investment in Nebraska's future. And I would be happy to answer any questions. [LB1019]

SENATOR MELLO: Thank you for your testimony, Renee. Are there any questions from the committee? Senator Kintner. [LB1019]

SENATOR KINTNER: Thanks, Renee, for coming over. We're seeing each other every day almost. You must have gotten mixed...I was going to say you got mixed up. There's not a tax cut to oppose today. But I go on the backside and you still take a whack at tax cuts here, so I see why you're here. If \$40 million would be good in this, would \$60 million be better? [LB1019]

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RENEE FRY: So I think it depends on the state's ability. You know, we have to protect the Cash Reserve. And so to the extent that we have funds above the recommended levels, I would say that we should invest what we can. You know, the other point, it is sort of an experiment and so by keeping the amount on the lower end, you do have the ability to then mitigate any losses to the state. But I think it's an idea that's worth trying that could provide great dividends and certainly a lot of job creation in the state. [LB1019]

SENATOR KINTNER: I think I know the answer to my next question because I know Professor Schumacher. Is there any state that's ever done anything like this to your knowledge? [LB1019]

RENEE FRY: So there are states that have done things that are similar. For example, Maryland, Wisconsin, Tennessee, all have state-funded venture capital programs. I can't tell you all the specific differences. I have not done extensive research in that area. And the way that they've generated revenue is by selling insurance tax credits, so that mechanism is certainly different. Maryland, for example, their program started in 1994 and recently they renewed about two years ago and put an additional \$80 million into that program and they have seen considerable return on investment there. The vehicle, as I understand, is different in terms of what Senator Schumacher is suggesting compared to other states, but I think we could certainly look at what those other states have done to glean a little bit of information in terms of, you know, how this should work. [LB1019]

SENATOR KINTNER: Okay. Well, just for informational purposes, I have a couple tax cut bills next Friday, so just put it on your calendar so you can come testify against them, okay? Thanks for coming out today. Appreciate it. [LB1019]

RENEE FRY: Thank you. [LB1019]

SENATOR MELLO: Senator Bolz. [LB1019]

SENATOR BOLZ: Good afternoon. [LB1019]

RENEE FRY: Hi. [LB1019]

SENATOR BOLZ: It's Wednesday, and I think I've heard this week that water funding will create growth in the economy, that postsecondary education and work force development will create growth in the economy. I think I heard this week that tax credits are going to create growth in the economy. So just a question is, why this strategy versus all of the other strategies on the table? [LB1019]

RENEE FRY: Yeah. I know, you know, I testified yesterday in support of Senator

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Conrad's job training bill. I think that there are a number of different mechanisms and I think it makes sense to diversify and try different things to see what is successful. But according to the research, venture capital certainly has a potential to provide a return. Job training has...there's extensive research on the returns for job training. As I mentioned yesterday, even pre-K there's pretty extensive research about the economic development impacts of that. So I would not say that this is better than another approach. It's just another alternative to think about how we invest in our future. [LB1019]

SENATOR BOLZ: Okay. Thank you. [LB1019]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Renee. [LB1019]

RENEE FRY: Thanks. [LB1019]

SENATOR MELLO: Other proponents for LB1019. Seeing none, opponents for LB1019. Seeing none, is there anyone here in the neutral capacity? [LB1019]

MICHAEL DIXON: (Exhibit 8) All right. It's been a long day. I'll try to be brief. My name is Michael Dixon, M-i-c-h-a-e-l D-i-x-o-n, and I'm here on behalf of Invest Nebraska. I serve as secretary for the board of directors to testify as neutral on this bill. Invest Nebraska, as some of you may know, is a nonprofit venture development organization that advises and invests early-stage businesses in Nebraska. It's a public-private partnership with the Nebraska Department of Economic Development, and it not only invests in start-up companies but also coordinates with private investors and provides operational assistance to companies who need advice growing their businesses. Invest Nebraska is very interested in the proposal and the vision of Senator Schumacher. The "Growing Jobs, Industries, and Talent Report" prepared by the DED and the Department of Labor by the Battelle partnership in 2010 recommended the creation of a venture financing entity, financed with state funds, and the final action item for the Nebraska Innovation Initiative. Since partnering with the Nebraska DED to carry out these programs in the Business Innovation Act, Invest Nebraska has led the effort to fund and accelerate the development of high-growth businesses in Nebraska. One of our first tasks was to recruit good management. We recruited a successful venture capitalist from the East Coast who has successfully deployed capital in the past, and Mark Crawford is currently the managing director and lead investment individual for Invest Nebraska. Since September 2012, Invest Nebraska has invested in six companies for a combined \$3 million. This \$3 million was matched with \$6,227,000 from private investors. Over half of that private angel and venture capital came from outside of Nebraska. These six companies in just 15 months have created 36 new jobs that pay an average of \$60,139. And I will remind everyone that the average median salary in Nebraska is about \$40,000. Three of the six companies have received follow-along

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capital in the amount of \$5,336,000 mostly from private investors outside Nebraska. These industries represented by these six companies include medical device products, healthcare technology, information technology, and equipment manufacturing. On behalf of our 11-member board of directors, we are excited about the results we are starting to see from these portfolio companies and expect great things in coming years. Senator Schumacher has identified a very critical component to Nebraska's innovation and entrepreneurship ecosystem. We believe that opportunities exist to collaborate between the vision outlined in the bill and the existing structure of Invest Nebraska. I passed out a comparison of the structure of LB1019 and Invest Nebraska. We'd like to work with the senators and members of the Appropriations Committee to make the Development and Venture Enterprise Act a success. Thank you, and I'd welcome any questions. [LB1019]

SENATOR MELLO: Thank you for your testimony, Dr. Dixon. Are there any questions from the committee? Seeing none, thank you. [LB1019]

MICHAEL DIXON: Thank you. [LB1019]

SENATOR MELLO: Is there anyone else here to testify in the neutral capacity? Seeing none, Senator Schumacher, we'd love for you to come up and close. [LB1019]

SENATOR SCHUMACHER: Thank you, Senator Mello, members of the committee. This could be fun. (Laughter) We could take this pup and groom it just a little bit and have something very unique, a very interesting way of returning money to the taxpayers, probably far more productive than throwing out a few dollars that they can spend at the local super mart store. Our savers in this state cry out for a vehicle to invest their money and invest it in Nebraska, and it is a pretty sad commentary that if you've made some money there's no real way, unless you want to, you know, become a landlord or haul it back into your own small business, to invest the money, and you got to send it away to New York or put it in the local bank and have the local bank turn around and invest it in T-bonds and send it to Obama. I mean there just is a crying need for this. And the risk here is pretty low. If we don't amass this amount of critical capital, nobody loses much, small-fry money. If it should take hold, we are in the leadership position among the several states. It will take everybody else several years to gear up to this trick. And we are able to grow the state, not by begging, not by credits, but by doing the oldest trick in the book and that's forming a business and investing and managing the money well--pure, unadulterated capitalism. Thank you. Any questions? [LB1019]

SENATOR MELLO: Thank you, Senator Schumacher. Any questions from the committee? Senator, I've got a couple here now, Senator Schumacher. [LB1019]

SENATOR SCHUMACHER: I knew you would. [LB1019]

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SENATOR MELLO: I've saved some of them for the last. You just heard neutral capacity from Invest Nebraska in the sense that they see, from the handout they provided the committee, a very similar structure that they currently do in a nonprofit status as essentially a contract provider to the Department of Economic Development. And they said they wanted to work with you in regard to seeing this concept in regards to providing some kind of venture capital fund or development occur. Have you looked at the comparisons and do you think that there is some possibility for us to see some merging of the concepts instead of creating a purely government entity in DED to do this? [LB1019]

SENATOR SCHUMACHER: I think that what we need to do, and it's a bit of a chicken and an egg game here, if we're able, it looks like we're serious and we're on the path to acquiring this large sum of money, then at that particular point there are all kinds of very, very productive cooperations that can emerge, because we're all basically playing on the same team. The Invest Nebraska effort structurally, you know, in some elements of governance looks a lot the same, but it's different in that it is not talking the kind of capital mobilization that we're talking about here. And I think the two could work very, very well together. I think the hardest part of this whole project is getting over the "really?" reaction that is quite justifiable and saying, you know, why can't this be done? And if you get over that, then you bring the synergies of the university, of Invest Nebraska, of a lot of the chamber efforts of trying to figure about angels and things like that, you begin to bring it all together on a reasonably grand scale. And what's interesting is, to the extent there's any validity in the idea that we have a reserve, this is a far better way to invest it and to give the money back than I think anything else out there, and I think I can say that with a straight face. And it leverages what we're doing with education expenses and job training and all that, because all these, in order for them to be highly effective, need the organized capital to put them to work. Otherwise, we're just spinning our wheels like everybody else out there is spinning their wheels. [LB1019]

SENATOR MELLO: Knowing that this committee has tried to be, I think, cautious over the last six years in regards to being strategic with utilization of the Cash Reserve, do you think it may be wise to consider maybe a smaller dollar amount? If you were to take the same standards you want to create with an investment authority in DED and translate that into an Invest Nebraska kind of nonprofit model that currently is already working with DED, do you think it would be maybe a better approach for us to be more cautious, maybe not utilizing that \$40 million approach? But let's say, I think Senator Conrad or someone mentioned, what if we went a \$10 million approach and require the same kind of private capital and trying to organize private capital that same five-to-one match, so to speak, to get access to that smaller dollar amount that comes from the Cash Reserve, but to use that same kind of concept? Do you think that could be done in just in a bit more of a cautious or maybe a bit more of a conservative approach? [LB1019]

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SENATOR SCHUMACHER: Of course it can be done. Will it be as successful? What I think is important to realize is that there's...if \$10 million to \$100 million is not just a ten times increase in effectiveness. It's a multiple of that. And at some point you hit critical mass. If you were to say, well, let's be really cautious and let's just do a million and see if you can come up with \$5 million, we've been there, done that. And there are successes but they are not anything that you'd want to start a whole new program on or have enough steam to actually create much investor interest. If you could put together \$240 million, I think the state would get a really good return on that investment. And you at some point begin to look at this as an investment, as a...it's not like we're just going out and spending this or giving a small check back to take to the super mart store. It's not much of a risk because unless this management board just completely blows things, you know, if the money is accumulated it's going to go to town. It's going to be...this is going to be talked about, if it's out there and if it begins to sell, on some of the major media and some of the major financial things. This is not a small-fry proposal. It won't get that kind of attention and it won't be talked about on some of the financial circles if it's just small-fry like everybody else is doing. [LB1019]

SENATOR MELLO: I guess maybe a better question, my question would have been maybe answered or it should have been asked differently. I apologize. The dollar number you threw out was \$40 million from the state, \$200 million in private investment. Do you think we could do that over a period of years, so to speak, let's say \$10 million a year for four years, to generate that to see if we're able to get that money in the door and that private capital organized and continue to build off that instead of simply saying we're going to just appropriate \$40 million right away and hope that, you know, if they get it, great, if not, it goes away, taking a more stepped in, measured approach instead of just all at one time? I mean that was probably a better way to ask my question. Do you think that is a better approach to try to accomplish I think what you're suggesting still to do? [LB1019]

SENATOR SCHUMACHER: How about two at \$20 million? (Laughter) [LB1019]

SENATOR MELLO: That's a fair enough answer. I mean just whether or not to step it in instead of... [LB1019]

SENATOR SCHUMACHER: Well, I mean...and you extend the date out on...from whatever the date is in here, 2000 and...I think it was a one-year thing. You extend it out another year so... [LB1019]

SENATOR MELLO: Okay. [LB1019]

SENATOR SCHUMACHER: ...in order to raise the private capital. [LB1019]

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SENATOR MELLO: Okay. [LB1019]

SENATOR SCHUMACHER: I mean that's...I mean that makes sense. [LB1019]

SENATOR MELLO: I appreciate that. [LB1019]

SENATOR SCHUMACHER: See, we've established what we are. We're just arguing over the price now. [LB1019]

SENATOR MELLO: Understandable. Senator Nelson. [LB1019]

SENATOR NELSON: Thank you. Wouldn't you think that a ten-to-one ratio would be sufficient, in other words, \$10 million from the state of Nebraska and \$90 million from investors, or \$20 and \$200? [LB1019]

SENATOR SCHUMACHER: That might be the right number, Senator. But let's let the market determine that because if the market says this is a good enough deal, then the shares will continue to be sold after you meet the minimum investment. Let's let the market determine that. [LB1019]

SENATOR NELSON: Well, if we started out with \$10 million though and all of a sudden we've got \$100, then it would be an incentive for the state to put more money in to attract more. [LB1019]

SENATOR SCHUMACHER: Well, and we'll find that out. If you say look it, let's use the multiple of five and the market is saying this is an odd enough idea, we'll...the stock or the interests continue to sell, we may find out that the market will bear a seven ratio or a ten ratio, and that may be incentive for the state to put more money in. [LB1019]

SENATOR NELSON: The other question that I have is you denominate this as Venture Enterprise Act. Was your thought was that this fund would be investing in venture, venture activities, venture companies, I mean as far as where they're going to invest their money in Nebraska and in venture companies? [LB1019]

SENATOR SCHUMACHER: Venture is any business venture. Well, General Motors, that was a poor one, General Electric is a venture and besides that the acronym worked out well by calling it that. [LB1019]

SENATOR NELSON: Well, I think of venture capital as new and beginning companies. [LB1019]

SENATOR SCHUMACHER: Yeah. Well, and it could be old ones. I mean there's old ventures too. [LB1019]

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SENATOR NELSON: Okay. All right. Well,... [LB1019]

SENATOR SCHUMACHER: It's just...I could have said business, but then, you know, if they ever called it by an acronym it wouldn't quite as been as smooth. [LB1019]

SENATOR NELSON: Okay. Okay. Thank you. [LB1019]

SENATOR NORDQUIST: One more. [LB1019]

SENATOR MELLO: Senator Nordquist. [LB1019]

SENATOR NORDQUIST: Does the state constitution allow state senators to get stock options on top of our salaries? (Laughter) [LB1019]

SENATOR SCHUMACHER: Well, you know, as long as they're worth nothing, so. (Laugh) [LB1019]

SENATOR NORDQUIST: Yeah. (Laughter) [LB1019]

SENATOR SCHUMACHER: So buy in now. First part of this, we put a paragraph in everybody is granted an option, then we go from there. (Laugh) [LB1019]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Senator Schumacher. [LB1019]

SENATOR SCHUMACHER: Thank you. [LB1019]

SENATOR MELLO: That will end today's public hearing on LB1019 and will close the Appropriations Committee hearings for the day. Thank you. [LB1019]