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Appropriations Committee
November 14, 2018

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The Committee on Appropriations met at 10:00 a.m. on Wednesday, November 14, 2018, in Room 1003 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LR389. Senators present: John Stinner, Chairperson; Kate Bolz, Vice Chairperson; Rob Clements; Robert Hilkemann; Mike McDonnell; Tony Vargas; Dan Watermeier; and Anna Wishart. Senators absent: John Kuehn.

SENATOR STINNER: (Recorder malfunction)...morning and welcome to the Appropriations Committee. My name is John Stinner. I'm from Gering and I represent the 48th Legislative District. I'd like to start off by having members do self-introductions starting with Senator Clements.

SENATOR CLEMENTS: I'm Rob Clements from Elmwood in Cass County, represent Cass, Sarpy, and Part of Otoe.

SENATOR McDONNELL: Mike McDonnell, LD5, south Omaha.

SENATOR HILKEMANN: Robert Hilkemann, District 4, west Omaha.

SENATOR STINNER: John Stinner, District 48, all of Scotts Bluff County.

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

SENATOR WISHART: Senator Anna Wishart, District 27 in west Lincoln.

SENATOR VARGAS: Tony Vargas, District 7, downtown and south Omaha.

SENATOR STINNER: This will come in later, but we'll ask you to silence your phones. On the cabinet to your right, you will find cream-colored testifier sheets. If you are planning to testify today, please fill out one and hand it to Brittany--Brittany, raise your hand--when you come up. If you have any handouts, please keep those until they...you come up to testify and then hand

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

them to Brittany and she will then make 12 copies for us. If you do not have enough copies, raise your hand and the page or Brittany will make additional copies for you. We will begin testimony on our interim study today with the introducer's opening statement. Following the opening statement, we will hear from invited testifiers on each resolution. We will finish with a closing statement by the introducer if you wish to do so. We ask that you begin your testimony by giving your first name and last name and spelling them for the record. We will be using a five-minute light system. When you begin your testimony, the light will be green. The yellow light is your one-minute warning. When the red light comes on, we ask that you wrap up your final thoughts. As a matter of committee policy, I'd like to remind everybody that the use of cell phones and other electronic devices are not allowed during the public hearing. At this time, I would ask for all of us to silence our cell phones or make sure they are on vibrate. With that, we will begin today's testimony with LR389, Senator Bolz.

SENATOR BOLZ: Thank you, Senator Stinner. Good morning, colleagues. I put in both LR388 and LR389 at the end of the last session as sort of sister interim studies. One, of course, addresses the economic development programs here in the Appropriations Committee, and the other covered some of our tax incentive programs. Partly because of some of the turnover on Revenue, we kind of just decided to move forward with this interim study hearing and talk a little bit about both sides of the ledger, basically the investments that we're making in economic development, and provide a 100,000-foot view of kind of the framework and some of the things we should be thinking about as we move forward on this conversation in the next session. And of course the Revenue Committee is talking about this; the Economic Development Task Force is as well. This is another conversation about how we're using our resources in this area and how we get the best return on our investment. And it's important that we have multiple conversations in this area because we...we're kind of coming to a crescendo in this area for a couple of reasons. First is that Nebraska Advantage, our main tax incentive program, expires in December of 2020, so we have a big decision to make there. Second, the Appropriations Committee will need to do some hard thinking about economic development investments in 2019 after our years of austerity in this committee. And third, I think we're all aware that the economy is changing. We have a fast-changing economy; we have an economy that's more focused on technology and innovation, and we have an economy that is more apparent than ever that we have international competition. So I think it's important that we as a legislative body have these conversations. So the goal of this

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

hearing is to get kind of a landscape of some of the investments that we make, both in Appropriations and in Revenue, and to start to outline some ideas and some frameworks about how we strategically make those investments in the future. I have a couple of quick handouts for you. The first--thank you, Brittany--is a...just a quick list of all...of most of the economic development programs in Nebraska. It's probably not 100 percent comprehensive, but we tried to put a comprehensive list together. We're investing in economic development in a number of different places and ways. From a fiscal perspective, in addition to the policy and the programs that you'll see in front of you, everything from Intern Nebraska to the Building and Site Development Fund to Nebraska Advantage to the Microenterprise Tax Credit, in addition to those policy pieces that we help put together, it's also worth talking about this from a fiscal perspective, of course, in front of the Appropriations Committee. So on the appropriations side, one of the things that I think is important that we highlight is that we have made investments in economic development in a number of important places and ways. But it is somewhat mixed in terms of our commitment to those programs. For example, the Business Innovation Act has an ongoing commitment to funding that program. In comparison, the Building and Site Development Fund and the Job Training Cash Fund, we have funded those one time over time mostly, in my experience on the Appropriations Committee, as transfers from the Cash Reserve. So I think we need to have a conversation about which programs we should have an ongoing commitment to and what the impacts of not having sustainable funding streams for policy priorities might be. The other thing that I think is worth noting, and we could spend all day talking about--and we have spent all day talking about--the numbers and the fiscal impacts of the Nebraska Advantage program. A couple of numbers there, one is that in 2017 the report that is required from the Department of Revenue identified \$63 million in credits earned in 2017. And there are a bunch of different indicators on, you know, how much we have obligated under both Nebraska Advantage and LB775. There are a lot of numbers we could throw out. For now, I'm just going to give you that one that we committed to an additional \$63 million in credits in the last year. And so that side of the ledger is a part of our fiscal analysis as well. So looking forward, the next piece is just a quick snapshot of some of the research that has already been done. We've done three or four different reports, including the SRI report which was commissioned by the Nebraska Department of Economic Development. The Accelerate Nebraska has done a report. The Economic Development Task Force has done a report and the Department of Labor has done a report. So we've got some policy research analysis that we can

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

turn to. The SRI report urges a focus on high-skill, high-wage jobs, technology investment, innovation, and community development. Some of the other reports highlight attracting and retaining population, work-force development, and decreasing the achievement gap. So I think there are multiple philosophies and concepts that we should be thinking about moving forward, including innovation, investments in capital, work force, quality of life, and targeted incentives. So I'm going to wrap this up here quickly, I promise, but I...my takeaways for this committee are that it's important that we think about the picture of the investments that we're making in economic development and make strategic, targeted choices that make sense in our current and future economy, and I think as the Appropriations Committee we've got some responsibility in that. I think the research and the analysis that has been provided says that it's time to turn the corner to high-skill, high-quality jobs and be more targeted in our investment, and I think it's important that we realize that we need to keep up in a growing and changing global economy. There must be room for rapid response, flexibility, and innovation. And last, my takeaway is that we really have a work-force challenge in our state and it's one of the things that's making us less competitive. So in terms of investments, I think that's something that we need to think about. So as I see it, our charge over the next two years is to work with the Department of Economic Development and the Revenue Committee and this committee to build on a framework that takes our economic development incentives to the next stage. Today you will hear from experts and just in the interest of time, because this is such a comprehensive, large-ranging topic, we did do invited testimony only and you'll hear from three different experts: The Pew Charitable Trusts, which does national-level research; the Center for Regional Economic Competitiveness, and they'll talk to you a little bit about the project that they've been working on with a steering committee this interim as a partnership with the Economic Development Task Force. I...we were able to work with Pew and the Center for Regional Economic Competitiveness to bring in some technical assistance to do stakeholder meetings and research that will lead to more Nebraska-specific recommendations. That report we expect mid-December. And the last person you'll hear from is Pat Haverty with the Economic Development Association, and that will give you an even more on-the-ground perspective, so we'll sort of go from big picture to smaller picture. Okay. Sorry I talked so much but that's the outline and the rundown of what I hope to achieve in the hearing today.

SENATOR STINNER: Questions?

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR WISHART: Yeah.

SENATOR STINNER: Senator Wishart.

SENATOR WISHART: So two statistics have sort of been...have shaped the way I've thought about economic development. One is that the last time that Nebraska hit a million people, we hit a million people in 1894 and we're at 1.93 million now. So that's something to think about in terms of the fact we haven't doubled in over 100 years in terms of population. The other statistic I heard this morning at an Aging Partners breakfast was that by 2030 we will have more people age 65 going into retirement than we will have people 18 and under going into the work force. And so to me, I see that as population crisis and a huge part of our economic development problems. I'd be interested in your perspective just having served for four years now. Do you think we have put enough time and attention into addressing how we attract and retain young people in the state?

SENATOR BOLZ: Um-hum. Yeah, I think the...since you asked, I think the issue of population is multifaceted. I think that because of our slower population growth and our aging population, we are seeing a more and more acute work-force crunch, specifically as that relates to having not just workers but workers with the right skill sets to fill our jobs. So there are...in my mind, there are buckets of responses. One response is to train up our incumbent work force, our existing work force to better match up with the skills that we need. So we know that we have too high of a percentage of low-educated workers and too high of a percentage of the working poor, and so how do we put policies into place that move those into the higher skilled economy? The second bucket, in my mind, is, in too broad of brush strokes but for expediency, Nebraska Advantage I don't think has put enough quality criteria into the investments that we're making. So it's important that our new economic development vision isn't just having the goal of growing jobs but, rather, the goal of growing the right opportunities that are good for our state and good for our population. And the third bucket I think is, how do we keep young people here, how do we make this a state and a community where the millennial generation wants to stay? And that's...that is about job opportunity. It's also about community development, quality of life, embracing diversity, all of those things. And how do we draw young people back so that they decide to build their lives and their communities here? And I think that's more...that is about

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

more than economic development policy. That's about childcare affordability and the cultural and arts community in our communities, and it's...it's a big undertaking. So, you know, those are some of my thoughts, but I think you're right to point to our population numbers as being a...one at the heart of this issue of being sort of a tension point in what it means for economic growth in the future.

SENATOR STINNER: Additional questions? You may want to talk a little bit about...just for the record, this is the budget committee. Obviously, we deal with swings in the Nebraska Advantage Act. LB775 actually spiked during the time we were trying to cut the budget because of lack of revenue. Should we use caps, should we not, when should we use caps, those types of things, and just give us your impression, please.

SENATOR BOLZ: Right. So I guess to level set, and some of you could respond to that question better than I can, but to level set, we are still paying credits due to companies who were part of the economic development program under LB775, right? So we have old bills that we're still paying. We have Nebraska Advantage credits that are volatile--they're up some years, they're down some years. The average of that is about \$60 million. But to your point, it was over \$100 million at the very same time that we were trying to fill a significant budget shortfall and we all felt that. And so looking to the future, you know, the question of whether or not there should be caps, certainly caps would make it easier for the Appropriations Committee to manage our budget into the future and to contain our responsibilities in this area. At the same time, if we're not growing our economy, we're not growing the revenue that we need to pay the budget bills into the future. So to be honest, Senator Stinner, I don't know if I have a hard and fast position on caps at this point, but I think we need to get a better control of how we're spending our economic development resources and not spend them on just any program but spend them on targeted, progrowth, high-wage, high-skilled jobs, because, to your point, that's the other side of the appropriations ledger that we can't always control.

SENATOR STINNER: Yeah, and it should be noted that a lot of the programs that you have on here are either prefunded or have some level of caps.

SENATOR BOLZ: Um-hum.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR STINNER: Any additional comments, questions? Thank you.

SENATOR BOLZ: Thank you.

SENATOR STINNER: Good morning.

CHAARON PEARSON: Hey, good morning. For the record, my name is Chaaron Pearson--to spell it, C-h-a-a-r-o-n Pearson, P-e-a-r-s-o-n--and I am a senior research manager at The Pew Charitable Trusts. Thank you so much for inviting me to speak to you today. I am actually a native "Lincolnite" and a UNL grad, so thank you also for this opportunity to have dinner with my parents last night, and picked up some new Husker gear, so stimulating the local economy as well. Everyone in this room knows a lot more about Nebraska's incentives than I do, so I'm going to talk a little bit about Pew's work on economic development incentives more broadly and national best practices that we've seen emerge through our research. For those of you unfamiliar with Pew, Pew is a nonpartisan public charity that conducts fact-based research and rigorous analyses on a wide range of local, state, national, and international policy areas. So we like to say that we work on everything from pensions to prisons to penguins and we (inaudible) as an economic incentives well. So I'm part of the Pew project focused on state economic development incentives. We know that incentives are very important to a state's economic development strategy, but they also have a big impact on the state's bottom line. So we think that lawmakers need really good information on the results of these programs, and so we have been spending most of our time encouraging states to adopt a three-step process to regularly evaluate their state's economic development incentives. Step one is to put a process in place to effectively review their incentives. Step two is to do regular, rigorous evaluations that provide lawmakers with well-supported conclusions regarding the effectiveness of their incentive programs. And step three is lawmakers using the evaluation recommendations to inform policy to either maintain, improve, or end incentive programs. So Nebraska, you guys are ahead of the game. You're now in the third step of this process. Martha Carter and her team are producing evaluations with really useful information, and you're also receiving analyses from other organizations, including CREC who you'll hear from right after me. But the next step is deciding what to do with that information. And so a lot of states are in the same position as Nebraska. As recently as five years ago, only a handful of states were regularly evaluating their incentives.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

These evaluations improve...provide valuable information on the results of states' incentives programs, and so at the same time they're helping build a growing evidence base, they're showing how to make incentives as effective as possible. In addition to reviewing evaluations from around the country, Pew has also worked with researchers such as Dr. Tim Bartik of the Upjohn Institute in Kalamazoo, Michigan, to identify best practices for effective incentives. I'm going to talk about four principles that we've seen emerge as best practices for looking at future incentive programs. The first is to target high-impact businesses. Incentives have direct, indirect, and induced effects. Part of what states try to do is to maximize the positive effects while minimizing the negative trade-offs. For example, if an incentive targets an export industry, that means that businesses will be bringing in dollars from outside the state. By incentivizing high-wage jobs, then those employees will have more money to spend in the local economy. The second is to maximize value for businesses and the state. One thing that research suggests is that businesses apply a high discount rate to money they're promised far into the future. As a result, if states provide incentives on a shorter time horizon, they may be more successful at influencing business behavior without needing to provide more generous incentives. And third is to respond to economic conditions. Research shows that incentives are most valuable in the times and places where the economy is struggling because they help put unemployed residents back to work. And fourth is protect your state budget. Another important consideration is the fiscal impact of incentives. It's necessary to not only control the cost year to year, but also the long-term cost of that incentive. By doing so, you can make sure that incentives do not crowd out other areas of state spending that are also important for your state's economy. So we've been very encouraged. The discussions that lawmakers, CREC, and other stakeholders that have been having about Nebraska's incentives relate to all four of these principles, so that's really great to see and we've been very encouraged by these conversations. And as always, we're happy to help as we can. So that's it for me. Thank you.

SENATOR STINNER: Thank you. Questions? Senator Wishart.

SENATOR WISHART: Have you done any research into whether it makes...into the balance between sort of what you would call hunting, trying to incentivize companies to come into the state, as opposed to what I've heard is gardening, where you're growing sort of home-grown

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

businesses and incentivizing that growth. Have you done any research into what is the right balance for that type...for when you have a limited amount of money?

CHAARON PEARSON: Sure. So we actually have not done that research.

SENATOR WISHART: Okay.

CHAARON PEARSON: The...our work has been encouraging states to do that research for themselves, and so that's what these incentive...these evaluations coming back are starting to say, you know, whether the...that they're achieving the goal of the program is more what these evaluations are coming out to say. So if it has been effective in attracting businesses or if it has been attractive...if it has been effective in gardening of communities.

SENATOR WISHART: Okay.

CHAARON PEARSON: So that's not the research that we do, but I think that states are starting to get a clearer picture as they look at the right mix for their states as they evaluate their portfolio.

SENATOR WISHART: Yeah. And then following up, one more question following up with that, I have been looking into...Arizona, they passed what's called a "fintech" regulatory sandbox to help spur investment into start-ups. One of the problems we have in Nebraska is getting capital investment into start-ups. And so I'd be interested, have you evaluated at all that program in Arizona, because I know they're the first to have done that.

CHAARON PEARSON: Right. Arizona does not have an evaluation program.

SENATOR WISHART: Okay.

CHAARON PEARSON: And so as far as I know, that has not been evaluated, and we as Pew do not evaluate the programs.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR WISHART: Okay.

CHAARON PEARSON: But we encourage states to take a look at their own.

SENATOR WISHART: To do that, okay.

CHAARON PEARSON: Yeah.

SENATOR WISHART: Thank you.

SENATOR STINNER: I listened to an interesting debate this morning on Amazon in New York City and the debate basically says these billions of dollars going to attract this business that probably would have come here anyway, that was one of the comments, but we're going to broaden this tax base by bringing them here and it's going to be a benefit over a period of time. And of course, people have multipliers. But the fact of the matter is, we don't in the state of Nebraska have a really good tool to do our rate-of-return analysis on programs. Some of it has to do with confidentiality of information, so, and as a former CPA, I like to be able to connect dots, put rate of return on it. But it has been brought to my attention in looking at other states that we're in an arms race. I mean, this is...this has to do with competition as opposed to maybe rate of return. And I get the fact that we have to be accountable to our taxpayers. But would you like to comment on where you see states going? Is there a movement more toward rate of return or is this a...give me some guidance as I look at the Nebraska Advantage Act, maybe tweaking or redoing it, targeting similar to what you're saying.

CHAARON PEARSON: Well, Senator Stinner...

SENATOR STINNER: Should I be looking at this...

CHAARON PEARSON: Sure.

SENATOR STINNER: ...in a competitive nature or should...and where is that going nationally? Or secondarily, should I put the high priority on rate of return?

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

CHAARON PEARSON: Right. Well, I can say that those aren't...this is not the first time that I've heard those questions. I think every state is feeling the competition and it seems like there have been some states that have discussed kind of a truce that whether...you know, not to try to keep pulling, you know, businesses across the border. But from the work that we do, we don't take positions on incentives or, you know, whether programs are good or bad or even whether to look at rate of return...you know, return on investment or being competitive with your neighboring states. What we expect the legislatures to do is just use their best judgment with the information that they have to make the right decision for the state. And every state is different, so maybe engaging in an arms race for one company makes sense and letting them go in another time makes the most sense for Nebraska, so.

SENATOR STINNER: Senator Clements.

SENATOR CLEMENTS: Thank you for being here. You said a best practice is to focus on struggling areas. Would you more clearly define what you mean by struggling areas?

CHAARON PEARSON: What I was referring to specifically is areas with high unemployment, that when incentives are targeted to areas of high unemployment it...they seem to put people back to work that...or they are more effective at putting people back to work than if you're focusing them in areas that don't struggle with high unemployment.

SENATOR CLEMENTS: I just thought it would be more of a geographic description.

CHAARON PEARSON: Right, it could be.

SENATOR CLEMENTS: I was wondering if you were talking about occupation, different sorts of occupations with more geographic, and any kind of employment in a high-unemployment area you're going to call an improvement.

CHAARON PEARSON: Right.

SENATOR CLEMENTS: All right. Thank you.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR STINNER: Additional questions? Senator Hilkemann.

SENATOR HILKEMANN: Yeah, following up on what Senator Stinner was talking about, I believe I was reading an article where the...they said it's going to cost every taxpayer in New York \$45,000 to...for this Amazon incentive that they need. Where's...I mean, where does that...is there any kind of an analysis how that breaks down what...I mean, is that...is that a good investment? As senator said, they may have gone there anyway. So I've heard this, that these incentives are not as cracked up as much as they're thought to be.

CHAARON PEARSON: Right. The "but for" question is...would they come but for the incentive is always the big question. Amazon HQ2 will also be in my backyard in Crystal City, Virginia, so we'll kind of be seeing that effect as well. I don't think we know and it'll be, you know, in 10 years, 20 years when they look back and see, did they get the return on investment that they hoped for, and see if that was the right decision for New York and Virginia to make. Just kind of taking a look back, I mean, I think that they did the best they could with the research that they had and they really wanted it, so we'll have to see if that was the right decision.

SENATOR HILKEMANN: But this isn't...this isn't the first run. I mean, we've had these people saying...

CHAARON PEARSON: Right, of course.

SENATOR HILKEMANN: ...BMW going to South Carolina...

CHAARON PEARSON: Right, um-hum.

SENATOR HILKEMANN: ...and so forth. Have they done any studies on...you know, that now is probably 10 to 15 years ago that that big project run. Is there any feedback? Do we have any feedback on that when these huge companies come into these areas?

CHAARON PEARSON: Most states don't look back at those deals, actually. I mean the money is spent, it's done. We encourage states to take a look at their big deals to see if that's something

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

that they want to do in the future, not...you know, there's nothing you can do to claw back the money once it's out the door. But we encourage states to take a look at those big deals, but most don't. Most focus on the programs and not the big one-offs.

SENATOR HILKEMANN: You think it's that they don't want to look at it?

CHAARON PEARSON: I can't say. I'm not sure. It could just be time and resources that programs are ongoing and so they want to make sure that the...like if it's going to continue to happen, that they have the information on that, and once a big deal is done, they can just be done.

SENATOR HILKEMANN: Or is it just...or it's in a matter that it's just so difficult to come up with a dollar and cents? Is it that difficult to evaluate that decision?

CHAARON PEARSON: I don't know. I can't say. That's not work that we do. It would be whether the state has the resources and capacity to perform that on...their own evaluation.

SENATOR HILKEMANN: Okay.

SENATOR STINNER: I mentioned a three-letter word that I know the chambers started to squirm on and that's "cap."

CHAARON PEARSON: Oh.

SENATOR STINNER: But one of your suggestions or one of your high priorities is to protect the state budget and I get that part of it. Other than caps, what are other states doing? Is there another way that we should be looking at this in terms of budget and what we can do or what is possible?

CHAARON PEARSON: Well, you know, there are caps, there are shorter time frames, there are...that was that kind of front loading of incentive dollars. I mean really there's just a number of different ways, I mean, when it comes to transferability or refundability, just taking a look back at the incentives that you've offered and see which ones have had the impact on the budget that

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

have made them unpredictable and kind of see if there's a way to make those a little bit more predictable.

SENATOR STINNER: Okay. Senator Wishart, I didn't mean to interrupt you.

SENATOR WISHART: No, not at all, actually. You beat me to the question. I'm going to add to that. What have you seen in terms of states who have done caps? Can you...can you give us a...what are the variety of options that other states have utilized?

CHAARON PEARSON: I mean, it's all over the board.

SENATOR WISHART: Okay.

CHAARON PEARSON: It would be hard to say that there's like a hard and fast rule about what a cap looks like. It's...

SENATOR WISHART: Okay.

CHAARON PEARSON: Every program is different. So if you're ever looking to do a new program, I think that if you scanned the 50 states, you could probably see 50 different examples on how to administer that and if there are caps involved with the programs, so it's all different.

SENATOR WISHART: And are...do you have sort of a clearinghouse of that information at Pew where if we went and looked at different examples of how states are doing, you know, different incentive packages, what...

CHAARON PEARSON: We don't have a clearinghouse of incentives but we do have a...we have our end partnership with the National Conference of State Legislatures.

SENATOR WISHART: Okay.

CHAARON PEARSON: And we have a clearinghouse of evaluations.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR WISHART: Okay.

CHAARON PEARSON: So you can look back at those programs and if they've been evaluated and kind of take away some of the findings from other states that maybe have had similar programs.

SENATOR WISHART: Okay, great.

SENATOR STINNER: Additional questions? Thank you.

CHAARON PEARSON: Thank you.

SENATOR STINNER: Good morning.

MARTIN ROMITTI: Good morning. My name is Marty Romitti, M-a-r-t-y R-o-m-i-t-t-i. I'm a senior research fellow at the Center for Regional Economic Competitiveness--we call ourselves CREC--which is based in Arlington, Virginia. I'm very happy to be here in Lincoln today to share our findings and takeaways to date on Nebraska's current position and economic development portfolio. CREC is an independent, not-for-profit organization founded in 2000 to provide policymakers with the information and technical assistance they need to formulate and execute job-creating strategies. CREC engages with a wide array of federal, state, local, and philanthropic clients. Our primary public service goal is to help states and regions compete. We know that Nebraska is competing on a global stage in an increasingly uncertain world. By several measures of jobs and economic development success, the state is doing quite well. The state excels with its high labor force participation rate and low unemployment. Both are among the best rates in the country. The implications from these measures paint a picture of Nebraska workers who are willing and able to work. However, measures of average wages, GDP growth, job growth overall, and capital investment indicate an economic trajectory with limited drivers and high-value, innovative, export-driven industries that pay workers high wages. CREC believes state-directed strategies with regional and local support and coordination accompanied by funds to implement effective policies, programs, and targeted investments, including business incentives, can be impactful for Nebraska's economy. For this project, we began research by

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

examining a lot of the past reports Senator Bolz mentioned. We also maintain our own national best practices of incentive programs, as well as state expenditures directed toward economic development. We interviewed dozens of people in the state from economic development organizations, businesses who receive the Nebraska Advantage credit, academics, executive/legislative branches. We had several meetings with legislators. So we basically developed a lot of context and I wanted to share some of our initial conclusions to date on that. Our assessment to date is that the state has preferred using tax incentives as a primary driver of economic development policy due to a desire to use the market to provide desired economic benefits and keep government small. However, we also learned that these incentives may not be addressing the Legislature's priorities. Nebraska has a wide array of tools available through its economic development and work force system. This includes 28 different programs offered, ranging from grants and loans to tax credits for angel investors and new farmers to grants promoting tourism and sites and buildings. Many of these programs are paid for through direct legislative appropriations while tax expenditures are not. In the FY '18...or 2018 budget, Nebraska prioritized special industry assistance, tourism, and technology transfer. Special industry assistance accounts for nearly 30 percent of the state's economic development program funding which prioritizes agriculture and the agribusiness sector. Compared to other states as a percentage of overall economic development expenditures, Nebraska spends less on business finance, community assistance and business assistance, and more as a percentage on special industry assistance, business recruitment, and tourism. In a normalized dollar comparison, Nebraska spends the lowest amount on state economic development expenditures per business establishment compared with any of its neighboring states. To make the most of its economic development expenditures, the state should have a solid, four-legged stool of strategies and supporting programs recognizing that many of the programs already exist, but led by a strategy to promote work force as a resource to help firms compete. Other legs of this stool include innovation and economic dynamism, community building, and high-wage, high-impact opportunities. Within this context of a stool, we see Nebraska Advantage taking on the role as the principal mechanism--leg, if you will--to promote high-wage, high-impact opportunities for the state. However, to do this would require significant changes to how the existing program is administered. The feedback was overwhelmingly supportive of improvements to the Nebraska Advantage Act, but many are cautious about the nature of any proposed program changes. In our research, we found that the Nebraska Advantage could be more relevant as an economic

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Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

development tool if it were simpler, more transparent, and offered greater relative value to both the state and the firm. That means that the program needs to be more business friendly. The resulting impacts need to be clearer and more widely shared with taxpayers and businesses alike. Finally, the state needs to take a more calculated approach to ensuring that the investments being made are returning the desired economic benefits to the state. Not all of these changes require legislative action to implement, but it would help to simplify the program to have fewer or no tiers and to provide a way that companies can prequalify their investments and achieve the promised state incentive sooner in the investment cycle. With the Nebraska Advantage Act 2.0, we recommend it be made a competitive award, impose higher wage thresholds, measure the cost-benefit ratio for each award, and to potentially include an overall cap on the award amount. These measures help ensure more predictable program costs while maximizing economic impact and the state's return on investment. I see the red light has come on. We have addition...

SENATOR STINNER: Okay. You've come a long way. Go ahead.

MARTIN ROMITTI: Additional recommendations would be an application process that goes through DED, rather than DOR, and additional money for DED staff to manage the program. Implementation would seek to demonstrate simplicity of operation to program beneficiaries in the companies and to administrators. A key metric would include public return in terms of economic and fiscal benefits generated for the public investment to demonstrate value to taxpayers. Compliance in reporting methods would seek to ensure that firms receiving economic development benefits deliver on their promise, including the end direction of performance agreements and performance-based payments that connect performance metrics more closely in terms of timing to the provision of the incentives. The goal was to demonstrate transparency. These are some of our initial takeaways based on our work to date in Nebraska. CREC will be continuing to gather feedback over the next few weeks as we look to finalize a report for the Legislature. Thank you for the opportunity to appear and testify before the committee today. I apologize for running over the time.

SENATOR STINNER: That's fine. I know there's questions in amongst this group. Questions? Maybe not. I would like you to tell me again that four-legged stool you had: work force, innovation, community building is what I wrote down, and...

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

MARTIN ROMITTI: High-wage, high-impact opportunities. When we started out...I apologize. I won't...when we started out, we were looking to evaluate Nebraska Advantage itself. It's one...obviously your largest program that you devote to economic development. But it's very hard to singularly look at it. It has to be kind of looked in a context of what a broader economic development strategy is. So I brought those four stool legs or pillars, or whatever you want to call them, to kind of say that you have to look at it from how it complements or how it advances a framework of economic development strategy. So the four being work force, innovation and economic dynamism--we're calling it community building--and then high-wage, high-impact opportunities.

SENATOR STINNER: Have you analyzed...I think there's 57,000 jobs available in the state of Nebraska. Have you tiered those jobs? Are they high-impact jobs or are they mostly low-paying jobs? Do you...did...have you analyzed that at all?

MARTIN ROMITTI: Well, I think what you'll see is, for instance, the Governor's dashboard, or the dashboard the Governor keeps on the Web site, it'll tell you that when you look at an average annual wage, so you're kind of looking at what's the scorecard overall for all the different types of jobs being created, what it'll tell you is that, you know, the average wages being generated from all the different activities and jobs is in the lower tier amongst the states, so. And Nebraska Advantage Act itself, I mean, I think it has a 60 percent wage threshold, so that in and of itself isn't going to necessarily elevate. So we actually found that, and I had a chance...I had many other colleagues who have been out here and have worked on this, but I took the part of the project of actually talking to recipients of Nebraska Advantage Act, the companies themselves. I really didn't get any response from the companies that they would be opposed to having higher wage thresholds. Many other states impose 110 percent of wage thresholds. Perhaps you tier it for metro areas, nonmetros, obviously. But, you know, the companies already being attracted by Nebraska Advantage are very solid companies, and so the wage threshold isn't giving them a lot of heartburn. Now when you up the wage threshold, what you do is you're automatically...it's just connected. You increase the economic impact to the state. And so that becomes one of our initial takeaways and recommendations. So sorry I couldn't answer directly on that, but that's generally how we approach that recommendation.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR STINNER: Now...well, Senator Wishart said about this aging population, and the numbers are pretty staggering, but along with that we have out migration as far as rural Nebraska, so outside of Lincoln and Omaha the rest of the state is a different economy. And I live in Scottsbluff, which is right next to Wyoming, and I won't even go into the advantages they have. But you talk about high-impact businesses. I mean, if I'm sitting in Scottsbluff, if I'm sitting in Valentine or some other...what kind of program can I look to, what kind of jobs should I look to, to have that high impact?

MARTIN ROMITTI: Yeah. Well, I think, you know, and this...you know, it would be nice to say all programs are for all people, but, you know, population density drives a lot of business location decisions. And so, you know, perhaps Nebraska Advantage can work with thresholds, because you'd still look at...mostly what you're trying to look at is are the jobs being generated the types of jobs that the products or the services are going to be sold outside the region. That's why we call them the traded or the export because that's going to lift up the region. And so there's still a place for Nebraska Advantage to be out in rural areas. Now of course, Scottsbluff, you know, you're in not a bad location, being so close to Denver and all, you know, that market.

SENATOR STINNER: Right, front range.

MARTIN ROMITTI: So, you know, everybody is going to leverage. But it's very clear, the literature on rural economic development. I mean it at most is a consensus that you have to build upon your strengths, and sometimes your strengths may be tourism related, sometimes your strengths may be other types of assets. You mentioned earlier about people, you know, economic gardening versus business recruitment. If Nebraska Advantage...you know, let's say a rural area in Nebraska isn't going to be able to take advantage of Nebraska Advantage Act. It doesn't mean that there's a whole laundry list. That's why we talked about those stool legs and pillars. One of the things that I've found, I actually have done a lot of research on high-growth companies. So for instance, and I don't mean to take the committee's time, but I did a study recently in Missouri, for instance, and I was interested in how many businesses in Missouri doubled their employment because there's three main metrics that often come up in economic development that...jobs, jobs, and jobs, so, you know, like who's...where's this job generation coming from? Missouri had about 152,000 business establishments on the books, so basically they're paying into the UI

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

system, had employees. Their overall average growth rate was about 2 percent at the time. And looking five years before at all companies, they employed...a small group doubled. So the answer was out of 152,000 companies, only 6,256 doubled their employment in a five-year period. They generated more than 121,000 new jobs in the state. So what it's basically saying, there's always this kind of constant churning going on. And so a program like that for those smaller businesses may be much more about your business Innovation Fund-type effort. It might bring the customized work force. So it's important to have kind of these menus and these pillars together.

SENATOR STINNER: The only reason I'd say that, if you looked at the map of where people had taken advantage of the Nebraska Innovation Act for west of Grand Island, it's that: zero. So if we're going to redo the program and we're going to take a look at what our state needs, certainly we need to start to address that. In my estimation, we should have some kind of a program that is better equipped to address some of the out-migration issues, smaller towns, those types of things. Senator...Senator Watermeier (inaudible).

SENATOR WATERMEIER: Thank you, Mr. Chairman. I missed your comment right at the beginning. You had said Nebraska is really the highest...has more expensive...or I forget the dollar amount, or what you had mentioned, of surrounding states on their incentives. Could you expand on that a little bit or where did I miss it?

MARTIN ROMITTI: Yeah, so we...we, CREC, we manage two databases. One of the databases we call the State Economic Development Expenditures Database, so every year we go through every state's budget, and not just economic development department but every budget. We have 15 categories of expenditures that relate to trying to grow your economy, including tourism film, for example, is a category, business assistance, so I...so what we end up doing is being able to kind of track and monitor what states are doing in terms of where they're placing emphasis. So where you place emphasis isn't necessarily saying it's bad, like I mentioned that, you know, you...on average, across all the states, you spend less on business assistance, I said, and you spend more on special industry assistance. Well, every state's different, you know, and you have different kind of...so it's not necessarily saying you should spend more or level it out. But the comment that you're directing to was looking at your surrounding/neighborhood states, if you look at...I think there's, what, 55,000-or-so businesses in the state of Nebraska, so we normalize, you

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

know, your spending. I forget if it was \$46 million last year or something, you know, as we pull it out, as we look at your budget. So you're spending kind of a...call it an intensity in economic development, I think, in the \$300 to \$500 per business, right.

SENATOR WATERMEIER: So you did have a comparison to...per business or...?

MARTIN ROMITTI: Yeah, normalized it, right, right, because it wouldn't make sense...

SENATOR WATERMEIER: You just didn't have a \$128 expense...

MARTIN ROMITTI: It wouldn't make sense to say you spend less than Illinois on that.

SENATOR WATERMEIER: Okay (inaudible).

MARTIN ROMITTI: You know, it's really normalized. So then what you ending up having, I'm just telling...is saying that the surrounding state normalizing or spending more on economic development programs...

SENATOR WATERMEIER: Okay.

MARTIN ROMITTI: ...than Nebraska. And, you know, for instance, to up your intensity level to, you know, more comparable with other states, it would be about \$5.5 million more put into economic development efforts. That would, you know, essentially make it more normalized, not to say you should do that.

SENATOR WATERMEIER: And that's all it would take?

MARTIN ROMITTI: You're the Appropriations Committee, but...

SENATOR WATERMEIER: You're saying that's all it would take?

MARTIN ROMITTI: That would raise it by \$100...

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR WATERMEIER: Five-and-a-half million or what did you say?

MARTIN ROMITTI: Yeah, \$5.5 million would...

SENATOR WATERMEIER: Okay.

MARTIN ROMITTI: ...essentially put it up. But of course, this is our measure. You're the Appropriations.

SENATOR WATERMEIER: Right.

MARTIN ROMITTI: But, you know, I think we are looking to, based on the legislators' feedback, you know, we're collecting your feedback, so some of the pillars that I talked about were filling in both the programs you have and our own suggestions, take them for what you will, you know. Right now, you know, you have a great asset but a scarce asset in workers and skilled workers.

SENATOR WISHART: Yes.

MARTIN ROMITTI: And so, you know, it would be very easy to say, hey, let's reform Nebraska Advantage, maybe we have some savings, move them into customized job training program...like I said, I don't want to speak for the committee and...but that's the idea is just, you know, kind of shifting to really high impact.

SENATOR WATERMEIER: Okay, thank you.

SENATOR STINNER: Senator Wishart.

SENATOR WISHART: Yeah, I want to add to that conversation. And first I want to thank you. This has been a really good discussion on this issue. I have taken some time to tour some of the larger rural manufacturing companies and what I hear from them is that they are looking or already have opened operations out of the state because of the work-force shortage. So my

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

question is, what have other states done or communities done, because my concern is we can try to incentivize businesses as much as we want but if there isn't a work force to fill the jobs, then the business is just not going to come or the business isn't going to grow. So what have other states done to be able to, especially in some of the areas like John was talking about, where we see a substantial decrease in terms of young families building their lives there? What are things that other states have done to incentivize people into these areas that are losing population?

MARTIN ROMITTI: Yeah, and some have...I mean, I think that...and I think it'll be in our report, too, and talking about it is, you know, you already have a customized job-training program and it's often, you know...sometimes programs for businesses, it's really about meeting a business need, right? So you have this long menu usually because businesses have different types of problems or issues all the way from sites to others. And so you keep this big portfolio in order to try to be helpful, you know, but you got to look at the state. You're an investor in it, so, you know, you want your return on investment. Return on investment is make sure your taxpayer, they're getting more economic benefit than the money you're putting in, but that's possible. There's ways you could do analysis at the head of all that. But anyway, then with like customized job training, usually you're going to try to focus that on these high impact, high opportunity, but a lot of states...it's funny you mention it because I was driving up from Kansas City yesterday and I hit Nebraska City coming over and get a phone call and it's from South Carolina. And so South Carolina, we've done some work with and they were bouncing a new idea that they wanted to do a manufacturer precertification of their work force. So that's kind of getting more to your thing. There's a million...I printed off 22 sheets of customized job-training programs, but the idea is some are very directed to like manufacturers, some are more available, but the whole idea is to hit high-demand, high-wage, important...I mean the SRI report, for example--I don't know if that was produced for you--lays out where you have strikes in kind of these emerging industries. You could direct them specifically in those areas. But it's just a very important...there's nothing more important than work force and I think you're right. I mean, to many respects right now, that's the question that comes up most often. And so you have a good, hardworking work force but you...can you get them the skills? And we call it customized, because it's much more directed to the business need itself, so you've got a great education system and then where economic development will take over is trying to fill that gap or...Louisiana had a program called Fast Track (sic--FastStart) that's been adopted by many other

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

states and what they're trying to do is make much more of a concierge service out of it, so not only providing part of the funds, but you're actually going out and doing essentially the recruiting for the company. You're basically bringing the applicants, you're doing the screening, you're taking some of the pressure off, and you're...and so it's...the trend is for states to figure out how much they can possibly do to talk to a business about their work force and that we have workers available to you. And Wisconsin is working on Foxconn, you know. That was one of the issues they had. Well, what do they do? They're doing a national advertisement. They're in the Chicago paper saying come back and live in Wisconsin. So I hate to say I don't have a silver bullet. I mean, there's a thousand balloons going on out there, but just kind of that question of thread is where it's at, so.

SENATOR WISHART: And one other question.

SENATOR STINNER: Go ahead.

SENATOR WISHART: So I asked this earlier about Arizona's...they call it like a regulatory sandbox to allow for businesses or investors that want to invest in start-ups sort of more leeway so that they're more likely to do that, pull away some of the regulations that get in the way of that. Are you familiar at all with that program? I'm just starting to look into it, so...

MARTIN ROMITTI: Yes but no, not...

SENATOR WISHART: Okay.

MARTIN ROMITTI: I mean I can't talk enough intelligently about it, but certainly (inaudible) that rolls across our desks in terms of supporting innovation, equity, investment. I was going to take a quick look here.

SENATOR WISHART: Yeah, I'd be interested in...I happen to serve a lot of the start-up community in Lincoln and it's been amazing to see that grow and the vitality that it continues to bring to our community, so wondering what are some other ways that we can support that innovation, entrepreneurship.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

MARTIN ROMITTI: Yeah. Well, you know, to some degree it's a little bit risky, or a lot of states think it's pretty risky to put state money into start-ups because there's a high failure rate. Sometimes even when you put an equity investment in and you hit one, it doesn't necessarily mean that the jobs or the brick and mortar or that company is going to build in Nebraska. So I think a lot of states have tried to take on a role of what I call matchmakers in that sense, so they are supporting...I know there's, for instance, like FuzeHub out in New York State. I mean what they're trying to do is they're trying to make connections between, you know, the technology coming out of the university and investors. So it's not necessarily the state investing. They're trying to make the investments but because it's coming out of the university, there's a little bit more of the financial benefit, whether they license it or put it down. So I guess there's a lot of ideas out there. As we lay it out under this stool, you know, we're a little bit more specific than just a broad label. So, you know, in an innovation and economic dynamism setting, you know, we kind of grade it you've got start-ups, you've got growth and scale-ups, you have technology adoption, you know, you go through modernization and product ideation, you have...I mean I think you have some prototyping...you know, that's a big thing, too, and so capital formation, and underneath these there's just a host. So I think what you're say...you're hitting on something. I think one of the things, biggest things you're going to find, and this I found even with the interviews, I mean, you make good bets on people living in Nebraska or people who have attachment to Nebraska. I think people always ask about the rural area, you know. My definition of success in rural economic development is, you know, I...it's not so much that your kids have to stay in that region and live, work, and grow up, but it'd sure be nice if they had the opportunity to do that and didn't have to go off to the city or out of state to find work. And so what you end up finding is a lot of people who are attached...this is what I found with my high-growth study is that there's high-growth businesses generating jobs all over the state. They may be doing it in small bunches, but they're consistently growing. And a lot of them are home-grown entrepreneurs. They basically are making conscious decisions every day that they're going to grow the business there despite problems. Despite the fact that, you know, Omaha's airport isn't a huge destination, they're going to make choices to stay and work and do that kind of logistics or other barriers. So you're making good bets when you're betting on them, and so anything you can do to help them kind of match-make. But like I said, it's getting a little different when you try to put state money into high-risk bets. I'll just leave it at that, so.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR WISHART: Yeah.

SENATOR STINNER: Just for your purpose, we do have...the Nebraska Innovation Act does deal with prototype businesses, provides seed capital. There are some requirements of matching funds and stuff, so Invest Nebraska is...was put in place for that. Senator Hilkemann, you had a question or...?

SENATOR HILKEMANN: Nope.

SENATOR STINNER: Okay.

SENATOR WISHART: I have one more question.

SENATOR STINNER: Okay.

SENATOR WISHART: How...and one of the things that's very beneficial to Nebraska is we have an incredible education system in the state. How important is it from the work you've done, and how sort of advantageous is it for states to have really good K-12 and postsecondary education systems?

MARTIN ROMITTI: I think it's...you know, I think it's important. It's great. And I think that's one of the strengths that Nebraska has. I think the argument against it...not against it. You always want to have a good education system, so I hope that's not...strike that from the record, but...good education is good. But, you know, essentially Nebraska's work force is kind of what will propel its economic trajectory overall, Nebraska's entrepreneurs. You can get educated in Nebraska but if there's not opportunities to work or grow your business here, then you leave. And so what you're really doing is subsidizing a great work force for other places, as well, so keep up the good education. But like I said, there's an attachment that people have growing up here. And so they might be the ones you're trying to...like Intern Nebraska and some other...I remember some of the businesses mentioned that. That's a great, you know, potential way to, you know, keep...so the more Nebraskans you can educate, great, but keep them here, the better off that you actually will be.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR WISHART: Yeah. Thank you.

SENATOR STINNER: Thank you for your testimony. I will make one remark, and I've spent a lot of time talking to businesses. That was a profession...I was in the banking profession and there is a lot of businesses out there that cannot find labor to show up and pass a drug test. I think that's something I don't have a clue how to legislate that, but the work ethic of people just showing up for work on time doesn't appear to be there as much as we would like it to be. And then the passing a drug test is another thing that I hear most frequently from entrepreneurs out there that have four or five jobs available, many times very, very good-paying jobs.

MARTIN ROMITTI: Yeah.

SENATOR STINNER: So anyhow, that's just my own comment. Thank you.

PAT HAVERTY: Well, good morning, Senator Stinner, members of Appropriations Committee. We appreciate the opportunity to present to you today. My name is Pat Haverty, H-a-v-e-r-t-y. I'm the vice president for economic development at the Lincoln Chamber of Commerce and I'm also the president of the Nebraska Economic Developers Association. I'm testifying today on behalf of the Lincoln Chamber, Nebraska Chamber, and the Greater Omaha Chamber to share our views on the future Nebraska Advantage Act and other economic development programs. We, as well as partners of ours, have also provided input to CREC on the state of economic development in Nebraska. We appreciate their engagement. In reading their initial report, it's clear that they took much of our input to heart. We appreciate being engaged by CREC and we also thank you for this opportunity to provide observations about priorities and needs of our economic development efforts from a business perspective. As you know, the Nebraska Advantage Act is the primary economic development program. It is our view that tax incentives are essential for this state to remain competitive and they have been utilized to improve and diversify the economies of local communities throughout the state. As you're aware, the first iteration of incentives in Nebraska was LB...enacted in 1987 under LB775. In 2005, the Legislature determined it was time to update Nebraska's incentives with LB312, the Nebraska Advantage Act. Applications for Nebraska Advantage are still being accepted and as you know, the program is scheduled to sunset on December 31, 2020. As the Legislature begins the crucial

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

work of crafting what will be the third version of Nebraska's primary incentive program, our member companies and economic development professionals have shared guiding principles with respect to the optimal design of the program. Our core goals for the next generation of Nebraska incentives are as follows. Simplicity: We need to provide clarity and flexibility for incenting capital and quality jobs. Transparency: Our stakeholders need to know who gets what and why. Integrity: We need to incentivize the right industries and wages. And most of all, competitiveness: We need to grow opportunities in our state. We believe it's crucial to gain insight from the professionals who sit in front of prospective companies, both existing in Nebraska and those outside looking in, to understand what companies are truly looking for to tip the scales in Nebraska's direction. As you've heard from the business community for years, the business...the biggest challenge to growth and prosperity is our work-force shortages statewide. Our metro areas have seen population growth over the last eight years, but from 2010 to '16, 63 of Nebraska's 93 counties have experienced population loss. Still, even in Lincoln and Omaha, almost all the businesses we visit each year have major challenges with recruiting, retaining, and in some cases, training employees to work in their town or their organization. Work force isn't the only challenge Nebraska faces, obviously. We need to create the environment for good jobs and diversification of our economy, as well, if we're going to prosper in decades to come. As you know, we have other economic development programs beside Nebraska Advantage Act. Many of these programs play a significant role in our success. The primary programs used by our economic development professionals include the Site and Building Development Fund, customized job fund, Job Training Fund, the Business Innovation Act, and Angel Investment Tax Credit. In the interest of time, I'm just going to talk about a couple of these programs and the impact that they make. The Site and Building Development Fund creates favorable conditions for improving industrial readiness of the state. Distributions can be used for land and building acquisition and a variety of development costs. SBF does have a consistent source of funding. Revenue from "doc" stamp fees replenish the program with approximately \$2 million each year. Also, there is a local matching fund requirement. Demand for these funds is high and quality applications across the state are being turned down every year when these funds are exhausted. We would recommend as a robust...as robust an investment as possible in this program moving forward. The Business Innovation Act, or BIA, was designed to promote successful entrepreneurial firms by providing access to capital in early stages of product development. A recent study done by the UNL Bureau of Business Research found high return on investment for

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

this program, and I'll walk through a few of those findings from the study. Businesses that provided data for the study reported receiving over \$22.5 million in BIA funding. These businesses raised \$100.3 million in follow-on capital after receiving the BIA funding. That equals \$4.46 in capital for every dollar of state funding. Participating businesses have already earned \$100.6 million in revenue. This equals \$4.47 in revenue for every dollar of state funding. Participating businesses added 630 new jobs in Nebraska with annual wages of \$32.6 million after the BIA funding. And the total annual economic impact was \$284.3 million. And the annual economic impact in terms of employment compensation is \$77.1 million spread over 1,436 direct and indirect jobs. And the state and local tax impact is \$6.5 million annually. Our interest and involvement should signal to you that Nebraska Advantage and the other work force and economic development programs are high priorities of each of our three chambers. We stand ready to assist however we can in the process of updating these programs. We need a simplified, targeted, efficient incentive program going forward and it needs to fit into a larger competitiveness-driven legislative strategy. That concludes my remarks unless there are any questions I can answer.

SENATOR STINNER: Thank you. Questions? Senator Wishart.

SENATOR WISHART: Just one clarification. How much did you say we invested in the Business...I can't remember. In the Business Innovation Fund, how much did we invest in that?

PAT HAVERTY: Twenty...

SENATOR STINNER: \$22.5 million.

PAT HAVERTY: \$22.5 million.

SENATOR WISHART: \$22.5 million with a return on investment of over \$200 million?

PAT HAVERTY: Annual economic impact...

SENATOR WISHART: Okay.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

PAT HAVERTY: ...of \$284.3 million.

SENATOR STINNER: Additional questions? Seeing none, thank you.

PAT HAVERTY: Thank you.

SENATOR BOLZ: I'll be brief, but I did want to answer a couple of questions that came up during the course of the hearing. The first, Senator Stinner, your question regarding what kind of jobs are open, what type of job openings are available in our state, I think the best source of research on that is the Nebraska economic insight and outlook with the Department of Labor. Some of their highlights are that healthcare and social assistance are projected to add the most jobs, which relates to Senator Wishart's point about our aging population. Those are mixed-- some of them are high wage, some of them are very entry level and very low wage. Professional, scientific, and technical services are projected to see the highest percentage of employment growth, which connects to some of our innovation and entrepreneurship ideas. Trade, transportation, and utilities are also areas where we see a number of job openings and need for a better skill set. So we can dig more deeply into that, but I think that there are a couple of areas where it's a matter of a mismatched skill and a couple of areas where there are low-wage customer service or entry-level direct service jobs that we just simply don't have the numbers for. The second question was related to ways to protect the budget, and I just wanted to reiterate what the expert from Pew said in terms of the menu of options that we can think about as we work with the Revenue Committee about how we move forward with some of our incentive programs. You know, caps are a part of the conversation, but as she said, so are shorter time frames, front-loading investments, transferability and refundability, how do we tighten that up so that we're getting the most bang for our buck, and the idea of looking at the individual amounts that go to individual companies. So I thought it was worth reiterating that there are ways to manage the impact on the budget while also not, you know, putting hard-and-fast rules in place that limit our opportunities to be flexible. The last thing I wanted to respond to is Senator Clements' question about suffering areas or, you know, areas, that might need a little more particular attention. I think it's worth noting that even though we have a very, very low unemployment rate in our state as a whole, there are communities where that is not the case. The north Omaha community, for example, has a much higher unemployment rate as compared to the rest of the country. And so

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Appropriations Committee
November 14, 2018

that's one community where I think we could do a deeper dive in terms of struggling areas. Another example that comes to my mind is the Sidney community kind of reeling in the loss of Cabela's. And so I think that even though we have a low unemployment rate in our state as a whole, there are opportunities to raise up smaller...other communities that are more targeted. So the last thing I wanted to say is the next steps are that the Center for Regional Economic Competitiveness will continue to work with the steering committee of senators that have helped them along with the generous support from the Pew Charitable Trusts and that report will be released mid-December and I'll make sure everybody on this committee gets a copy of it. The goal is really that we move from the research and the philosophies and kind of big picture to start to articulate what some specific tactics under the...those strategies will be. So look forward to sharing that with all of you and look forward to your partnership in starting to implement some of those changes. That's all I have.

SENATOR STINNER: Thank you. Senator Watermeier.

SENATOR WATERMEIER: Yeah, thank you, Chairman. I appreciate all the work, Senator Bolz.

SENATOR BOLZ: Sure.

SENATOR WATERMEIER: This is good in economic development. But I've heard lots of comments today that these incentives are good and they've worked and worked and worked, but we all clearly know they haven't worked and they all clearly know there's a lot of unanswered questions. And we've tried to have transparency added to this conversation, but I haven't heard that once today. So in pushing forward...I mean a little bit we've heard it, but changing this next program is paramount. In the fact of my mind, it's thank goodness we have a sunset. It's what's bringing us to the table today. And what are your thoughts about the next incentive program, not into the weeds, but making it more transparent? And by that, what I mean is the requirements that we require for people receiving incentives to give us the data that we might think we might need ten years from now, which is where we failed 10 and 15 years ago by not asking those questions.

SENATOR BOLZ: Um-hum. Right.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR WATERMEIER: So that needs to be an integral part, in my opinion. What do you think?

SENATOR BOLZ: I couldn't agree with you more. I mean, I think that's part of the challenge we've had over the years in which Nebraska Advantage has been in place. And I also think in addition to transparency, we are also not achieving everything we could achieve in terms of educating the body about some of the economic development programs that are not Nebraska Advantage. I don't think that everybody in this body can tell you what the Business Innovation Act is and does and why it has value and importance, so I think that's part of the job that we need to do is to educate the body about all of the buttons and levers and the bigger menu of options and about how we need to invest in those in the right mix. I agree with you completely about transparency and I think some of the comments made by The Pew Charitable Trusts about making things more rapid could help us, because when you try to assess the impact over a business over time, I think it gets more diffuse. The last thing I'll say in response, and I hope I'm sort of answering your question, is I think that your observation about putting a sunset on Nebraska Advantage, how important that was, I think we also need to recognize that whatever we do in the future should probably have a sunset because the economy changes. It's not going to be stagnant. So if you want to follow up, that's fine. I'm not sure if I answered.

SENATOR WATERMEIER: Yeah, I could, I would. One thing I would suggest is that when both LB775 and Nebraska Advantage Act were born, there was this idea it was jobs, jobs, jobs, and clearly I think 65 to 70 percent of the dollars invested in those incentives went to investment in the state, very, very few jobs.

SENATOR BOLZ: Right.

SENATOR WATERMEIER: So we've got to...first of all, before we worry about transparency, before we worry about the new program, is, what is our goal, what is our priority?

SENATOR BOLZ: Um-hum, right.

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office
Rough Draft

Appropriations Committee
November 14, 2018

SENATOR WATERMEIER: Is it creating jobs? And how do you create the job, or do you incentivize the worker like the SRI study has said? Clearly we're missing the picture, so starting with a big-picture goal, first and foremost, without anything in the weeds, we've just got to get that...we've got to get that figured out, whatever that is, because we missed it.

SENATOR BOLZ: This is less policy focused than I usually am, but I heard a speaker at an economic development training that I was at this summer and he put it this way. He said, you know, all people want their loved ones, their friends, their family members, to be safe, to be healthy, to be stable, and to be nearby, right? And if you kind of boil it back down to the basics, I think that's what we're talking about. We need to make sure that we're talking about building communities where people can be safe, stable, effective, and that they don't have to go somewhere else to achieve those things. So that's maybe a squishy way of saying "agreed."

SENATOR WATERMEIER: Thank you.

SENATOR STINNER: Thank you. Just wanted to say, just for the record, I think the thing that keeps me awake at night is the fact that we keep accumulating this contention liability out there and we're going to be approaching a billion dollars that needs to be unwound. I'm 100 percent for incentive programs. I think this has to be...we have to be competitive. But how that all unwinds and what it means in terms of our budget and how we get this all funded and what the new program looks like, the short on time frame works looks like something that I would lean to right at the moment as opposed to caps or anything like that. But it's got to be in the calculator to see what future impact all of this has on the budget and how it unwinds and the unpredictability of it and the like of that. So anyhow, that's what keeps me awake at night, so.

SENATOR BOLZ: One very short comment might be that--this will be probably the wonkiest thing that I say all day--is I wonder if there isn't a way to integrate the impact of our economic development programs more precisely or more explicitly in our revenue volatility report so that we have indicators that we can point to in a formal way through this body about how all those pieces interplay. So maybe it's worth taking another look at that report.

SENATOR STINNER: Thank you.

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Rough Draft

Appropriations Committee
November 14, 2018

SENATOR BOLZ: Thanks for your time and attention.

SENATOR STINNER: That concludes our hearing on LR389. Thank you for your participation and thanks for coming.