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Revenue Committee
February 11, 2015

[LB321 LB322 LB331 LB372]

The Committee on Revenue met at 1:30 p.m. on Wednesday, February 11, 2015, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB331, LB321, LB322, and LB372. Senators present: Mike Gloor, Chairperson; Paul Schumacher, Vice Chairperson; Lydia Brasch; Al Davis; Burke Harr; Jim Scheer; Jim Smith; and Kate Sullivan. Senators absent: None.

SENATOR GLOOR: Good afternoon. I wonder if I can ask...yep, door is shutting, good. I'm sure that's everybody waiting to get in for our hearings today, but we're going to start without them. My name is Mike Gloor, I'm the Chairman of the Revenue Committee, I represent District 35, which is Grand Island. We're going to take up bills today in the order that's been posted on the agendas in the back of the room and other places around the Capitol Building. Got a few general rules: If you have a cell phone or any of the other electronic devices that are so popular in this day and age, please put it...either turn it off or put it in a silent mode. We have...and would ask you, if you're going to testify and are in the back of the room, move up a little closer when we get to the bill that you're interested in so we're not spending a lot of time going back and forth. We will have this order of bill presentation: We'll have the bill's originator or presenter who will give the opening; we'll then go to proponents; then opponents; then those in a neutral capacity; and finish up with closing comments that the introducer might have. If you are planning to give testimony, please fill out one of the pink sheets--or what are they? Oh, the green sheets, yeah. Where did I get pink sheets? It must be the other committees, yes. The other committees has pink sheets--one of the green sheets that's in the back, when you come up and hand it to the clerk so that we have you down for the record. Please give us your name and spell it so that we get it correctly on the record for you. If you're here and have an interest and decide after you've listened to all the testimony you don't need to say something, you can still let your issues or concerns be known by signing one of the white sheets in the back, and would encourage people to take advantage of that even if you came here, just have an interest, let us know how you feel about things. We'd ask that you be concise. We have a five-minute rule and a light system. You'll get green lights for four minutes and then you'll get a yellow light for the last minute. And when it's time to wrap up, you'll get a red light. And if you don't wrap up, I'll politely move you in that general direction. So work with us on that if you would, please. If you have a written testimony of some kind or handout, we need ten copies. You can give those to the pages when you come up here. If you don't have ten pages, now would be a good time to get the attention of the pages so they can make some copies so that we do have enough copies to go around. Would ask that you be sure and speak into the microphone so we get everything correct that you say. That's also a reminder I give every meeting for the senators themselves as they're asking questions and dialoguing about bills. We have committee counsel with us today, Mary Jane Egr Edson, on my right. Clerk is Krissa Delka, she's on my far left. And the research analyst is Kay Bergquist,

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who's sitting on the far end on the right. And with that, I would like the members to introduce themselves. Senator Brasch, would you introduce yourself, please?

SENATOR BRASCH: Thank you. Lydia Brasch, District 16, counties are Cuming, Burt, and Washington.

SENATOR SCHUMACHER: Paul Schumacher, District 22, Platte and parts of Colfax and Stanton County.

SENATOR SULLIVAN: Kate Sullivan of Cedar Rapids, representing District 41, a nine-county area in central Nebraska.

SENATOR SMITH: Jim Smith, District 14 in Sarpy County.

SENATOR SCHEER: Jim Scheer, from District 19, Madison and a little bit of Stanton County.
[LB331]

SENATOR GLOOR: And we have two pages, Colin from Wayne and Donnie from Lincoln. And again, they're here to help you and us. And with that, we'll start with our first bill. Senator Nordquist.

SENATOR NORDQUIST: (Exhibits 1, 2, 3) Thank you, Chairman Gloor and members of the Revenue Committee. I'm State Senator Jeremy Nordquist from District 7 in downtown and south Omaha, here to introduce LB331. I'd like to apologize for the mess out in the hallway. The Retirement Committee was having a hearing and holding up the room. This bill--I've got a couple of handouts here for the pages to hand out--this bill, LB331 is the Bioscience Impact Opportunity Act to encourage high-wage bioscience job creation in Nebraska through tax incentives in a newly created grant program. As introduced, LB331 would provide investment and wage credits, sales tax refund, and personal property tax exemption for businesses making at least a \$1.5 million investment in Nebraska with at least one new employee hired at a minimum of 150 percent of the Nebraska average wage, which would be approximately \$63,000 a year. This level of investment employment must be met by the end of the fourth year after the year in which the application is submitted. And these tax incentives would be in lieu of any other tax incentive program, allowing Nebraska to reach an industry that is not able to benefit from Nebraska Advantage. It wouldn't double down on Nebraska Advantage, it would be again in lieu of that. We want to encourage job creation in the bioscience sector because the average wages to those employees are well above those earned by counterparts in the private sector in other major industries. In 2008, Nebraska bioscience workers averaged over \$53,000 compared to \$35,700

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for the overall private sector, which amounts to nearly \$18,000 a year more or about a 50 percent higher salary. While Nebraska has a sizable and diverse academic biosciences base and we continue to make substantial investments in our academic biosciences base, unfortunately the industry has not kept pace with the growth at the national level. Nebraska growth in major bioscience field totaled 9.2 percent from 2004 to 2008, while the national average during that same time, the growth was 22.3 percent. The national average was more than lapping us when it comes to our bioscience growth rate. And it's important to note the geographical distribution across the state. It's distributed relatively evenly with rural communities home to 43 percent of the jobs, Omaha home to 32 percent of the jobs, and Lincoln home to 24 percent. What's more, as an agricultural state, we are poised with the resources and the work force to be a leader in biosciences but our recruitment and business incentives do not reflect this priority. We have an opportunity with this bill to attract companies to pair with ethanol plants, to partner with cattle feeders, or to benefit from the new row crops that are prevalent across the state. We also have major research being conducted at our universities that drive growth in this industry. We need to capture the momentum to grow our state's biosciences industry. Unfortunately, a lot of the research that's being done here in the start-up companies are helping grow South Dakota's and Kansas' economies, not Nebraska's. Neighboring states of Kansas, Iowa, South Dakota are recruiting life science companies to locate there by providing affordable lab space and establishing similar incentive programs that are not currently offered in our state. LB331 also provides for the following in the bill: information on the application regarding the planned employment and investment; plans and specifications of project location; a timetable of expected sales and use tax refunds; and the year those refunds are expected to be claimed; duties; and a timetable for the Tax Commissioner regarding the approval of the application; details of the project agreement; and a number of other things. Under the bill, we also establish a bioscience block grant for expansion or start-up possibilities to foster employment, encourage research and development. Grants would be awarded up to \$250,000 a year for three years to eligible businesses. An eligible business would include qualified bioscience business located in Nebraska that has ten or fewer employees. So we're really focused on start-ups with this investment. The grant fund would be used for personnel costs, supplies, equipment, rent and renovation of physical facilities. And 15 percent of the grant can be used for that. We propose making an investment in the grant fund of about \$2 million a year. As you can see by the fiscal note, and I think it caught all of us off guard, the estimated size of the fiscal note in the out years, \$430 million, is a pretty big number. Certainly the Chairman of the Appropriations Committee that's a cosponsor of the bill didn't think it would be quite that big when he cosigned it. And certainly its magnitude is larger than we thought. I have provided an amendment to the committee that will start us...maintain the structure of the bill but start us down the path of scaling that fiscal note back. I think the concerns largely were the definitions of what we call biosciences. I think we were probably a little too broad in that. We are limiting, in the amendment, to businesses that have less than 50 employees. We also are scaling back the transferability to align it to similar to what Nebraska Advantage has where it's only transferable upon the sale of a company, not any

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other transferability. So that is our start with scaling it back, but essentially this bill is to try to put us back on a playing field with our neighboring states here in Nebraska when it comes to biosciences. We are making substantial investments in bioscience research, whether it's in the ag sector, certainly with Innovation Campus, the money we've invested there, money we've invested now with the UNMC Cancer Center. There is great potential from that research for start-ups and commercialization of the research that's going on here that we have invested. When you consider all those projects, probably very much just in the last few years approaching \$100 million in that base research. But if we do not take action, those companies are going to get off the ground here and then that quickly that intellectual capital, that company will be sucked up by one of our neighboring states that is being more aggressive in recruiting these businesses. Thank you. [LB331]

SENATOR GLOOR: Thank you, Senator Nordquist. Do you have any sense of where the amendment will leave you fiscally? I mean, were you shooting to cut it in half, a quarter? [LB331]

SENATOR NORDQUIST: Oh, no. I...quite frankly, I would hate to throw a number out there. But I think anything more than \$10 million is probably not going to go very far. So we've got to...we've got a lot of work ahead of us. And I think we can get there. I think it's got to be more discussions, and we just kind of heard about it earlier this week, what the size of the fiscal note would be and just started the last day or two really working on it. We'll have to have a number of conversations with the Department of Revenue and the Fiscal Office and really try to pull back on it. [LB331]

SENATOR GLOOR: Sure. Can you also tell me, this particular handout, the intent...I mean, is this just information of what we're currently involved in? [LB331]

SENATOR NORDQUIST: Just...right, right, right. It's what's being distributed as...it's kind of a brochure for Nebraska as we go out after and recruit. But that's just in... [LB331]

SENATOR GLOOR: Okay, so it's the promotional...it's what the Department of Economic Development uses for promotional purposes? [LB331]

SENATOR NORDQUIST: Right, right. Yep, that's right. Yep. [LB331]

SENATOR GLOOR: Okay. Questions? Senator Harr. [LB331]

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SENATOR HARR: Thank you, Mr. Chairman. Thanks for coming here, Senator Nordquist. [LB331]

SENATOR NORDQUIST: Yes. [LB331]

SENATOR HARR: Your amendment...and I haven't...you know, I just got it. [LB331]

SENATOR NORDQUIST: Yes. [LB331]

SENATOR HARR: And the green copy limits what we can look at, but you have lines 2 through 6 on a...well, really, 2 through 5. You say...well, it says... [LB331]

SENATOR NORDQUIST: I might have handed out all my versions, actually. [LB331]

SENATOR HARR: ...insert: biotherapeutics, pharmaceuticals, medical therapeutics, medical diagnostics, medical devices, veterinary medicine, biomass, biofuels, bioprocessing, plant biology, animal health, product improvement, crop and water management, feedstock, chemicals, and food safety applications. [LB331]

SENATOR NORDQUIST: Right. [LB331]

SENATOR HARR: Are those terms defined anywhere? [LB331]

SENATOR NORDQUIST: Not in the bill. [LB331]

SENATOR HARR: Not in your bill, I know that, but is it in statute anywhere? Are those terms defined? [LB331]

SENATOR NORDQUIST: I don't believe so. We can...whether we leave that up to the department to define through a process or whether we want to put it in statute, I don't know. [LB331]

SENATOR HARR: I don't know. I think that might be too much delegation right there. But we could sit down and work on that. [LB331]

SENATOR NORDQUIST: Okay. [LB331]

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SENATOR HARR: I mean, I just don't know what bioprocessing is. Is that taking the stalks of a plant and find a new use for it or where would that type of technology fit? You know, those are the questions. [LB331]

SENATOR NORDQUIST: There's probably somebody behind me that can specify on that. I certainly...right. No, I think that's...I think there's somebody behind me that can address that. I don't...I'm not the expert when it comes to the definitions here. [LB331]

SENATOR HARR: Well, thank you for coming today. It's always a pleasure to see you. [LB331]

SENATOR NORDQUIST: Thank you, Senator Harr. [LB331]

SENATOR GLOOR: Any other questions? Senator Sullivan. [LB331]

SENATOR SULLIVAN: Thank you, Senator Gloor. And thank you, Senator Nordquist. So under the Nebraska Advantage Program we already provide some incentives for these businesses. Is that correct? [LB331]

SENATOR NORDQUIST: Right. The challenge, my understanding--and folks again behind me can speak to--is the jobs number initially for these start-ups. They're not going to be big jobs numbers. And, quite frankly, think about where we are with Nebraska's economy and a 2.9 percent unemployment rate. We need to protect the intellectual capabilities that can turn into a larger number of jobs down the road. And that's where we're losing right now is, you get the South Dakotas and the Iowas and the Kansas around us and there are other states obviously on the Coast that have made bigger investments. Florida and Massachusetts are probably two of the biggest ones that are putting money on the table. If we lose these start-ups we lose a lot of potential for the future. It's not necessarily about creating a large number of jobs today. So the concern for these companies is the jobs thresholds in Nebraska Advantage prevent them from getting what they need. [LB331]

SENATOR SULLIVAN: Thank you. [LB331]

SENATOR GLOOR: Senator Harr. [LB331]

SENATOR HARR: Sorry. And that brings kind of a follow-up question I think for me is, is this enough money to make a difference then? [LB331]

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SENATOR NORDQUIST: This would very much put us in a competitive position with other states without being overly generous too. And we can give you...we can get you a... [LB331]

SENATOR HARR: That's pretty vague. Well, I guess my question is...so you're saying it's \$10 million? [LB331]

SENATOR NORDQUIST: Yeah. [LB331]

SENATOR HARR: How would you see that spread out? Over how many companies? Or how would that work? [LB331]

SENATOR NORDQUIST: Well, certainly you would have a portion of that for the grant fund that we're talking about. And then the remainder would be...I mean, these companies aren't...we're talking about \$1.5 million, maybe a little more, that would be the minimum investment threshold for some of these start-ups. You know, I don't think we're talking a big number to get to attract them to stay here. Probably hundreds of thousands of dollars per a company. [LB331]

SENATOR HARR: I guess that's my next question. Is the intent to bring new businesses in to start here or to take the critical mass that we already have and build off of that? [LB331]

SENATOR NORDQUIST: It's very much about...I think largely because we, unlike some of our neighboring states...you can look at the situation Kansas is in. They are pulling back on academic investments, academic research, while we have been making that investment. But unfortunately, we've been making that investment, creating the research and the potential for commercialization of that research, but we're losing out on protecting what we're growing here in Nebraska and it's being siphoned off to other states. So we're making the research investment but we're not able to capitalize on it because we don't have the next step in place. So I think it's very much about protecting what we're growing in Nebraska. [LB331]

SENATOR HARR: Okay, thank you. [LB331]

SENATOR GLOOR: Senator Scheer. [LB331]

SENATOR SCHEER: Thank you, Senator Gloor. Senator Nordquist, do you have an idea...it's 150 percent of the Nebraska average annual wage. What would that be at this point? [LB331]

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SENATOR NORDQUIST: Right. So it's...that would be \$63,000 would be 150 percent of the average wage. So that would be the...to qualify that's the entry level wage that we're talking about. [LB331]

SENATOR SCHEER: Okay. And we're only requiring one employee, so are we to assume that most of these are small number of employees but maybe larger payroll numbers rather than lots of people but not lots of wage? [LB331]

SENATOR NORDQUIST: Uh-huh, that's certainly it. But it's, you know we're talking, usually it's researchers coming out of our academic institutions is a lot of them with research that they're doing trying to take it to the next step to start down the road to commercialization. And it's usually a person or two that are doing it. There's a capital cost that they need to invest and that can be a million, couple of million dollars to get off the ground. One of the pieces we put in our grant fund to allow them to use funding for is...one thing that states are doing that we haven't done is help subsidize low-cost lab space for them to...kind of incubator space for this research commercialization transition. That's why we put that in the grant fund to allow them to do that. But yeah, it's probably not a lot on wages initially, it's more helping them with the capital costs and...but making sure that the jobs that they do create, even though they're few in number, are good paying jobs. [LB331]

SENATOR SCHEER: Thank you, Senator. Thank you, Senator Gloor. [LB331]

SENATOR GLOOR: Thank you. Senator Brasch. [LB331]

SENATOR BRASCH: Thank you, Chairman Gloor. And thank you, Senator Nordquist. This is a nice brochure and it caught my attention as you were giving your opening. I apologize. Did you explain...there's a...it's ranking and facts. But it says that the funding from the National Institutes of Health grew by 47 percent--that's in red--from 2004 to 2009 compared to 15 percent nationally. What does that mean? [LB331]

SENATOR NORDQUIST: Boy, I don't...maybe that's just overall research versus the specific research from NIH. NIH funding grew more than just overall research. But I guess I don't know what...I could follow up with the department. [LB331]

SENATOR BRASCH: I'm thinking it's a benefit or an asset somehow, but I... [LB331]

SENATOR NORDQUIST: Right. Well, certainly, the... [LB331]

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SENATOR BRASCH: I'm searching for some sort of a correlation and there's heads nodding behind you so we'll probably hear something later. [LB331]

SENATOR NORDQUIST: Right. Right, yeah. And we have made investments certainly with the cancer center for research and some other areas that we see the growth that NIH has had. Now, granted, with...this might have been published presequestration and that has obviously...the growth of that has been limited. But we have made investments in...certainly with the cancer center, to try to take advantage of that research. And then there is great potential to take that research and turn it into commercialized products that create jobs and great economic benefit to Nebraska. But again, we've got to make sure we've got the pieces in place for those companies to grow and stay. [LB331]

SENATOR BRASCH: Very good. Thank you. [LB331]

SENATOR GLOOR: Senator Schumacher. [LB331]

SENATOR SCHUMACHER: Thank you, Senator Gloor. And thank you for introducing this, Senator Nordquist. All these things raise interesting issues and possibilities. I mean, if we're talking a very limited amount of money of \$10 million...unfortunately, we have to be limited because we have to be limited. Why, if you're going to invest in a bioscience business, would you at all even consider Nebraska as a place to get people to conduct and make the connections? I mean, those things gravitate now to the critical mass in the northeast sector of the country. They gravitate somewhat to the south Florida area, some of the other larger centers. If we're going to say that really the dog wags the tail rather than the tax tail wagging the dog, why would the dog want to be here? [LB331]

SENATOR NORDQUIST: Well, I would say, yeah, if we're trying to be everything to everybody, we'll lose in that. But I do think that there are certainly clusters where we have made great investments as a state. A \$300 million cancer center that will be...that is doing critical, basic research, that's not just a treatment center. It is a research facility that has great potential. You know, that's an area where we can succeed. Innovation Campus, as that moves forward in the areas of food, fuel, and water--which are its targeted areas--we have great potential there to grab ahold of. And the partnership that...you know, I don't know that this will be lucrative enough to attract a lot more here. But I think that it certainly is if you're starting a project from research at Innovation Campus or the cancer center and you're growing that here in Nebraska, this is probably...hopefully will be enough to keep you from leaving and taking it to one of our neighboring states or to Massachusetts or Florida with their incentive programs. But yeah, we can't be everything to all people. But there are areas that we do have a competitive advantage in and I think we can compete in. [LB331]

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SENATOR SCHUMACHER: But quite a bit of the cancer center research is NIH funded, isn't it? [LB331]

SENATOR NORDQUIST: I would...yeah, absolutely. [LB331]

SENATOR SCHUMACHER: Yeah, I would think so. And so we can't confine that knowledge to Nebraska. So once it becomes digitized and shot down the fiber optics to anywhere else, why would you want your end of the fiber optics to be in Nebraska and not in Boston? [LB331]

SENATOR NORDQUIST: Well, I think that there...I mean, it's not...I mean there certainly are patents and things that come out of that along the way that can turn into products and commercialization that can be very beneficial and create industries and jobs here. [LB331]

SENATOR SCHUMACHER: I guess what I'm getting at is, particularly a small tax program, is not going to be able to propel a project. There's got to be other underlying economic reasons for being here and we've got to identify those and merit with those because \$10 million in any kind of science or high tech thing just really doesn't even come up on the radar screen. [LB331]

SENATOR NORDQUIST: Right. Right. And I think of some of those underlying--sorry to interrupt--some of those underlying reasons are the investments that we have made over the last five years in academics research. [LB331]

SENATOR SCHUMACHER: Thank you, Senator. [LB331]

SENATOR NORDQUIST: Yeah. [LB331]

SENATOR GLOOR: Other questions? I'm assuming you're staying to close? [LB331]

SENATOR NORDQUIST: Yep, absolutely. Thank you. [LB331]

SENATOR GLOOR: Okay. Proponents. Good afternoon. [LB331]

MICHAEL DIXON: Good afternoon. Thank you, Senator Gloor and the rest of the committee members. My name is Michael Dixon. I am here to testify in favor of LB331. My job is I am president and CEO of UNeMed Corporation. We are the technology development and commercialization entity for the University of Nebraska Medical Center. Oh, I'm sorry, M-i-c-h-a-e-l D-i-x-o-n. Thank you. And I'm...I'll try to address some of the questions. I think I've got

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some answers along with my testimony. If I fail to address them, I'm happy to address more in the questions. So I'm again here to support this bill, not only because of my interest in seeing biotechnology commercialization and development within the state of Nebraska, I'm also very involved with BioNebraska--the board which supports biotechnology development in the state--as well as Invest Nebraska, the not-for-profit venture development board that supports entrepreneurs here in the state of Nebraska. And furthermore, I serve as a mentor for the Pipeline Fellowship program which is developing entrepreneurs. So what I'm trying to paint the picture of here is I'm very involved in the entrepreneurship and technology developments. I'm a passionate advocate for biotechnology development. At the university I work in an office where we actually employ seven Ph.D.s, three attorneys, one MBA. All have education roots here in Nebraska. We're proud to say we've grown our own and we continue to grow biotechnology expertise here. I've sent several of our employees to other states to work in similar business so we continue to grow more of these. So as was mentioned earlier, the university is a \$250 million research machine. We produce a lot of really good ideas. There's great research that occurs in biotechnology and associated areas. And as Senator Nordquist had stated, that technology, those ideas lead to patents or ideas. And so what the university tries to do is develop those ideas and bring them to the market so that those ideas can be useful. One of the big challenges in doing that is especially in biotechnology, the expense and the length of time it takes to develop a product from a new idea is considerably longer than other sectors. So if we're looking at a high technology or Web-based sector you're looking at months to a year. When we're looking to develop a biotechnology that comes from an idea out of our cancer center, we're looking anywhere from 10 to 12 years to see that technology and probably hundreds of millions to a billion dollars. In the medical device area where we also have significant research, that development takes anywhere from five to seven years and tens of millions of dollars. Those are daunting numbers, but it doesn't mean it can't be done. It's done all the time. And usually the hardest thing to do is to get that company started, get the first dollars into the company. And that's where I believe this bill, in combination with some of the other bills, has significant potential to really help jump-start our biotechnology start-up activity. The university is investing significantly in making sure that these technologies are developed as well as they can within the university. And the research and development use of our clinical expertise goes a long ways, but it doesn't build products. We need companies. And to get companies you need two things...well, three things: You need the technology, which we have; we need the talent, which we're starting to grow some but we still need to recruit talent; and we need money, we need venture investment to help build these companies. And some of that is coming, but often it's coming from out of the state. So we're starting to see more of our start-up companies which are able to recruit talent locally. And we've recruited talent from out of state to start these companies and that's working. It's slow, but it's working. And we're able to start finding venture capital outside the state that's funding some of our internal companies. Now we still send a lot of our technologies to established companies because, again, our ultimate goal is to see products made. If we create a new cancer drug, I want that drug to help solve the problem of cancer. If possible, we want to

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develop products here in the state and we want to see the state grow because in the long run that provides a benefit to us. The more biotechnology companies we have here in the state the better chance we have to collaborate with them, build more research programs, and generate more products. And that's success to us. In addition, if we can utilize the research power that we have now with our cancer center, with our strong molecular diagnostics, with our research that's going on, we can start to recruit talented executives from other biotechnology companies to come and use our technologies, utilizing some of the investment funds that we have here, and develop these programs. If you ask around, you'll find that we are one of the most progressive universities, we're one of the easiest to work with, and we've had a real successful track record of recruiting executives to come and work. And I think you'll hear from one later on that can tell you a little of his story of how we recruited him back to the state and how he's building a company now. With that, I wanted to answer the NIH question. What that stat is, is actually the growth of NIH-funded research, which was the most significant research the medical center has, has grown at a higher rate over the last I think it was five years as opposed to what the rest of the U.S. has grown. So we've seen considerable growth in the amount of research. We're building a very robust research enterprise. We're jumping up on NIH rankings higher than almost any other academic medical center and I think we'll hopefully continue to see that grow as some of these programs have been successfully implemented and research is continuing to grow. Thank you, I'm open for questions. [LB331]

SENATOR GLOOR: Questions? Senator Brasch. [LB331]

SENATOR BRASCH: Thank you, Chairman Gloor. And thank you, Mr. Dixon, for the explanation. Now, because it has grown far beyond what the figures are elsewhere, correct, in Nebraska? Is that... [LB331]

MICHAEL DIXON: Yes, our research numbers have... [LB331]

SENATOR BRASCH: Okay, so it's most likely success based? There's something right happening here. [LB331]

MICHAEL DIXON: Absolutely. I would say there's a combination of things. Talent, we have got amazing individuals. Our previous Chancellor Moore built amazing facilities. We've been able to recruit researchers from Johns Hopkins, Scripps, UCSF, some of the top places in the world. And they're all bringing in very successful research programs. I know from my view, we've seen a very big spike in the number of inventions and available technologies because they're bringing in very innovative projects. [LB331]

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SENATOR BRASCH: And that is taking place despite not bringing in this legislation, but with the current tax advantage package. Correct? [LB331]

MICHAEL DIXON: So, this is all occurring on the research side. [LB331]

SENATOR BRASCH: On the research side. Okay. [LB331]

MICHAEL DIXON: So what I...I guess what I want to differentiate is the research will continue to go on and we'll create new ideas. The question is, how do we develop those ideas into products in companies specifically here in Nebraska? And so when a technology, a new idea is created it comes into UNeMed and our mission is to find a company that will successfully commercialize it and bring it to the market. Now that company may be in Boston, San Francisco, it could be in Europe, could be in Nebraska or South Dakota. Our goal is to find companies locally but we'll go to anywhere. [LB331]

SENATOR BRASCH: To place them here. Correct, all right, and... [LB331]

MICHAEL DIXON: Yes and the idea of this legislation is it will give us more incentives to place the companies here. [LB331]

SENATOR BRASCH: How many do we lose at this point? Who has been incubated? You've hatched the technology and how many fly elsewhere? [LB331]

MICHAEL DIXON: Yeah. I've only been doing this a short time and a majority of our work has been "out-licensing" because we've been trying to get our program up and going. We do about one to two start-ups a year. And it's really too early to say how many we've lost per se. I can tell you, if I had the ability, some incentive packages to recruit companies here, I've had executives elsewhere tell me they'd like to start companies here. The question is always available resources and venture money and getting the first dollars in. So I think it's, for our aspect, not necessarily how many have we lost but how many haven't we started. [LB331]

SENATOR BRASCH: Okay. Very good. Thank you for your testimony. [LB331]

SENATOR GLOOR: And Senator Davis has joined the committee. I think most people here are seasoned testifiers, but you will see senators come and go. They have their own bills to introduce, other responsibilities in their roles and so forgive us. We do pay attention, we do care about everything and everybody, but we have several jobs, so we do come and go. Senator Harr, you had a question? [LB331]

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SENATOR HARR: Thank you, Chairman Gloor. Mr. Dixon, what is the name of your company again? [LB331]

MICHAEL DIXON: UNeMed. [LB331]

SENATOR HARR: Okay. And what is...how is your company...is it a for-profit or a not-for-profit company? [LB331]

MICHAEL DIXON: It's a...so UNeMed is a for-profit. It's owned by the University of Nebraska. The University Technology Development Corporation is our parent. And so we report all up into the University of Nebraska. We have an agreement with the university where all technology new inventions come to us for evaluation, marketing, and licensing. [LB331]

SENATOR HARR: Okay. And where does your funding come from then, is it state funded or is it... [LB331]

MICHAEL DIXON: University. We're partially funded by some of the revenue that's generated from the licensing and then majority funded by the university supporting the mission of technology development. [LB331]

SENATOR HARR: So in essence, the people who invest have some skin in the game. [LB331]

MICHAEL DIXON: Yes. And the companies that we create, start-up companies are owned external to us. They're owned by the investors or the founders, the people creating those companies. [LB331]

SENATOR HARR: Okay. Which is...I guess leads to one of my questions is, we're giving this money early on, start-up money and venture capital money and assets. We become venture capitalists but we don't get any of the return. [LB331]

MICHAEL DIXON: I think that's a great point. Invest Nebraska is an entity that's been created to get some return on some of the state investment. I think they're doing a fantastic job of that. You know, I think when you're starting a biotech company one of the real challenges is trying to determine the valuation. And so if you come in and try to set a valuation it's very difficult because these companies are prerevenue and will be for a long time. It's incredibly difficult to do that. Now with that being said, I would have--you know, from someone that's trying to get a company started--I don't think they'd be adverse to seeing a return or some sort of convertible note put on something like this. The real key is access to capital and getting a chance to prove

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that their concept works. There's incredible amounts...incredible potential for return but there's also incredible potential for failure at this stage. [LB331]

SENATOR HARR: Yeah. So are we Series A or where are you in...where do you see us...the state coming in with these grants, in the process? Yeah. [LB331]

MICHAEL DIXON: It's preseed. This is...yeah, so if you look at the venture scale there's friends, founders, family, and fools, the four F's. There's the preseed, seed, Series A, B, C, down the line. Angels usually come right around seed, Series A. I would consider this preseed to seed. This would be coming in about the same time as an angel would come in or about the same time that the founders...right after the founders. I'd want to see them have some skin in the game also. [LB331]

SENATOR HARR: Is there a way to codify that? [LB331]

MICHAEL DIXON: Oh, I think there's a way you can create the requirement for matching dollars. That's one of the ways the Talent and Innovation Initiative has done it. And I think it's been successful. One of the reasons I think this is really important is it carved something out for bioscience, specifically. Because there are so many tech companies and we've got a great entrepreneurship scene, bioscience is a much different animal. It doesn't generate revenue, it's very difficult to get some of the investment. [LB331]

SENATOR HARR: A long time, yeah. [LB331]

MICHAEL DIXON: So I would be very supportive of even seeing something in there that help focus how this investment was put in and, you know, what the criteria would be to get it, because I think it's very important that we do pick good companies. [LB331]

SENATOR HARR: And how would we define success then? Say...because you talked about cancer can take 10 to 12. It can be a lot quicker than that. But you have, phase one, phase two, all that testing. How are we, as lawmakers, policymakers, trustees of the state tax dollars, in essence, supposed to say, you know, this is a great program. We've created a billion dollar company in 18 months or we haven't done anything in 20 years? [LB331]

MICHAEL DIXON: I think follow-on investment is one measure that's a quicker way to determine success so that the first dollars in are important but they only keep one of these companies going for a very short amount of time. So if they can't raise follow-on investment, that probably means that the company wasn't successful. So follow-on investment is an important

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key. Now I hate to put a measure of success on the company made a product because at the end of the day sometimes the science doesn't work. The company... [LB331]

SENATOR HARR: And you learn more from your mistakes. [LB331]

MICHAEL DIXON: Exactly. And so I think being able to continue to grow companies and that follow-on investment hopefully will come with a job or two. But as Senator Nordquist had stated, they're not going to be creating the number of jobs that maybe a manufacturing plant does, but if successful, has the potential to create significant numbers of high knowledge jobs, which usually have a better pay range. [LB331]

SENATOR HARR: Okay. And one more question and I'll be done. We aren't a critical mass in Nebraska. And my fear is that we give this company money, we get them along the way, and they get to the point where they say, hey, we don't have the employees or we don't like your tax structure. We're going to move to...back to...excuse me, we're going to move to Boston, we're going to move to San Francisco, we're going to move to Seattle, wherever that is. What do we have in here to make sure these companies stay here? [LB331]

MICHAEL DIXON: You know, I don't know if there's something to specifically require them to stay. I think one of the things I've found is that as we start to...one of the biggest reasons somebody stays is they have access to expertise they wouldn't get elsewhere. So as I talk to companies in other states, they really value relationships they have within their state. And a lot of them are...I come from an academic center so I meet a lot of the academic collaborations. I think one of the hooks that we have is, as we're creating companies and as these companies have strong relationships with the University of Nebraska, that's a good hook to keep them here because we can offer them resources that they can't get other places. We can offer them access to core labs, facilities, cancer centers, clinical expertise that they can't get elsewhere. I think there are other incentives within the state of Nebraska, as in low cost of rent. I've got a colleague from San Francisco that's amazed at the low cost of rent here in Nebraska when he's not paying \$80 a square foot for a C-minus space in San Francisco. And so he's actually found that this is an incredibly productive place to create a business because of the low overhead. So I think we can do it if we find the right people who have the right incentives to stay here and usually that's a connection somewhere. [LB331]

SENATOR HARR: Okay, thank you. I appreciate it. [LB331]

SENATOR GLOOR: Other questions? Senator Schumacher. [LB331]

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SENATOR SCHUMACHER: Thank you, Senator Gloor. And thank you for your testimony today. Roughly speaking, if we're looking at \$10 million in tax credits and the enormous cost from taking something that's a idea in a laboratory or on some graduate student's desk or PH.D. desk and transforming that into a viable business, \$10 million doesn't come up on the radar screen. [LB331]

MICHAEL DIXON: I think that's right. But I do think the most difficult money is the first dollars in. And what we really want to do here with this bill is prime the pump and get these companies started. Usually you'll find a lot of these companies fail early. They'll find out...they'll use that first money to get their proof of concept to show that that value proposition is there. And once they do, that brings them on that value proposition line to a point where they're more attractive to that seed or angel investor who they've got enough data to prove that. And that gets them climbing that ladder to hit the seed venture A, B, C rounds. I don't think we want to bet big dollars on one technology; that's a risky endeavor. I'd rather see the state make small investments over multiple technologies and, hopefully, they'll be able to either sink or swim from there. There's some other incentive packages that the state has that help these companies. But this one I see as really providing some of those first dollars in to get that company off the ground and get them building that product here. [LB331]

SENATOR SCHUMACHER: Let's look at our value and educational system here. For \$10 million, no big deal. We pay or our society routinely, daily invests \$6 million to \$10 million on a section of land, thinks nothing of it. May feel that that's the only place you can invest money safely. Your colleagues in the law school, business school, accounting school, they're the ones that are responsible because they have not taught us, educated us sufficiently to value what you're talking about, which might be a...have great return to value that more than we value a section of land. And that is a problem with the university because that communication, that education is done. And unless you do the financial sector education, a \$10 million tax credit just doesn't do it. I mean, if you're going to do bioscience, you think Boston and you think that the critical mass exists in Boston. You think of all those things and you also think of the entrepreneurial environment that exists for biotech in Boston or a similar place. So this is a far more complicated thing and just for one direction to throw out a tax credit or tax gimmick of some kind is going to fall short just as throwing out the patents and saying, oh, here, this is a great idea but we know it's going to fall short because most of those don't get across the initial chasm. So don't we need to think of a more comprehensive way to leverage the resources that we have than simply looking for a tax credit? [LB331]

MICHAEL DIXON: You know again I see this, as Senator Nordquist had pointed out, one of the tools that we have right now. I think we've seen considerable growth in the technology development and the entrepreneurial scene here in Nebraska that the ecosystem point that was brought up earlier...I've been doing this now for 12 years. And if you'd have asked me these

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questions in the middle of that time, the '06, '07 time, there really wasn't a single thing here. But in the last ten years we've seen significant growth in some of the programs, the Talent Innovation Initiative, some of the other programs which have helped grow the entrepreneurial scene. And right now we're showing up on the top ten of the Inc. magazine best places to be an entrepreneur. We're showing up in a lot of those top ten places and that's actually helping us recruit more entrepreneurs and helping solve some of that talent gap. I don't think we'll ever have the resources to be able to throw hundreds of millions of dollars at single technologies. And I think that's, you know, inherently a difficult proposition. Venture capital groups have had difficulty doing that in the past. But at the end of the day, I would like to leave that to the private sector to make those decisions. Give us just enough incentive to get these companies started, get them off the ground, and then try to get those investments in here as we recruit in some of the talent and people that have the ability to build these companies and watch the private sector fund them. [LB331]

SENATOR SCHUMACHER: Thank you. [LB331]

SENATOR GLOOR: Senator Brasch. [LB331]

SENATOR BRASCH: Thank you, Chairman Gloor. And thank you again for your testimony. It's fascinating and interesting. What I'm curious at this point is a couple of years ago I made my priority bill to provide a tax exemption for the biochips. And it was successful and the company stayed and they've expanded and it's been a good, solid Nebraska Company. [LB331]

MICHAEL DIXON: It's been fantastic. [LB331]

SENATOR BRASCH: One of the factors there was because it was developed at the university and then it became a private business. The private business pays a royalty to the university. [LB331]

MICHAEL DIXON: Correct. [LB331]

SENATOR BRASCH: Is this taking place also on the other incubator companies that we started here, we give the money back to the university? [LB331]

MICHAEL DIXON: Absolutely. So the way we're structured is, when we do a licensing deal, whether it's with Pfizer, GSK, or one of our Nebraska companies, there is revenue generated back to the university. The rule is that we give a portion of that to the inventors. And then a

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portion of that money goes back into innovative research, that valley of death, trying to fund projects that need a little bit more work to move along. [LB331]

SENATOR BRASCH: I was just curious if that was unique or if that's the typical practice that it starts here, you're going to... [LB331]

MICHAEL DIXON: Yep. It's a standard process across all the technology transfer units, NUtech Ventures, UNeMed, we all have a very same, similar structure. [LB331]

SENATOR BRASCH: Very good. I have no other questions. Thank you. [LB331]

MICHAEL DIXON: Thank you, Senator. [LB331]

SENATOR GLOOR: Seeing no further questions, thank you. And I've learned a new term today, an incubator term, "valley of death" appears to be a new one. I'll write that down. Thank you. [LB331]

MICHAEL DIXON: Thank you. Thank you very much. [LB331]

SENATOR GLOOR: Thank you. Other proponents? Good afternoon. [LB331]

TODD SNELLER: Chairman Gloor, members of the committee, good afternoon. My name is Todd, T-o-d-d, Sneller, S-n-e-l-l-e-r, I serve as the administrator of the Nebraska Ethanol Board and I testify in support of the bill in that capacity today. I'd like to attempt to broaden your thinking about what you just heard and what constitutes biosciences. Senator Harr and Senator Schumacher raised the question about what do you mean by talking about bioprocessing or biosciences and why would anybody think of Nebraska when they think that? I don't want you to think of Boston, I want you to think of Trenton and Ord and Adams and Plainview when you think of bioprocessing and biosciences. The 25 ethanol plants in the state today constitute a geographically disbursed opportunity and provides a sophisticated technology platform on which the biosciences continue to be built. We have done the ethanol thing and many people have assumed that we're done there. In my view, we're just beginning there. We've got the opportunity to produce a variety of different products, employ a variety of different processes at these technology campuses. And it is, in fact, the sole reason for the last three years why we've been continuing to see an enormous amount of interest and some activity at these locations in some of our smallest communities, is because companies around the world have looked at the capacity we have in those locations, the complex technologies that exist there, and the opportunities to take some component coming out of those processing centers and make other products. One of

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the most recent companies that we're working to recruit today is a company that makes roughly 97 percent of all the bioplastics that go into the toothbrush you used to brush your teeth this morning. This is a large Chinese company that operates wet milling plants and makes bioplastics for companies like DuPont. And they are today looking at states like Nebraska and Iowa and Illinois to employ a part of the glucose stream that comes from ethanol fermentation--it typically goes to make ethanol--but to make a sweetener product and to make a bioplastic substrate with that product. We've got companies that are taking a look at using corn stover and making a variety of different fiber and fuel products. We've got companies that are taking a look at taking some of the critical protein elements that we sell by the ton for livestock today and selling those by the ounce or the pound as pharmaceuticals and nutraceuticals and critical human and pharmaceutical food components can be used for a variety of different food products around the world. So as I look at the biosciences and bioprocessing I am focused on Nebraska because we have an opportunity to compete in that sector by going beyond what you've heard from Michael Dixon to something that may be, in the view of others, more mundane, but in my view, it's where the excitement exists and where the real intersections of opportunity exist if we are smart enough and astute enough to recognize those opportunities. And that's my job, that's what I'm doing with the Department of Economic Development and a number of other private sector companies who have recognized that Nebraska has a host of opportunities here in the form of these technology complexes around the state and in the raw materials that are available for processing and in our energy and water resources. And so these companies do think of Nebraska when they think of bioscience and bioprocessing and biotechnology. And we do see deployment and investment in these companies and these processes. And we are having some success in recruiting that attention and recruiting these partnerships to come in and colocate these sort of processing facilities adjacent to the existing infrastructure at the ethanol campuses across the state. With that comes an interest in additional research. It's really been an evolution of the ethanol process that started out as a rather simple process to one now that yields a very diverse slate of products and processes that make that next generation of alcohol fuels or that next generation of pharmaceutical products or that next generation of sweeteners for palates around the world. And it's that opportunity that we believe, that I firmly believe, is one that can be best supported by this type of legislation because it provides a tool in the toolbox that we don't have today. I've been involved directly with the Department of Economic Development and other recruitment teams in trying to recruit companies like DuPont. And we lost about a \$250 billion deal at Nevada, Iowa. It was a huge, huge project. First of its kind, world-class product because we really couldn't compete on the incentive side. We lost the second of those projects to a company in Emmetsburg, Iowa, made up of companies that we were trying to recruit from a pharmaceutical, nutraceutical, and protein products project that evolved into something much bigger than that. We have a start-up company that is making biofuels from a diverse variety of products besides corn at York, Nebraska, and that parent company located in southwest Kansas with a \$400 million project within the past year. We're not winning those recruitment wars. We have the opportunity to get their attention. We have the opportunity to display a vast array of the resources

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and the technology and the infrastructure, but we need something that will allow us to compete more effectively with some modest incentives in some cases. And so I'm here today in support of this bill because my view of what constitutes bioprocessing and biotechnology and biosciences is really focused on the strengths that we have in the state today with our agricultural sector and with these technology campuses that are diversified in geographic locations around the state, so. I'm glad to respond to any questions, but I do believe we have an opportunity and I do believe this legislation can help us more effectively compete for some of this business activity that's evolved over the past couple of years. [LB331]

SENATOR GLOOR: Thank you, Mr. Sneller. Questions? Senator Brasch. [LB331]

SENATOR BRASCH: Thank you, Chairman Gloor. And thank you, Mr. Sneller, for your testimony. I'm curious. Will this legislation make us competitive with Iowa? Will this make a difference? Will we be on the same playing field? [LB331]

TODD SNELLER: I believe we compete today because the companies are looking at infrastructure, which is critically important. They're looking for relationships. For example, a Japanese company coming in trying to establish green origination relationships is at a tremendous disadvantage. And so that partnership with a local company provides that opportunity. We can compete on energy, raw materials, water, talent, many of those things. But I know for a fact that when I've specifically gone to Wilmington, Delaware, to talk to the DuPont representative, why didn't we win that project? Or when I've gone to Nevada, Iowa, and talked to the project managers. I've done this in every case to find out where are we coming up short? And in most cases, when the financial team comes in that's where we're not competing. [LB331]

SENATOR BRASCH: And is it Iowa the majority of the time or... [LB331]

TODD SNELLER: The big projects we've lost in the last three years have been to Iowa and to Kansas. [LB331]

SENATOR BRASCH: And Kansas. [LB331]

TODD SNELLER: And while I believe we have a chance to compete, ultimately when the accountants come in, I think that's when we're probably losing it. I can talk to the scientists and I think we can compete. I can talk to the project development people. We can talk to about everybody, but when the project managers come in who are doing all the financial accounting and they take a look at the different pieces, it's my view that sometimes it's not a huge piece. It may be millions of dollars in some cases, but in other cases I'm not certain that it's tens of

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millions of dollars. I think it's relatively small incentives and it's an indication of our interest in taking that next step to further compete for that project. And I think we can more effectively do that if we have tools like this in our competitive tool chest. [LB331]

SENATOR BRASCH: Very good. Thank you. I have no other questions. [LB331]

SENATOR GLOOR: Senator Harr. [LB331]

SENATOR HARR: I guess I have a question because we're losing businesses to other states all the time. Why is bio any different than losing any...let's say an insurance company because we don't have special incentives for insurance companies to come here or we don't have special incentives for accountants to come here? I mean, we can go down the gamut. I mean, we hear in here, well, we need special incentives to keep our veterans. [LB331]

TODD SNELLER: From my perspective, I believe that the really smart public policy play, in my experience, has been to focus on a targeted industry. And in 1971 your predecessors decided that one of those targeted sectors was agriculture. And if we played to our strengths, I think we more effectively compete and we have a higher chance for success. And I believe there's no clearer case of that than taking a look at the ethanol program that from 1991 to 2006 involved an expenditure and outlay by the state of \$375 million. But over that same period of time generated more than \$5 billion in capital investment and continues to provide dividends to us today. So my view is that if we focus on our strengths, our chance for success and retention is significantly better. [LB331]

SENATOR HARR: You know what? And I agree with you there. And I'll say this, I think we need to find a way to avoid creating corn or growing corn and shipping it out and never seeing it and never getting it into process. And that's what's been so great about ethanol. And I agree with you. And there are a lot of other manufacturings that would come off the by-products of the plants we grow. But my issue is not with what you're saying but then it would be what the predecessor who said, well, we're doing it for cancer. You know, so now we're not doing it for the bio to keep jobs in Nebraska that are ag related, we're doing it for cancer cures or we're doing it for something out of the university, which we're losing that focus now that you talk about because if we're talking cancers, we're not near the....we're doing a great job, by the way, and we've improved a lot. But we're not San Francisco, we're not Boston, we're not those areas. [LB331]

TODD SNELLER: Within the past two years I was asked to spend some time in taking a look at what sort of nutritional pharmaceutical package could be put together to address the issue of AIDS in children, particularly in African countries. And the issue was that in the absence of

good nutrition the ability to uptake AIDS drugs was severely limited. And so what do I know about that sort of a scientific approach? I do know that we could put together a capsule that would have all the essential nutrients in it. But how do you package that? What's the delivery mechanism? What drugs are available for doing that? So my first stops were UNMC and Creighton Medical School to talk to people there who know about these things. And so while my starting point was my interest in taking an agricultural product, distillers feeds, extracting critical protein components, packaging that in a way that had to be packaged with a medical and pharmaceutical component. And so while this started out as an agricultural value-added initiative in my mind, it ended up being an end product that was far more medical and scientific than I could imagine when we started taking a look at a value-added ag product. So... [LB331]

SENATOR HARR: But you started out ag... [LB331]

TODD SNELLER: We did. [LB331]

SENATOR HARR: ...whereas a lot of these others that we...the previous person talked about, Mr. Dixon, he didn't start out ag, he started out medical. Now yours went to there and that's fine, that's good, and that's well. But my question is, how do we focus this? I don't disagree with we need to find, like I said, ways to grow and specialize because I'm just not sure if this is the best way to do it and how we determine that bio takes priority over, say, veterans' benefits or us keeping people around who are on Social Security. And I don't expect you to have the answer. And to a certain degree I'm playing devil's advocate, but this is a question we've been asked constantly this year is, we're great, give us a tax break. And I have yet to decide or know what I should be looking for in determining, prioritizing our elderly over our vets over our young entrepreneurs, over our...and then within the entrepreneurs, bio versus some other types of entrepreneur. And then even within bio, agricultural versus medicine. And so I'm looking for guidance is what I'm saying. [LB331]

TODD SNELLER: I'm grateful to all of you for wrestling with the tough public policy questions. I would simply point out that I've tried to make sure that I get increasingly more aware of where these intersections of opportunity exist and where we can bring these different sectors together because oftentimes in my simplistic mind I'm looking at something as a value-added agricultural approach and it quickly becomes something far more important than that. And frankly, I've had an opportunity to serve on the Bio Nebraska Board for about two years. And I didn't dream just how immense these opportunities are. I really was not aware of how extensive the bio sector is in Nebraska. And so the challenge to me is somebody trying to do development work in this area is to be aware enough and astute enough to recognize those opportunities and take what piece I can from the ag and bio processing of value-added products and move that to these other sectors and

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to the people who can help advance these so that we don't necessarily need to make a choice. We can complement a couple of sectors by making an initial investment in this one. [LB331]

SENATOR HARR: Well, in essence, we do need to make a choice because we only have so much money though. But I appreciate your answer. [LB331]

TODD SNELLER: Okay, thank you. [LB331]

SENATOR GLOOR: Senator Schumacher and then Senator Scheer. [LB331]

SENATOR SCHUMACHER: Thank you, Senator Gloor. And thank you for your testimony. I'm not making the connection between an ethanol plant and an AIDS drug and how that ties in with \$10 million here and economic development. So I'm in the medical development industry. I'm a Pfizer or Johnson&Johnson, one of the big boys that have the resources to play the games with the FDA and everything else. And I decide that we could have something that's a by-product of ethanol that could be mixed with something and end up being an AIDS drug. Well, nature being what it is, I'm going to get my finances on Wall Street. I'm going to get my research done maybe at the University of Nebraska but probably not, probably out at MIT, Boston, may even be in Beijing. And then I'm going to come up with, okay, we can take this stuff that comes from ethanol, we do this thing with it, and we've got financing from...a revenue stream from the United Nations to vaccinate kids somewhere in Africa. Now, all I need to do is send a truck out to get some stuff out of the ethanol plants, some of the by-product that I'm going to refine into this. How does this translate into economic development in Trenton, Nebraska? [LB331]

TODD SNELLER: Because we began with a process facility there, we attract attention by those who can use some component of that processing in a different product. Probably the best example is one that's close by you geographically, a wet-milling plant that doesn't make just three or four or five products, it makes a dozen different products. And many of those are not necessarily finished products. They become substrates for another product that gets manufactured and goes on. It may even be a substrate of those two products that became a third finished product. And so as we take a look at these different components that come out of the bioprocessing process, we're constantly trying to find out where else might they apply. We're looking at things as simple as replacing a fish meal and blood meal in certain diets with protein from grains from the ethanol plants. We're taking a look at how you'd break down those proteins so you get functional proteins and nutritional proteins that get used in pharmaceutical and nutraceutical applications rather than just making cornmeal with them. So I think part of this is just taking a look at this evolution that comes both in the technology and the products and finding out what piece of that we can merge with technology to make some of these value-added products. And it's an evolutionary process but in a relatively short period of time we've seen that

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at ethanol plants and wet-milling plants in Nebraska. And I suspect that as we become more aware of where these different products can be applied using advanced technology and using advanced sciences that are evolving all the time, we can recognize those opportunities and try to exploit those to our economic advantage. [LB331]

SENATOR SCHUMACHER: Still not drawing the connection, because the development of that technology or the refinement of that, that's not going to be done in Trenton, Nebraska, where they're having a hard time maintaining...keeping a bar open and a cafe open and where Main Street is just pretty well vacated. So that...you aren't going to get scientists and people with PH.D.s to set down in Trenton. That work is going to be maybe done in Lincoln but probably someplace with a larger base even than Lincoln or Omaha. So how does this connect with this bill for \$10 million of tax credits and anything to do with Trenton, Nebraska, other than a semitruck showing up there and loading up with something that comes out of a valve that's been predesigned somewhere else to drain it off of the ethanol tank? [LB331]

TODD SNELLER: The products that are currently available at that plant are what's going to draw or what is drawing the interest of these technology companies and processing companies right now. They're going to obviously want to understand what more they can do at that plant, what other products they might be able to produce at that plant. You're right, the research is not going to go on at that plant. The processing goes on there. We would hope that the research goes on at the University of Nebraska or some other institution in the state here. And I would say the most recent company that we're working with right now has a project development manager who was born and raised in Omaha, Nebraska, graduated in 1970 from the Department of Chemical Engineering at the University of Nebraska, spent his entire career in China and other places, but is back now trying to develop a project related to the technology I've described for you. And so it's a \$9 billion company that's in here. It's evaluating sites in Nebraska and Iowa and Illinois. They're asking about research capability. They're asking about help in recruiting chemical engineers. They're asking about what other things we can help provide to bring this package together. So what I'm talking about is primarily a processing opportunity, but one that with technology evolving the way it tends to do at these biological plants, we have opportunities that go beyond that in research and product development. [LB331]

SENATOR SCHUMACHER: Thank you. [LB331]

SENATOR GLOOR: Senator Scheer. [LB331]

SENATOR SCHEER: Thank you, Senator Gloor. And I know you're probably getting tired of getting pestered, but I'm having difficulty and I'd like you to be specific because it would help me. You talked about other projects that did not end up in Nebraska, one which was \$400-and-

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some million in Kansas. And looking at the financial, I mean, if the bill went through as was written, it's \$80 million, \$90 million a year. Well, that's more than chump change. But at a \$10 million process or program, all of it's not going to one facility. Would that really...would a scaled-down version of this really have made a difference in the site location of that? What, more specifically, made the difference between this side of the border and that side of the border in that site selection, if you're knowledgeable? [LB331]

TODD SNELLER: It's been incentives, and the amount of that varies with every project. The specific application of those incentives varies with every project. But the fact is today that in some of the projects we've been working on in the biofuel sector, we simply don't have the same tools available to these other states. And sometimes it's a research credit, and sometimes it's a refund on sales tax; sometimes it's a refund for wages paid. It's many of the things outlined in this bill. And it may be small increments of each of those. But the fact is, today we don't have those tools. And I know from my past experience in recruitment that given access to a few tools sometimes that will tip the balance in our favor. [LB331]

SENATOR SCHEER: Okay. But using that analogy, I guess I'm looking if Kansas was willing to give them a gallon of paint and we're talking about giving them a pint, are they really seriously going to look at coming to Nebraska if they can get the gallon in Kansas? I mean, I'm just trying to put it in perspective. I mean, we have the same tool but if you don't have the same quantity of the tool, the tool doesn't do you much good. [LB331]

TODD SNELLER: I think our challenge is to have access to the most diverse group of tools in that toolbox that we can and then try to be creative in the way we package that. There may be ways that we offset that differential if it's close. We may be able to say, well, as a public power state, we've got better power rates. And so we can offset part of that there. Kansas is going to be water constraints. We may say we can assure you on water availability. So that's the job when we package these things. We try to take a look at where we can offset any disadvantages that are real or perceived and try to take all resources we have access to and apply them in a way that we make a persuasive case that this is a better opportunity in Nebraska. So there are times that on a case, as you've described, we may not compete in a specific way. But if we get part way there, we've at least got the opportunity to bring these other different components into place and try and present a package that puts us in a competitive position. [LB331]

SENATOR SCHEER: Thank you very much for coming down today. Thank you, Senator Gloor. [LB331]

SENATOR GLOOR: Senator Brasch. [LB331]

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SENATOR BRASCH: Chairman Gloor and Mr. Sneller. I'll be very brief. I just wanted to be clear that I am a believer in the potential of bioproducts. And having the Cargill BioCampus, Novozymes, you can see how every microscopic piece of our crops can do amazing things from medicine to making steel-like products. And the bottom line I think here in a Revenue Committee is, what is the bottom line? And that was my question earlier that I think we need to look further into is, perhaps if we knew what that...and probably Iowa won't show their cards. How do we make sure that the bids we are losing to another state, is this the magic bullet, is this...or do they keep moving the mouse every time we meet with them? But yes, I can see where Africa and the world by 2050 will be, is it 6 billion, 8 billion. Our products are vital but so is revenue so we can fund all the programs. Any suggestions? [LB331]

TODD SNELLER: Well, I understand that in a revenue constrained environment it's difficult to make the choices. And so maybe rather than the silver bullet we look for silver buckshot and hope that some of the small pieces can be appropriately targeted and that as a result of that we can put together critical mass and put together a competitive package. And I believe there are components of this bill that will help us accomplish that objective. [LB331]

SENATOR BRASCH: Very good. Thank you. And thank you for your work. [LB331]

TODD SNELLER: Certainly. [LB331]

SENATOR GLOOR: Thank you, Mr. Sneller. [LB331]

TODD SNELLER: Thanks for your time. [LB331]

SENATOR GLOOR: Other proponents? Can I see a show of hands of those people who want to speak as proponents for this bill? And are there any opponents of this bill? Okay, thank you. [LB331]

JOSH JOHNSON: Good afternoon, everyone. I'm Josh Johnson, J-o-s-h J-o-h-n-s-o-n, I'm the general manager of Benchmark Biolabs here in Lincoln. Benchmark is a 19-year-old company. We were founded here in Lincoln. We work in biologics. Eighty percent of what we do is animal health related. The other 20 percent is human health preclinical trials. So we are in the business of taking ideas or concepts and getting them to the commercial marketplace for clients. We don't stamp our name on anything. Our clients own the product and the facility license at the end of the day. So we've been doing this for a variety of companies, large multinationals, some of the biggest pharma companies you've heard of to the smallest entrepreneurial companies. One of the things I wanted to address that came up--I was taking some notes on earlier--was the question is,

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why? You know, why are some of the businesses wanting to come here? Why stay in Nebraska and not Boston and some of these other areas? Animal health is one of the subjects of biotech that's often overlooked. When you're talking doses in animal health, you're talking in the billions usually. You're talking feed animals, chickens, cattle, swine. We work in the animal health sector for the most part. And why people come here and come to Nebraska is, it's the expertise. Our particular company, we're staffed with 32 experts in our field. We've harvested them from the largest multinationals to small, successful "spin-ups." Our senior staff is responsible for dozens of patents as well as 200-plus licensed products and facilities around the world. Since we've been in business we've been lucky enough to start a new company up every two years since inception. Not all of them have stayed in Nebraska, but some of them have. That's always the end goal. When a client comes to us they've got an idea. Maybe they just need a little tweaking, maybe they need handholding the whole way navigating the regulatory hurdles and whatnot. But the end goal is always manufacturing. It's always some sort of a commercial product. And the question is, where are we going to do it? And that's the largest multinational. Sometimes it's a pet project of theirs they don't have a place for. But they always...all of our clients at the end of it say, where are we going to do this? Do we take it back in or do we locate it somewhere? And the answer is usually, we need to locate it somewhere. We need a small pilot facility to do this in. This should grow into a large distribution facility, possibly for the globe. Now biologics, I don't know how familiar all of you are with biologics but we're talking about vaccines. We're using living organisms to do the manufacturing for us. So the reason this bill was so important to me and our company is, it was touched on earlier, the job creation stipulations. Previously there are a lot of good incentives. I mean, Nebraska Advantage offers a lot of things that are available. But companies like ours and companies like the clients that come to us looking for those manufacturing facilities, they can never meet that job threshold creation regardless of the revenue generation or some of the other things they clearly check off. A good case study is one of the clients that we grew up and started a business for right across the street on our campus here, they manufacture one billion doses annually of a poultry vaccine. And they do that with six people. They have 11 full-time staff but they have 6 manufacturing because any of you, Senator Gloor, you can take a controller and you can grow up a biologic in that cup at the same rate as you can in a 500,000-liter fermenter. The biologic is growing the work. It's exponentially growing inside this fermenter and that's the product, that's what's working. And you can run that from this desk. So we aren't always adding bodies, but we're adding substantial revenue, we're contributing to growth, we're creating jobs. Our jobs easily meet the 150 percent requirement of this bill. Our average job creation over the last 19 years, out of the 33 people we have currently is \$66,700 across the board. And that goes from the person driving the forklift in the warehouse to the PH.D. microbiologist and virologist. So this was really attractive when Phil (phonetic) mentioned this to me. I wanted to come in and speak kind of as a case study as a company that could benefit from it and one that's attracted clients on a global level that are looking for places in Nebraska. It's attractive because some of the realty costs are fairly low; the expertise is here with the university; our expertise is here to get them there; we're close to the USDA and the

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Center for Veterinary Biologics so we can help them get regulated and licensed faster, so there are a lot of incentives to come here. We just are trying to help them to stay here. And the dollar question got brought up earlier, the \$10 million. A quick case study: A Canadian company came to us in 2008, their name was Peros--this is all public information--they had raised \$6 million and they were trying to get a U.S. license for a world's first oral delivery platform for fish. They'd spent \$5.5 million by the time they found us. They found us and nine months later we had a licensed facility and product for them through the USDA, a U.S. distribution facility. They had to raise up a little bit more money but we did it for just over \$600,000. So a little goes a long way in certain industries, especially in biologics when you're trying to get off the ground and running. It's a big, attractive package. So that's why I'm in support of this bill. And I'd entertain any questions you all have that I can answer. [LB331]

SENATOR GLOOR: Any questions for Mr. Johnson? Yes, Senator Sullivan. [LB331]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you for your testimony. I believe you mentioned that of some of the businesses that you have helped get started, some of them are staying here. Is that correct? [LB331]

JOSH JOHNSON: Correct, yeah. [LB331]

SENATOR SULLIVAN: Can you tell me the number that you have... [LB331]

JOSH JOHNSON: Yeah, I wrote a few down. Right now I've got five listed here that we've grown up in the last 19 years that are active and currently in Lincoln: Viridus Animal Health, Antelope Valley Bios, Peros International, VaxLiant, Huvepharma are some. Some are owned by major multinational companies and subsidiaries, some are joint ventures and partnerships, and some are entrepreneurial type. But they're all active licenses with the USDA and currently manufacturing product. [LB331]

SENATOR SULLIVAN: Okay, thank you. [LB331]

JOSH JOHNSON: You're welcome. [LB331]

SENATOR GLOOR: Senator Davis. [LB331]

SENATOR DAVIS: Thank you, Senator Gloor. And thank you for coming. Just to follow up on that then, how many have moved on to another place? Any idea on that? [LB331]

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JOSH JOHNSON: What...we've done a...I did some marketing or participated in some marketing efforts with our other group. And when we looked and we did the statistic of we started a company every two years since inception, we looked at the opportunities we have. On average we have around three to five annual opportunities for a manufacturing plant to be located in Nebraska. So we've done one every two years, so when you look at the amount that have lost we've probably let somewhere around the area of 12 go to other areas. Now sometimes that's absorbed back by the parent company. We work with a lot of global companies so sometimes a European company it doesn't make a lot of sense for their marketing efforts. They'll take the technology back and they'll in-house it or they don't want to do the expansion. So it's right about even. For as many as we've managed to keep here, we've lost that many. Sometimes it's not due to the incentives though, sometimes it's due to a marketing effort for the larger company. But as far as losing it to surrounding states, I know we've lost two to Kansas, one to Iowa in the last three years that I can recall. And then recruitmentwise, we aren't losing as many of these clients that are being recruited into other states as much as they're trying to recruit our company into the surrounding states. I got a letter from the governor of South Dakota just about six months ago asking what would it take to get Benchmark to relocate in the Sioux Falls area and start doing this very model for them because they think they can come up with some sort of incentives to get these type of incubator companies to grow and have a place for them to grow up. We don't plan on doing that, but it's an offer that's constantly on the table. [LB331]

SENATOR DAVIS: And so then you mentioned that the company that made the poultry vaccine. [LB331]

JOSH JOHNSON: Correct. [LB331]

SENATOR DAVIS: And I think you said there were six employees there. [LB331]

JOSH JOHNSON: There's six in their manufacturing plant right now. [LB331]

SENATOR DAVIS: Six in manufacturing. And so what kind of revenue would that generate for the state of Nebraska itself, do you know? [LB331]

JOSH JOHNSON: Well, I actually called their manager before coming here. They made \$40 million last year. Now they are owned...their parent company is Novus International or it was Novus International, they recently sold to Huvepharma. I believe they're a Bulgarian company. I don't know how that played in. I just know that was the figure that Chris shot me was \$40 million last year. And they make one particular vaccine. They supply Mexico, South America, the U.S., and most of Europe with a poultry vaccine. It's all being done out on West Industrial Lake. [LB331]

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SENATOR DAVIS: But that revenue didn't come back to the state of Nebraska. [LB331]

JOSH JOHNSON: Not all of the revenue, I would imagine, came back to the state of Nebraska. It's a...there's 11 people that work there. The plant's located here. They've expanded every year since they've been in business, but I can't speak to any of that beyond what they made last year. [LB331]

SENATOR DAVIS: Sure. Thank you. [LB331]

JOSH JOHNSON: You're welcome. [LB331]

SENATOR GLOOR: Any other questions? Seeing none, thank you, Mr. Johnson. [LB331]

JOSH JOHNSON: Thank you. [LB331]

SENATOR GLOOR: Other proponents? Good afternoon. [LB331]

ABRAHAM OOMMEN: Good afternoon. My name is Abraham, A-b-r-a-h-a-m, last name, O-o-m-m-e-n. I won't take much time. I think most everybody who spoke before me covered just about everything I wanted to say so I'll limit it to a few words. I'm here to support the bill on behalf of my company and as well as the Lincoln Chamber. I recently, about seven months ago, started a new biotechnology company. It's called Materials and Machines Corporation. It doesn't sound biotech but it's materials engineering. And what it does as far as machines go is to develop medical diagnostic devices, primarily geared toward the ag and veterinary area. At least that's our focus right now. In the past I've started...I also started another the company that Senator Brasch just mentioned a few minutes earlier, which is also based here in Lincoln that's very directly involved in biotechnology in the sense they take biological samples and analyze it from a DNA level. And that's currently employing about 120 also people the last time I checked, though I'm not directly involved with it anymore. So my new company, just to give you a quick idea, we have about six people. Four of them are engineers, two molecular biology people, one is myself and a new person we recruited from New Jersey. The interesting thing as far as technology goes, we are filing 1 patent every two weeks and we intend to file about 12. That's all I do these days, write patents. So as far as I'm concerned, this bill is very interesting and important to the state. It has the potential to attract new businesses for sure and, primarily, I think it has the potential to develop entrepreneurs like me from within Nebraska, both young and old. I want to just say that old people like me are not entrepreneurs as much as the young ones are. So to me, this will definitely create high wage jobs. I think that's been emphasized here many times. But what's interesting is that it'll create a cluster of the right kind of companies with the right

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technology. For example, biotechnology or biological systems-based companies. So once that cluster is created, it'll create a critical mass. We don't have that critical mass in Nebraska. And I'll give you a good example: When I started GeneSeek in 1998, there was not even a company...a bank to give us a loan of \$10,000 that I asked for. Not even a bank would give it though I said to them, I have a good job. I can pay the \$10,000 back. No. Since then, today in 2015, we have the Nebraska Advantage Act, the Invest Nebraska Corporation, we have even an investment bank right where I have my new business, With a board on it, says "investment bank" shows up, the angel funds and the angel groups, the whole Innovation Campus. Wow. I wish in '99 these things existed, I would have jumped all over it. But like I said, I couldn't even get a loan. But somehow we managed to do GeneSeek and today I'm glad to say it's very successful. And I hope my new venture gets even more successful. But what'll happen is, with a bill like this it'll create a needed...I had to write this down so I don't forget this point, typically I don't write these things down. But let me figure out what I wrote. A needed cluster...well, piece of the puzzle that's missing. I mean, there's a lot of pieces of the puzzle, like I said before, but this will create an ecosystem that will definitely attract high-wage jobs that's part of a new economy. And that's why you're trying to focus on things like biotechnology and maybe computer science. They're all part of the new economy. This piece of the puzzle is missing. But once a bill like this is there, it'll create that momentum that you need. And once that happens, it'll definitely show for itself all it can do. Thank you. [LB331]

SENATOR GLOOR: Can I ask,... [LB331]

ABRAHAM OOMMEN: Sure. [LB331]

SENATOR GLOOR: ...what piece of the puzzle will this take care of that would have been of help to you when you were starting... [LB331]

ABRAHAM OOMMEN: Yes. [LB331]

SENATOR GLOOR: ...because you've been successful without this piece. [LB331]

ABRAHAM OOMMEN: Yes. [LB331]

SENATOR GLOOR: How would having it then have made a difference? [LB331]

ABRAHAM OOMMEN: So a very good question. In 1998, when I started, I started with \$3,000. But it was a service company because we couldn't start a product company because if I was going to start a product company, I would need somewhere around \$250,000 to \$1 million. I'm a

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low-budget guy, so it's not a \$10 million (inaudible) for me. So I tried to get the best out of every dollar I can. So the service business created the revenue that supported my effort. I can definitely say, my success in selling that company--the first one--gave me a little bit of money that I'm now using my own funds to fund my new one. But it's still limited. I don't have deep pockets that I can go further. But with something like this I can definitely take it to a different level, to a different step where I can say, okay, this, whatever I am working on, these patents and the little devices--we are actually working on two right now--I can take it to the next level where I can start producing a real product that I can sell. [LB331]

SENATOR GLOOR: Okay. Questions? Senator Brasch. [LB331]

SENATOR BRASCH: Thank you. And it's good to see you again, Mr. Oommen. I was at that point when I toured GeneSeek, it was very impressive and the ongoing interaction. It's based in Lincoln but the clients or the customers were from all across Nebraska and nationally, I think internationally at that point, through the biochip company. [LB331]

ABRAHAM OOMMEN: That's correct. [LB331]

SENATOR BRASCH: And you started as a university project, too, perhaps through a partner? [LB331]

ABRAHAM OOMMEN: Yeah, my business partner was from the faculty, yeah. [LB331]

SENATOR BRASCH: Okay, part of the...and that's where the royalties are going back to the school. [LB331]

ABRAHAM OOMMEN: Yeah. [LB331]

SENATOR BRASCH: Is...now when you talk about the company you're...when I looked at GeneSeek there was a lot of or some robotics and things involved. [LB331]

ABRAHAM OOMMEN: Yeah. [LB331]

SENATOR BRASCH: You know, very few people but a lot of technology, robotics taking care of things. And it still helps agriculture because of that. Your new company is...is it still tied back to the pharm somehow or is it more just discovering new tools to...and going back to the tie. I'm losing the tie on the bio part here where you're... [LB331]

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ABRAHAM OOMMEN: Oh, yes. Yeah, okay. The new company is also very much tied to that. So what we're trying to do, actually the first product I can give you an idea, is to enable a very sophisticated biological assay to be done in the field. So the question is, without a trained lab technician, without a trained scientist or a well...you know, like at GeneSeek it would take six months to train somebody to do something. Can you go to the field and take a novice who doesn't have any clue what they're doing, do a few things, stick it in a machine, close the door, and it gives you results. That's what we're trying to deliver, yes. [LB331]

SENATOR BRASCH: Excellent. Sounds very attractive. I have no other questions. Thank you. [LB331]

SENATOR GLOOR: Other questions? Senator Schumacher. [LB331]

SENATOR SCHUMACHER: Thank you, Senator Gloor. And thank you for your testimony, it's always inspiring because you did this without any of these government programs. You had a fire in the belly, as they say, and that's probably more critical than any of these things. So I congratulate you for that. But in developing your companies, if you have an expense in development now that you're at the stage where you're under development or you're past the early stages, you can deduct and depreciate that and don't pay any taxes on that corporate side. I assume you're a full corporation rather than a sub-S or a pass-through entity. [LB331]

ABRAHAM OOMMEN: A full corporation, yes. [LB331]

SENATOR SCHUMACHER: Right, right. So you can depreciate and amortize and you don't have those kind of expenses. But by us...by you doing it the way you did it, you had a very short time in the valley of death, a very short time in purgatory as one of the groups before us had, so I'm going to ask you a hard question. How do we harness energy like yours? Forget about tax credits. How do we harness energy? What are we doing in our schools or what should we be doing in our schools in order to put that fire in the belly, that desire to build, and the fun of the game? [LB331]

ABRAHAM OOMMEN: That's a tough question, indeed. Well, it's a complicated answer and I could sit here the whole day and entertain you with it. But you're basically asking me, how do you clone me, right? It's a technology that's out there but very few people will support it. But the way you do that, just to make a quick answer is, you cannot expect everybody to do it. You have to create an atmosphere in this state or in Lincoln where that's appreciated. And a lot of times, a lot of people want to start companies, they want to do things, but there is no system that supports them. Right? Somebody like me doesn't need the system because I am so stupid that I don't even worry about the risk. Right? So I was telling this to somebody yesterday. The only reason some

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people are successful is because they're stupid. They don't think about the risk of failure. So part of the system that we are missing is to tell people it's okay to fail and it's okay to be stupid because sometimes that's what gets you to the success point. So if you look at all the successful people, they all actually are very--I hate to say that word again--they're stupid people because somebody like my brother who is very clever will never do what I did because he analyzes all the ways it could go wrong. And he says, oh, it could go wrong, so I'm not going to waste my time and money. I, on the other hand, say, aha, I could waste all my time and money because I don't care about it. This will be fun, so let's do it as a fun thing. That's what it's all about for me. So I'm just telling...so you have to make it fun. So how do you make putting money and taking the risk fun? And then people will do it. So that's what maybe is missing in the education-type arena where you have to create some excitement, you know. Maybe have me come and talk to people. I'll be happy to get them excited about it. [LB331]

SENATOR SCHUMACHER: I bet you, you were even so dumb that you didn't ask your first company before you opened up what your wages and benefit package would be. [LB331]

ABRAHAM OOMMEN: No. No. Didn't even know today even. [LB331]

SENATOR SCHUMACHER: Thank you very much for the inspiration. [LB331]

SENATOR GLOOR: Senator Sullivan. [LB331]

SENATOR SULLIVAN: Thank you, Senator Gloor. And thank you for that very insightful analysis. But it also raises the point which I think we struggle with, it's perhaps the very intelligent people who look at these advantages, because you said yourself earlier that the array that we have now would have made you giddy when you were starting your businesses. [LB331]

ABRAHAM OOMMEN: Yes. [LB331]

SENATOR SULLIVAN: So we have those already in place. And so one of the things that we always struggle with when we look at this array of incentives is, would these people have done this business anyway? [LB331]

ABRAHAM OOMMEN: Well, that's a good question. Some people, yes, not everybody. Particularly, let me be very honest with you--and I apologize for people behind me who might be part of the university for saying this--because a lot of the university faculty get excited about ideas like this but they'll always say, I wish I found somebody who could take this and commercialize it and help them do that. So there again, risk averse but they're also willing to take

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the risk if the return is fast. So it just doesn't go together. And again, that's why I want to apologize to professors or anybody that are here because it doesn't work both ways. So you cannot be risk averse and at the same time expect return very quickly, because a lot of university people expect quick returns. But at the same time, a biological process that they're trying to commercialize takes time. So that's why the two companies need to come together, which is the guy who develops the technology from the university to a risk-taking entrepreneur type business guy who comes together and they work together. Now something could happen. And that's what all of these things could eventually lead to. It'll take time, don't get me wrong. We need to keep pushing these kind of things for this process to continue and mature in this state. [LB331]

SENATOR SULLIVAN: Thank you. [LB331]

SENATOR GLOOR: Any more questions? Senator Brasch. [LB331]

SENATOR BRASCH: Just one more, I'm so sorry. But...and I congratulate you on your risk taking and your success. But when I look at these brochures and I see so many--you used the word "cluster" I think--in Lincoln and Omaha. Is it because of the universities or is it because of the airports? [LB331]

ABRAHAM OOMMEN: Has nothing to do with the airports. [LB331]

SENATOR BRASCH: Okay, all right. So people would travel all across Nebraska for an opportunity? You're remaining in Lincoln, I take it, with your new... [LB331]

ABRAHAM OOMMEN: Yes, yes, yes, yes. [LB331]

SENATOR BRASCH: Okay. [LB331]

ABRAHAM OOMMEN: I don't know about me traveling to western Nebraska, I have to be honest with you. But I don't know about other people, they might. It all depends on what are you trying to work on, right. [LB331]

SENATOR BRASCH: Okay. So it is the university that creates that? [LB331]

ABRAHAM OOMMEN: Yes, definitely. Yes, yes, definitely. Definitely. [LB331]

SENATOR BRASCH: Okay. Very good. I have no other questions. [LB331]

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SENATOR GLOOR: Thank you. I will...every time I think of this bill now I will think of your metaphor of very clever people working for very stupid, successful employers. So thank you very much. [LB331]

ABRAHAM OOMMEN: Thank you very much. [LB331]

SENATOR GLOOR: Other proponents. [LB331]

GARY MADSEN: My name is Gary Madsen, it's G-a-r-y M-a-d-s-e-n. I'm president and CEO of ProTransit Nanotherapy, a biotech company in Omaha. And what I want to tell you folks is basically a little bit about myself and how I ended up here. I think you'll find it kind of interesting. I was part of the brain drain out of Nebraska. I went to school at Dana College in Blair and then I got my PH.D. at Creighton University. I wanted to stay in the state but there were no biotech jobs at that point. So I left the state and I've been on the road, so to speak, for about 30 years working in various biotech industries in Illinois, in Maine, and most recently in Madison, Wisconsin. And then my son got married. He lives in Omaha. They had a baby, my grandson, and there was a big effort to get back to Omaha. So I started networking trying to figure out how I could find a biotech job in Nebraska because there really aren't that many. And so I started networking with Michael Dixon, who was your first witness today, and I became the entrepreneur in residence for UNeMed Corporation. And in that role I basically screen all the different technologies that they had from the medical school. And I was able to pick one to start a company with. And so about a year ago I selected technology license from UNeMed in form ProTransit Nanotherapy. It's a nanoparticle drug delivery technology. My cofounder used to be at the Medical Center. He left several years ago and is at the Cleveland Clinic. So he and I have this long distance relationship, but it's an example of how I wanted to be in Nebraska. It's come up several times, well, why would anybody want to live in Nebraska? And I can't believe you people, of all people, are asking that question. It's the quality of life. It's the low cost of living. It's the high quality school systems. It's the lack of having to drive up and down the interstate in bumper-to-bumper traffic. It's all those things. That's what people want to live at. And if you could develop more biotech jobs here in the state, you would attract a lot more people like me. So what's my current situation? Well, we have founded the company. I think we're the first company to actually rent space on the campus of the Medical Center. They've renovated a few labs in Wittson Hall. I am fortunate that I'm able to rent that space. I've hired a Ph.D. that is a recent graduate from the pharmacy school and I have another scientist working for us. So together we have formed this company, the three of us, and so we're ideal candidates for the grant portion, which I believe is capitated at ten employees or less. I think it would be a very...well, so our status right now is, we have just about finished our, what I would consider, phase one feasibility. Our first product in nanomedicine is not really a medicine at all. It's going to be in skin care. We have antioxidant enzymes in nanoparticles that we're going to deliver through lotions on the skin to prevent photoaging. It's a big thing in skin care nowadays.

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Everything you look at in skin care has antioxidants. So we've got a new play on antioxidants in skin care. It's one of the ways that we're seeing to get quickly a product to market. It's not that expensive to get a commercial product, over-the-counter type cosmetic product to market as opposed to doing a full-up drug development effort. So it's our way of getting quickly into the marketplace. We're just about through our phase one research proving our technology is appropriate for cosmetics. Pretty soon here, we're going to be going out and trying to raise between \$.5 million and \$1 million in revenue, which I think will be enough to take us to market. I will say, it may be a little odd that we have nanomedicine in Nebraska, but it's really not. When you look at the Medical Center, there's a whole team of people involved with drug delivery and nanomedicine. That group has put together a \$1 million grant application that was approved for outfitting a pilot plant on the campus of the Medical Center. So this year, coming up here in the next couple of months, we'll have the money to start buying equipment to do scale-up production of nanomedicine. And we'll be able to use that facility for our cosmetics and then eventually full up drug development. So I think it's an example of how a little bit of money can really go a long ways in biotech, especially at the right time which for our company is right at this moment. So that's what I wanted to tell you. [LB331]

SENATOR GLOOR: Thank you, Mr. Madsen. And welcome back. [LB331]

GARY MADSEN: Thank you. [LB331]

SENATOR GLOOR: Do you...I have read an article about your antioxidant application in some...where would I have read that recently? [LB331]

GARY MADSEN: Well, it was just in the Omaha World-Herald just about a week ago in the Sunday section. Yeah. [LB331]

SENATOR GLOOR: Okay. Okay. That... [LB331]

GARY MADSEN: We've gotten a lot of press coverage, actually. I think skin care and sunburns, at the right time of year, it's in the press a lot, so we benefit from that. [LB331]

SENATOR GLOOR: Makes sense. Question? Yeah, free samples. I think there's an accountability and disclosure issue there. [LB331]

GARY MADSEN: Free samples? Yeah. [LB331]

SENATOR GLOOR: Questions? Seeing none, thank you very much. [LB331]

GARY MADSEN: Okay. [LB331]

KODY SCHRADER: Hello. I'll be pretty brief here. Chairman Gloor, members of the committee, I am Kody Schrader, K-o-d-y S-c-h-r-a-d-e-r, senior director of entrepreneurship and innovation at the Greater Omaha Chamber. And I'm testifying on behalf of the Greater Omaha Chamber and the Nebraska Chamber of Commerce. Thank you for the opportunity to be here today and to speak in favor of LB331, the Bioscience Impact Opportunity Act. Under the definition of the biosciences in LB331, these are activities that the Greater Omaha Chamber includes as targeted industries, those we believe will have the greatest impact on the metro area's economic development and growth. And this is an industry where we do have notable competition from neighboring states, a number of which have been proactively implementing programs to attract and develop bioscience industries. Look to programs such as the Colorado's Bioscience Discovery Grant Program, the Kansas Bioscience Authority, and Iowa's conspicuous focus on these industries. These send a strong signal to prospective employers that the state is waving them in. From an entrepreneurship perspective, it's not just about landing the major bioscience projects in Nebraska. It's also about getting start-ups to get created. What I work with in Omaha, I work with several start-ups in a lot of different industries. And what I can say about bioscience is that their runway is a lot longer than a lot of the start-ups that I work with. As you heard, Michael Dixon mentioned sometimes it's 10 to 12 years before a start-up can actually come to fruition and enter the market. In a lot of different industries you can get a product to market in just about a year. So there's a definite disadvantage to start-ups that are taking the risk and trying to get started in the biosciences industry. LB331 tells the world that we are serious about this and it tells those with ideas and the investment that we are waving them in. And it says to our homegrown entrepreneurs, please not to go. The last thing I'll leave you with, don't forget that the cofounder of Twitter, Evan Williams, is from Clarks, Nebraska, so we don't want to let the next big idea out of our state. So, any questions? [LB331]

SENATOR GLOOR: Any questions for Mr. Schrader? Senator Harr. [LB331]

SENATOR HARR: Thank you. Well, speaking of Evan Williams then, there was a critical mass. He moved to San Francisco where there was a community. Is it your contention we're going to try to create our own Silicon Valley in Nebraska with \$10 million? [LB331]

KODY SCHRADER: I would argue that it's a start. We need to do more to attract start-ups to the Omaha, Lincoln, and Nebraska area, in general. How we do that is investment. You heard with the previous people that spoke, we need funding for the preseed stage companies just to get started. And once we can start to get some of that attraction going then we can start to get companies to grow here. Attractions, I mean the work ethic, it's a fraction of the cost to start a business here compared to the Coast, so. [LB331]

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SENATOR HARR: And I don't necessarily disagree with that. I guess my question is, what is the role of the private sector, what is the role of the public sector? And I mean right now this bill kind of says socialize the losses, privatize the profits. [LB331]

KODY SCHRADER: I think Invest Nebraska is a good example of a relationship between the private sector and the public sector. There's a lot of companies that have taken advantage of that one-to-one match. And just getting the company started, like I mentioned, the bioscience industry specifically, that runway just to get a company started is a lot longer. So anything that you could do to help spawn start-ups within that focus is huge. [LB331]

SENATOR HARR: Let me...and then I'll be done, but it's just a question I asked earlier and I don't really know if I have an answer yet. How do we prioritize? You know, our economic development dollars are not limitless. And so how do we decide between veteran, pensioners, start-up companies, college or, you know, tax breaks for young students with college debt? I mean, where do you draw that line? What should we look for in making that policy decision in your mind? I mean, you're here advocating for one. Tell me why yours is better. [LB331]

KODY SCHRADER: Right. That's a great question and a decision that you're going to have to make. [LB331]

SENATOR HARR: Okay. I appreciate that. [LB331]

KODY SCHRADER: I wish I had the answer for you. But to speak on...it's a lot more difficult for start-ups within this specific segment just to get started because the capital investment is so huge compared to other start-ups in different industries. [LB331]

SENATOR HARR: Thank you. [LB331]

KODY SCHRADER: Yep. [LB331]

SENATOR GLOOR: Yes. [LB331]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony. One quick question. Of the driving brain power in the bioscience industry, how much of that is young people with graduate degrees? [LB331]

KODY SCHRADER: That I couldn't speak to. I don't have an answer for that. [LB331]

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SENATOR SCHUMACHER: Thank you. [LB331]

KODY SCHRADER: I leave you with, if you really want to get a feel for some of the neat ideas that are getting presented, UneMed's Demo Days are a really interesting event to check out. There's a lot of different entrepreneurs that are pitching their ideas that would fit right into the sweet spot of this bill. [LB331]

SENATOR GLOOR: (Exhibit 4) Thank you. Thank you for that suggestion. Thank you, Mr. Schrader. Other proponents? Anyone in opposition to this bill? Anyone in a neutral capacity? And we do have a letter that I believe is part of your packets from Leonard Sloup, Nebraska Department of Revenue, that was in a neutral capacity. Senator Nordquist. [LB331]

SENATOR NORDQUIST: Thank you, Chairman Gloor and members of the committee. I think today you saw a wide range of what biotechnology is right now in Nebraska. The scope of it, as I mentioned in my opening, 43 percent of the jobs are in rural Nebraska, 32 percent in Omaha, and 24 percent in Lincoln. It is very much a statewide issue. And we do have, I believe, areas where we are and can continue to be leaders, certainly in the ag applications, the fuel applications. The investments again that I think we've made in...over the last five years to the tune of about \$100 million in food, fuel, and water, Innovation Campus, and the cancer center, research center at UNMC. It's more than...you know, it's certainly more than a hospital, it's a \$300 million investment that some of the biggest names in Omaha have put significant private money into, not just to build a fabulous facility, but to raise significant money to attract some of the best researchers in the world. And the potential from that is going to be great for our state. We just need to make sure we have the pieces in place to grab hold of that potential. I certainly hope the committee will give the bill favorable consideration. I do admit that we have a ways to go to continue to work on potential amendments to the bill to bring the fiscal note in line. And I'd certainly be willing to work with any committee member that's interested in doing that. [LB331]

SENATOR GLOOR: Any final questions? Senator Smith. [LB331]

SENATOR SMITH: Thank you, Mr. Chair. Senator Nordquist, so again going back, you're thinking the fiscal note will be somewhere in the neighborhood of about \$10 million a year? [LB331]

SENATOR NORDQUIST: I think to be realistic to where...how it fits into budgets, that's probably where we need to get it to. [LB331]

SENATOR SMITH: That's somewhere about a quarter of a percent of the budget, right? [LB331]

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SENATOR NORDQUIST: Of the total state budget or of... [LB331]

SENATOR SMITH: Yeah, roughly. [LB331]

SENATOR NORDQUIST: What's...our General Fund is about \$4 billion roughly, so I guess, yeah. Right. [LB331]

SENATOR SMITH: Yeah, about a quarter of a percent. Any particular thoughts, increased revenues, reductions in expenditures to cover it? [LB331]

SENATOR NORDQUIST: Right, well, I think we certainly have...we certainly...I can tell you from a perspective we're finalizing our preliminary budget right now in Appropriations and we are limiting the growth of government to ensure we have sufficient room on the floor for whatever competitive packages, tax packages this committee puts out or other spending priorities of the Legislature. So this would have to compete, no doubt, with other priorities. I still think we can do this, some other things, because we'll likely have in the neighborhood of about \$40 million at least for the floor for competing purposes. I certainly am interested in going back and putting our property tax relief level closer to where the Governor had it in his budget. Right now we've earmarked \$45 million. I'd like to see that get closer to \$60 million, but. [LB331]

SENATOR SMITH: And another way to possibly satisfy this would be to reduce the corporate income tax rates, both for small businesses that pay through the personal tax rates as well as the corporate rates. [LB331]

SENATOR NORDQUIST: As an alternative? [LB331]

SENATOR SMITH: That's another way of helping to provide incentives for these types of investments. [LB331]

SENATOR NORDQUIST: Right, right. And that's actually a discussion we certainly had on the Tax Modernization Committee before. When we look at our entire incentive package, do we...we could eliminate the corporate tax rate if we eliminated Nebraska Advantage. That's the trade-off we can always talk about and look at, but. I certainly think if we're going to continue down a path of incentives in this state that this is one that we need to look at because we are getting outworked significantly by other states. [LB331]

SENATOR SMITH: Thank you, Senator. [LB331]

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SENATOR GLOOR: Thank you, Senator Nordquist. [LB331]

SENATOR NORDQUIST: Did Paul have one? [LB331]

SENATOR GLOOR: Senator Schumacher. [LB331]

SENATOR SCHUMACHER: I just had one question. Your last comment made said that as you understood the numbers, if we eliminated Nebraska Advantage we'd get rid of corporate taxes? [LB331]

SENATOR NORDQUIST: Oh, I think by far because corporate taxes I thought was only like \$600 million or something like that. And Nebraska Advantage is...what is it? Do you remember? [LB331]

SENATOR SCHUMACHER: I was under the impression corporate taxes brought in \$200 million give or take. [LB331]

SENATOR NORDQUIST: Two hundred, okay. Okay. [LB331]

SENATOR SCHUMACHER: And Nebraska Advantage in total is just...we don't know the number because it could be a billion, it could be much less. [LB331]

SENATOR NORDQUIST: I know we have...I think the last report showed \$900 million at least in outstanding obligations. But you have to live up to the obligations you've already committed yourself to, but. [LB331]

SENATOR SCHUMACHER: Yeah, but some of them...some of those won't be claimed. But, yeah. [LB331]

SENATOR NORDQUIST: I don't want to have that debate right here right now. [LB331]

SENATOR SCHUMACHER: We're dealing...if the evil is corporate taxes, which is what this is trying to address and a number of other bills are trying to address, then a trade-off of Advantage for elimination of corporate taxes might be something on the table. [LB331]

SENATOR NORDQUIST: Yeah, the difference I guess and, you know, the difference when we're talking start-ups is though their concern isn't necessarily what they're going to pay on the profit

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they make in five years or ten years, their concern is about getting the capital they need to get off the ground today. And that's why incentives...you do incentives rather than the corporate tax rate because they likely aren't going to generate a corporate profit for a while. So putting incentives in place helps start-ups versus established companies. [LB331]

SENATOR SCHUMACHER: And incentive is a public... [LB331]

SENATOR NORDQUIST: Investment of some level, right. [LB331]

SENATOR SCHUMACHER: ...donation to the capital. [LB331]

SENATOR NORDQUIST: That's absolutely true. [LB331]

SENATOR SCHUMACHER: And the public gets no side of the equity if it happens to hit the jackpot. [LB331]

SENATOR NORDQUIST: That's absolutely true. I don't dispute that. [LB331]

SENATOR SCHUMACHER: Thank you. [LB331]

SENATOR NORDQUIST: Thank you. [LB331]

SENATOR GLOOR: Thank you, Senator Nordquist. And that will end the hearing on LB331. We're going to take a very brief break. Bear with us Senator Bolz, we've been here for a couple of hours. We'll try to reconvene in about five or six minutes. [LB331]

BREAK

SENATOR SCHUMACHER: Chairman Gloor has been detained, so we're going to rock and roll without him. Open the hearing on LB321. Senator Bolz, welcome to Revenue. [LB321]

SENATOR BOLZ: (Exhibits 1-4) Thank you. Good afternoon. This bill, I'll share with you briefly that my clever staff has named it the new...the Nebraska Industrial New Job-training Act, and so we refer to it as NINJA in my office. (Laughter) So you're welcome to refer to this as the NINJA bill as well. But at the end of the day, this is a bill about economic competitiveness. We all know that competitiveness in a twenty-first century economy is related to knowledge and skills and that business interests across the state identify the skills gap as one of their biggest

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barriers to growth and progress. Last year, the Nebraska Chamber statewide survey of over 1,200 respondents found that more than half said they had difficulty in finding and hiring qualified applicants and that a fourth of those respondents said that a lack of available labor or skilled employees was the key issue limiting their business growth. At the current time, Nebraska's community college system helps to fill this gap. And it's a big gap. Fifty-eight percent of jobs in Nebraska are what I would refer to as middle-skilled jobs, jobs that require some education past a high school diploma but don't require a full bachelor's degree. Such jobs range from welders to information technologists to business professionals. A good example of the way that community college and businesses can work together to fill those skills gap is an initiative that is in Metro Community College where they develop a specific certificate program to provide customer service representatives who are qualified to serve in the insurance industry. So how do we fill this skills gap? This bill is one answer to that question. The Nebraska Community College had been working with me on this idea, and this initiative would create partnerships between community colleges and local businesses to develop job training initiatives. These initiatives would be industry- and business-specific and would provide for curriculum, development, training, and infrastructure needs. The agreement would be developed between the business and the community college board of governors as a bond, and the bond would be paid off over the course of ten years by diverting a percentage of the payroll taxes for the new positions created. This approach has several significant benefits. First, it is localized. It's focused on high-quality jobs, provides a tool for small- and medium-sized businesses, and it's self-sustaining and stable. So, first, the agreement must be developed between a business or a group of businesses in a local community in partnership with the local community college. These are real, local businesses that are a part of the heartbeat of our local economies and the agreements will be specific to their current and ongoing needs. Second, the agreement must be for high-quality jobs. The jobs must pay more than the Nebraska average wage. And we chose that as a benchmark because Nebraska Advantage programs currently use the average wage as one of their indicators or benchmarks for quality. Third, the approach can be used for small- and medium-sized businesses that may not qualify for benefits under the Nebraska Advantage program. And while this initiative is similar to our state's customized job training program, it is developed through partnerships and it offers community college credits and certificates. It's self-sustaining rather than funded through an appropriation. And what's important about that is that during our difficult economic times when we will need job growth the most is when we'll be least able to put more dollars into our customized job training program. So an initiative that is localized and funded through this public-private partnership is a better option. Finally, I know that some of you have followed intently the interim study regarding our current tax incentive programs, and one of the challenges in that study was that it's difficult in some of our current initiatives to get down to the bottom of how many jobs are being created and how our incentives are being utilized. This piece of legislation has a strong tracking component and I think there's a clear connection we'll be able to articulate specifically what was in the agreements, how many new jobs were created, and what the impact of this initiative will be. I'll mention now that this is an approach that has been used in

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Iowa for over 30 years. The expert on these initiatives in Iowa is here with us today. His name is Mr. Steve Ovel. Steve can talk to you about some of the outcomes and some of the positive impacts of their initiative in Iowa. Some of those positive impacts have been not only increased wages but also increased retention for employees and increased business growth. So Nebraska has great potential to grow our high-quality jobs in manufacturing and biosciences and information technology and all of these other high-demand, skill-based jobs. And this bill provides a new tool in the toolbox for businesses and community colleges to move forward together in job creation. That is it in an overview, and I'm happy to dig deeper and go into any specific questions. I know there was a couple of moving parts. [LB321]

SENATOR SCHUMACHER: Thank you, Senator Bolz. Any questions? Senator Scheer. [LB321]

SENATOR SCHEER: Thank you. Senator Bolz, can you explain, I understand it was very brief, but sort of the specifics to the extent that reading the council's review of it, it talks about the tax going back. How does that work? How much of the tax goes back to pay the bonds and, more importantly, what protections. I'm retrained. I go out and get a new job. I don't like it, so I quit and go do something else. So there's no...then is there no payback on that amount or, you know, how the system actually works. [LB321]

SENATOR BOLZ: Yep. They're great questions. So to begin, there is an agreement that is put into place between the board of governors and the business about the creation of these new jobs. And so that agreement is what stands. And so the business has to...and the community college both, they have to be reasonable, they have to trust each, put together a good strategic plan that articulates how many new jobs will be created. So it's all connected to the number of new jobs in that business. So if you, Senator Scheer, decide to go work for a Nucor Steel and you don't like it, Nucor Steel still has that agreement with the community college and still needs to figure out how to create that new job and divert that payroll tax to make sure that the bond gets paid off. One point five percent of the payroll tax gets diverted and the bond repayment has to be paid over a ten-year period so those bonds can't languish over time. [LB321]

SENATOR SCHEER: So is 1.5 percent of the state tax? [LB321]

SENATOR BOLZ: Of the withholding, of the payroll withholding. And so if...the other natural question is what happens if something doesn't work out, and that's an important thing for us to talk about in this bill. The agreement needs to be made between the business and the community college, both factors must keep up their side of the bargain. If that doesn't happen, the community colleges can have the authority to increase their levy to pay off the bond, and that is because it's a responsibility that needs to be taken care of. There is also a contingent in the bill

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that would allow for a lien against a business if the business doesn't do their part. And what I would say about that is that the business needs to look at the agreement and make sure that they're comfortable with the agreement as it's put together. They can't be asked to pay off something that they didn't agree to. Additionally, I think it's fair to make sure that businesses who might not be acting in an appropriate way over time are held accountable. You'll hear from the Bankers Association later today that they want a little tweak in the legislation to make the way that we've put the lien language in line up with current statute, line up with the current way that we do business, and that's fine. We can do that. [LB321]

SENATOR SCHEER: Does each agreement with whatever business or businesses have a separate bond then? So if Senator Smith and I come together and it's a \$100,000 project and then somebody else comes in for one that's \$100,000, so you're going to have two different bonds of \$100,000 or is it just a larger bond that they pull out of per project? [LB321]

SENATOR BOLZ: It's a good question. You could certainly as an individual business work with the community college, put together a bond package, and move it forward that way, the billing, which also allows for shared initiatives. So if three businesses in Norfolk wanted to come together in a training project they could certainly do that and move it forward. [LB321]

SENATOR SCHEER: Okay. Thank you, Senator Bolz. Thank you, Senator Schumacher. [LB321]

SENATOR SCHUMACHER: Senator Sullivan. [LB321]

SENATOR SULLIVAN: Thank you, Senator Schumacher, and thank you, Senator Bolz. You made the comment about having the community colleges be...have the availability of that additional taxation. Or is it a requirement that they have to do that right when the agreement is signed, that they have to have that assessment on an annual basis as, what, a standby savings account if you will? [LB321]

SENATOR BOLZ: Yes, that's a more accurate way of saying it. That is not to say that the board of governors couldn't make a choice to pay it off in a different way. So if there were just a, you know, few hundred thousand dollars...sorry, a few hundred dollars left in a bond repayment, they could take it from their cash reserves or something. So it wouldn't...they could pay it off in another way, but if they weren't able to pay it off, it would be a requirement to have the standby tax. [LB321]

SENATOR SULLIVAN: Okay. Thank you. [LB321]

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SENATOR SCHUMACHER: Any other questions? Senator Scheer. [LB321]

SENATOR SCHEER: Excuse me, just to clarify in my mind, Senator. So...a standby tax is new to me, so they are not levying the tax so there's no money coming in from them or there's money coming in and it's going into a reserve account so that if the...it was insufficient funds, then the money comes from that reserve account. [LB321]

SENATOR BOLZ: Okay. I'll try to answer your question and if I don't answer it fully, you can ask follow-up questions. But there are two pieces here. One is that the payroll tax gets diverted over time, and then the other piece is the tax...the levy, the property tax would go into effect if over the ten-year period the bond doesn't get paid off. [LB321]

SENATOR SCHEER: Okay. So it is not in effect from day one building a reserve to pay off that bond. It only is applicable if for whatever reason it's deemed nonrepayable, and so at that point in time the additional tax levy would come into play. [LB321]

SENATOR BOLZ: Correct. That's correct. [LB321]

SENATOR SCHEER: Okay. Thank you. [LB321]

SENATOR BOLZ: And Mr. Ovel can elaborate further. There have been some times over the 30-year period in Iowa where that has had to occur, but it is a very small percentage of the agreements in the projects. [LB321]

SENATOR SCHUMACHER: I just have one quick question. Isn't this just a way to divert some of the income tax stream to the community colleges? [LB321]

SENATOR BOLZ: It's an interesting question. I guess I would argue no because these aren't initiatives that the community colleges are currently able to do nor are they initiatives that are in a community college's strategic plan necessarily. They're business-specific initiatives. So, you know, I don't think that the community college would do this without the specific business partnership. So maybe I'm splitting hairs for you, Senator Schumacher, but not precisely. [LB321]

SENATOR SCHUMACHER: I deduce it as a taxing mechanism instead of just a grant from...a grant fund that the Appropriations Committee puts through the normal appropriations process. [LB321]

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SENATOR BOLZ: I think it's a great question and I think there are several reasons why. One is that I think an approach like this where there's a partnership where there's some need for the business and the community college to achieve the payoff of the bond together. There's public-private partnership there. There's skin in the game in a way that's maybe a little different than just a grant. The other thing is the cyclical nature of, you know, the economy in which you can discuss in more depth than I. But at the precise point in our time when we're going to need to retrain workers if we're in an economic downturn is going to be the very time that the Appropriations Committee has the least amount of capacity to put more money into the customized job training program. [LB321]

SENATOR SCHUMACHER: And then one final thing, we had a group here last week I think it was. There was unions involved and there was also I think a private-sector company involved that talked in terms of the value of their incentive programs and wanting some credit or deduction or something for that. Why this instead of that? [LB321]

SENATOR BOLZ: It's a good question. I guess I wouldn't...I would answer it in a couple of ways. One is I wouldn't see it as this or that. I would say it's another tool in the toolbox. I would also say that this is more localized. It's more focused on a specific project and a specific area, and it's more self-sustaining. So it's not necessarily, you know, the state of Nebraska always, you know, providing certain incentives or, you know, more money into the Angel Investment Tax Credit, those kinds of things. You know, this is a project that's more on-the-ground collaborative and I think is another way of doing it. I guess maybe in another simpler way to answer it, not every business qualifies for Nebraska Advantage programs. And this targets medium- and small-sized businesses in another way. [LB321]

SENATOR SCHUMACHER: Thank you, Senator. [LB321]

SENATOR GLOOR: Senator Scheer. [LB321]

SENATOR SCHEER: One last follow up and then I guess devil's advocate. You got a company that needs either additional employees or employees maybe retrained. So why is it not then the businesses responsibility to pay for that training rather than have the state utilize its income tax dollars to offset the training of my employees for my benefit? [LB321]

SENATOR BOLZ: It's a fair question. And there...I'll answer it the best that I can, and there are business representatives and others involved in economic development here today to answer your question as well. But I would say that there is an ongoing commitment in our state for there to be a public-private partnership in education and job training. You know, you could argue that K through 12 education is job training. You can argue that our scholarship jobs are job training or

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scholarship dollars are going to job training. And so this is a different approach and maybe an approach that's for a different kind of student who's not necessarily going to go get a college degree. The other thing is, and maybe this is to Senator Schumacher's insight about how this adds value to the community college. Another piece of the puzzle is as jobs get more knowledge- and technology-based, we need better equipment and infrastructure to train those folks. And so it's not as easy maybe as it might seem on the surface for someone to take a leap in terms of having sealed workers if they don't have the curriculum development and the training and the tools that they need to do that. [LB321]

SENATOR SCHEER: But I'm not trying to be argumentative, but as far as education being job training or scholarships, yes and no to the extent that they're being trained as an industry or basic education. What this appears to me is a specific company wanting to retool or add to its employment. And that's really different than the education arena. So, I mean, from that vantage point, it gets back to an individual business. And I'm not saying there haven't been other instances of that, but it does look like we're accommodating an individual or a group of businesses that want to either retrain or hire additional workers. But the cost is being borne by the state in this case from the redirection of the funds. [LB321]

SENATOR BOLZ: You know, I wouldn't disagree with the way that you're thinking about the bill, and that's certainly what this committee will do is chew on it and think about the pros and cons. I would maybe add two things to your thought process. The first is that...and Mr. Ovel can give you a couple of examples of this, one of the benefits of an initiative like this is that should you have a plant close or should you have something significant happen in your community where you have a number of jobs lost, the community college and the business could come together and say, hey, Kawasaki, do you want to grow and try to help the people who are in our community who have been displaced? The other thing I would say there is, you know, whether or not you think that the individual business is benefiting what is the value to the community as a whole and if, say, Northeast Community College decides that they're going to have a strategic initiative and become the best in training in the biosciences field, what kind of economic growth will grow from starting with a group of businesses in that field and building a regional initiative where we become really great at biosciences in a particular region. So I guess I would just reflect that maybe there's a bigger picture economic value. [LB321]

SENATOR SCHEER: Thanks for answering all the questions. [LB321]

SENATOR BOLZ: Yeah. You're welcome. [LB321]

SENATOR GLOOR: Any final questions for Senator Bolz? [LB321]

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SENATOR BOLZ: Thank you. [LB321]

SENATOR GLOOR: Thank you. I'm assuming you're staying. We'll move to proponents for LB321. Anyone like to speak as a proponent for this bill? [LB321]

DEREK WEGNER: Good afternoon, Senators. [LB321]

SENATOR GLOOR: Good afternoon. [LB321]

DEREK WEGNER: My name is Derek Wegner, D-e-r-e-k W-e-g-n-e-r. I'm here representing Brehmer Manufacturing. We're located in northeast Nebraska. We're kind of out in the middle of nowhere. I'm here in response for Joe Brehmer, the owner and CEO of Brehmer Manufacturing. He wasn't able to make it here. Brehmer is a small company. We operate in northeast Nebraska where finding employees is very difficult for us. We don't get the job allocations from the employees in that specific rural area to come to our business of location. We got to compete with the Valmonts that are out there but they are larger towards the metropolises, the Omaha's, the Lincoln's, the larger cities where those employees are easier, capable to go into there. We're trying to bring employees to the rural division but we don't quite have the pool of employees to come to us. So we kind of have to scrape the bottom of the barrel here. Brehmer Manufacturing, we operate an ag business where we do need employees well-trained in order to operate our business and grow. We're partnered a little bit with the Northeast Community College where we have done a boot camp, a manufacturing boot camp where we either send employees to and they can get trained there or a potential employees can go there, diverse their skill set, and then come to us and see if their skill set is what we are looking for. That's just recently in the past year that we've sent actually four of our employees to and we've seen them all grow in the company and they've actually taken on new positions inside of the company and they've actually moved up in their positions with our company. So that's just a little bit about us. Open for questions. [LB321]

SENATOR GLOOR: What types of employees are going to be the best fit? Are we talking both welders as well as drafts persons and...I mean, what kind of positions would you be using in your company if you took advantage of this? [LB321]

DEREK WEGNER: We're looking more for a production personnel, more of your welder types, your machinists you would say. Our company, we've actually added on an addition this past year where we've added employees to. We're actually looking at doing another addition in the spring where we're going to need another six to eight production personnel. But without the proper training of employees coming to our company, we can't grow. [LB321]

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SENATOR GLOOR: Okay. [LB321]

DEREK WEGNER: We're very limited on what comes in and what we're able to grow without those employees. [LB321]

SENATOR GLOOR: Okay. Senator Brasch. [LB321]

SENATOR BRASCH: Thank you, Chairman Gloor, and I wanted to tell you welcome. And you're in the middle of nowhere? That's District 16. (Laughter) I think we're somewhere. I'm just stunned. I think it's been a huge success story. I went to one of your expansions just right in Lyons, Decatur, right in-between there, correct? [LB321]

DEREK WEGNER: Yes. [LB321]

SENATOR BRASCH: Unless you're somewhere, nowhere I don't know. [LB321]

DEREK WEGNER: No. [LB321]

SENATOR BRASCH: Okay. All right. And I think you used some of the Nebraska Enterprise Funds, correct? [LB321]

DEREK WEGNER: Yes, we did. Yes. [LB321]

SENATOR BRASCH: Very innovative, a lot of growth, and products that you've developed yourself. [LB321]

DEREK WEGNER: Yes. We do have kind of the engineering team. Joe Brehmer himself is actually one of the engineers. We do have that group of talented individuals where we can grow new products that aren't being offered. We can decide to build those but we need the personnel available to build those. [LB321]

SENATOR BRASCH: And you think this bill would help bring personnel? [LB321]

DEREK WEGNER: Yes. With this bill, we're able to bring new personnel to the table. Those individuals in our location that might not have the skill set that are either employed elsewhere or are not employed at all, they might develop those skills and be able to come to us, and that's

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going to help our horizon and build out, do our expansions, continue to grow with the economy, continue to build new products for other areas. [LB321]

SENATOR BRASCH: Very good. And I think we are somewhere, so. Thank you for coming today and it's good to see you and extend to your family that worked very hard to build this my congratulations. [LB321]

DEREK WEGNER: Thank you. [LB321]

SENATOR GLOOR: Any final questions? Senator Schumacher. [LB321]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Do you have any other facilities other than in the middle of nowhere? [LB321]

DEREK WEGNER: We do not. That is the only facility that we have right now. Brehmer is Lyons, Nebraska. [LB321]

SENATOR SCHUMACHER: Thank you. [LB321]

SENATOR GLOOR: Senator Sullivan. [LB321]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you for your testimony. How many people do you employ? [LB321]

DEREK WEGNER: We employ 62 right now. We have 15 personnel that are in the office and we've got 47 personnel that are actually production. [LB321]

SENATOR SULLIVAN: And do you have a goal for expansion if you had the work force available? [LB321]

DEREK WEGNER: We don't necessarily have a goal. We always want to continue every year, every other year, you want to say. But, like I said, this next addition we're looking at doing in the spring here we're actually trying to add six to eight new employees with that addition. [LB321]

SENATOR SULLIVAN: And to that end, are you looking for...and the people that you have sent from your facility to the community college, have you looked for a specific skill set that you want them trained for? [LB321]

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DEREK WEGNER: We want them...a lot of the employees that we have don't have a college education per se. They might have a GED or a high school diploma. We're looking for those individuals to think outside of just the original one dimensional. We're looking for a multidimensional thought process through education. So we have been seeing those employees contemplate other ideas rather than one specific area, which helps grow that company, that business unit per se for our company. [LB321]

SENATOR SULLIVAN: Thank you. [LB321]

SENATOR GLOOR: Senator Scheer. [LB321]

SENATOR SCHEER: Thank you, Senator Gloor. The employees that you sent over to Northeast for additional training or the boot camp or whatever, was that at their expense or your expense? [LB321]

DEREK WEGNER: That is at their expense. [LB321]

SENATOR SCHEER: Okay. And they have no problem doing that? [LB321]

DEREK WEGNER: They did not. The way the Northeast Community College work boot camp did is donations from companies kind of like sponsorships started that, and then the employees...either employees or potential employees would go there, pay a fee, and that fee is very small to what the trained are actually getting. So they put a very small percent down on that, and the contributions and basically scholarships, you want to say, from companies pay for the rest. [LB321]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB321]

SENATOR GLOOR: Final questions? Thank you, Mr. Wegner. [LB321]

DEREK WEGNER: Thank you. [LB321]

ANDY POLLOCK: Good afternoon, Chairman Gloor, members of the Revenue Committee. My name is Andy Pollock, that's A-n-d-y, Pollock is P-o-l-l-o-c-k. I'm here today as a registered lobbyist on behalf of the Rural telephone or Telecommunications Coalition of Nebraska. The group that I represent consists of about nine companies that are all over the state, including in the middle of nowhere in various places from southeast Nebraska, northeast Nebraska, the

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Panhandle, and southwest corner of the state. In my work with them, I try to pay visits to their office every couple of years, and the overriding theme that I've heard in conversations with my clients in the last couple of years has been need for trained and capable work force. It's an issue everywhere. Every one of the member companies has had that issue and I would suspect that's true of many industries in the state. We appreciate Senator Bolz's innovative approach to trying to tackle that. We see the community colleges as having a key role in the development of trained personnel for jobs like those at the telephone companies that I represent. They don't need four-year degrees. They need associate-type degrees, specialized training in information technology, specialized electronics, and the like. And we, in fact, undertook to initiate a conversation with the community colleges late last year to talk about the need that we have and were met with great reception. They were very open to our concerns, some of our ideas. I think the thing that we like about this bill is it does address a need in rural Nebraska. It's an economic development issue. It's a work force issue. And it also allows private companies to partner with public institutions, and we think that's a good and necessary idea. So we support this concept and certainly support the bill that Senator Bolz has introduced. It allows private companies to put skin in the game and in conversations that I've had with all of our member companies, they are willing to do that. They understand that things don't come for free. And so with that, I'd conclude and answer any questions. [LB321]

SENATOR GLOOR: Senator Scheer. [LB321]

SENATOR SCHEER: Thanks for the information. What type of skin do your clients perceive that they will have in the game? I mean, what type of financial skin do they feel they will have? [LB321]

ANDY POLLOCK: Well, you know, I think that's yet to be fleshed out in the...in some of the conversations. We're in the early stages of conversations with the community colleges, but that skin may be financial. It could come in the form of scholarships. It could come in the form of apprenticeship programs. They're thinking outside the box here and nothing is set in stone. It could come in the form of plant that they might put in these community colleges if the community colleges are willing for that. So I don't know that there's any real limit to that and I'm certainly not representing the companies in making any guarantee of any certain specific financial commitment. [LB321]

SENATOR SCHEER: No, I just thought through their conversations they...you made the point that they know nothing is free and they have skin in it. I just was trying to figure out exactly what their... [LB321]

ANDY POLLOCK: Right. [LB321]

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SENATOR SCHEER: ...impression is that they would have involved. [LB321]

ANDY POLLOCK: Yeah, and could take several forms including financial and plant. [LB321]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB321]

SENATOR GLOOR: Senator Sullivan. [LB321]

SENATOR SULLIVAN: Thank you, Mr. Pollock. What do your clients tell you is the biggest issue with this void on the work force that we have? Is it because of the continuing depopulation of rural Nebraska? Is it smaller families so the young people just aren't there? Is it a lack of interest in going into these trades? And then my second question is, what are your clients doing to recruit people to their positions now? [LB321]

ANDY POLLOCK: Answer your first question first, I think it's a combination of a lot of those things that you mentioned there, Senator Sullivan. Let me explain that there's a really good, nationally known telecommunications school in Mitchell, South Dakota. It draws students from all over the country and it sends them all over the country. Like the representative of Brehmer Manufacturing, our small companies compete with large companies like CenturyLink, like Verizon, like AT&T for trained work force, and it's difficult to compete. There have been instances where a whole class out of South Dakota, like 40-some students have been hired by one company on the West Coast. So we see an out-migration of not just people from the Midwest but...well, people from the Midwest and people that have been lured into the Midwest to get good schooling. There's a similar program in Goodland, maybe at not the same level as the Mitchell, South Dakota, but in Goodland, Kansas, there's a program. And I guess the way we view this is that the more that we keep our young people here in a program that might lead to jobs, and if you look at what Goodland does, it does a pretty good job of marketing what jobs might be available if you take this kind of curriculum. The more that we keep young people here, the more likely that they'll stay here and work. So if we have educational resources for them it just increases the margin or the increment that they might be likely to stay here for a profession. And your second question, remind me. [LB321]

SENATOR SULLIVAN: Regarding the recruitment. [LB321]

ANDY POLLOCK: Recruitment. I don't know that I can speak to that directly. I would say it probably is on a company-by-company basis and it's probably not as organized as it could be. I think we see the work with the community colleges as an opportunity not only to partner with them for education, but to partner with them for recruitment too. [LB321]

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SENATOR SULLIVAN: Thank you. [LB321]

SENATOR GLOOR: Any final questions? Thank you, Mr. Pollock. [LB321]

ANDY POLLOCK: Thank you. [LB321]

SENATOR GLOOR: Other proponents? [LB321]

DENNIS BAACK: Senator Gloor and members of the Revenue Committee, for the record, my name is Dennis Baack, D-e-n-n-i-s B-a-a-c-k. I'm the executive director of the Nebraska Community College Association here in support of LB321. As Senator Bolz said, we have been working with her throughout the interim on this process and trying to come to some kind of consensus as to how this might work. We do see it as a great opportunity for some of the smaller businesses in rural Nebraska. We see this as a real opportunity for some of them because they do not necessarily have a lot of extra funds to invest in training and stuff of their employees. And sometimes this training involves the fact that the community college may have to hire an adjunct person from some other place to train them in some very technical skill which can be very expensive up-front to get somebody to come in and do that, develop a curriculum for this company. All of those things can be involved with this. And they do see this as an opportunity for some of their smaller businesses and stuff to take advantage of a break for them. I do think that, you know, this does call for 2 cents of property tax dedicated to this process and I can tell you that it would be dedicated only to this process. It would not be part of our general fund. You could not use it for that. It would be dedicated specifically to these kinds of projects. How often we'd have to use it I don't know. I don't think it's used a lot in Iowa. They have 30 years of experience with it. They have the same thing in their law. I don't think they've used it a lot. Some of the smaller colleges may have had to use it a couple of times if they had some default on the bonding. But I don't think they've...I don't think there's been very many defaults in Iowa and I know that Steve Ovel will speak to that when he gets up to tell you about what's going on in Iowa and how it's working there. I think we could take a lot of these projects, there may be some that are fairly small, but I think you could bunch those together and put them together in kind of a consortium and issue one bond to cover all of the training for the various ones so you wouldn't have to do a separate bond for every single company that came in. They would all have to sign on but you would not have to do separate bond issues for those. I think the two cents there to be a back up for the bond, and if we're going to try to sell those bonds they got to have some kind of a backup source. And that's what the 2 cents would be there for, is to back up those bonds in case there is a default. With that, I'd be happy to try to answer any questions. I know that Mr. Ovel has a lot of experience with this and many, many years over in Iowa and he can answer some of the very technical questions, but I'll be happy to try to answer them if I can. [LB321]

SENATOR GLOOR: Senator Sullivan. [LB321]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you. Do you think that those extra dollars that the bond would bring in would be used for faculty or equipment or what would it be used for? [LB321]

DENNIS BAACK: It may be used for both, you know, because in some cases we're not necessarily going to have people on our campuses and stuff that are eligible to train people on some of the new technical equipment out there because they haven't even seen it yet. It's brand new to an industry. So they may have to get adjunct people from someplace else to come in and work with the college. They may work with one of the people there and train them so that they can train the employees of this company. So you may have to hire somebody from somebody else...from somewhere else to come in and do that training. [LB321]

SENATOR SULLIVAN: But then that begs the question, is it a short-term thing or does that person, is he brought in as...he or she is contract faculty and then leaves after this? Or does it become part of your general curriculum? [LB321]

DENNIS BAACK: Well, in some cases it might become part of a general curriculum if they use some one of our teachers and or one of our instructors and instruct them as to how to do this training. They may incorporate it into some of the courses that they're already doing or some of the things that are already going on at the college. But in most cases it will be somebody that will be brought in and then when their training is done, they're gone. They're contracted just for that purpose and they will come in and fulfill that purpose and then be gone. And equipment and stuff, many, many times if the industry is able, many times the industry will let us use their equipment and we'll go to their facility and train them with their equipment if that's what becomes necessary if we don't have access to that. [LB321]

SENATOR SULLIVAN: Thank you. [LB321]

SENATOR GLOOR: Other questions? Senator Schumacher. [LB321]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony. I found it interesting the testifier just before you talking about telecommunications trainees, and he mentioned out-of-state institutions--Kansas, Mitchell, South Dakota. What is it that out of the telecommunications, Internet traffic, routers, switches, all that kind of thing has been around for 20 years that one of our community colleges wasn't mentioned; that our four or three state schools, that the UNK or the university wasn't mentioned, why hasn't there been action on those

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particular fields rather than coming here now wanting to get a grab of the income tax dollars?
[LB321]

DENNIS BAACK: Well, I...you know, we have started working with the telecommunications people. Andy Pollock and his group were the first ones to come to us to say, you know, we need training in this specific area. We probably have curriculum that matches up with what they're talking about now and he's been working with my academic officers and they're trying to develop something that really targets it in for their industry now. [LB321]

SENATOR SCHUMACHER: But that's a year ago. This is 19 years into the industry and a year ago those discussions started if I understood his testimony. [LB321]

DENNIS BAACK: Correct. [LB321]

SENATOR SCHUMACHER: And what was happening for the prior 19 years? [LB321]

DENNIS BAACK: Well, I would imagine, I mean, there are still a lot of our people who come out of the community colleges and a lot of the fields in the electronics field and then the computer, the IT stuff that do go into that field, into the communications. But apparently we're not getting enough of them out there. [LB321]

SENATOR SCHUMACHER: Can't find them in Columbus coming out of there and I don't know if you can find them out of any of the other ones. The community colleges coming here asking for another revenue stream to supplement this training program I think is asking for more money in an indirect way that they can't get through the appropriations process. Now the community college function has not been served well in this particular area of telecommunications. And I don't...I look at the proposal today and I heard a week ago from unions and from an industry segment that said we've got a way to deal with internships. They seem to be successful. Why do we need this money through the community college mechanism? [LB321]

DENNIS BAACK: Well, I think that, I mean, I disagree that we're trying to get money that we can't get out of Appropriations Committee. We work very closely with them and they fund us very well across the board. They really do fund us very well. And I think that this is just another mechanism to have to help those companies out there that have specialized kinds of training. [LB321]

SENATOR SCHUMACHER: And you don't have any other place that you can get the money from? [LB321]

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DENNIS BAACK: We do some of it now. [LB321]

SENATOR SCHUMACHER: I had a board member from one of the community colleges come and tell me that for no good reason they spent \$300,000 in garbage cans, have a Web site that cost more per capita than the Obamacare Web site, and that's not for educational purposes, it's for advertising purposes, and had a board...had an administrator come before the board and say, listen, our obligation is to grow the institution and not care about the taxpayers. And it...I believe what that board member said and too bad the press wasn't there. And now to ask for additional funding just to do a job that should have been being done already just is a little bit...that we might find better places to put that money than in the community colleges. [LB321]

DENNIS BAACK: Well, you know, I've never heard any of my administrators say that sort of thing, that they didn't care about the taxpayers because I think that the boards of these colleges do care about the taxpayers. [LB321]

SENATOR SCHUMACHER: I'll put you in touch with the board member. [LB321]

DENNIS BAACK: I probably know who it is. So that's okay. But, you know, and those things...some of those things may happen that I don't know about necessarily because I don't go to every board meeting that goes on out there. But I will tell you that I think that this is just...I know that Iowa has a community college system and this sort of thing has worked very well in Iowa and I think that they...I think last year they had almost \$40 million worth of these job training bonds out there and they were able to make some progress in that area. And I'm thinking this might be a way we could do that here. [LB321]

SENATOR SCHUMACHER: Thank you. [LB321]

SENATOR GLOOR: Senator Scheer. [LB321]

SENATOR SCHEER: Thank you, Senator Gloor. Thanks, Mr. Baack, for the information. What do you envision...I'm having a hard time trying to figure out what we're really talking about. Are we talking about people going back to full-time school for a semester or a year or are we talking about a one-week or a three-week intensive training? What are we really talking about in relationship to this? [LB321]

DENNIS BAACK: It would depend on what the company wants and what they need, but most of these would be very short-term kinds of training things. They would not be real long term things because most of the companies can't afford for their employees to be gone that long, especially

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the smaller companies can't. So it would be very focused and it would be very short term kind of things in just trying to increase their skills in a certain specific area that matches that industry. [LB321]

SENATOR SCHEER: Okay. And Senator Bolz when she was up before, we were talking about she gave some different examples of when it might be used. She talked about, for example, if a major manufacturer went out of business or something for retooling. But doesn't the Department of Economic Development also have those funds available? I know in my area when some things like that have happened, they provide funds to the community colleges expressly for that retooling or retraining. [LB321]

DENNIS BAACK: They do have funding available and we do work with the Department of Labor, Department of Economic Development. If a company is going out of business, we're notified as well as other agencies locally and stuff that help with trying to retool those folks to try to get them back into another job or to...yeah. We do that already. [LB321]

SENATOR SCHEER: Okay. And those funds would already be available. [LB321]

DENNIS BAACK: They are. [LB321]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB321]

SENATOR GLOOR: Thank you. Thank you, Senator Baack. [LB321]

DENNIS BAACK: You bet. [LB321]

SENATOR GLOOR: Appreciate it. Other proponents. Good afternoon. [LB321]

PAT PTACEK: Chairman Gloor, members of the Revenue Committee, I know you've had a long day. My name is Pat Ptacek, that's P-a-t P-t-a-c-e-k. I am an associate lobbyist with the Association of Nebraska Ethanol Producers, and we come today before the committee to support LB321. We've had great collaboration being a relatively new industry with the community colleges, particularly Northeast Community College and Southeast Community College. And it's been a real give-and-take because not only do...are we looking for specialized training as we develop new by-products from the industry and we're doing that constantly or new...more efficient industrial techniques in developing those. But the community colleges have also reached out to us and said how can we make you a better facility and how can we try to tailor some of the curriculum to meet your needs. And I know there was a question by Senator Sullivan

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earlier: Is this a one-time training? Is this something? Again, ethanol is a 15- to 20-year-old industry. We're relatively below the radar yet and we want to stay that way to be in compliance. And I think if we can be an example to develop a curriculum that fits a good consortium of those 24 operating plants in the state of Nebraska, I think you can see a real collaboration for ongoing curriculum not only to...you know, for maintenance, for plumbers, for pipers, for welders, we've got chemists, we've got biologists, and we've got fairly high-paying jobs in rural Nebraska and we want to keep those jobs there. And so if we keep those employees happy by continuing training, we're going to keep that a viable business. And I don't see anything under the bill that says we as an industry can't invest in this as well and maybe match dollars to invest in that training if it's that important to keep those employees happy and to keep that industry thriving in the state of Nebraska. And so with that, I don't want to get into a how to get money for what. I think that there's a possibility in this legislation and I really want to thank Senator Bolz for bringing that to the table. And I'll try to answer any questions you might have. [LB321]

SENATOR GLOOR: Thank you. Was it Ptacek? [LB321]

PAT PTACEK: Ptacek. [LB321]

SENATOR GLOOR: Thank you, Mr. Ptacek. [LB321]

PAT PTACEK: Ptacek. I don't even know how to say it. (Laughter) [LB321]

SENATOR GLOOR: As long as I was close. [LB321]

SENATOR SCHEER: Thank you, Senator Gloor. I guess what concerns me is the ethanol industry has had rough times but it's had some very, very good times as well. And listening to your example where you want to continue to retrain your existing labor base, but isn't that your responsibility rather than the state's responsibility? [LB321]

PAT PTACEK: Oh, I think it's absolutely a responsibility as well and I think that's why we've already been proactive in reaching out to the community colleges and specifically Northeast and Southeast Community Colleges in working with them to design some curriculum, especially on environmental maintenance and things like that as we're trying to stay regulatory. But that doesn't mean that we can't invest in that community college to develop an ongoing curriculum with real dollars. [LB321]

SENATOR SCHEER: Understand, but what we're talking about is the payment for those...that training then is...the offset is the utilization of their income tax dollars which pays for their

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training. Now you may have invested something in equipment or something else but essentially you're wanting the state to do your ongoing educational needs for your industry. And most industries when they're up and profitable are paying for additional training for their own staff. [LB321]

PAT PTACEK: Sure. [LB321]

SENATOR SCHEER: I mean, that truly would be outside the box. [LB321]

PAT PTACEK: Sure, and I see that in two ways. I think that there's standardized training that you can do for regular processes that might be applicable to all industries, and then there's proprietary that you don't want to share that and you want to train specifically those employees for those experiences. And so I understand what you're saying as well that, you know, we're going to invest in those employees as well, but if there's a way to make the community colleges viable in this and maybe they can spin this off into other...with other industries, we'd like to be that guinea pig. [LB321]

SENATOR SCHEER: Thank you, Senator. [LB321]

SENATOR GLOOR: Senator Sullivan. [LB321]

SENATOR SULLIVAN: Thank you, Senator Gloor. To that end though in your comment about perhaps the business should have some investment as well, if this bill seems to be something that we might want to bring forward, should perhaps we have a component that requires a business match? [LB321]

PAT PTACEK: I think that...I don't see why that shouldn't be a question that's on the table. I think it's...again, I think it's a give-and-take, and I don't think that we want to let our community colleges become insignificant. We want to make them an example of how we have been able to use them and we've reached out to them and they've reached back out to us. [LB321]

SENATOR SULLIVAN: Thank you. [LB321]

PAT PTACEK: Thank you. Any other? [LB321]

SENATOR GLOOR: Seeing none, thank you, Mr. Ptacek. [LB321]

PAT PTACEK: Thank you. [LB321]

BRUCE BOHRER: (Exhibit 5) Well, good afternoon, Chairman Gloor, members of the Revenue Committee. Bruce Bohrer appearing on behalf of the Lincoln Chamber of Commerce. For the record, my last name is spelled B-o-h-r-e-r. I've also been authorized this afternoon to speak in support on behalf of the Greater Omaha Chamber, and I believe you all received a letter from the Omaha Chamber as well. Actually pleased to be here this afternoon in support of Senator Bolz's LB321 which adopts Nebraska Industrial New Job-Training Act. I'm going to speed through this because a lot of these themes have already been mentioned. Work force needs are a common concern for our chambers and I'm sure chambers all across the state and economic development groups. We believe that LB321 will facilitate a better, more aligned and focused overall system. We already work closely with our community colleges and view these partnerships as key components in the work force training paradigm. And I think LB321 aims to bring these colleges, community colleges and industry together in a purposeful partnership. We think LB321 could have a long-term positive impact on solidified industry and community college partnerships that will achieve sustained progress for our business and the people of this state. As you've already heard a little bit and I think we kind of look at this bill as being a statewide bill, it will be used in Lincoln and Omaha. We think it probably would be used a little bit more and really fills a gap more in rural Nebraska. This entire state needs to be competitive and that's part of the reason why we want to be here in support. I do note that one idea that was included within the letter that the Greater Omaha Chamber submitted was alignment of eligible employers with regional industries that are identified under regional strategies. We would support that idea as well. The Lincoln Chamber right now is undergoing an assessment by a group out of Austin, Texas, to develop a long-term...a renewed long-term strategy for economic growth in the Lincoln region. We have some of the same actual industry targets, such as agribusiness. They've got military and defense in Omaha. I don't believe that's one of ours, but financial services, life sciences, logistics and warehousing, these are some of the same targets and I think you'd probably see a little bit...probably a lot of value-added ag and biosciences like we heard of earlier. One final point I would like to make about the evaluations and tracking, I think Senator Bolz made. This was in her introduction. There is pretty good tracking here in the bill. One thought that I would have is I think there's a pending bill before the Performance Audit Committee. It's a little bit more extensive. I don't know why you wouldn't want to fold this or any other proposal such as the previous one under that bill and have all of these new ideas that talk about our goal is job growth and our goal is these targets. I think they all should be subject to the type of audit that we want to put the various programs that we currently have in place through. I think that's only fair really and we probably ought to uniformly be on the lookout just as we are with Nebraska Advantage and current incentive programs. Let's see if once we put these in place, they really do perform and really do reach the goals that we have set for them. So with that, I would conclude my remarks and would look forward to answering any questions you might have. [LB321]

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SENATOR GLOOR: Thank you, Bruce. That was a good suggestion. Senator Scheer. [LB321]

SENATOR SCHEER: Thank you, Senator Gloor. I'll ask you the same question because I'm sort of at a loss. The program utilizes state income tax to pay for it. And you talk about, you know, a business and community college partnership and I think that's wonderful. But that to me implies that the business is the partner and not the state of Nebraska. And if the state of Nebraska is going to be paying for all the training, you know, that doesn't sound like much a partnership. [LB321]

BRUCE BOHRER: Well... [LB321]

SENATOR SCHEER: Now just a second. Because a lot of what you said and others have said to the extent is that it's the continuous training of the work force. And, you know, so some businesses that are taking advantage of this, the state is paying for the retraining of their business employees. Others that have to send their person to Minneapolis for specialized training, they don't get any type of assistance. You know, they're paying for all of their employee training. So, I mean, you know, that's where I'm having the problem is I get it if somebody is...can't get employees or we're trying to...we've got a subset of population that needs retraining to get into a specific work force. But when I hear continual training and updating of employees, to me that really I think belongs more in the business community rather than the state's responsibility. Respond as you will, but that was my concern. [LB321]

BRUCE BOHRER: Yeah, and I think it's a valid concern. I appreciate the question too. And, you know, as I was hearing you talk and had that question, Senator Scheer, I think I read through the bill and saw that, you know, you have to have an agreement, a project agreement, or arrangement that includes or could include contributions from the employer. So I think the way I look at it is this is...you have to have a partnership and nobody is making a company or nobody's making the community college sign the agreement. So I think there is some protection, maybe you could put more protection in here of a contribution on behalf of the private company as well. [LB321]

SENATOR SCHEER: Well, and maybe that's the solution because, yeah, nothing prohibits, it talks about you could participate. I get that. [LB321]

BRUCE BOHRER: Yeah, yeah. [LB321]

SENATOR SCHEER: But if...I mean, honestly, if I'm community college and I know I'm going to get, chances are we haven't heard from the gentleman from Iowa, so, I mean, we may get a different spin on it, but if I'm pretty much can rest assured that the funds will come in via the

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income tax dollars to pay for that training. You know, if you want to help out, that's fine but if not, you know, you're still going to get the money. [LB321]

BRUCE BOHRER: Well, but the way I understand this and like you say, we'll hear from the gentleman from Iowa, maybe it's different than my understanding. You first, I believe, have to have an arrangement before you get ahold of the Department of Revenue and say we've got this arrangement and contract now and it's certified. So then we get this diversion. So I think those details are hammered out before the withholding actually or diversion of the withholding actually takes place. [LB321]

SENATOR SCHEER: Well, but the funding still comes from that source. [LB321]

BRUCE BOHRER: Yes, yes. [LB321]

SENATOR SCHEER: So that would be the point is if the community college knows that those funds are basically assured of coming back that way and not to say that somebody doesn't go into that occupation but based on Senator Bolz's introduction, you know, it has happened very infrequently in Iowa in the 30 years, so it seems to be a fairly steady stream of funding. So that would be the concern. And if I was a community college, I think it would be a great deal because it does provide some additional funds. Granted, they're providing additional services, so I'm not saying it's additional money that they're not doing anything to get. That's not my implication at all, but it's sort of my concern is who's actually paying for the training. The state versus...via the income tax or the employer that's wanting, you know, additional training for his or higher training for his existing employee base. [LB321]

BRUCE BOHRER: Right. I get it. [LB321]

SENATOR SCHEER: Thank you, Senator Gloor. [LB321]

SENATOR GLOOR: Thank you, Mr. Bohrer. [LB321]

BRUCE BOHRER: You're welcome. [LB321]

SENATOR GLOOR: Other proponents. Could I see the hands of...how many additional proponents do we have for this bill? Okay. Okay. [LB321]

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DANIEL TANKSLEY: Good afternoon. My name is Daniel Tanksley, D-a-n-i-e-l T-a-n-k-s-l-e-y. I am here on behalf of Northeast Community College and my employer, Brehmer Manufacturing. I have been in manufacturing for 20 years. I basically went to college to play basketball, got injured, and had to go to work. My job title at Brehmer's is I'm a line leader on the hog feeder production line. It's basically taken me seven years to get to that position. I'll be there nine years in April, so it's taken a long time without an education. I went through the manufacturing boot camp that Derek talked about earlier. I went through session two of three that they've had so far. There's three parts of the boot camp. It is divided into three of safety. You get an actual ten-hour OSHA card when completing that. There's quality which they deal with lean manufacturing and basic manufacturing, reading a tape measure, calipers, small tools. They even brought in a welding simulator. Out of the five of us in the class, there was three of us who had leadership positions. And so the instructor changed the curriculum a little bit to reflect on the leadership. We really got a lot out of the class and the...I'm sorry, most of the stuff that we were getting out of the class is what we see everyday on the production line floor that we desperately need. We need people who can read tape measures. We need people who know and understand safety before they even come into the company. We need people to understand how the production line needs to flow to make our jobs easier and more efficient, make the company more money is really the whole part behind that. So the boot camp, in partnership with Northeast Community College with Brehmer Manufacturing, really benefits anybody who goes through it. The other three gentlemen who have gone through the class, they are now in leadership positions in their areas in the company. They see the same things everyday too. There's...it's really hard to go to work some days when you have the knowledge of the training that we've had and you see the people who don't care or don't even know to care. And so I would encourage anybody to take any classes they can take. The boot camp was just amazing in that regard. If we could get everybody in the company to do that, then we would have a lot easier time...less time training them how to do the safety and how to do their job. We could teach them the process to get things through faster. So I'm just here on behalf of Northeast to encourage that the further education for current employees and new employees would happen, would get through. [LB321]

SENATOR GLOOR: Questions? Senator Brasch. [LB321]

SENATOR BRASCH: Thank you, Chairman Gloor. And welcome as well and Tanksley?
[LB321]

DANIEL TANKSLEY: Yep. [LB321]

SENATOR BRASCH: Mr. Tanksley. Are you also from Lyons? [LB321]

DANIEL TANKSLEY: I'm from Oakland. Yep, born and raised. [LB321]

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SENATOR BRASCH: From Oakland. Very good. Also District 16. So now are you also an employee of Northeast Community College? [LB321]

DANIEL TANKSLEY: No. I went through the boot camp and they asked me to come down and give some remarks about the boot camp and how it affected me and gave me better positioning at Brehmer Manufacturing. [LB321]

SENATOR BRASCH: Okay. And are these classes that you took there and that Brehmer employees have taken, it's a custom-made course. Correct? Is that what I'm hearing? [LB321]

DANIEL TANKSLEY: The way I understand it that Northeast talked to a lot of the employers in the area and found out what their biggest needs were. And their biggest needs were people who had a basic understanding of what manufacturing is and how they could...and they developed this class, it was a three-month class. [LB321]

SENATOR BRASCH: And were there other employees from other companies as well? It wasn't just...or is it closed to... [LB321]

DANIEL TANKSLEY: Yep, it was...there were...in my class I was the only one from Burt County and there was three from West Point where the class was taking place that they were... [LB321]

SENATOR BRASCH: So there were different manufacturers or different individuals. [LB321]

DANIEL TANKSLEY: Yep. [LB321]

SENATOR BRASCH: And so basically it's a curriculum on industrial... [LB321]

DANIEL TANKSLEY: Basics, yep. [LB321]

SENATOR BRASCH: ...and basics. So...and I imagine they continue that class even after graduation after you've moved on that as long as they have students to fill it, it will be ongoing. [LB321]

DANIEL TANKSLEY: Yep. There's another session starting in April. [LB321]

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SENATOR BRASCH: Okay. Very good. And then this is out-of-pocket expense or is it tuition reimbursed? [LB321]

DANIEL TANKSLEY: My initial fee was 10 percent of the total tuition and Brehmer Manufacturing, my understanding, covered the rest. [LB321]

SENATOR BRASCH: Okay. So already it is college and company partnership currently as is. [LB321]

DANIEL TANKSLEY: Yep. [LB321]

SENATOR BRASCH: And at this point Northeast Community College would like the state of Nebraska to help finance it as well through...is that what... [LB321]

DANIEL TANKSLEY: I really can't answer for them on that. [LB321]

SENATOR BRASCH: Okay. No, that's all right. I'm just trying to think, because the college is...there's...was it in West Point that you took your classes? [LB321]

DANIEL TANKSLEY: Yeah, their extension office. [LB321]

SENATOR BRASCH: All right. Very good. Well, welcome and keep up the great work and you've answered the questions that I had. [LB321]

DANIEL TANKSLEY: Thank you. [LB321]

SENATOR BRASCH: I have no other questions. [LB321]

SENATOR GLOOR: Thank you. Seeing none, thank you. Well, they've been talking about you for about two hours, so. (Laughter) [LB321]

STEVEN OVEL: Here I am. Thank you, Mr. Chairman, and thank you to members of the committee. And I'll do my best. I think what I like to focus on are kind of the operational characteristics of this legislation both from a programmatic standpoint and also how the financing side of it works. And Senator Scheer, Senator Sullivan, Senator Schumacher have asked a series of questions that hopefully I'll be able to maybe answer more clearly. [LB321]

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SENATOR GLOOR: Let's make sure for the record we've got you spelling out your name.
[LB321]

STEVEN OVEL: I'm sorry. I apologize, Mr. Chairman. Steve Ovel, O-v-e-l, executive director of governmental relations at Kirkwood Community College in Cedar Rapids, Iowa. Also a legislative consultant with the Iowa Association of Community College Trustees in Des Moines. I started by tenure at Kirkwood in 1983, the year that House File 623 was created and the Iowa Industrial New Jobs Training Program was signed into law by Governor Branstad in his first year in office. So I've had the opportunity to work directly with this program during its entire 32-year tenure. About seven or eight years as a frontline individual actually working with our business industry average division at Kirkwood working directly with our economic development professionals and with employers in putting this program in place. And then for the last 23 years, I've been a registered lobbyist on behalf of our community colleges specializing in economic development, work force development, job training, current technical education type issues. So I think just to just kind of frame, you know, the purpose of this particular program, and let me just add that the legislative proposal that you're looking at parallels the Iowa legislation pretty closely. I mean, there are differences in the wage thresholds and things like that that are necessary because of just different conforming statutes that you have in Nebraska. But what I'm going to share with you in terms of our experience in Iowa would be very consistent with the way in which this program would operate in the state of Nebraska. When we created this program in 1983, Iowa along with most of the states in the Midwest were experiencing the first time we'd ever experienced a recession in both the agricultural and industrial economies at the same time. We were hemorrhaging tens of thousands of jobs across the state. My region of the state was significantly impacted because we have a very, very large industrial base in the Cedar Rapids-Iowa City area. At that time, the state of Iowa and I think this is probably true of many states across the country, we really didn't have any economic development incentive programs in place. And this was one of the first programs that our state legislature put into place to try to stimulate new job creation in primary-sector employers. And I think it's important to understand that this program and the way that your legislation is written is targeted at primary-sector employers, those employers that bring outside money into the state, not those that circulate money within a regional or state economy. That's why it's focused on manufacturing, processing, assembly, research and development, or interstate transportation, wholesale distribution, those companies that are going to bring wealth into the state not just recirculate it within the state. So it has a very targeted focus to begin with. And it's designed to be an economic development incentive. I think it's fair to say, you know, I think we've talked to our folks at the Iowa Economic Development Authority, they'll tell you this is probably the most important economic development tool that they have in their toolbox, and this program is promoted primarily by our economic development professionals in the state not our community colleges. You know, we're the means by which this program is delivered and managed, but the...it's an economic development, job creation program that is of primary importance to the economic development

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professionals, both the state level, regional level, and the local level. So we work very closely in partnership with those professionals, and I can tell you that any time they're working with a new business prospect that they would be trying to attract into our region or the state or working with an existing employer that's looking at an expansion, we're probably going to be there side-by-side with them because what they hear over and over and over again, you know, is they're challenged in finding an appropriately-skilled work force to staff the positions that they're creating. Now I think interestingly enough if you go back to the early years of this program, when we had PMX Industries, a Korean company that made the single largest investment in our state or in the United States ever, a \$300-million investment in a brass-copper foundry and mill, the question is where are we going to find the steel workers in a place like Iowa. When Kodak was building what's now Genencor International, one of the largest biomanufacturing plants in the country, where are we going to find the biotechnicians we need to staff the plant, etcetera, etcetera? What we can say to them is with the Iowa New Jobs Training Program which is creating a pool of funding on the front end of their start up of the project, they've got the resources necessary to custom train the employees that they're hiring into the company equipment, you know, process specific type of needs that they have in that company. The way that the program works, and I apologize, Mr. Chairman, I'm probably going to fall into my red light here. [LB321]

SENATOR GLOOR: We'll turn the clock off. I think you understand we probably don't need 30 minutes. [LB321]

STEVEN OVEL: Yes. Oh, I understand, absolutely. Yeah. [LB321]

SENATOR GLOOR: But we're happy you've come a ways and we'd like to hear you explain what the program is. [LB321]

STEVEN OVEL: No, I appreciate that. I appreciate this opportunity to be here, Mr. Chairman. The way the program operates is we enter into a contractual agreement with an employer to enable their access to this program. We sell bond...the community colleges are authorized to sell bonds on behalf of that employer or employers, and as you know, the program utilizes a diversion of state income tax withholding from the new employees being hired into those new positions. The maximum period of time in which we can do that and that's true in your legislative proposal is ten years. So we size the bonds based upon...we size each contract based upon the number of employees that the employer is proposing to hire over a one- or two-year period of time and what the entry-level wages are going to be for those positions. The greater the number of employees, the higher those wages, the higher the financial benefit to the company. It really is a demand-driven, self-funded type of an approach to this kind of a training program. It's not designed to support incumbent worker retraining. It's designed as a new jobs training program to

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provide when those bonds are sold, the proceeds of that bond sale go into a training fund on behalf of that company and every contractual agreement that we prepare has a training plan as part of it, as part of the approved agreement that our board of trustees approve in partnership of that employer that spells out how those funds are going to be expended specifically to train, let's say, the hundred workers that they're planning on hiring. We work with those companies to help design those training plans. Those training plans are flexible as they move along in the hiring process and the training process. If both parties agree that that plan needs to be altered, we can do that. But it's not a willy-nilly type of investment in job training, that we sit down with a company on the front end of that project start up or expansion and determine what their specific training needs are going to do best to meet the needs of their project start up. The state income tax withholding diversion process, the company will send...we size the agreement based upon the number of jobs and the entry-level wages that those jobs would create. Most of our institutions don't sell bonds for a specific project. We do one bond sale a year and we bundle into a multiple agreement all the agreements that we entered into during the course of that year to achieve efficiencies as far as the cost of the bond cost associated with that. It lowers the interest rates. That's more challenging sometimes for our small rural colleges, but we've been working on that issue for some time and I just learned that Southwestern Community College in Creston, which is one of our smaller colleges are going to be partnering with Des Moines Area Community College in a month to actually include their projects in a bond sale that DMACC is going to offer, and we've been able to work out the legal ramifications of that with bond counsel and legal counsel to make sure that the standby property tax levy associated with those different agreements which are at different service areas and there's a different property tax responsibility is properly accommodated. And on that point back to, again, one of Senator Scheer's questions earlier, the term standby property tax levy, every year our board of trustees put us...we have to, just in terms of our notification to our auditors, put a standby levy in place and it's just that. It's only their standing by in the event that there's a failure on the part of one of those companies and in one of the contracts. Over time, those failures are probably in the 3 percent range historically. Kirkwood and DMACC, the two largest community colleges in Iowa which I think have accounted for probably 40 percent of the activity in this program during the last 32 years, have never triggered a standby property tax levy for any of our agreements for any of our bond sales. Currently this year, there are five community colleges that have levied. They are so small they're almost not even appreciable. When you spread a very, very small amount over a, you know, multicounty tax base, it really doesn't amount to very much. And we incorporate into our agreements with the employers all the typical claw-back provisions that would exist in any of your other state economic development programs. If we entered into an agreement with a company and they committed to hire 100 jobs and they found that they could basically operationalize that facility with 80, there's going to be a shortfall in the revenue stream because we projected...we sized the project based on that 100 employees at a certain wage level. Any year during that ten-year payback period on the bonds that we encounter a shortfall in any given year, the company is legally obligated to write us a check for whatever that difference is. In that

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extent, this almost works almost like a forgivable loan type of program in that sense. If a company put a branch operation in Iowa, closed after five years, that parent company is contractually liable to make up whatever principal and interest payments would still be required to escrow and pay off the bonds in whatever remaining years there might be. It was indicated earlier that, you know, we do put liens on all of our agreements to the extent that we can to help protect us on that front. And inside a large multiple issue, most of the agreements that Kirkwood and DMACC issue have anywhere from 15 to 25 agreements in there and we do have the ability to move interest earnings and some funds between agreements inside that multiple bond issue. So if there's one failure out of one of those 25 agreements, we do have the administrative ability to offset that by moving interest earnings on the training funds and repayment funds for the other 24 contracts to offset that. So from a management standpoint, we found some ways to again not have to ever trigger our standby property tax levy. And, again, a few of the smaller colleges have had to do it on a fairly small basis. Most...we size these agreements very conservatively. We don't build in any increases in salaries for those employees over time. So we're basically paying off the bonds typically on average in about eight years because the revenue stream is going to be greater than what we projected it to be because we use entry-level wages and flat line that for ten years, and there will be normal increases in wages and that will be an increase in state income tax withholding and our percentage of that would account for that. Senator Scheer, one of your questions about whether it was 1.5 percent of the state income tax itself or 1.5...it's 1.5 percent of the gross payroll. I don't know what your graduated individual income tax rates are. In Iowa, they range from 3 percent up to maybe I think 8.9 percent. Our legislation allowed 50 percent of the revenue to be diverted. That's where we came up with our 1.5 percent. We worked with the Department of Revenue and they decided, you know, it gets too complicated to get up into the scale of different tax rates, so we just set a floor of the bottom of that rate at 3 percent, half of that 1.5 percent. And some years into the program in order to incentivize higher-paying jobs and to reward higher-paying jobs we added a supplemental 1.5 percent much as your legislation provides for that would allow us to divert 3 percent of that gross payroll. So it's of the gross payroll not of the income tax itself. [LB321]

SENATOR GLOOR: I wonder if I could ask you to...if you've got a final point or two you'd like to make and then we'll go to questions. [LB321]

STEVEN OVEL: You bet. And this is not, Senator Schumacher, any type of a direct funding diversion to the community college. This money is there to benefit the employer and it goes directly to the training of the new employees being hired for the employer. Other than an administrative fee, which the colleges get to basically staff our business outreach functions and to provide the administrative oversight for the program at our level, that money doesn't go into our general fund, it doesn't go directly into any of our programs. And, Senator Sullivan, you asked a question regarding how the funds are used. We can use these funds for paying faculty that we may have in our own institution. We contract with a lot of third-party training providers

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because we're talking in many cases very, very specialized, very technical training for these companies, and we may not have the capacity to do that. We've used resources from our state universities. We've used resources from other private training vendors. We brought people in from all over the world. There are times when if the company is large enough they may have corporate trainers that they would use and these funds can, you know, pay the cost of travel and bring in those corporate trainers in to do what they would do with those new employees. So with that, Mr. Chairman, I'll just allow you to open it up for questions. [LB321]

SENATOR GLOOR: Thank you, Mr. Ovel. Senator Brasch. [LB321]

SENATOR BRASCH: Thank you, Chairman Gloor and thank you, Mr. Ovel, for your information and testimony. It's business partners with the company or with the college in agreement for a bond. Now the class that we just heard about had several businesses taking that same class. So do they come in a bond or, you know, or is it usually one company and one... [LB321]

STEVEN OVEL: One training agreement. That's correct. [LB321]

SENATOR BRASCH: Yes. Each one would have an agreement no matter if they share the class or not. [LB321]

STEVEN OVEL: That's correct. There may be a way that we would achieve an efficiency in terms of delivering that where we might partner up with multiple companies to deliver something like that if it's a common need, but it's designed specifically to support the training needs of a specific company. [LB321]

SENATOR BRASCH: And then my next question is from those that came here from Brehmer, the type of class they're taking sounds very much like what vo-tech education would be both in the high school classes that I believe are starting to return into our Department of Education here. And I've been to Cedar Rapids to see Grant Wood AEA several times and are they also partnering with vo-tech? Are they doing some type of industrial training with businesses? [LB321]

STEVEN OVEL: Not the AEA but my community college is in the process, we've opened three regional centers and we're about to open a fourth on the University of Iowa Research Campus and Grant Wood AEA is going to have about 100 of their employees in that facility, and it's designed primarily, we're partnering with 14 high schools that we're bringing students into that facility primarily for CTE type coursework. [LB321]

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SENATOR BRASCH: So how does the picture change when you bring the high schools into it? [LB321]

STEVEN OVEL: That has no bearing here. [LB321]

SENATOR BRASCH: No bearing here. That's a whole... [LB321]

STEVEN OVEL: Yeah, I think when we look at the holistic look at our work force development strategies in our respective states, you know, we have to continue to look at how do we better prepare our traditional-age young people coming through our elementary and secondary systems and I know our challenge because this may be true in Nebraska as well, we have a declining number of students coming out of our K-12 system, you know, every year. That started in 1997 and we're just now starting to bottom out. We're not doing a very good job from a career-orientation standpoint to help many of those young people understand the career opportunities that exist in CTE pathways. So that's, you know, that's a separate issue and... [LB321]

SENATOR BRASCH: Separate program to have... [LB321]

STEVEN OVEL: That's correct. [LB321]

SENATOR BRASCH: ...students job ready for the industrial sector and this is post high school returning to find a job. [LB321]

STEVEN OVEL: That's right. And we had the same challenge, you know, we're putting significant new investments in helping our colleges work with low-skilled, low-income adults to, you know, help them earn their high school diploma or equivalency diploma to get them on some career-building pathways, work on the foundational skills. That's all work that has to happen in addition to all of this so that we've got at least a reasonably well-skilled work force that these employers can hire into these new jobs, and this investment is then really value added on top of that in terms of the company-specific needs that they have to take that good, solid base of individuals that are coming in the door and taking them up to the next level. [LB321]

SENATOR BRASCH: Very good. Thank you. And thank you for coming from Cedar Rapids here today. Thank you. [LB321]

STEVEN OVEL: Sure. Happy to do so. [LB321]

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SENATOR GLOOR: Senator Scheer. [LB321]

SENATOR SCHEER: Thank you, Senator Gloor. A couple, three questions. Just clarification for my own part. The individuals will continue to pay income tax, correct? [LB321]

STEVEN OVEL: Yeah. Let me just clarify that. This program is a position-based program. And so there's going to be natural turnover in any company, so if a company committed to hire 100 employees and they've done that, someplace will...and that's where the training investment is going to go is in those original 100 employees. If there's a turnover in one of those job positions and the company hires a replacement, that replacement, the state income tax off that replacement is going to continue to be diverted to service the principal and interest on the bond. So it's a... [LB321]

SENATOR SCHEER: Even if that person is not trained. [LB321]

STEVEN OVEL: That's correct. That's correct. You know, there's always going to be a certain... [LB321]

SENATOR SCHEER: So somebody moves out of the state or they train 25 employees, after three years time perhaps the community college hadn't trained anyone but you still have the 25 employees there, so whatever the income is from those 25 employees is going to pay off the debt. [LB321]

STEVEN OVEL: That's correct. [LB321]

SENATOR SCHEER: Okay. And back to my first point though, they will continue to pay a state income tax. The community college just is getting a percentage of whatever that amount is from that specific set of... [LB321]

STEVEN OVEL: That's correct. [LB321]

SENATOR SCHEER: ...not individual employees but a group, a work force that's... [LB321]

STEVEN OVEL: Yeah. That group that was covered under the agreement. Yeah, that's covered under the agreement. That's correct. [LB321]

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SENATOR SCHEER: Okay. You mentioned that when you have...you could have 20 different projects in one bond issue and because of that if one didn't fund itself, then the others could pay. But how does that get back to the concept that if the business that went into that contract is ultimately responsible to pay for those funds, if you commingle, you sort of let that one individual business off the hook, have you not? [LB321]

STEVEN OVEL: No, their individual contractual agreement, they still have their responsibilities to that contractual agreement. So the extent to which those remedies are there and that company, we're able to secure those remedies from that company, we will do that in every event. It would be the worst-case scenario where a company just closes their doors and we have absolutely...we've done everything we could inside the context of the agreement. Only then would we be utilizing...and it's pretty much the interest earnings. Every time we sell those bonds we're going to set up a training fund for each one of those agreements for each company. That money might sit there for a while as they're drawing down. And I need to add, too, that this is a cost reimbursement type of process. We're not writing the companies a check for any amount of money. We've got a training plan that's been agreed upon. When they incur training expense, they send us those vouchers, the bills, the receipts for the cost of that training and we make sure it's consistent. Pardon? [LB321]

SENATOR SCHEER: Are those costs predetermined? [LB321]

STEVEN OVEL: To some extent, yeah. We're going to take, let's say we've got \$100,000 training program and it'll be allocated out to various types of training. Yeah. We have a pretty good sense of what that's going to look like. [LB321]

SENATOR SCHEER: Okay. Thank you very much. [LB321]

STEVEN OVEL: You're welcome. [LB321]

SENATOR SCHEER: Thank you, Senator Gloor. [LB321]

SENATOR GLOOR: Senator Sullivan. [LB321]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you for your...this information. My question relates to the definition of new jobs. Looking at your draft it says that a job in a new or expanding industry but does not include jobs of recalled workers, replacement workers, or other jobs that formerly existed in the industry in the state of Iowa. So in other words, if a

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company, existing company says we have 40 openings for welders, that's not an expansion. [LB321]

STEVEN OVEL: No. What that provision is there to cover is a firm that would close a plant in Omaha and reopen the same plant in Lincoln and want to apply for the funding from this program. That they would not be able to do that. Yeah, it's a provision to prevent employers from gaming the system, if you will, that...and if a company, once we set a baseline of base employment for an agreement, you know, that's the base that we're working from. If they go down below that, you know, we're...got to work their way back up to...we can't divert, if it's an existing company and it's an expansion, we can't divert any of the state income tax withholding from any of the other employees in that company. It can only come from that cohort of new jobs that are part of the covered agreement. And, I mean, that can be tricky some times but that's been pretty well enforced. [LB321]

SENATOR SULLIVAN: Okay. Thank you. [LB321]

STEVEN OVEL: Does that answer your question? [LB321]

SENATOR SULLIVAN: Yes. Thank you. [LB321]

SENATOR GLOOR: How long has the program been in place now? [LB321]

STEVEN OVEL: It was signed into law in 1983, so 32 years. [LB321]

SENATOR GLOOR: Okay. [LB321]

STEVEN OVEL: And by the way, we have a...the economic development authority prepares an annual report on this program every year. They just posted last year's report, I think, last week. I don't know if you've had a chance to pull it up, but it's certainly accessible to you. We give you the performance on the program for the last couple of years as we roll forward on this. [LB321]

SENATOR GLOOR: Senator Scheer. [LB321]

SENATOR SCHEER: Senior moment. I've already forgot it. (Laughter) So if I think of it I'll ask you afterwards. [LB321]

SENATOR GLOOR: Seeing no further questions, thank you. [LB321]

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STEVEN OVEL: Yeah. Thank you, Mr. Chairman. [LB321]

SENATOR GLOOR: And I would echo Senator Brasch's comment, safe trip back. [LB321]

STEVEN OVEL: I appreciate that. Thank you very much. [LB321]

SENATOR GLOOR: Any other proponents? Are there any opponents? Anyone in a neutral capacity? [LB321]

JERRY STILMOCK: Jerry Stilmock, J-e-r-r-y, Stilmock, S-t-i-l-m-o-c-k, testifying on behalf of my client, the Nebraska Bankers Association. Thank you for the comment by Senator Bolz. I apologize to her for the tardiness in which we approached her on the lien issue that appears at page 4. It describes a lien against the business property of the company. And what we have broached with the senator that we will dutifully work on is a lien and notification of that lien probably patterned somewhat after existing law under the Uniform State Lien Registration Notification Act. So we have if a payment is not forthcoming that there be a notification that would actually be filed of record with the Secretary of State for personal property with the register of deeds for real estate, so that a lien would be in place so that any subsequent lending that might happen after the filing of that lien would have notice and any prior liens would still remain in place. So we will work with the senator. I just wanted to alert the committee of that particular issue. Thank you. [LB321]

SENATOR GLOOR: Okay. Any questions for Mr. Stilmock? Thank you very much. [LB321]

JERRY STILMOCK: Very well. Thank you, Senators. [LB321]

SENATOR GLOOR: Anyone else in a neutral capacity? Senator Bolz for closing. [LB321]

SENATOR BOLZ: Well, thank you for your thoughtfulness and the time you've spent going through the details of this idea. I wanted to very briefly touch on a couple of questions that I heard from the committee. The first is there was a question regarding existing funding streams for training. Certainly, there are some available through the Workforce Investment Act, for example, but you can't put together a strategic initiative through those programs nor could you train for a job that hasn't been created with...created yet, which would occur through this initiative. And I think Steve touched on it, but to be clear, this is about new jobs, new businesses, or new positions within existing businesses rather than training a work force in an ongoing manner. Another point I heard was, you know, sort of questions about who's responsibility and what position should the state take. I would argue that we're already using a lot of these

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strategies already to develop our economy and to provide job growth. Certainly Nebraska Advantage provides benefits in terms of sales tax, wage credit, property tax credit, and customized training. So it's not really that different from what we're currently doing through Nebraska Advantage. The last point I would make is that these projects the way this bill is written would need to be approved through the department of economic development and that they would be able to provide rules and regulations that would get at some of the details that Mr. Ovel referenced. But they would also have to approve that these are strategic, smart initiatives that really do grow our economy. So there is that safe gatekeeping there. And I think with the speed of the changes in the economy today and the speed of the changes in new technology and other industry initiatives, these kinds of approaches are worth our consideration. So I appreciate your time and attention. [LB321]

SENATOR GLOOR: Senator Scheer. [LB321]

SENATOR SCHEER: One, just a thought. Listening to the testimony in relationship to new jobs versus helping train existing work force, based on the testimony I think there's a lot of confusion exactly what this bill may or may not do from my perspective of what I've heard, but that's an aside. Can you...question though to you, any thoughts in looking at the fiscal note, you know, the fiscal comes up with \$5-6 million; Revenue comes up with \$25 million. Any thoughts on why there's such a huge variation there? [LB321]

SENATOR BOLZ: Yeah. It's a good question and I did talk with Doug Gibbs who's the fiscal analyst for this bill. My understanding is...and I don't want to speak for the fiscal analyst in Revenue because I haven't spoken to that individual, but my understanding is that that fiscal analyst tried to re-size the Iowa initiative for Nebraska's six community colleges. And I think that the legislative fiscal analyst thought that that assumption thinking we could just re-change the scope to fit Nebraska didn't make sense because Iowa, of course, has been in place for 30 years and Nebraska would just be getting started. So I think that's a large part of the difference on assumptions. I also know that Doug Gibbs, the fiscal analyst, did his homework and had some conversations not only with the community colleges but with other folks in the field, and so he felt that his assessment was maybe a little bit more nuanced then. You know, I guess that's my understanding. [LB321]

SENATOR SCHEER: Fair enough. Thank you very much. That makes sense. I just was curious. [LB321]

SENATOR BOLZ: Yeah. You bet. [LB321]

SENATOR SCHEER: Thank you, Senator Gloor. [LB321]

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SENATOR GLOOR: Any other questions? Thank you, Senator Bolz. Oh, I'm sorry. Senator Schumacher. [LB321]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Just one question yet. As I understand the chain of these payments, it comes first out of the...they pay into this special tax for this project and if that runs short because of these new jobs they created, they can also dip into the withholding taxes of other employees at page 5, about line 26. And this whole stream of revenue that used to be state revenue going into the General Fund from taxes is pledged by and irrevocably pledged to payment of these particular training bonds. And this seems like a funding mechanism to lend to a private business the credit of the state and to indebt the state's revenue stream to this private enterprise. How does that not violate our constitution with regard to pledging the credit of the state for private purposes? [LB321]

SENATOR BOLZ: Senator Schumacher, I'm not a constitutional scholar. I can't answer that question for you with authority. I can promise to follow up on the question and try to dig into it more deeply for you. [LB321]

SENATOR SCHUMACHER: I just raised it to get it into the record because as I was reading this, it crossed my mind that the ultimate beneficiary is the financing mechanism for the private business to teach its employees how to do something. And the state's credits, the state's revenue stream is irrevocably pledged to this purpose. And that seems to be getting really pretty close to the language of what we can't do in the constitution. [LB321]

SENATOR BOLZ: And I can only promise to follow up with you. I would say that perhaps it's how you think about it. They are not necessarily employees while they are in the training program. So, you know, at what point do they become an employee if they are not officially hired until after the training program, does that make a difference. [LB321]

SENATOR SCHUMACHER: Thank you. [LB321]

SENATOR GLOOR: And that will be the end of the hearing on LB321. And with that, welcome, Senator Bolz, to LB322. [LB321]

SENATOR BOLZ: (Exhibit 1) Okay. Well, I appreciate the opportunity to spend some quality time with the Revenue Committee members today. This bill is a very different idea than the one we just discussed. It's related to childcare tax credits. The childcare tax credit, of course, supports working families in Nebraska. And our state can be proud of our working families. Nebraska ranks second in the nation for participation in the labor force and third for the number

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of people working more than one job. In Nebraska, about 75 percent of kids under 18 have all available parents who are in the work force. So I think that's something we can be proud of. It's a reflection of our work ethic. At the same time, the cost of childcare has risen significantly and that is an essential for the working families, particularly young working families in Nebraska. So this bill argues that it is time for the Nebraska childcare tax credit to be updated. The state of Nebraska childcare tax credit was established in 1998. At that time, the cost of childcare was estimated by bill sponsor Senator Landis to be between \$4,000 and \$7,000 annually for an infant. And we'll use that because infants are generally the most expensive to care for. Today, that type of care for an infant in center-based care is over \$9,000. So the cost of care has increased, and the state credit, value of the state credit has stayed the same. To be clear, the current Nebraska childcare tax credit is based on a percentage of the federal credit. So the maximum federal credit is \$1,050 for one child and \$2,100 for two children or more. Nebraska's credit currently provides a sliding scale credit for a percentage of the federal credit for families earning up to \$29,000 a year. So starting at 100 percent and sliding down to 25 percent. At 25 percent, it stays stable for all those families earning more than 25 percent...earning more than \$29,000 at 25 percent of the federal credit. So LB322 updates the credit to better reflect the current cost of childcare and the current family incomes. The bill provides 100 percent refundable credit for those earning up to \$32,000 a year, which is approximately 200 percent of the federal poverty line standard that a lot of people use for working poor. It also provides a 30 percent refundable credit for those earning up to \$52,000, which is near the median household income for Nebraska. And those earning over \$52,000 a year would have a nonrefundable credit at 30 percent. So this bill I think addresses several issues that we have heard about as a body. You've no doubt in your tenure as senators heard about the childcare cliff. Nebraska has one of the lower childcare subsidy rates in the nation which creates a cliff for those families to increase their earning but are no longer eligible for the subsidy. While a childcare tax credit wouldn't be able to solve that hole completely, increasing the value of the credit could add value to those families. It also recognizes the increasing pressures placed on middle-income families who balance childcare expenses with earning potential and particularly in the larger context of our conversations about early education and the value of childcare in terms of childcare quality and improving kid's abilities to learn, especially at an early age. Parents feel that increasing tension between investing in their quality childcare and their earning capacity. I would also note that the child independent care tax credit also applies to parents raising children with disabilities who require care, education, and supervision for a longer period of time. As a final note, my staff pulled the transcript from the original debate on this bill when it was first established, and I thought that it was interesting that this strategy was related to recommendations under the Orr administration in response to welfare reform and thinking about how we help families transition more from welfare to work. And I think that updating the credit is an appropriate extension of that original idea. So, you know, I think families...helping families afford childcare supports their efforts in the work force, helps them contribute to the economy, and can contribute to childcare in terms of early educational benefits. And I appreciate your interest and support. [LB322]

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SENATOR GLOOR: Thank you. Questions? Senator Scheer. [LB322]

SENATOR SCHEER: Can you help me, Senator, because a lot of this isn't getting to the bottom line for me, so in your testimony you said I think if you have two kids, maximum is 2,000 bucks or \$2,200 or whatever, income of \$40,000 or thereabouts. Would that be correct? So under your new system, what does the \$2,000 turn into? [LB322]

SENATOR BOLZ: The value of the credit for a family who's getting 100 percent refundable credit would be an additional \$240 approximately, and that depends on your income and the specifics of your family. [LB322]

SENATOR SCHEER: So the \$2,200 would become \$2,400? [LB322]

SENATOR BOLZ: No. So to say what I was saying differently, the additional added value of the tax credit under this bill would be about \$240 for a family. So if you...maybe walking through a scenario would be easier. If you have a single mother who has one child who is making, say, \$25,000 a year, if you are under the current system you would get probably 80 percent of the current federal credit. And bear with me, I don't have the numbers specifically in front of me, but so... [LB322]

SENATOR SCHEER: Well, make them up so that...that's fine. Just so...I don't know a difference between. Yeah. [LB322]

SENATOR BOLZ: Yeah, yeah. I'm not making them up, I'm guesstimating. [LB322]

SENATOR SCHEER: Well, okay. [LB322]

SENATOR BOLZ: But, yeah, yeah. So the value of the Nebraska tax credit for that family would be \$800. Under this bill, the average benefit for the group of families who earn less than 200 percent of the federal poverty line would be an additional \$200 on top of that. So it would get that family closer to the maximum of the federal credit. For families earning more than the working poor delineation that we've made at \$32,000, the value of the credit would be less. But I think it's still important to make those shifts and make those changes because over time the value of the current credit is going to erode if we don't update it. So the immediate impact on a middle-income family isn't as much in terms of dollars but it is valuable in terms of how the credit is structured in the future. We're not going to erode the value of the credit that they're currently getting now. [LB322]

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SENATOR SCHEER: Okay. Looking at it a little bit differently to the extent that from the \$800 to the \$1,000 with the additional, I mean, that's a 25 percent increase. But you're saying the higher the income the less percentage. It wouldn't be a 25 percent increase, it's marginal. [LB322]

SENATOR BOLZ: Um-hum. Yeah. [LB322]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB322]

SENATOR GLOOR: Senator Smith. [LB322]

SENATOR SMITH: Thank you, Mr. Chair. Senator Bolz, about how many families will benefit from this? [LB322]

SENATOR BOLZ: Let's see, I have it right here. Families currently benefiting from the credit are in Nebraska are 58,740. So that...we're not...I mean, all of these families are eligible now, so we wouldn't expand that number. It would just increase the value of the credit for those families. [LB322]

SENATOR SMITH: So roughly about 58,000 families would benefit by on the average about \$200. [LB322]

SENATOR BOLZ: The lowest-income families would be about \$200, the middle- or higher-income families wouldn't see the same value of increase but wouldn't see their credit erode. [LB322]

SENATOR SMITH: So the average would be somewhat less than the \$200. Okay. Thank you. [LB322]

SENATOR BOLZ: That's right. [LB322]

SENATOR GLOOR: Senator Scheer. [LB322]

SENATOR SCHEER: You said, and it's now in front of me but I guess I'll put it in the record, so these numbers or these percentages have not been changed since 1998. Is that... [LB322]

SENATOR BOLZ: That's my understanding. [LB322]

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SENATOR SCHEER: Okay. Thank you. [LB322]

SENATOR GLOOR: Thank you, Senator Bolz. [LB322]

SENATOR BOLZ: Thank you. I don't think I'll break anyone's heart to tell you that I do teach on Wednesday nights, so I'll have to waive closing, but I'm happy to answer any follow-up questions. [LB322]

SENATOR GLOOR: (Exhibits 2 and 3) We know where to find you tomorrow. And while we're waiting for the first proponent to come up, we also have two letters that were submitted from Terry Werner, the National Association of Social Workers; and Jen Goettemoeller with First Five Nebraska. Good afternoon. [LB322]

AUBREY MANCUSO: (Exhibit 4) Good evening, Senator Gloor, members of the committee. My name is Aubrey Mancuso, A-u-b-r-e-y M-a-n-c-u-s-o, and I'm here on behalf of Voices for Children in Nebraska. We're in support of LB322 because access to affordable childcare helps keep kids safe so parents can work. This helps address the high cost of childcare and also the importance of access to safe and affordable childcare for children and families. Attached to my testimony are charts based on a report released last year called the "Family Bottom Line." The report data shows the average amount a family with two young children would spend on childcare in different regions of Nebraska. The regions are based on the USDA rurality codes. Metropolitan counties are the larger counties and counties adjacent to larger counties, like Lancaster County. Nonmetropolitan and urban counties have a population of at least 2,500, like Adams County, and the rural counties are less than 2,500 in population, like Banner County. The first chart shows childcare costs in a single-parent family with two young kids and the second chart shows a two-parent family with two young kids. In every case, childcare is the most significant expense in the budget for families with young kids. Childcare costs represent from 26 to 33 percent of the family budget and the monthly average cost ranges from about \$970 a month to about \$1,370 a month in more urban areas of the state. In addition, as Senator Bolz mentioned, the childcare assistance that the state does currently provide is very limited. The childcare assistance available through the childcare subsidy program has one of the lowest eligibilities in the country. We rank 42nd in where we set our eligibility level for that assistance, and this leaves many lower- and middle-income families with little to offset that cost. A single parent with two kids would have to make less than about \$26,000 per year to qualify for that kind of assistance. And so the child and dependent care credit is one of the few resources available that helps fill that gap. The current income levels in statutes are far out of line with the reality of working families today. As Senator Bolz also mentioned, in 2013, the state median household income was just about \$52,000, so the legislation really attempts to align that with the current median income in the state and ensure that our middle-income families can benefit from this credit in the long

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run. Finally, there's a growing body of evidence that shows a relationship between family income and academic achievement. Increases in tax credits for working families have been shown to positively impact test scores, and so making improvements to this credit could have an impact beyond the economic impact on families. We'd urge you to advance LB322 for consideration, and thank you for your time today. [LB322]

SENATOR GLOOR: Any questions for Ms. Mancuso? Senator Scheer. [LB322]

SENATOR SCHEER: In looking...I mean, you just gave me a different perspective. Senator Bolz had commented that she thought it was about a \$200-a-year change. But according to your, I mean, even the lowest ones are right at \$1,000 a month. You're talking \$20 a month. I mean... [LB322]

AUBREY MANCUSO: Yeah. I mean, I think... [LB322]

SENATOR SCHEER: I mean, it's not...I'm not saying it's not a big deal. Two hundred dollars is two hundred dollars. I get that. [LB322]

AUBREY MANCUSO: Yeah. [LB322]

SENATOR SCHEER: I mean, from a realistic standpoint, I mean, that's not much help. [LB322]

AUBREY MANCUSO: Yeah, and I think one of the best things that this bill actually does is it increases the income level to which the credit is refundable. So right now that's set at \$22,000, so this would increase it to \$32,000. So I think especially for families in that range who may not have a significant tax liability because that credit is refundable, they're likely going to see a little bit more. You know, I'm not sure exactly what the distribution is based on, the average expected credit, but I do think this is one of the tools that we have to help families in that position. And I think as Senator Bolz also mentioned, the value of the current credit as written in statute will continue to erode over time as those income levels get further and further out of the range of where what working families are actually currently earning. [LB322]

SENATOR SCHEER: So those that would be under the \$30,000 or \$32,000 quite probably would get substantially more than the \$200 a year difference. [LB322]

AUBREY MANCUSO: Well, because of the refundability they wouldn't necessarily be getting a credit right now unless they had a tax liability. So it is in that sense allowing that additional income group some potential eligibility. [LB322]

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SENATOR SCHEER: So that \$11,000 or \$10,000 change, those people within that little area... [LB322]

AUBREY MANCUSO: Right. May not be getting a state credit at all because it isn't refundable. So they would have to have a tax liability there. [LB322]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB322]

SENATOR GLOOR: Senator Smith. [LB322]

SENATOR SMITH: Thank you, Mr. Chair. Thanks for coming and testifying. And I share with you the sense that all families in Nebraska need to have some type of tax relief, and whether it's \$20 a month or \$40 a month or \$100 a month, whatever that works out to, it matters. It matters to families and they can use it how they choose to use it if they need to use it with childcare. Would you be equally supportive of tax reform that helps all Nebraska's families, not just the ones you've targeted here? [LB322]

AUBREY MANCUSO: You know, I think we prefer credits like this because they are specifically targeted to working families and expenses like childcare. I think the challenge with...depending on what specifically we're talking about, some of the larger tax cuts is they can also erode our revenue base that goes to things like quality schools that kids also need to have the state make investments in. [LB322]

SENATOR SMITH: I appreciate what you're saying, but I think that it would be great to see tax...some type of tax relief for all Nebraska's families, those at the lowest level as well as those in the middle class to use as they see fit and that includes childcare. I think that's good. [LB322]

AUBREY MANCUSO: Thank you, Senator. [LB322]

SENATOR GLOOR: Other questions? Thank you, Aubrey. [LB322]

AUBREY MANCUSO: Thank you. [LB322]

SENATOR GLOOR: Next proponent, please. Good afternoon. [LB322]

MICHELLE ZYCH: (Exhibits 5 and 6) Hi. Good evening, afternoon. Good afternoon-evening, Chairman Gloor and members of the Revenue Committee. My name is Michelle Zych, M-i-c-h-

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e-l-l-e Z-y-c-h, and I'm the executive director of the Women's Fund of Omaha. We are an organization dedicated to improving the lives of women and girls in the Omaha community. To do this, we identify critical issues through research, fund innovative solutions through grants, and influence dynamic change through advocacy to ensure that every woman and girl has the opportunity and ability to reach her full potential. I'm here today to testify in support of LB322, a bill that will help improve the economic security of women and their families by increasing their access to quality childcare through the child and dependent care tax credit. As an organization that's driven by research, we conduct a survey to take the pulse of our community. When we ask which issues are the most pressing for women, our community consistently points to poverty and a lack of economic security or self-sufficiency. While our organization has invested hundreds of thousands of dollars into programs that aim to provide women with financial literacy, employment training, and leadership development, we believe that a combination of public and private investments will be required to build economic security for women and their families. In our research, we've found the following: Women account for 67.8 percent of the labor force and continue to earn just 72 cents for each dollar that a man earns. The wage gap between genders is consistent across race and ethnicity; however, there are also substantial differences between racial and ethnical groups, regardless of gender. Out of all households, just under half or 49 percent are married-couple families, and 15.6 percent are single-parent families, 72 percent of which are headed by a single female. Families headed by a single female are important to consider as their median income is just \$24,609. In contrast, the median household income for all families with children is \$64,763 per year. The average annual cost of childcare for an infant in center-based care in Nebraska is \$7,911. For most families, childcare is the largest component of their family budget and can represent a significant financial burden, even for middle-income families. This budget item is especially difficult for female-headed households with the average income of just under \$25,000. Helping women enter and stay in the work force by making childcare accessible and affordable will build economic security in communities across our state. When we think about the average single mother making around \$2,000 a month trying to make ends meet and working to support her family, she has really difficult decisions about where to send her children when she is at work. Her childcare accounts for more than 30 percent of her annual income while the average family, with a median income of nearly \$65,000, is spending close to 12 percent. We believe that these statistics tell the story of women in our community, women who want to be able to support their families and who are working to become economically self-sufficient. We also believe that LB322 is one of many policy solutions that will help them do just that. By providing an income tax benefit that will help them pay for childcare, we are ensuring that women can continue to provide for their families in our communities. Guided by research, the Women's Fund of Omaha supports LB322 and its intent to provide support for families through a child and dependent care tax credit. We feel that by making childcare more affordable for working families, we will be able to help them on the path of achieving economic self-sufficiency and security. This investment will be one that will make it

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possible for women to support their families and their communities. Thank you for your time. I'd be happy to answer any questions. [LB322]

SENATOR GLOOR: Thank you, Ms. Zych. Are these statistics statewide statistics rather than just Omaha area statistics? [LB322]

MICHELLE ZYCH: So it would be a mix. So the first two are, those are Omaha-specific, what we would call the metropolitan statistical area. The families headed by a single female, those are statewide and come from Voices for Children's "Kids Count Report." The same would be true for the fourth point, and then the fifth point is a statewide statistic as well. [LB322]

SENATOR GLOOR: Okay. Other questions? Senator Scheer. [LB322]

SENATOR SCHEER: Thank you, Senator Gloor. And if you don't know the answer that's fine. [LB322]

MICHELLE ZYCH: Okay. [LB322]

SENATOR SCHEER: I'm just curious. Are there other programs for single, normally female head of households with lower incomes? Aren't there some programs where they get subsidized childcare? [LB322]

MICHELLE ZYCH: I can't answer that. I know that there's a lot of programs out there to help single women-headed families, but I can't speak to exactly what those programs do. I can only tell you what we have funded in the past which are private dollars that look to provide support for women in different program areas. [LB322]

SENATOR SCHEER: Fair enough. I'll have to try to find out. [LB322]

MICHELLE ZYCH: I'm sure somebody else could answer that for me. [LB322]

SENATOR SCHEER: Thank you. [LB322]

MICHELLE ZYCH: Yeah, absolutely. [LB322]

SENATOR SCHEER: Thank you, Senator Gloor. [LB322]

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SENATOR GLOOR: Senator Schumacher. [LB322]

SENATOR SCHUMACHER: Just one quick question. Certainly someone who's making \$24,000 a year and has to spend \$8,000 of it for cost of one child, more presumably if there's more than one child, is in a real tough position. And this is one way to address that problem. But another way to address that problem is not to put them in that position to begin with. So has your organization done any looking into what we can do or what we should be doing with respect to those situations where they have a child maybe too early and get themselves into this predicament? [LB322]

MICHELLE ZYCH: I can tell you that of our priority areas that we identify through surveying our community that we focus on domestic violence, economic security, leadership development, and sexual literacy. Within sexual literacy, we do look at how do we provide access to education and services for girls and boys to make sure that they are making healthy and informed decisions about their futures. So there's a lot of programs available for education and access to services to make sure that folks have the opportunity to make more informed decisions for their futures. [LB322]

SENATOR SCHUMACHER: Thank you. [LB322]

SENATOR GLOOR: Other questions? Seeing none, thank you for your testimony. [LB322]

MICHELLE ZYCH: Thank you. [LB322]

SENATOR GLOOR: Good evening. [LB322]

SARAH ANN KOTCHIAN: (Exhibit 7) Good evening, Chairman Gloor and members of the Revenue Committee. My name is Sarah Ann Kotchian, S-a-r-a-h A-n-n K-o-t-c-h-i-a-n, and I appear today in support of LB322 on behalf of the Holland Children's Movement, a nonpartisan, not-for-profit organization founded by Richard Holland, committed to improving public policies essential to providing opportunities for success for children and families living in poverty. Thank you for allowing me to testify in front of you today. I know the hour is getting late, so I appreciate your time and attention. We would like to thank Senator Bolz for her ongoing attention and support of improving this critical tax credit to support hardworking families with the high cost of childcare. As you have heard, LB322 would change the state child independent care tax credit to provide a greater benefit to lower- and middle-income families through both the refundable and nonrefundable portions of the credit. Not only will this support families economically but it is also one piece of the solution to improving the affordability and access to

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quality childcare that can have a lasting, positive impact on children. The high cost of childcare is a tough economic reality for hardworking families in Nebraska leaving many families to choose between work and staying home. However, for single parents and low-wage earners, staying home and losing an income is not a viable option. Nebraskans value hard work. And although, as we've heard, although 75 percent of all children in Nebraska under the age of 18 and 70 percent of all children under the age of 6 had all available parents in the work force, nearly one in five children lives in poverty in Nebraska today. Poverty for a family of three in 2015 means an annual income below \$19,790. Without childcare assistance, many families face untenable decisions of not working and relying on public assistance or leaving their children in unsafe or poor-quality childcare arrangements. Learning begins at birth. The earliest years of a child's life represent a critical window of opportunity to develop a child's full potential and shape key academic, social, and cognitive skills that determine a child's success in school and in life. The science and the research is clear. We've all been hearing that young children who attend quality early-learning programs are more likely to do well in school, find good jobs, have fewer interactions with the justice system, and have greater earnings as adults. LB322 would directly help offset the rising costs of childcare and invest in young children and families, one of the smartest investments we can make. LB322 is foundational to making quality childcare affordable and accessible, and we would respectfully ask this committee to advance this bill to General File, and we thank you again for your thoughtful consideration of this issue. [LB322]

SENATOR GLOOR: Thank you. Any questions for Ms. Kotchian? Senator Scheer. [LB322]

SENATOR SCHEER: I'll ask, maybe you know of...I've asked the previous one, do you know about any other that would be subsidized or state-funded day care for lower income, single-parent families? And if you don't that's okay too. I'm just...that's on my mind so I thought I'll ask. [LB322]

SARAH ANN KOTCHIAN: No, absolutely. So this is one of two of the pieces that really help directly support children with a high...or families with the high cost of childcare. The other major program that helps all low-income women and families--it's not only a women's issue, there are single fathers out there, too, struggling--is the childcare subsidy program, often referred to as Title XX childcare assistance. We, unfortunately, have one of the lowest eligibility rates in the country for this program. To be eligible for childcare assistance under this program you can make no more than 130 percent of poverty, which for a family of three is roughly \$26,000 a year. If you have an infant and a toddler, you're talking based on the averages, roughly, and I do not do math well under pressure (laughter) and on the record, around \$17,000 a year out of your pocket 100 percent because you...if you make \$26,118, even \$1 over the 130 percent of the federal poverty level, you do not qualify for any childcare assistance, and so you would be relying solely on the limitations of this credit to help you afford childcare. So as we've talked about, it's a very serious issue and I wish Senator Harr were here because I would say I could...this is absolutely a

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priority for us as the Holland Children's Movement and we think it should be one for the state, where are we prioritizing our youngest children and supporting especially those most at risk. [LB322]

SENATOR SCHEER: For those that would be under the \$26,000, what type of assistance is available for them? [LB322]

SARAH ANN KOTCHIAN: So if you're under...if you do qualify for childcare subsidy, there's a sliding fee scale so parents aren't...parents do have to pay based on their income. I'm happy to get you those...to provide you a chart showing how much families are paying in to help offset the cost. Families begin paying after they...if they qualify for childcare subsidy, after they exceed 100 percent of federal poverty level. So there are...I mean, even at poverty you're starting to... [LB322]

SENATOR SCHEER: Just for my curiosity if you could just send my office the link or something I'd be interested. That would be great. [LB322]

SARAH ANN KOTCHIAN: Oh, sure. I'd be happy to. [LB322]

SENATOR SCHEER: I appreciate it. Thank you. Thank you, Senator Gloor. [LB322]

SENATOR GLOOR: Senator Schumacher. [LB322]

SENATOR SCHUMACHER: Thank you, Senator Gloor. One quick question. In an environment of full employment, basically a structural unemployment in Nebraska, can this also be viewed as a subsidy to make low-cost employees available to employers? [LB322]

SARAH ANN KOTCHIAN: We see this as a way to support low-income working families with the rising cost of childcare. I think we would...one of the reasons we do support this is investing in young children so they can earn more later through a very long-term benefit so that we do not have low-income workers. I've listened to a lot of talk today about job training, economics, work force issues, and this supporting families with their children in the earliest years gets right at all of the issues that we've heard so much about today. [LB322]

SENATOR GLOOR: Well done. Senator Schumacher is called the "Professor" because he sometimes turns the gun around and shoots the other way. So you handled that very well. [LB322]

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SENATOR SCHUMACHER: But it's easier to sell a business incentive. (Laughter) [LB322]

SENATOR GLOOR: Any other questions? Seeing none, thank you. [LB322]

SARAH ANN KOTCHIAN: Thank you very much. [LB322]

SENATOR GLOOR: And as best I can recall, you've sat very patiently in back of the room all day long listening to this entertainment, so. [LB322]

SARAH ANN KOTCHIAN: Well, I do appreciate your attention to this issue. We...I feel, I mean, it's just that important, so thank you for your time. [LB322]

SENATOR GLOOR: Thank you. Other proponents. [LB322]

SENATOR SCHEER: Thanks for being so patient. [LB322]

SENATOR GLOOR: Are there any opponents? Anyone in a neutral capacity? And we know Senator Bolz waives, so that ends the hearing on LB322. And speaking of waiting patiently, welcome, Senator Craighead. We'll move on to the hearing on LB372. Good evening. [LB322]

SENATOR CRAIGHEAD: (Exhibits 1 and 2) Good evening, Chairman Gloor and members of the Revenue Committee. My name is Joni Craighead, J-o-n-i C-r-a-i-g-h-e-a-d. I represent Legislative District 6 in Omaha and Douglas County. I come to you before you today to introduce LB372 which would establish the First-time Home Buyer Savings Plan Act. This plan would allow an individual to set aside funds with a financial institution for the purpose of all contributions and earnings to be used toward the down payment and eligible costs relating to the first-time purchase of a single-family residence in the state of Nebraska. Specifically, this bill would allow parents, grandparents, young couples, and other parties to designate a new or existing account as a first-time home buyer savings plan account, up to \$50,000 to assist child, grandchild, or other qualifying beneficiary with the down payment and allowed closing costs for the first-time purchase of a single-family residence. All contributions and subsequent earnings would be free from state income tax when used for the purpose of buying a first home. Account limits would be set at \$50,000 for principal with an aggregate limit of \$150,000. The bill states that the funds from such accounts shall be used for the first-time purchase of homes only in the state of Nebraska. The bill would create not only a tax incentive for becoming a first-time homeowner in our state but would have existing benefits to the real estate, banking, and financial industries of Nebraska. Additionally, any funds put in a first-time home buyer's savings account that are withdrawn for any purpose other than the payment of eligible costs by or on behalf of a

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qualified beneficiary would have a penalty imposed to be paid to the state. Much like the Nebraska Education Savings Trust passed into law by the Nebraska Legislature in 2000, which creates an opportunity to invest free of state tax in the educational future of college-bound students, the First-time Home Buyer Savings Plan provides an opportunity and incentive for individuals to become homeowners. Included in your notebook is a minor amendment to the language of this bill. I appreciate your consideration and would like to ask your support of LB372. I welcome any questions that you may have. Thank you. [LB372]

SENATOR GLOOR: Senator Craighead, it's not contributions into this fund that are...we're talking about here; it's the growth in that. In other words, the interest that that account earns that is the deduction... [LB372]

SENATOR CRAIGHEAD: It's the interest that's tax free. [LB372]

SENATOR GLOOR: Yeah. Okay, okay. Just wanted to make sure. I wasn't sure that's what you said. Senator Scheer. [LB372]

SENATOR SCHEER: Thank you, Senator Gloor. With 150 aggregates, I'm assuming that if Joe and Jane get married, Joe's parents can put \$50,000 in, Jane's parents can put \$50,000 in, and if grandpa is still up there, he can put \$50,000 in, so everybody... [LB372]

SENATOR CRAIGHEAD: Yes, yes. [LB372]

SENATOR SCHEER: Okay. So it's not a \$50,000, it's just each person's... [LB372]

SENATOR CRAIGHEAD: Each person's... [LB372]

SENATOR SCHEER: ...each donation or gift is a limit of \$50,000. [LB372]

SENATOR CRAIGHEAD: That is correct. [LB372]

SENATOR SCHEER: Thank you. [LB372]

SENATOR GLOOR: Not a very big fiscal note. That's a good thing usually. But it also has me thinking they're not thinking this is likely to be used very much. I mean, tell me what your philosophy was behind introducing this and if you think it's going to make a difference. [LB372]

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SENATOR CRAIGHEAD: Okay. I think it will. I had Doug Gibbs in my office today who prepared the fiscal note. Michelle, my LA, and I were there. And my first question to him is, you know, based on this is, you know, what are going to be the gross sales of all these first-time homes. Well, he worked it backwards. Here's what he told me. Based on the numbers they have on these fiscal notes, there will be 11,240 first-time home buyer homes purchased in the first year. Okay. Twenty-eight hundred of those would pay capital gains and he figured the average down payment would be \$30,000. Now this is also a program that has been implemented in a number of other states, and a lot of the wording I used for this bill I patterned it after the bill that Virginia passed in 2014. So it's not really a new concept but it's kind of a new concept for the state of Nebraska. [LB372]

SENATOR GLOOR: Okay. Any states that are near to us in the Midwest that have done this that you know of? [LB372]

SENATOR CRAIGHEAD: Not to my knowledge, but that's a great question. I can certainly get back with you on that. [LB372]

SENATOR GLOOR: Just curious if there's somebody that's had it in place for a little longer period of time and what their experience might be just... [LB372]

SENATOR CRAIGHEAD: We'll find that information for you. [LB372]

SENATOR GLOOR: Okay. Senator Smith. [LB372]

SENATOR SMITH: Thank you, Mr. Chair. Senator Craighead, I assume that you probably have firsthand experience in working with first-time home buyers that would have benefited from this. Do you have any stories you want to share or just kind of expand on that a little bit that you...whether you've seen this in actual practice? [LB372]

SENATOR CRAIGHEAD: Okay. Well, I've been a realtor for going on to 15 years and also a developer, and, you know, what we see with first-time home buyers is their largest hurdle is accumulating enough money for a down payment and closing costs. So very few contracts are written these days without a buyer asking for closing costs. They often will use FHA, USDA, or NIFA loans that are, you know, 3.5 percent or lower. If somebody qualifies for a VA loan, they can get that at 0 percent down. Okay. But that is a hurdle for people to be able to have the financing and the funding. A lot of our first-time home buyers are paying off college loans. So they're somewhat in debt from that. The number one stabilizing factor is found to be marriage; number two is home ownership. And it's also shown that children who grow up in a home that is

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owned by your parents or a parent are much more stable, they do better in school, it's just very, very positive. [LB372]

SENATOR SMITH: Thank you. [LB372]

SENATOR GLOOR: Senator Schumacher. [LB372]

SENATOR SCHUMACHER: Thank you, Senator Gloor, and thank you for bringing this. It poses a little interesting map. Is perhaps the reason that the fiscal note is so low is that you can't get any interest on your money right now? (Laughter) And so the 6.84 percent of 2 percent comes up to like one-tenth of a percent. And why would that be an incentive for people to give their kids \$50,000 that they wouldn't have anyway? [LB372]

SENATOR CRAIGHEAD: Because they're...you're basically being allowed to pass your assets and transfer your assets tax free. [LB372]

SENATOR SCHUMACHER: The transfer isn't tax free. [LB372]

SENATOR CRAIGHEAD: You can give them to your kids. You can transfer your own assets and it's money that you have that can be passed on to your kids tax free. [LB372]

SENATOR SCHUMACHER: You can do that right now. You can make a tax-free gift to your kids right now. [LB372]

SENATOR CRAIGHEAD: To a point, up to a point, up to \$14,000 a year. [LB372]

SENATOR SCHUMACHER: Right. And the only thing you're gaining here is the 6.84 percent, assuming you're even in that bracket, times whatever the bank is paying for interest which is as close to zero as they can get it. And so it's...that's why the fiscal note is so low because it's not doing much. I mean, it's not giving you a whole lot of incentive to make a loan or extend money to your kids that you wouldn't necessarily do anyway. [LB372]

SENATOR CRAIGHEAD: Right, unless our interest rates go back to 18 to 21 percent and then it will make a difference. [LB372]

SENATOR SCHUMACHER: Then the federal government is going to be broke, so. (Laughter) [LB372]

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SENATOR GLOOR: But, again, by way of clarification, the investment institution could be a brokerage house, and so you could...this gift could be in the form of mutual funds... [LB372]

SENATOR CRAIGHEAD: Yes. [LB372]

SENATOR GLOOR: ...that would grow, one would hope (laughter) at a higher rate obviously. They could also go in the other direction, but you're not required to invest in a fixed asset. You can take the chance and invest in something a little more aggressive and then hope over a prolonged period of time to do much better, in which case all of a sudden this ends up being a far bigger benefit. [LB372]

SENATOR CRAIGHEAD: Yes. And one thing too if you notice on the little handout I gave you, that's one thing what kind of accounts and be used for the First-time Home Buyer Savings Plan. You can use almost any kind of account you have with the financial institution, mutual funds, CDs, brokerages, stocks, bonds, etcetera, money markets, insurance, or even savings account. Okay. And they can also include individual stocks. [LB372]

SENATOR GLOOR: Senator Scheer. [LB372]

SENATOR SCHEER: Thank you, Senator Gloor. I don't know that this is a big deal, but in listening to people talk, especially with their kids buying their first homes, there seemed to be problems where the young couple needs another \$10,000 for the down payment or whatever it is and the lending institutions aren't...you know, if you have to go get it from your parent, then there's no loan. So there's no time frame on the gifts here. Is this sort of a way to circumvent that then that all of a sudden this money shows up and you don't have to account for it and you can use it for the down payment? Maybe it has no impact on it at all but I just, you know, I do recall several instances where young kids were trying to buy a house and they only 2,500 or 5,000 bucks, it wasn't a lot of money, but the parent literally couldn't give it to them because they still couldn't get the loan because they didn't have the down payment even if somebody wanted to give it to them. So I'm not sure if that has to do with the mortgages or... [LB372]

SENATOR CRAIGHEAD: You know, I think it can depend on the lender or it can depend on the mortgage, it can depend on...there's so many variables in there. But, you know, even a young person could set up an account on their own and flag it as a first-time home buyer savings account and leave it in an account and then utilize it when they are at that point to buy a home. Okay. And then you fill out a form with the state that it's your first-time home buyer status. [LB372]

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SENATOR SCHEER: Well, I understand. But, you know, I just was wondering if this was sort of some way to circumvent that because if you were a parent that had the 5,000 bucks, could put it in the account and then it was going to...you know, would that circumvent so that it was usable that it wasn't...if they just gave it to you personally. [LB372]

SENATOR CRAIGHEAD: No. I think it's just kind of an innovative way to help people be able to afford a home. [LB372]

SENATOR SCHEER: Okay. Thanks. [LB372]

SENATOR GLOOR: Senator Brasch. [LB372]

SENATOR BRASCH: Thank you, Chairman Gloor. And I have been awake, just quiet. (Laugh) It's interesting because you say that even a close friend can put money in this account. And is there a minimum? [LB372]

SENATOR CRAIGHEAD: No. [LB372]

SENATOR BRASCH: Okay. So you're bridal registry could have a home. (Laughter) And so you would invite 500 people to your wedding and everyone starts putting in 10, 20, 30 bucks. Department of Revenue starts getting all these forms. [LB372]

SENATOR GLOOR: She should have opened a bridal shop. [LB372]

SENATOR SCHEER: Actually one of those virtual bridal. [LB372]

SENATOR BRASCH: And then as far as the education, college savings plan, that basically has like a limit of, I think, \$10,000 that you have as a credit pretty much that you're not paying taxes on. It takes away from your taxable liability. So this is different. It's just the concept of... [LB372]

SENATOR CRAIGHEAD: It's different... [LB372]

SENATOR BRASCH: ...saving ahead for something in the future. Okay. Right? [LB372]

SENATOR CRAIGHEAD: That is correct. [LB372]

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SENATOR BRASCH: All right. [LB372]

SENATOR CRAIGHEAD: The closest example I could give you was the NEST program. [LB372]

SENATOR BRASCH: Okay. That was one of my priority bills, so I thought this was a little different than that, so. But interesting. So it could be a bridal registry or something. [LB372]

SENATOR GLOOR: All right. Thank you. I see no more questions. [LB372]

SENATOR CRAIGHEAD: Thank you. [LB372]

SENATOR GLOOR: We'll move to proponents for this bill. Proponents? Not a proponent? Is there an opponent for this bill? You're a proponent, I believe. [LB372]

WALT RADCLIFFE: (Exhibit 3) Yes. Nice to be here on no-question Wednesday. (Laughter) Proponent. Good evening. My name is Walt Radcliffe, R-a-d-c-l-i-f-f-e. I'm here as a registered lobbyist on behalf of the Nebraska Realtors Association, and Jerry Stilmock asked me on behalf of the Nebraska Bankers to turn in his testimony. I think once it got dark he turned into a pumpkin, so here's the Bankers' testimony. I think it's probably obvious why the realtors would support a bill like this as far as encouraging home ownership. But...and I won't be long, but the real question I'd say to ask yourself with this bill is instead of why pass it, why not pass it? The fiscal note is really low. If we don't...if you're afraid...I shouldn't say if you're afraid, but if you think it may not be a good idea or may not prove to be a good idea, put a sunset on it, and then three, four, five years and come back and look at it. It really...Senator Gloor, I don't think there's too many states that do this. This last year before Senator Craighead was elected, the realtors...a different realtor brought this up so we did a little research and discussed it at one of their summer meetings. And frankly, that was kind of the end of their discussion. Senator Craighead called me after the election and said she was thinking of introducing this and should she and, I mean, not so much should she but what the realtors would think about it. And I went through with her a number of the same questions that you asked in some form or another. And the senator said to me, well, should I not introduce it then. I said no, no, no. I wouldn't say don't introduce it. I think you should introduce it and let's bring out issues that maybe would be a problem. But quite frankly, I can't see any reason why not to try to do it that assumes one thing, and that assumes that the state would endorse the policy that it is a favorable thing to promote home ownership. If you cross that threshold, I think you look at this and say, hey, check that costs aren't that much, so why not try it. I honestly can't think of a good reason not to try it. It certainly isn't going to be a tax haven, I mean, you know. But...and, Senator Gloor, sometimes people just need a reason to do something. Yeah, they can give their kids X thousands of dollars now, but sometimes people

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just need a reason to set this account up. And why not? I just don't see a downside and there's a good upside. I mean, if you got several hundred let alone a thousand homes sold-built because of this, be a great deal. And I think it could also do a lot in...outside of metropolitan areas and cities. It could help people get started in a lot of rural communities where, quite frankly, housing is cheaper, but still you've got that initial problem of a down payment. So I'd be happy to try to answer any questions except from Senator Schumacher. (Laugh) [LB372]

SENATOR GLOOR: Are there...well, you've just doomed yourself. (Laughter) Are there any questions for Mr. Radcliffe? Apparently not. [LB372]

WALT RADCLIFFE: Thank you very much. [LB372]

SENATOR GLOOR: Thank you. Any other proponents? Any opponents? We know we have somebody in a neutral capacity. Thank you for your patience. You also sat quietly in back. [LB372]

TIMOTHY KENNY: (Exhibits 4 and 5) It's been a delightful experience. It really has been quite educational. Mr. Chairman and members of the committee, thank you for the opportunity. My name is Timothy Kenny. I'm the executive director of the Nebraska Investment Finance Authority and I'm here to testify in a neutral position with respect to LB372. I'm neutral because we... [LB372]

SENATOR GLOOR: Would you spell Kenny for us, please? [LB372]

TIMOTHY KENNY: K-e...Timothy, T-i-m-o-t-h-y, Kenny, K-e-n-n-y. [LB372]

SENATOR GLOOR: Thank you. [LB372]

TIMOTHY KENNY: And we're neutral with respect to LB372 because we've not delved into the structure but I am here to comment briefly on the what and the why related to the down payment and closing cost assistance. NIFA was created by the Legislature in 1983 pursuant to the NIFA act as an instrumentality of the state to exercise essential public functions identified by the Legislature. One of those purposes for which NIFA was created was to encourage the investment in private capital to stimulate the construction of affordable housing for low- and moderate-income persons, particularly first-time home buyers. While there continues to exist in the state in both the urban and rural areas an inadequate supply of housing at prices at which low- and moderate-income persons, particularly first-time home buyers, can afford, there also exists an inadequate supply of resources to assist in those purchases. To help address that need, NIFA has

carried out for the past 35 years a home ownership program to provide financing for these low- and moderate-income home buyers. But based on that experience, the biggest challenge that we at NIFA have identified to home ownership is the lack of available funds for down payment and closing cost assistance. This is particular to the case for first-time home buyers and particularly the case with respect to new construction, and even more particularly to the case with respect to new construction in nonmetropolitan areas. One of the issues that we face in nonmetropolitan areas with respect to new construction is the fact that the actual cost of construction often is in excess of the appraised value because of the low volatility of housing sales in nonmetropolitan areas. So even if you had a house built for you at cost, you would not be able to finance it with a typical mortgage because it just would not appraise at a high enough rate. This particular bill that we've seen seems to have some opportunity to create an opportunity for down payment and closing cost assistance in excess of the amount that NIFA offers of about 5 percent. NIFA, as well as the Department of Economic Development and the Federal Home Loan Bank of Topeka, have established programs to assist in this area by providing loans and grants for down payments and closing cost assistance. And since 1996, NIFA has made some 17,000 such down payment and closing cost assistance to Nebraskans. But the need for this resource continues to outweigh the availability of funds. Solutions and programs that provide additional resources for down payment and closing cost assistance continue to be greatly needed. Programs to provide those additional resources, such as those proposed by LB372, would help address this program...address this problem. I'm available for questions and have more information if you'd like. [LB372]

SENATOR GLOOR: Thank you. Questions? Senator Scheer. [LB372]

SENATOR SCHEER: I'm sorry. I guess I have to ask why wouldn't you be supportive? I mean, it provides the additional dollars for the problem you say exists but yet you're neutral, so I'm... [LB372]

TIMOTHY KENNY: Quite honestly, we've not had a chance to get into the details of the mechanics of the bill and we take our direction from the administration with respect to public policy. We're not a public policy organization. We're an entity that executes programs that you approve. So for purposes of this bill, we're neutral with respect to the structure but we do have some experience with respect to down payment and closing cost assistance and the issues in all areas of the state and particularly the nonmetropolitan areas. We do...one of the cycles that we see over time is different issues with respect to productivity and particularly productivity in the construction industries with respect to providing housing for our work force. We had some discussions about work force housing. And this particular bill got our attention because it seems to have some remedies that might be available to help stimulate the production of work force housing. [LB372]

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SENATOR SCHEER: Well, are there...in your position you've not seen or been able to look at all the details. Can you...I mean, no one's been able to find a negative to the concept. Is there anything off the top of your head that would bring a negative connotation to this? [LB372]

TIMOTHY KENNY: There are no negatives. I have none. [LB372]

SENATOR SCHEER: Okay. Thank you very much. [LB372]

SENATOR GLOOR: Good question. Other questions? Seeing none, thank you for your patience and for your input. [LB372]

TIMOTHY KENNY: Thank you. You bet. [LB372]

SENATOR GLOOR: I don't think there's anybody left to speak. So you're recognized to close, Senator. [LB372]

SENATOR CRAIGHEAD: Just a quick one. First of all, thank you for your consider of LB372. I'm a new senator, but there are four criteria I use when I make my decisions. One, is it effective? Two, is it efficient? Three, does it make sense? And, four, is it good public policy? And to me, this bill meets all four of those criteria. If you have any questions, if there are things aren't clear, I'd be glad to answer anything I can for you. We'd love to see this bill go forward. And I got to tell you, my husband is probably going to thank you. We were going to go to Barry Manilow tonight. We may miss it but he's going to end up saving his man card because he thought he would lose his man card tonight, so. [LB372]

SENATOR GLOOR: Well, I'm traveling tonight. I might just travel in the other direction if I can use that ticket. Senator Smith has a question. [LB372]

SENATOR SMITH: No, a statement. I like your four criteria, so I'm looking forward to all those green votes for me. (Laughter) [LB372]

SENATOR CRAIGHEAD: Thank you all very much. [LB372]

SENATOR GLOOR: Thank you. And that will end the hearing on LB372. And that will end the hearings today. [LB372]