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Revenue Committee
February 05, 2015

[LB69 LB156 LB228 LB246]

The Committee on Revenue met at 1:30 p.m. on Thursday, February 5, 2015, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB69, LB156, LB228, and LB246. Senators present: Mike Gloor, Chairperson; Paul Schumacher, Vice Chairperson; Lydia Brasch; Jim Scheer; Jim Smith; and Kate Sullivan. Senators absent: Al Davis; Burke Harr.

SENATOR GLOOR: Good afternoon and welcome to the Revenue Committee. I'm Mike Gloor, District 35, Grand Island. I am the Chair of the committee. I'd like to welcome you. We will take the bills today in the order listed on the agenda that's posted on the back of the room and a couple of other places around the Capitol. I'd like to cover a few specific items if I could, general rules. One is, please turn off your cellular phone or put them on quiet mode. If you are planning to testify today, give verbal testimony, please fill out one of the green copies that's in the back of the room. If you have copies that you'd like to distribute to members, make sure that you've got ten copies so that we have enough to go around. If you don't, now would be a good time to get the attention of the pages who are here and the pages will get you your ten copies so that you're fixed. Order of testimony is this: We start with the introducer, they open, we go to proponents, then we go to opponents, then we go to those people who are interested but in a neutral capacity, and then we allow the introducer to close. Please when you give your testimony, state your name and then spell it for us. That's not really for our benefit, that's for the record, the transcribers who are someplace upstairs listening to all this at some future date. And we need to make sure we get your name correct for the record. If you would like your position to be known but don't want to verbally testify, there are white sheets in the back that you can fill out to make sure that we know what your position is on this bill and can identify you in the record accordingly. Please speak into the microphone. I state that probably less for your benefit than for members of the committee. We sometimes have a tendency to be so amazed at your statement that we sit back in our seats and get far away from the microphone, so we need to move forward a little bit. To my immediate right is counsel, Mary Jane Egr Edson. To my left is Krissa Delka, Krissa is the clerk. And with that, I'll ask the committee members who are here to introduce themselves. Senator Brasch.

SENATOR BRASCH: Thank you, Chairman Gloor. And I'm Senator Lydia Brasch, I represent the 16th District, Cuming County, Burt County, and Washington County.

SENATOR SCHUMACHER: I'm Paul Schumacher, representing District 22 which is Platte and parts of Colfax and Stanton Counties.

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

SENATOR GLOOR: And Donnie is the page over there. Oh, I'm sorry.

SENATOR SCHEER: I don't count, I never have.

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

Revenue Committee
February 05, 2015

SENATOR GLOOR: I looked over and saw Donnie.

SENATOR SCHEER: I'm Jim Scheer from District 19 which is Madison and a little part of Stanton County.

SENATOR GLOOR: And behind Senator Scheer is Donnie, who is our page for today and is Colin going to join us? And we'll end up with Colin, who is from Wayne, who will join us after a period of time. As I said, we'll take the bills up in the order that's out there. And, by the way, just an additional comment. I know familiar faces and I know many of you know this but for those of you who don't, we have senators who are introducing bills elsewhere, have other bills that they're responsible for that are in other committees. Senator Davis is gone and will not be with us today. But forgive us if we come and go. Senators have other responsibilities that they have to address. It doesn't relate at all to their interest in your bill. And with that, Senator Schumacher, we'll start with your bill. [LB69]

SENATOR SCHUMACHER: Thank you, Chairman Gloor and members of the Revenue Committee. My name is Paul Schumacher, S-c-h-u-m-a-c-h-e-r, here today to introduce LB69. LB69 is introduced to interject into our discussion of tax benefits and tax desires, the issue of corporate taxation. And it deals or tries to deal with two particular issues. The first issue is what amounts to a very high rate of taxation of corporate income. And we're talking in terms of what I call real corporations rather than corporations that are smaller and may be treated as partnerships for purposes of the IRS laws. But a regular corporation, if it makes a dollar, it is taxed at the federal level at 34 percent. Then at the state level, the state takes a 7.81 percent bite out of it. Only about 58 cents is left out of that dollar. Pretty heavy bite. But we're not done yet with our taxation of that dollar, because should the corporation choose to pay that dollar out or what's left of it to shareholders, the people who invested in it, the people who are looking to it to fund their retirement, their pensions accounts, pay for their kids' college, whatnot, well, Nebraska is there in line again along with the federal government. The federal government will tax that dollar at between 15 percent and 20 percent and that's if it's what's called a qualifying dividend. And there's special rules for corporations to be qualifying. Generally, they're domestic corporations with domestic business, but special rules. If it can't qualify, it taxes it at the personal tax level of about 35 percent, give or take, maybe a little higher than that now that we have some healthcare taxes on it. And Nebraska gets in line real quick and wants a 6.84 percent bite out of it. So what it boils down to is there's about 42 cents of that dollar that makes it into the shareholders' pocket after the government gets through with it if it's a qualified situation. Only about a third makes it into the shareholders' pocket if it is a nonqualified situation. Pretty high rate of tax, well in excess of 50 percent no matter which way you figure it and really closer to 70 percent. Now, we've tried to struggle with that high rate of taxation by making up incentives. And best I can tell, an incentive is something that cancels out a tax and that's supposedly good for the economy, attracts business. And we have to do it because everybody else is doing it. But in the end what it is, is tax cancellation of one flavor or another. And, best I can tell, it is done on a very discriminatory basis. Some companies get incentives but most companies don't. Sometimes equal-looking competitors, one will get incentives and one who's been in the community with an equal number of employees will get nothing. In fact, they'll have to pay the higher taxes to foot the bill for the one that gets an incentive. And it's a very cumbersome way of going about doing things. Businesses that get incentives often complain that the book work in getting and maintaining an incentive is really, really onerous. And if they just trip a little bit, they lose their

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

Revenue Committee
February 05, 2015

whole incentive. At the same time businesses that don't get them say, you know, I'm employing 30 people, my people look just like the guy across the street who was incented to come here, and I don't get an incentive. How come? So what this particular bill tries to do is a different wrinkle on both corporate taxation and incentive. And what it says is, when you pay in that corporate tax dollar, you get a credit back equal to--or it could be a percentage discount--but basically, the bill says equal to whatever you paid in. So you pay in \$10 million, you get \$10 million worth of Monopoly money back to distribute out to somebody. You can't use it on your own taxes, but you can distribute that Monopoly money, that credit, out to your shareholders and your employees--half to shareholders, half to employees--and they can take it against their taxes, thus giving them a bit of a boost. Now what does that do? Well, if the employee is not a...doesn't have Nebraska-sourced income, they don't have rents from Nebraska, they don't work in Nebraska, they're somewhere else in the country, it doesn't do much for them. If they want to take advantage of the credit, they'd better invest in something in Nebraska and get some Nebraska income; a little bit of an incentive to invest in Nebraska. Likewise, if you're a shareholder. If a shareholder is a Nebraska resident, they get some benefit. Otherwise, they don't get some benefit because they don't have a Nebraska income to offset it. One of the fairly large companies came and talked to me and said, you know, we kind of like the bill, but you're going to need to change it. And I said, well, why is that? Well, we have a lot of our employees in Colorado and this doesn't do them any good. And my response was, move them to Nebraska. Next time you build a new building...a new office building, put it in Nebraska, it'll do them some good. And this type of incentive program applies to everybody, not just people who are for one reason or another designed or designated good enough to incent. Everyone can take advantage of this type of incentive. And it decreases the effect of that onerous corporate tax. It's easy to say, oh, tax the corporations because they're just big and fat. But really, in some senses, as an economic vehicle they are investors and they are labor and they are the know-how that brings the two together. And so this is a very simple proposition to lay on the table. It's got a nice price tag with, that we'd have to do one of the half cent tax on real estate or something to fund this one, but it is a price tag that has got to be in line with the competition for the other price tags. And considering the price tag on our credit program and continuing to go down that particular road, we've now got on paper somewhere around a billion dollars in credits. We don't know if they'll ever be used or not. Some of the companies have fizzled, some will end up using them. But we're talking big money any time you're talking about credits. And so this is a way to deal with the corporate tax issue as well as the incentive issue and maybe do something no other state is doing at this point. A lot of times we get involved in these incentive program things and we're the last guy to get involved and we really are outgunned and outmaneuvered and have to do something super special in order to get back into the game. So that's my story, LB69. I'll be happy to answer any questions. [LB69]

SENATOR GLOOR: Thank you, Senator Schumacher. At least, if I hear you correctly and read the bill correctly, part of what you'd like to see us move towards for budget neutrality would be we wouldn't maintain the same incentive programs. We wouldn't necessarily need to maintain the same incentive programs or--I know that's not built into your bill--but is that part of your philosophy in introducing this? [LB69]

SENATOR SCHUMACHER: If this works, what you're doing is eliminating corporate tax to a certain extent, which is the same thing you're trying to do in a backward way--even though it does also...the incentive extends in some cases to the sales tax too--but by the incentive program. It may be a more efficient way of doing incentive programs and a simpler way. There's no

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

Revenue Committee
February 05, 2015

additional level of lawyers and accountants needed here. And I think most of the corporations that are operating, the larger ones, already distribute 1099s of some sort to their shareholders and have their computers set up to distribute dividends. And I don't see why this couldn't piggyback right on top of it. I don't think...I was on the committee that reviewed the incentive programs that we have now. In some cases, it's pretty clear they meet what is called the "but for" test and "but for" the incentive, the company wouldn't be here. In other cases, they probably are just a bonus that comes five or six years later and has nothing to do whether or not the company became successful here or not. And in some cases they are trapped, so much people forget or erroneously didn't do a records check on an employee or came in a few hours short of the goal and gets denied or delayed their credit altogether. So I think this is...if this were to work, I think it would be a good alternative to some of our incentive programs. [LB69]

SENATOR GLOOR: Okay. Other questions? Senator Scheer. [LB69]

SENATOR SCHEER: Thank you, Senator Gloor. The price tag probably has to be overinflated to the extent that you stated if they have employees that are living outside the state...and I'm thinking, for example, in Omaha there might be employees that would be living across the river in Iowa. So even though the credits based on the bill would be distributed on a proportionate basis of their wages on the credit, the credit is given to somebody in Iowa and like you said, they have no way to use it unless they have something in Nebraska. So those would never be fully utilized, would that not be correct? [LB69]

SENATOR SCHUMACHER: I don't know how they computed that. I kind of think that maybe they've already backed out that number because if I remember right, last year when we were talking about them--maybe it was two years ago--getting rid of the corporate income tax, the figure was in the \$200,000s. So whether or not they backed that out or made that correction, I can't say. But if they didn't, then what you're saying is accurate. [LB69]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB69]

SENATOR GLOOR: Two hundred millions? [LB69]

SENATOR SCHUMACHER: Two hundred millions, yeah, that's right. [LB69]

SENATOR GLOOR: I wasn't too concerned initially. [LB69]

SENATOR SCHUMACHER: I'm still thinking in the real world, but if it was the federal government it would be billions, so it's just in the millions. [LB69]

SENATOR GLOOR: Other questions? Seeing no other questions, thank you. We'll now move to proponents for this bill. Anyone in opposition to this bill? Anyone in a neutral capacity? Seeing none. Senator Schumacher waives. And that ends the hearing on LB69. We'll now move to LB156. We are waiting for the senator. You're up, Senator. Actually, this gives me a second to

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

Revenue Committee
February 05, 2015

tell the audience a point I forgot. And that is, we ask you to keep your testimony to five minutes. And to help you along those lines, we do have a light system that we will be using. As long as it's green, you're good to go. When it goes yellow you have a minute. And when it goes red, we ask you to wrap up your comments. Thank you. Good afternoon. [LB69]

SENATOR STINNER: (Exhibit 1) Good afternoon, Senator Gloor and members of the Revenue Committee. For the record, my name is John Stinner. It's spelled J-o-h-n S-t-i-n-n-e-r. LB156 adds \$2 million of funding per year to the Nebraska Angel Investment Tax Credit Program which restores it to the original intent of \$5 million for the program. This program has demonstrated success and a need to be expanded. In 2012, it's first year, the funds were gone by mid-July. In 2013, gone by mid-April; 2014 and '15 the credits were all used on the very first day, January 1, when the credits were available. Through 2014, over 250 applications have been approved as qualified investors, and 72 businesses have been approved to receive investments under the program with only 4 of those of the 72 businesses not located in distressed areas. And that's a key point because as you look at the committee's review this summer, that was one of their goals in criteria of evaluating where these investments were. And they wanted to make sure that a lot of those investments were made in distressed areas as opposed to nondistressed areas. More than 103 start-ups are eligible for funding. Clearly, demand is bigger than the available credits. The success of the program and lack of adequate funding should not be a surprise. In 2010, the Department of Economic Development hired a national consulting firm, Battelle, to look at the Nebraska's economic development programs. The study revealed there was what they called a glaring shortage of technology-based development programs in Nebraska oriented to assist high-growth, potential small businesses. As part of the study, the entrepreneurs and early-stage technology companies interviewed indicated that it is very difficult to access early stage capital in Nebraska. The study reported that a way for the state to decrease the risk and further incent investing in technology ventures is to provide tax credits to the Angel Investors. Another report prepared by the Legislature's Innovation and Entrepreneurial Task Force outlined the need to improve Nebraska's entrepreneurial environment. The study compared Nebraska to other states and reported, in part, access to capital, Nebraska ranks very low in access to capital. Actually at that time we rated dead last. This is a major area in need of improvement. With this program, Invest Nebraska, we are now 37th in the nation. And that's according to the Kauffman Study, or Kauffman Index, excuse me. Innovation was another area. Nebraska ranks very low in technology innovation. This is also a major area in need of improvement they concluded. This study also recommends the creation of an Angel Investment Economic Development tool for the Department of Economic Development to fill the capital financing gap that high-technology innovators experience. In response to this study, Governor Heineman in his 2011 State of the State Address announced a Talent and Innovation Initiative designed to enhance Nebraska's economic momentum. The purpose of this initiative was to give the Department of Economic Development new tools. To promote the economic development in Nebraska as part of his initiative, he proposed \$5 million Angel Investment Tax Credit Program as a new way to foster high-tech start-ups in Nebraska. He stated the Angel Investment Tax Credit Program is key to increasing the number of higher-paying jobs in the state of Nebraska. After extensive debate, the act was passed with strong support. Unfortunately, due to political and economic realities, funding was scaled back to \$3 million. In 2012, Senator Pirsch...I believe that's correct, Pirsch, introduced LB281 to fully fund the program at the \$5 million level that was originally recommended by Governor Heineman. LB281 was advanced by unanimous vote by the Revenue Committee, but once again the bill failed to pass because of revenue constraints. The program does have a sunset clause at 2019 where it can be evaluated using the metrics formulated by

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

Revenue Committee
February 05, 2015

LR444, Tax Incentive Evaluation Committee. If LB538 is passed by the Legislature, this act could be evaluated within the next three years. As a side note, the term Angel Investor originated in the early 1900s to describe businessmen of financial means who invested in Broadway productions. Today, the term refers to private individuals of means who contribute their money and sometimes their skills to start-up companies. This is how the program works. Only Nebraska residents, Nebraska pass-through entities, LLCs, sub S, those types of pass-through entities and nonresident estates and trusts may claim the tax credit on their Nebraska income tax return. Angel Investors under the act are referred to as qualified investors, which can be an individual or a qualified fund certified by the director. And I think that's the director of Economic Development, by the way. The individual who invests in a start-up gets a 35 percent tax credit, a refundable tax credit if it's a nondistressed area and 45 percent...or 40 percent if it's in a distressed area. Investments of \$25,000 or more per calendar year is the minimum amount and it should be noted that only four businesses were located, again outside that distressed area. I did note that earlier, by the way. The qualified fund must invest \$50,000 or more in a calendar year. A qualified fund must have at least three investors that would meet the definition of a qualified investor. So if you wanted to do a pool, Senator Gloor, Senator Sullivan, we wanted to put our money together, create a fund or an LLC, we would have to be qualified investors and our fund would have to be qualified as well. So, the amount of tax credit is limited for married couples filing joint returns. The maximum is \$350,000, and for all other filers, the maximum is \$300,000. The director shall not allocate more than a total of \$1 million in credit in any one qualified small business. Qualified small business defines start-ups that are helped. In order for a start-up to be eligible, the start-up in the high-tech field must apply to the director of Economic Development to become a certified as a qualified small business. It must have 25 or fewer employees, be based in Nebraska, have at least 51 percent of its payroll in Nebraska, be engaged in or committed to innovations in Nebraska in one or more of the high-tech fields as defined by the qualified high-tech investor. Now, the qualified high-technology fields includes, but is not limited to, aerospace, agricultural processing, renewable energy, energy efficiency and conservation, environmental engineering, food technology, cellulose ethanol, information technology, material science technology, nanotechnology, telecommunications, biosolutions, medical device products, pharmaceuticals, diagnostics, biologicals, chemistry, veterinary science and other similar fields. So it's fairly broad in its definition. Because of federal law, matches between qualified investors and small businesses must be made outside the department and without the assistance of the department. However, the department can list qualified businesses on its Web site if the business grants their permission. So if a business is lacking in funding, it may be able to post on the Web site who they are and how much money they need for investment purposes in order to attract that. If this program is to be successful in the future and attract investors as contemplated in the law, it should be fully funded at \$5 million level. In 2014, those who invested \$25,000 should have received a 40 percent tax credit or \$10,000, but because of the demand, the investor got \$8,624. In 2015, the same \$25,000 equity investment has been prorated down to even a more lower number, \$8,574, thus the incentive for Angel Investors continues to decline. Under the circumstances, it's very fair to assume that if the program was funded at the \$5 million level, the \$5 million would be invested in Nebraska innovative, high-tech, start-up companies and create jobs right here in Nebraska. The Angel Tax Credit fills an identifiable key gaps in Nebraska's economic development program. The program supports new high-tech companies in Nebraska. The fact that the aggregate credit amount is exhausted the first day of the past two years shows the impact of the fund. It is getting the intent...attention of investors and investment groups throughout the state and is a creative tool for a lot of small business owners and entrepreneurs. I am handing out...I believe we are handing out a map that shows where the qualified investors are located across the state and the number of credits approved the first two

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

Revenue Committee
February 05, 2015

years of the program. Nebraska must also be competitive with other states. In 2015, 22 states had some kind of Angel Tax Credits. In the Midwest states, the states that we compete with in the Midwest, were Colorado, Minnesota, Iowa, Kansas, North Dakota, and Wisconsin. Others will follow me to provide you additional information. The Nebraska Angel Tax Credit is working. This request is about growing Nebraska, it's about creating good-paying jobs, and rebuilding the middle class. This concludes my explanation of LB156. I urge you to support LB156 and vote to advance it from committee. Thank you. [LB156]

SENATOR GLOOR: Thank you, Senator Stinner. Are there questions for Senator Stinner? Senator Schumacher. [LB156]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. Welcome to Revenue, Senator Stinner. [LB156]

SENATOR STINNER: Thank you. [LB156]

SENATOR SCHUMACHER: A couple of things and if you're not able to answer this because you're... [LB156]

SENATOR STINNER: I've got a lot of really smart people coming up. [LB156]

SENATOR SCHUMACHER: Well, I know. I'll ask them if...(Laughter) [LB156]

SENATOR STINNER: And they may be better at it. [LB156]

SENATOR SCHUMACHER: Well, maybe I'll just save these for closing in case they don't. [LB156]

SENATOR STINNER: Whatever you wish. Actually, if you ask the questions, they may be able to prepare for the answers. [LB156]

SENATOR SCHUMACHER: Well, then it isn't as much fun watching them. (Laughter) [LB156]

SENATOR STINNER: Right. [LB156]

SENATOR GLOOR: Other questions? Seeing none, thank you. Are you staying to close? [LB156]

SENATOR STINNER: Yes, I will. [LB156]

SENATOR GLOOR: Okay. Proponents. [LB156]

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

Revenue Committee
February 05, 2015

RICHARD BAIER: (Exhibit 2) Good afternoon, Chairman Gloor and members of the Revenue Committee. For the record, my name is Richard Baier, last name is spelled B-a-i-e-r. Currently, I serve as president and CEO of the Nebraska Bankers Association and I'm here testifying today in support of LB156. I have also been asked to testify in addition to the NBA for the Nebraska Chamber of Commerce, the Nebraska Economic Developers and the Invest Nebraska corporation of which I'm a board member. My appearance today before you today is a little bit of a deja vu as I appeared before this committee on February 3, 2011, which is four years and two days ago that I introduced the original Angel Investment Tax Credit concept to the Legislature via a hearing at this committee. So my testimony today includes a little bit of a historical perspective as well as a view for the future. I'm going to skip a great deal of the prepared remarks that I've submitted. What I would tell you is when we put the Talent and Innovation Initiative together and we had a great dialogue, so Senator, I'm looking forward to your questions. But quite frankly before that initiative, Nebraska lacked a culture and an entrepreneurial environment that aggressively supported today's entrepreneurs, small business owners, and innovators. Senator Stinner did a nice job talking about the reduction from the original proposal from \$5 million to \$3 million. At the time the discussion with this body, being the Legislature, was to include a future economic impact analysis, and a geographic diversity analysis. Thus, we sit before you today revisiting that topic. If you look at Nebraska's current economic base, one of the things that you soon realize that I did as I spent my time with the Department of Economic Development as I traveled around the state, there are a large number of our companies that are today are the bedrock of our economic foundation. They really got their start as Nebraska entrepreneurs. You look at people like Gallup, Crete, Lincoln Industries, Lindsay Manufacturing up in Senator Scheer's part of the world, the Buckle, Cabela's, Behlen, and the list goes on. And as we begin to talk about how do we support those folks and make sure that the future Behlens and the future Cabela's and that there's a way to support their efforts, recognize they're going to be a little bit different kind of company. And that's really what spurred the creation of the Angel Investment Tax Credit to start with. The other piece of this that was important to us when we did the research was that we had many Nebraskans who were taking their personal wealth and investing it in new business opportunities outside of our state's borders. And that was a fundamental weakness in our economic development strategy and one that we were very concerned about. Like Senator Stinner mentioned, we are going to hear from several companies that have utilized this program. They will share with you their personal stories, but they will also outline how the Angel Investment they received was essential to their business success in Nebraska. I would be remiss in my duties as president of the NBA if I didn't talk a little bit about our interest in this important tool. Our bankers routinely work with entrepreneurs and small business owners that are looking for financing to launch their new ventures. In this case, the equity investment or the Angel capital that comes into these start-up companies often allows these companies to become more economically viable and thus more bankable sooner in their development. As the companies grow beyond the Angel stage, they also often look to Nebraska financial institutions to fund their growth and expansion. The success of this Angel Investment Tax Credit then ultimately helps grow our member financial institutions that are members of the NBA. Quite simply, as a general statement, the Angel Investment Tax Credit is a relatively new public policy concept in Nebraska that has made an impact. It's an important tool to foster small business in innovation and it also encourages our local residents to invest in their own futures. The organizations that I'm testifying for today would encourage you to forward LB156 to the full body for consideration, and I would be happy to take any questions that you might have. And I didn't even get to the yellow light, so. [LB156]

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

Revenue Committee
February 05, 2015

SENATOR GLOOR: Thank you, Mr. Baier. Questions? Senator Schumacher. [LB156]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. Thank you, Richard, for being here. [LB156]

RICHARD BAIER: You bet. [LB156]

SENATOR SCHUMACHER: The Angel Investor may be an angel, but he's not Santa Claus. And he gets a percentage of the company for putting his money into the company. Is there any limits on whether he takes back 100 percent and what is...the young entrepreneur has got to be left with something? [LB156]

RICHARD BAIER: You know, that's really a negotiation between the investor and the entrepreneur in most cases. That's really kind of the bargaining process in the middle. Yeah, I personally have seen them kind of all over the ballpark. So you're right, those percentages are definitely going to fluctuate depending on the needs of the company. [LB156]

SENATOR SCHUMACHER: Now this is a refundable credit. [LB156]

RICHARD BAIER: That is correct. [LB156]

SENATOR SCHUMACHER: And as such, it's basically a check. [LB156]

RICHARD BAIER: The way...yes, the way the refundable credit does work if there's no tax liability, there still is a refund generated by the Department of Revenue to the taxpayer. [LB156]

SENATOR SCHUMACHER: Right. And so basically, it's no wonder that the money is not gone at six o'clock on January 1 in the morning because it's a check. I mean, there should be a high demand for free money. [LB156]

RICHARD BAIER: There is a...it's a good demand. You know, the reality is, there's some parameters in terms of what folks have to invest and making the match with the right company. Now the other side of it is, I'm not...if I'm the investor, which hopefully some day I'll be able to be in that financial position, if I'm the investor, I'm not investing in a bad company that's going to lose everything, going on the front end. So it's not...it's not like it's a Christmas package because in some cases they still may open up a lump of coal in the box, so. But I do agree, you know, there is a strong benefit and it was really designed to incent that behavior that didn't exist in Nebraska at the time. [LB156]

SENATOR SCHUMACHER: The...any reason for doing it with a refundable credit rather than just an appropriation to a grant program and more selectively picking the people who get the grants? [LB156]

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

Revenue Committee
February 05, 2015

RICHARD BAIER: Well, grant program...you know, one of the things that we like about the way it was structured, not only is it a tax credit, the other thing that is important and I think maybe provides some validity, and I'm sure some of the companies can share with you a little bit of their history, but many times as part of this investment, the investor actually takes a seat on the board or becomes an advisor to the company. That's why I think many times that's a better tool than saying, okay, the state of Nebraska is going to write company X a check because that business knowledge is coupled with that investment, it makes the chances of success much greater. [LB156]

SENATOR SCHUMACHER: Now, once they're established and they're up and running, we've given them the 40 percent up-front money, how long do they have to stay here before they can merge themselves away and be gone to someplace else? [LB156]

RICHARD BAIER: Three years right now is the minimum that the companies need to retain their structure in Nebraska. And there's a few caveats if they're sold or a bank filed for bankruptcy, those kinds of things. But typically they have to stay in the state three years once the investment is made. [LB156]

SENATOR SCHUMACHER: Any reason for just three years? [LB156]

RICHARD BAIER: I think it was just a number at the time. What you will see in these companies is they tend to turn, especially on the IT side, they tend to turn pretty regularly and have a much faster start-up rate and sort of a spin-out rate than what I'd call a traditional manufacturing company or something like that. [LB156]

SENATOR SCHUMACHER: So what happens if they spin-out and crash after the investor has cashed his check for 40 percent? [LB156]

RICHARD BAIER: That would be a loss. [LB156]

SENATOR SCHUMACHER: Thank you. [LB156]

SENATOR GLOOR: Senator Brasch. [LB156]

SENATOR BRASCH: Thank you, Chairman Gloor, and welcome, Richard. [LB156]

RICHARD BAIER: Thank you. [LB156]

SENATOR BRASCH: Good to see you again. I do have a few questions here. With Angel Investors in helping entrepreneurs, do they have a relationship to or a cross into incubator businesses or Innovation Campus? Do they graduate from innovation and go to Angel, or is it an Angel will go into the incubator company or the...is there a tie there? [LB156]

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

Revenue Committee
February 05, 2015

RICHARD BAIER: You know, it's a process. Every company is going to be a little bit different. Many times if somebody is going into an incubator, they may receive Angel funding as they're going into an incubator. Sometimes they may need that Angel funding. Let's assume it was a single person start-up and they have a great...the next big great idea, whatever that might be. It may be that they're located at Innovation Campus to do their research because they're close to the researchers, but it could very well be that they may not need lots of the capital until they spin out of that process. So it kind of depends company by company. [LB156]

SENATOR BRASCH: Has there been a decrease of new businesses since the funds were cut back from \$5 million to \$2 million? Is there a correlation there? Has that stunted the growth of entrepreneurs in our state? [LB156]

RICHARD BAIER: Well, we started at \$3 million. It was actually proposed at \$5 (million) and through some negotiation, actually with U.S. Senator Fischer, when she was a state senator, we negotiated it to \$3 (million) on the front end. So it's been \$3 million since it started and what you're seeing now is the demand is very, very strong. As Senator Stinner referenced, we're occasionally seeing where the funds are gone literally within weeks of them being available. [LB156]

SENATOR BRASCH: Thank you. And then I don't know, perhaps I missed this, but should this investment be made and it's an Innovation Campus or another company, a couple of years ago, I made one of my priority bills was getting an exemption for the biochip company that started as a university company. However, when they were privately purchased, the tax incentives were greater in another state...less...or I think in Michigan and then two other states, so we were in danger of losing those companies. So if we invest tax dollars or tax relief here for one of these Angel companies, is there any assurance that they will remain in Nebraska? [LB156]

RICHARD BAIER: There's not. I mean, that's a pretty tough requirement to put on someone because their business cycles might change or their product might change. Right now what we are seeing, and that's sort of a different business model because what you're talking about is very young companies. What we dealt with on the biochip issue was a company that had been in existence for quite some time and really was facing that they were purchased and their new owner said, I'm doing an analysis of two different states and here's the number. So it's just a different stage in their development and their growth as a private business. [LB156]

SENATOR BRASCH: Do you believe it would be fair if we are investing tax relief, tax credits, to have them stay in our state for a period of X amount of years to recoup the forgiveness we gave or is that...? [LB156]

RICHARD BAIER: Well, in this case you've got the three-year window. And then on some of the other bills, there are other kinds of hurdles to leaving Nebraska. I would tell you...and it gets way off this topic, but even under Nebraska Advantage, for example, many companies during the recession chose to maintain their employment in Nebraska because we had clawback provisions that did not exist in other states. So there's already some of that built into the public policy as it exists in Nebraska. [LB156]

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

Revenue Committee
February 05, 2015

SENATOR BRASCH: Because I know it's very easy to move a technology company. [LB156]

RICHARD BAIER: It is and that's a challenge in working in the technology sector, but the other side of that is, the tech sectors may not have a lot of equipment, but the successful ones understand that their productivity and their profitability is tied to their work force and that's really key to making them successful. And so if you pick up and leave, you typically leave those workers behind and that's created...it's a challenge for the companies that are going to be after me. [LB156]

SENATOR BRASCH: And I was very pleased to see the biochip company expanded and it's doing, thriving here, so. [LB156]

RICHARD BAIER: And adding lots of new folks as we speak. [LB156]

SENATOR BRASCH: Very good. Thank you. I have no other questions. [LB156]

SENATOR GLOOR: Senator Sullivan and then Senator Scheer. [LB156]

SENATOR SULLIVAN: Thank you, Senator Gloor, and thank you for your testimony. In following up on just your last comment, is there a mechanism for tracking these companies and seeing how they are developing in their growth? [LB156]

RICHARD BAIER: Sure. You know, I don't know...I haven't...I've not been at DED in three years but there was kind of a process in place to kind of do a continual evaluation of the companies. They could speak better to where they're at in that process. I don't know that but I do know that that's something that in fairness to the taxpayers we need to continue to have those discussions. Again, I'll let some of the folks behind me talk about their success and kind of how that's worked. [LB156]

SENATOR SULLIVAN: Thank you. [LB156]

RICHARD BAIER: You bet. [LB156]

SENATOR GLOOR: Senator Scheer. [LB156]

SENATOR SCHEER: Thank you, Senator Gloor. Thanks for stopping in. [LB156]

RICHARD BAIER: You bet. [LB156]

SENATOR SCHEER: It is subscription time process first then, so if the \$3 million we have now essentially are gone in 30 days, is that a fair... [LB156]

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

Revenue Committee
February 05, 2015

RICHARD BAIER: The last few years, I believe it has been, believe that's the case. [LB156]

SENATOR SCHEER: All right. Well, we'll say one week give or take. [LB156]

RICHARD BAIER: Give a little flex. Sure. [LB156]

SENATOR SCHEER: If we expand it to \$5 million or \$6 million, are we just expanding it to two weeks or does that take away the huge rush that maybe it lasts for six months? I guess my concern is, if there's that much demand, those that aren't funded are going to go somewhere. So do they go across the river or do they go to some other...obviously, some other part of the United States to find those investors in order to facilitate their start-up, so, you know, how much do we know are we losing? [LB156]

RICHARD BAIER: Senator, I can't speak to that because I don't see the volume like I did before in my prior career. But I do think, you know, I don't know that any of us are set on \$5 million. If it was \$10 (million), I think you could probably find a demand for that in Nebraska. Maybe a bigger macro level in this process is, I do think that culture in that environment that was missing four or five years ago from our economic development entrepreneurship support, I think we're starting to build that and you're going to hear from some folks that I think will tell you that as well. So I don't know that \$5 million is the right number. I'm not sure \$10 (million) would be the right number, but I do think that we're making a difference in changing the discussion with our young Nebraskans who are interested in being entrepreneurs. [LB156]

SENATOR SCHEER: Well, I...and you know, it's a cost for everything we do is a cost and if we are making it so restrictive that literally if you're not waiting at the door when it opens to file the paperwork, it's gone by noon. If there...you know, there's very few things that we have that kind of demand for business expansion because this is business expansion. It's not and may not be somebody adding another 100,000 square feet or another 100 jobs, but these are all new businesses wanting to start in Nebraska. [LB156]

RICHARD BAIER: Yeah, they are. They are. You know, I would perceive it more not as an expense but an investment. Senator Sullivan and I have had this conversation. I mean, one of the worst investments we can make is educating young people to leave the state when they graduate whether it's from K-12 or higher ed. That's maybe the worst public policy investment we could make if they leave. So this is one more tool to help solidify and create opportunities for those folks to stay in our state. [LB156]

SENATOR SCHEER: Thank you. Thank you, Senator Gloor. [LB156]

SENATOR GLOOR: Any other questions? Senator Schumacher. [LB156]

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

Revenue Committee
February 05, 2015

SENATOR SCHUMACHER: Thank you, Senator Gloor. One quick follow-up question. Downside of making this, just a...taking away the refundable credit, making it just an offset against their taxes rather than a check. [LB156]

RICHARD BAIER: Well, I think it depends on who the investor is. In some cases, it may not mean a great deal to them, depending on their tax structure. I can't speak for every investor. There may be some investors that if they have limited liability because of a year of losses or something, or if they're a farmer and they had significant farm losses, this credit becomes irrelevant to them depending on the year that it's in. [LB156]

SENATOR SCHUMACHER: Thank you. [LB156]

SENATOR GLOOR: Seeing no further questions, thank you, Rich. [LB156]

RICHARD BAIER: Thank you, Senator. [LB156]

SENATOR GLOOR: Other proponents. Good afternoon. [LB156]

ERIC DINGER: Good afternoon, Chairman. Thank you for having me, Senators. Thanks for taking the time to listen to us today. My name is Eric Dinger. I live in Lincoln here. My last name is spelled D-i-n-g-e-r. I am here today representing my company which is called Powderhook.com. It's a hunting and fishing Web site. And I'm also here authorized as a board member of the Chamber of Commerce here in Lincoln to speak on behalf of the Chamber of Commerce. In many ways...I'll start by saying this. I might be the poster child of this program. My story is the story you're looking for over and over and over in this state. I grew up north of here in South Dakota. I moved here for college. I started a business and I sold a business. And now, I've started another one and this economic incentive was a big part of the reason my business was able to get up off the ground. So today, we have ten employees. We're based here in downtown Lincoln just a couple blocks west of here. And the way I look at it is businesses like mine, the start-ups of the world, are the economic development that's really working. In the most direct sense, I believe this is an investment into businesses that will hire Nebraska high-talent workers today. When you read in the newspaper that a start-up has raised money, in the technology business that money is important because we are competing on day one against the entire world. Unlike my previous business which was a service business, my competitors were, in that company, my neighbors. I was competing against other businesses in our area for a lump of business...a lump of demand constrained largely to this area. Today, my biggest competitor is in Portland and they're kicking my butt from a funding standpoint and I'm in a dog fight. This isn't a...this isn't a, gee, I hope I can make it kind of deal. This is a scrap and fight in a national competitive space. And so being in Nebraska for me has to be a competitive place to be from a financial standpoint or I can't win that fight. So, again, I believe companies like mine are that engineer looking for, from an investment standpoint, that long term will pay you back many fold. And I think that there are starting to become some examples like that in businesses like mine who have been around for five or ten years now, and there's many...maybe Hudl is a good example, you'll probably hear several times. They're kind of...they're kind of one of the most recent and best success stories of what happens when nerds and money come together. (Laugh)

Now these folks have upwards up to 200 Nebraska employees and that's the process you're looking to replicate with a program like this. I'm by no means a policy expert. I can't tell you specifically how it should work. I can just tell you that the more of this that happens, the more people like me there will be attracting ten new employees whether they're from here or from out of state. I can tell you that if 103 businesses qualified for the tax credit this last year, each of those may be hiring five new Nebraskans, you've directly hired 500 high-paying Nebraska jobs. Take that number to 200 next year and I would guess that the math given the process is a couple of years older, take that to 200 next year, and I think what you're going to begin to see is the development of what we in the start-up community call an ecosystem, which is a place where businesses start, grow, scale, and exit. Exit meaning create liquidity with a degree of routine. And to give you an example of what I'm talking about there, I was recently at a talk given by a gentleman named Brad Feld, who is a bit of a celebrity in the start-up space. In the city of Boulder in 2013 averaged a software company exiting their business, meaning selling it, for over \$30 million once a month. Twelve of them in just the city of Boulder in 2013. That type of liquidity will pay you back as a finance committee, as a taxing body, that type of liquidity is where you get your return outside of the peer economic development of the jobs that are created. So with that, I'm happy to answer any questions. [LB156]

SENATOR GLOOR: Question for Mr. Dinger? Senator Schumacher. [LB156]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. What actually does your company make or do? [LB156]

ERIC DINGER: Thanks for asking. (Laughter) Our company is a marketplace like Expedia but instead of finding flights and hotels, in our marketplace, you find outdoor places to hunt, fish, events you can go to outdoors, so. This weekend we have an NWTF banquet in Lincoln, Nebraska, and you can buy your tickets on our platform to that. [LB156]

SENATOR SCHUMACHER: So basically it's a Web-based computer interface with probably other Web sites that market that kind of stuff. [LB156]

ERIC DINGER: Right. Yep. [LB156]

SENATOR SCHUMACHER: Okay. And your first business, was that financed also with Angel Investment? [LB156]

ERIC DINGER: No. [LB156]

SENATOR SCHUMACHER: Okay. And I take it you sold it and probably made some money. [LB156]

ERIC DINGER: A little bit, yep. [LB156]

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

Revenue Committee
February 05, 2015

SENATOR SCHUMACHER: Okay. And then you had this other idea for a Web service and you needed some money to finance it? [LB156]

ERIC DINGER: Yeah. And so I took the proceeds of the sale of the first business and invested that first, which I think a percentage of those 103 businesses probably also did. But then in addition to that, yes, then I raised some money. [LB156]

SENATOR SCHUMACHER: Are you a corporation then? [LB156]

ERIC DINGER: Yes, sir. [LB156]

SENATOR SCHUMACHER: And if you don't mind telling us, how many shareholders do you have? [LB156]

ERIC DINGER: We have 18. [LB156]

SENATOR SCHUMACHER: Eighteen. And how many of those were Angels? [LB156]

ERIC DINGER: Eighteen. [LB156]

SENATOR SCHUMACHER: And how big of an Angel check did the stork bring you? [LB156]

ERIC DINGER: (Laugh) The stork brought me none because I'm the... [LB156]

SENATOR SCHUMACHER: But I mean the other investors. [LB156]

ERIC DINGER: You know, I made a list. Seven out of our eighteen qualified, are Angels, and six of them have heard confirmation that they received credit. And one of them received confirmation that he's on the waiting list. He had his paperwork in the first business day of the year. [LB156]

SENATOR SCHUMACHER: And these 18 people, what did they have to put into the pot in order to invest? Are they equal shareholders? [LB156]

ERIC DINGER: They're not, but the minimum to qualify for your program is \$25,000 and thus the minimum to invest in our business was also \$25,000. [LB156]

SENATOR SCHUMACHER: And if there's money there, they will get...are you in one of these low-income areas or are you just at the 35 percent level? [LB156]

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

Revenue Committee
February 05, 2015

ERIC DINGER: We...I'm not sure. That's a good question. We're based right over here in downtown Lincoln. I believe we are considered low income, I believe. [LB156]

SENATOR SCHUMACHER: You're close enough to the Capitol you're probably depressed. [LB156]

ERIC DINGER: Yeah, we're three blocks. I know I'm depressed. (Laughter) [LB156]

SENATOR SCHUMACHER: Okay. [LB156]

ERIC DINGER: So one of the...to speak to your point a little bit, one of the things I heard along the way at different points was that investors would consider this program in many different ways. Some would invest regardless of the program. Some invested more because of the program, and then there was kind of this third category of people that only invested because of the program. And I would say that's probably 2 of the 18 that were convinced specifically because they got the tax...or the tipping point for them was the tax program. [LB156]

SENATOR SCHUMACHER: So the great bulk of your investors, this program didn't make any difference. [LB156]

ERIC DINGER: I'd say half, yeah. [LB156]

SENATOR SCHUMACHER: And how much of your company did you have to give away? [LB156]

ERIC DINGER: Let's see, we raised about \$800,000 and we gave away about a third of the company. [LB156]

SENATOR SCHUMACHER: You still have two-thirds. [LB156]

ERIC DINGER: Myself and our cofounders do, yeah. [LB156]

SENATOR SCHUMACHER: Now you mentioned about in Colorado, I think it was, you grow a company and you sell it to somebody else and I think the figure was tossed out, 30 million bucks or something like that, which would be nice, right? (Laughter) [LB156]

ERIC DINGER: That's what we're working for. [LB156]

SENATOR SCHUMACHER: Okay. But you could after your three years are up and you find somebody to give you 30 million bucks, if you were a resident of some other state and a state

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

Revenue Committee
February 05, 2015

that didn't have any income tax at all, there's no obligation to pay Nebraska back anything is there? [LB156]

ERIC DINGER: Is this the time right now to testify for no income tax in Nebraska or is that a... (Laughter) [LB156]

SENATOR SCHUMACHER: So what is our income tax rate in Nebraska? [LB156]

ERIC DINGER: Seven percent, 6.5. [LB156]

SENATOR SCHUMACHER: You're close, you must have looked at that. Why not do this in South Dakota where it's zero? [LB156]

ERIC DINGER: You know, I've asked myself that. No, I haven't. This is home to me and I think to speak directly to your question, I think that for the 103, you're probably at risk of losing some of those. But for the most part, it's a pain in the butt to move a business and I would guess the vast majority of that 103 are here to stay so long as they can grow and do the right thing for their business by being here. And I think ultimately that's what you're competing against. I don't think you're competing as much against somebody acquiring us and moving us, because we've got a bunch of employees here that they'd have to relocate. It doesn't necessarily make business sense to do that. What you're competing against is, does it make more business sense to do what we're doing, to scale a business to have a national brand to be able to attract high-level talent? Does it make more business sense to do that elsewhere? Does it make more economic sense to do that elsewhere? To me that's the big question, not would I just up and leave because we sold it. [LB156]

SENATOR SCHUMACHER: I have one final follow-up question. You said you were in competition or getting your butt kicked or something by somebody out in Oregon, I think. You're beyond the Angel stage now. Do you need extra capital for your business? [LB156]

ERIC DINGER: I do, yes. [LB156]

SENATOR SCHUMACHER: And so you've got two sources of that capital now that you're beyond Angel, you've got the equity markets and the debt markets. What's the biggest obstacle for you to have access to capital now? [LB156]

ERIC DINGER: We have...we're in what we call in our business the trough of sorrow, which is the point in the technology business...that's not a joke actually, that's what we call it. (Laughter) We're at a point in the development of our technology where we have a product, we have a market, but we're in that span where we've got to bring the two together and solve the problem. Does that make sense? There's a space between when your technology really solves the problem and when people are paying for it. And so, we're in there. And so our biggest challenge for

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

Revenue Committee
February 05, 2015

financing our business has really nothing to do with an economic program. It has to do with, can my business get to this other side before we run out of money? [LB156]

SENATOR SCHUMACHER: And your biggest inability to get money at this stage, what is it? Well, we've got some bankers in the room, and they're ready to write a check, I know. [LB156]

ERIC DINGER: Yeah. Yeah. So taking full accountability for the business, the biggest hurdle is we're not over there yet. If we get over here, it's much easier because we open ourselves to capital markets all over the world. But in this purgatory, if you will, we're not a great story for anybody. We're not a great story for Angels because we're kind of past that phase to your point. And if we're not over here, we're not a great story for a venture capital firm or an institutional investor. So the biggest hurdle is on us. It's we've got to get our business from here to there. [LB156]

SENATOR SCHUMACHER: What's stopping you from going to people who have got money now, post-Angel, and say, okay, here's our thing, here's how we're going to get from where we are to the other side of purgatory and here you can have so much percentage of our business for buying your stock? I mean, what obstacles are you as a practical matter facing? [LB156]

ERIC DINGER: Right. [LB156]

SENATOR SCHUMACHER: I mean, have you gone like to a bank and the banker has said, oh, no, you're not there, you're still in purgatory? So he can't make you a loan because you don't have enough equity. [LB156]

ERIC DINGER: Yeah. [LB156]

SENATOR SCHUMACHER: What's stopping you from getting in the equity markets because there's farmers, we know we hear about them every day in this committee, that have got money so much they're paying exorbitant prices for land. What's stopping you from tapping into that? [LB156]

ERIC DINGER: When I described the trough of sorrow, what I mean is, that we don't have a bankable business model yet. So what's great about a farming business model is, when they buy an acre of land, they understand the inputs and the outputs and can build a model, a predictable model for how they make money long term on that investment. Where we're at is, we're still building that model such that we can be predictable in the same way. And so nothing stops us from asking others to invest in our business, nothing at all. From having...what's stopping us is that having success in those conversations is unlikely given where we're at and where we're at is all on us. It's all about whether or not we execute as a business and get ourselves across the bridge. So there is nothing preventing us from asking. In fact, we could have that conversation, Senator Schumacher, whenever you're ready if you're interested. (Laughter) [LB156]

SENATOR SCHUMACHER: I'm sure that there's a lot of people that might be interested in...in anything else a good deal. But I mean, I think we're focusing in on a problem here that maybe needs to be addressed because I don't know how much Angel money your folks are going to get, but let's assume it's in the six figures and Nebraska is going to...written your investors a check, essentially for that six figures. And now we're sitting in a situation having made that investment, where you're burning in purgatory and we're not sure if you're going to come out or not. And for you to work...or for your idea to work, we've got a link we've got to accomplish or we just as well not put that six figures in to begin with. I'm trying to find from you what we need now, whether that \$2 million that's being sought for here should be plugged into something else. [LB156]

ERIC DINGER: So the biggest risk to an Angel investor, and thus the biggest risk to this program is what is referred to as follow-on risk, which means that for high-growth businesses, the businesses like Hudl who can go from 5 employees and then five years have 200, the biggest risk to the first stage of investors is the follow-on. Will there be capital to follow this investment to...you've all heard of the hockey stick in start-up right? Well, to fund that growth takes more money than the business...money faster than the business can produce it. And so, yes, you're pointing out a legitimate challenge for businesses in this area, (a), and (b) a legitimate and constructive point that perhaps you could deal with as part of this legislation or maybe there's another program that could be the sort of second step or something. [LB156]

SENATOR SCHUMACHER: Thank you very much. Very informative. [LB156]

SENATOR GLOOR: Senator Sullivan. [LB156]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you. To that end, why did you hold up Oregon as an example? Are they doing some things that are more advantageous to businesses like yours? [LB156]

ERIC DINGER: I can't speak directly to the programs that they have in their area. And they're not...I wouldn't say they're...I said they're kicking our butt in that Oregon is more of a hotbed for start-up activity than Nebraska has been. And maybe the only way to accurately portray that is, in time. Places like Portland have been investing in businesses like mine with programs like the one we're talking about here for a much longer period of time. Recently the Chamber of Commerce here in Lincoln retained AngelouEconomics. Mr. Angelou was the economic development director for the city of Austin for a number of years during their big tech boom. And to give you just, you know, a couple of empirical data points about what time in market with this type of program will do for our state, AngelouEconomics reports that the city of Austin alone last year added 45,000 jobs, this is net positive 45,000 jobs, and 65,000 net new people into the state. Our state last year had a total...this is their numbers, not ours, had a total Angel investment total sum of about \$14 million. Just the city of Austin had \$165 million. So when I say time, what I mean is, this program, in my opinion, should grow. It is an engine and there are places like Portland, like Austin, Silicon Valley, places like Boston that are good anecdotes for us to look at and say, if we do some of this stuff, and maybe we've got to even be more aggressive now because lots of other people are also doing it, it stands to reason that we could see some of the same results. [LB156]

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

Revenue Committee
February 05, 2015

SENATOR SULLIVAN: Thank you. [LB156]

SENATOR GLOOR: Other questions? Seeing none, thank you very much. [LB156]

SENATOR SULLIVAN: Good luck. [LB156]

ERIC DINGER: Thanks. [LB156]

SENATOR GLOOR: Yes. Other proponents? Good afternoon. [LB156]

RYAN MEAD: (Exhibit 3) Thank you. Senator Gloor and members of the Revenue Committee, my name is Ryan Mead, spelled R-y-a-n M-e-a-d. I'm the founder and CEO of Vitru in Norfolk, testifying in support of LB156. I would like to thank Senator Stinner for introducing the bill. Vitru is an on-line software designed to help you build a great team. We equip you with the tools to find the right person for the job, the team, and the culture. When the job fits right, a person is motivated to stay, to grow, to contribute. All of this propels a business forward, while making the employee's life and the manager's life more fulfilled, making your team a great one. Your job is creating cohesive team. We make that easier. Vitru was founded in 2011 and we're proud of being from Nebraska. Although we're international now, our roots are solid in the soil of Nebraska proving that you don't have to head to Silicon Valley once you solve the business problem. It's totally okay to stay and invest in your local community. Our growth began in my back yard with Nebraska companies as a foundation to our learning, our growth, and our ability to build trust. Jason Fried, a founder of 37signals and author of REWORK, best describes entrepreneurs this way. He states, let's replace this fancy sounding word with something a bit more down to earth. Instead of entrepreneurs, let's call them starters. Anyone who creates a new business is a starter. You don't need an MBA, a certificate, or above-average tolerance of risk. You just need an idea, a touch of confidence, and a push...or a push to get started. Jason Mullenhoff was our push. Jason is a vital part of rural northeast Nebraska, a successful young businessman who is committed to the growth of rural Nebraska as anyone I've ever met. Without Jason and his belief in Vitru's pursuit, simply we wouldn't be here today. Granted, it took Vitru finding the right talent to make this vision a reality. Yet without Jason's capital and his unwavering support of our team, we wouldn't be here. I introduced Nebraska's Angel Tax Credit to Jason whose success allowed him the opportunity to leverage these credits as a means to mitigating and reaffirming his investment. Jason was the fuel. Without fuel, even a great spark doesn't start an engine. Nebraska is built on great people, trusting one another and where a handshake still means a promise kept. Vitru is growing rapidly, hiring, and planning to make rural Nebraska a place where talent can choose to live. Nebraska's Angel Tax Credits was a distinct competition...or a competitive advantage in leveraging capital within the state to build organizations of lasting value. Nebraska kept its promise in making the state a leader. Lastly, and most importantly, when Nebraskans champion our talent and its unlimited potential, we all win. From the kindergartner in Scottsbluff to the senior computer science major at Raikes School at UNL, they all see Nebraska as a place to make a difference and call home. Thank you, Nebraska, for creating the Angel Tax Credit. This thank you is from my team, our customers, our families, and our communities. Thank you very much. [LB156]

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

Revenue Committee
February 05, 2015

SENATOR GLOOR: Thank you, Mr. Mead. Questions for Mr. Mead? Senator Scheer. [LB156]

SENATOR SCHEER: I'd just like to welcome Mr. Mead to our committee hearing, a fine example of what we do up in northeast Nebraska so I just wanted to point that out. [LB156]

RYAN MEAD: Thank you, Scheer, thank you. Start-ups are a bit different than what I call brick and mortar companies. And I can speak to that and Senator Scheer knows very well. My wife has a business in West Point, Nebraska, a business in Neligh, Nebraska, a business in Norfolk, Nebraska, and Wisner. She owns dance studios and they're very, very good dance studios, but that's a market that's been proven. I know if I educate students, I know how to price, I know how to take it to market. Start-ups and Internet companies are a completely different monster and we've chased that monster for four years. And I just want you to think of them as different because in our house there's two sides of the bed and they're totally different, so. (Laughter) [LB156]

SENATOR GLOOR: Senator Brasch. [LB156]

SENATOR BRASCH: Thank you, Senator Gloor, and I'd like to welcome you and thank you as well. [LB156]

RYAN MEAD: Thank you. [LB156]

SENATOR BRASCH: I'm curious if all of your investors or the Angels, are they from Nebraska? [LB156]

RYAN MEAD: Yes. We actually...we actually have one and so we're a little bit different than what we are...Jason Mullenhoff is our single investor from an Angel perspective. Jason believed in me when I went to his office in Leigh, Nebraska, and wrote this on a piece of paper about our idea. And so, you spoke of it, Senator Schumacher, about, hey, isn't all this money running around in agriculture? Well, we happened to get a very successful young ag guy to invest in a tax start-up. So that money came out of rural Nebraska, it came out of rural ag, where, quite frankly, the idea of success to them is to buy another 80, buy another 80, buy another 80. And for him to think about a software start-up and it's potentially hit that hockey stick and grow was...was, I think why we created what we did here. [LB156]

SENATOR BRASCH: And is your company also...it's a research company, so basically you just...you work with technology, or...? [LB156]

RYAN MEAD: Yeah, no, we actually are employed by...we're going to be a competitor against Gallup. I hate to say that in this group, but...we're in the hotbed of HR and talent management right here in Nebraska with Kenexa, Talent Plus, Gallup, etcetera, and we are in that vertical, we're in the talent management vertical. [LB156]

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

Revenue Committee
February 05, 2015

SENATOR BRASCH: Very good. So, but basically your investors...this is where I'm going here is, there's no need to travel to Norfolk. It doesn't bring people into Norfolk, it just gives Norfolk jobs and the surrounding area. [LB156]

RYAN MEAD: Correct. Exactly. We do...I don't buy Girl Scout cookies door to door. They just don't come to our brick and mortar and do that. But I find it kind of interesting that a technology start-up company that is going to try to do that happened to be on the back of a t-shirt of the Norfolk Panther, little junior wrestling. So that's how a tech company...and keep in mind, if I leave you with nothing else is, these are jobs that are extremely talented people. I may have come up with the idea and Jason may have invested in the idea, but these are incredibly talented people that make this come to life, everything from our industrial psychologist to our developers and our statisticians. I'm humbled every day. But those jobs either were being...two of our senior developers were employed by bay...bay companies. So they were employed, living in Omaha, in Silicon Valley. Now, we've brought them into Nebraska-based, Nebraska companies. [LB156]

SENATOR BRASCH: Very good. I have no other questions. Thank you. [LB156]

RYAN MEAD: Thank you very much, Senator. [LB156]

SENATOR GLOOR: Senator Schumacher. [LB156]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. Thank you for your testimony and sharing your experience. Again, what was your idea? [LB156]

RYAN MEAD: Yeah. [LB156]

SENATOR SCHUMACHER: What was the idea? [LB156]

RYAN MEAD: Yeah, our idea was that the way businesses and industries and companies connect was broken. The idea of you having to become a job applicant to see if you fit within an organization was a broken idea. So it took us creating a prototype. We're probably a little different. We wrote an enormous business plan in a two-marketing cash flow, etcetera, and we received a prototype grant of \$50,000 in 2012. We took that idea to the market and one of our largest customers, Northwestern Mutual, said I love this idea but we just want this little part of it, we don't care about the 95 percent of it. [LB156]

SENATOR SCHUMACHER: When you say "we," who is "we" at that point? [LB156]

RYAN MEAD: "We" would have been three employees. [LB156]

SENATOR SCHUMACHER: There was three of you at that point. [LB156]

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

Revenue Committee
February 05, 2015

RYAN MEAD: Three of us at that time. [LB156]

SENATOR SCHUMACHER: And if you describe briefly what your educational background of these three people? I'm trying to get a picture... [LB156]

RYAN MEAD: Yeah. [LB156]

SENATOR SCHUMACHER: ...how or if this thing works. [LB156]

RYAN MEAD: How or if it works, I will tell you that...I can't speak for everyone in the industry. I have no idea of the 103 applicants or subscribers. [LB156]

SENATOR SCHUMACHER: Just your... [LB156]

RYAN MEAD: Just us? [LB156]

SENATOR SCHUMACHER: The three people that you said will be college graduates, tech school graduates... [LB156]

RYAN MEAD: All college graduates. [LB156]

SENATOR SCHUMACHER: In what fields? [LB156]

RYAN MEAD: I'm an education major, graduate in 1995 from Wayne State College. Brian has his MBA and our other one has his MBA as well. [LB156]

SENATOR SCHUMACHER: Okay. And the three of you decide you're going to try to... [LB156]

RYAN MEAD: It was me. It was me and so when that happens...so I want to tell you, I came from an HR environment. I led an HR team for a large...a large ag company. And so when you step out on that limb, it's a...entrepreneurship in the tech world is two things. It's very deep and it's very cold. And I had to make those connections very quickly in order to do that and Invest Nebraska did that. So keep in mind, I had to learn, for your sake...and I'll tell you this. I had to learn about intellectual property law. I had to learn about what it's like to file patents. I had to learn about what's the difference between C Sharp and dot.net and what this all means, all while testing a product into the market. [LB156]

SENATOR SCHUMACHER: So you developed a computer program that basically shares information for various functions between businesses. [LB156]

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

Revenue Committee
February 05, 2015

RYAN MEAD: Yeah, that's...I will say that's like Gallup saying, hey, you figured out how to study people. [LB156]

SENATOR SCHUMACHER: Okay. Now are you in competition with like Paycom and that type of operation? [LB156]

RYAN MEAD: No, our largest competitors right now would be in the...that are solid in the talent management are right here in our backyard. You have Cornerstone OnDemand, which...Kenexa, Kenexa was acquired by IBM. Those are large, what we call, enterprise level solutions. Our software is used to...for organizations less than about 1,000. Norfolk Iron and Metal is a great client of ours, right in our backyard. [LB156]

SENATOR SCHUMACHER: And your Angel investor, what percentage of the action does he have and what did you get to keep? If you don't want to say, that's fine, but I'm just curious. [LB156]

RYAN MEAD: I would say if four years of sleepless nights and working your butt off is action, then he didn't get a lot of action. [LB156]

SENATOR SCHUMACHER: He must have a stock in the company. [LB156]

RYAN MEAD: Yeah, he does, absolutely. We're a Nebraska C corporation and let's say that I still own the majority of the shares, vast majority. [LB156]

SENATOR SCHUMACHER: Okay. And how many people do you employ now? [LB156]

RYAN MEAD: Five now and we have projected by the end of the year to be up to fifteen. [LB156]

SENATOR SCHUMACHER: Are they all in Norfolk? [LB156]

RYAN MEAD: They're going to be in a small community called Leigh, Nebraska. And I will tell you, there's nothing growing in Leigh, Nebraska, but when you bring...the great part about rural Nebraska, and I can speak...I've been in your hometown, I've been to Cedar Rapids, I love West Point, I love these towns. The idea of it is is that when you think of a start-up coming to rural Nebraska, it just doesn't happen, let alone for you to be on the phone helping people and helping tech support. It's a great idea because we can...I grew up in a world where my dad educated welders for 42 years. And that world is now turned to say, I can move something from A to B. The engine of the economy today isn't creating more welders, it's creating people that can think and can have imaginative great ideas. And I think we're doing that. [LB156]

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

Revenue Committee
February 05, 2015

SENATOR SCHUMACHER: And so your vision is it will be 15 people from around the country with high-level skills working in Leigh. [LB156]

RYAN MEAD: We're going to recruit...our call center, we're going to employ great people in Leigh, so. And then, we also building...I can't speak on the record to it, but we're also going to grow in Omaha. [LB156]

SENATOR SCHUMACHER: Okay. [LB156]

RYAN MEAD: Two separate pieces of our business. [LB156]

SENATOR SCHUMACHER: Okay. And the connection to Leigh is Mr. Mullenhoff. [LB156]

RYAN MEAD: Uh-huh, and I live in Norfolk. [LB156]

SENATOR SCHUMACHER: And generally the capital structure, how much money did it take to get going? [LB156]

RYAN MEAD: Usually three times more than you thought. [LB156]

SENATOR SCHUMACHER: I know that, but... [LB156]

RYAN MEAD: Millions. [LB156]

SENATOR SCHUMACHER: Millions. Okay. [LB156]

RYAN MEAD: Yeah. So that's the thing, the barrier of entry here is, when you create a start-up that's a new idea, and he spoke of this earlier, you have to prove the value. You can't just say, I'm making a better widget, because if you're making a better widget, you're not a start-up. A start-up is truly something that hasn't created a market and that market and product fit has to be developed. [LB156]

SENATOR SCHUMACHER: And the millions that this took, is that debt or equity? [LB156]

RYAN MEAD: It's what you call taking out of your savings account and equity from Jason to make it happen. [LB156]

SENATOR SCHUMACHER: Okay. So you didn't go to a bank and borrow, you haven't leveraged that millions yet? [LB156]

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

Revenue Committee
February 05, 2015

RYAN MEAD: I leverage...I leveraged that millions of dollars by my personal assets. [LB156]

SENATOR SCHUMACHER: But you haven't borrowed money, leverage in that sense? [LB156]

RYAN MEAD: To the extent of, would we have a line of credit is what you're saying or anything to that extent? [LB156]

SENATOR SCHUMACHER: No, I'm just trying to figure out whether all of this is equity that's invested in your type of business or whether or not you've taken so much in equity and gone to a bank and got a loan for a certain percentage of it, so you have twice the capital (inaudible). [LB156]

RYAN MEAD: Most banks don't...most banks...I was a corporate banker. I can speak to this kind of in a unique way. I graduated from Northwest College of Credit in 1996 and I was a corporate banker for almost 12 years. So I can tell you that start-ups are probably the most unbankable thing out there unless you have a multimillionaire that signs your guarantee line of credit. [LB156]

SENATOR SCHUMACHER: Are you still in purgatory, your company? [LB156]

RYAN MEAD: You know that's...I've never...I have to speak to that. We connected on LinkedIn the other day and that's awesome. I can tell you what purgatory is. Purgatory is when your wife goes to the grocery store and you have to make sure she doesn't spend too much. [LB156]

SENATOR SCHUMACHER: Then we're all there forever. (Laughter) [LB156]

RYAN MEAD: If that's...I will tell you, though, that when we speak of these as, you know, it's a million here and a million there, we have five people that live and breathe Vitru 24/7, 365, and that's an awesome thing. And we couldn't have done that without Jason's investment in what we've done and it made it extremely viable to him because of the Angel Tax Credits. So I can speak to it about him. [LB156]

SENATOR SCHUMACHER: Thank you. [LB156]

RYAN MEAD: Thank you. [LB156]

SENATOR GLOOR: Thank you very much. [LB156]

RYAN MEAD: Thank you. [LB156]

SENATOR GLOOR: And we appreciate your passion for Nebraska. [LB156]

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

Revenue Committee
February 05, 2015

RYAN MEAD: Thank you. [LB156]

RANDY THELEN: Good afternoon, Chairman Gloor and members of the committee. Thank you for your time here today. My name is Randy Thelen. For the record it's R-a-n-d-y T-h-e-l-e-n. I'm the senior vice president of economic development for the Greater Omaha Chamber of Commerce. I will tell you I've got some wonderful words written here, but I'm going to go off script based on some of the conversation I've heard. I've been here in Omaha for a year now and I've had a chance to observe the entrepreneurial ecosystem that's been developing and to sit here today and hear how this credit was developed just three...almost four years ago now and the impact that it has had. In Omaha alone, back four years ago, we had one single business incubator. Today, we have six, six dynamic places throughout the community offering quick turnkey opportunities for start-ups building the entrepreneurial ecosystem across the region. We also have a program called Straight Shot that is attracting companies from across the country...start-up companies from across the country bringing their big ideas, their big opportunities to this state to test, to market, and ultimately to grow, again, something that was not here just four short years ago. Our universities--Creighton, UNO, and UNL--have either started or extremely expanded their start-up programming getting students into the start-up mind-set as we heard earlier from Eric. We also have seen virtually zero Angel Investment four years ago. We heard earlier we were ranked 50th in the country from a state perspective. Today we've gone to 37th. In four short years if you followed any type of tax ranking, that's an incredible growth in just a short period of time. Increasing this program here today will take us even further. We're seeing our community, greater Omaha, ranked consistently in the top ten places being on the list of communities like Portland, Oregon, like Austin, Texas, as some of the great places to start a company. We were not on those lists just five short years ago. The next wave that we'll see take place, as we've seen a growth in Angel Investment, we've seen growth in start-up companies, the next wave that we're expecting to see and we're starting to see today is our major corporate players begin to reach into that start-up community, spinning out companies of their own or working with early-stage companies to help propel their growth and their success in our state. That is all building this incredibly dynamic and high growth, rapid growth entrepreneurial ecosystem that was really almost nonexistent five years ago. We've seen this program have a tremendous impact in building that entrepreneurial ecosystem. We're seeing more start-ups, we're seeing greater innovation, more patent technologies developed. We're seeing greater investments from the Angel Venture Capital community and ultimately the great measure then is jobs and investment. And we're seeing that in spades. The folks here before us, I think we've seen great examples from Ryan and Eric of the type of companies that we need to see take place in our market. We need to see them not 103 over the past four years, we need to see that by an order of magnitude to really get the kind of entrepreneurial ecosystem developed and growing in our state. Thank you. [LB156]

SENATOR GLOOR: Thank you, Mr. Thelen. Questions? Senator Brasch. [LB156]

SENATOR BRASCH: Thank you, Chairman Gloor. Excellent testimony, but what comes to my mind now is, if there are no funds, are there no Angels? Have there not been Angels before this fund and should this fund go away, will we not see Angels? [LB156]

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

Revenue Committee
February 05, 2015

RANDY THELEN: Well, we have great momentum and momentum has been building. Certainly, we need to continue this program, continue the incentive to draw them out. Being new to Nebraska, it wasn't long before I heard the lesson of, this is a value investor mind-set. And one of our most wealthy individuals in this country and around the world lived and did pretty well with that mind-set. We need to put more high-risk capital in the works to generate the type of start-ups that we heard from earlier today. You know, many people will not invest in something they don't understand. We need to provide a credit and incentive for them to come off the sidelines with their wealth and put it into early-stage companies if we want to grow the type of high-pay, high-skilled technology jobs, technology companies that we need. [LB156]

SENATOR BRASCH: But are there individuals that just invest? I'm thinking...and I...because I don't watch it, but I think isn't there like a Shark show or something where people go in front and try to do their thing and then...and then there's that individual who Senator Schumacher is reminding me of today, with the swept hair, (laughter) and questions of investment that people that invest in companies that... [LB156]

RANDY THELEN: There are and to suggest that the only Angel Investments taking place in the state are driven by tax credits would be an overstatement. What the credit has done is really created an environment where more people have stepped off the sidelines with their capital to explore and take an interest in Angel Investment, many of which capture the value of this tax credit, many do not. And I think that again is the type of ecosystem, the type of dynamic start-up community that we want to see and we're starting to see more and more Angel investors come on the scene. [LB156]

SENATOR BRASCH: Okay. Very good. I have no other questions. Thank you. [LB156]

SENATOR GLOOR: Senator Sullivan. [LB156]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you for your testimony. We heard earlier that Texas, or specifically Austin, has had some success, Portland has had some success. I don't know where you came from before you came to Nebraska, but are there spots that we could emulate or states that are really doing a bang-up job on this? [LB156]

RANDY THELEN: Yeah, and I think this tax credit certainly follows what other states have done. I think I heard earlier we're the 22nd state or one of 22 states to have this program in place. I came from Michigan. They had a comparable program that was put in place two years ago, so they're just now starting to see the outcomes of that. This is high-risk capital without question. Even with the tax credit, the number of companies that try to get through that purgatory, don't make it. It's really a volume opportunity again to go from 100 to 200 to 500 to 1,000 type of companies in this space is really where we need to get to. So we have some that will exit like the folks in Boulder; we'll have some that will stay and grow; some that won't make it, but ultimately we will have brought in, we'll have retained the talent. If I recall Eric, you said you're from South Dakota, came to school here, started a company, and stayed here and has now built a team of technology folks that will, if he...frankly, if he doesn't make it, those technology folks will leave that company and start their own, they'll go support another company. But we will have retained

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

Revenue Committee
February 05, 2015

and grown technology people in this market and that will be a tremendous boost to the economy. [LB156]

SENATOR SULLIVAN: Thank you. [LB156]

SENATOR GLOOR: Senator Schumacher. [LB156]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. Thank you for your testimony. One of the issues that was raised here and we're being asked to put \$2 million more into the front-end of this in Angel investing, but doesn't do any good to have that initial investment if the company burns in purgatory. And what do you see as the kind of tool that is needed to bail somebody out of purgatory? Where do we get our indulgences from in order to make it work? What do we need? Would it be better to put that \$2 million in something else? [LB156]

RANDY THELEN: Well, I have a couple of thoughts on that. I think when you think of economic development, we need to think of it as a diversified portfolio like your 401(k) account. You have large cap stocks, mid-cap stocks and emerging technologies, you'll have a little bit of international. And this would be in that emerging technology space. Most of us probably don't have more than 10 percent of our investment in that emerging technology space. And if you look at incentives across Nebraska, we have about that percentage invested in these type of companies. I would suggest that it's not our space to save them from purgatory. Companies need to prove themselves in the marketplace. This type of program is really intended, and it's working frankly, to get more start-ups off the ground, to get more Angel Investors off the sidelines, and ultimately place more bets and see which ones can come out the other side. So to intervene to that extent, I think would be an awfully expensive proposition. [LB156]

SENATOR SCHUMACHER: Thank you. [LB156]

SENATOR GLOOR: Senator Scheer. [LB156]

SENATOR SCHEER: Thank you, Senator Gloor. You made an interesting comment. Earlier you said, Nebraska was right at 50th three or four years ago. They're now 37th. They get...you just mentioned that Nebraska was one of 22 states that had an Angel Investment type program. So my thought is, what else do we need to do that moves the needle because obviously it's not just having the funds available? Because if that were the case, we'd be in the low 20s. We're not. So what else is it that we as a state or communities should be looking at or doing to get the needle pushed farther and be more successful? [LB156]

RANDY THELEN: Yes, some of it is we were late to the game. Those other states had a jump start on us. Other states, frankly, have more technology talent at play and so maybe haven't had to put this type of credit program in place. But if you look at the whole entrepreneurial ecosystem that needs to be there, it really starts with folks generating ideas, folks in universities being trained to think of start-up opportunities and launching them right out of school. People within bigger companies taking the risk, as we heard earlier from Ryan, taking the risk to leave

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

Revenue Committee
February 05, 2015

their established company and put their house on the line and all those sort of natural risk-taking moves, encourage that type of risk-taking. Have places where it a cost-effective turnkey operation for them to launch. These incubators I referenced earlier provide mentorship in making sure we have folks who have been through that cycle before. Part of the reason why Portland, Oregon, and Boulder and Austin have sustained success in this area is they have an inventory of mentors who are shining examples of how you can be successful. Then they pay it forward, not just with investment dollars, but with their mentorship to help guide people through that purgatory that we heard before. So mentorship is important. Getting our corporations to be first customers and help draw these ideas into the marketplace and get to their vast distribution of a global distribution for customers. All of that needs to be put in place and we made tremendous strides over the last four years. Continuing this program, continuing to build the entire ecosystem around that will continue to propel us going forward. [LB156]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator. [LB156]

SENATOR GLOOR: Thank you, Mr. Thelen. [LB156]

RANDY THELEN: Thank you. [LB156]

SENATOR GLOOR: Any other proponents? [LB156]

BART DILLASHAW: Hi. My name is Bart Dillashaw, that's B-a-r-t D-i-l-l-a-s-h-a-w, and I wear a couple different hats in sort of the ecosystem. My day job is I'm an attorney. I have my own law firm and I primarily work with start-ups and investors and then I'm also the president of the Nebraska Angels, which is the largest sort of organized group of Angel Investors in the state. On top of that, I'm personally an Angel investor and so...and so try not to cover some of the ground that everyone else has, but one of the things I can is I think actually speak very well to how this program works on the ground in the trenches. Like I said, I personally applied for credits and between the stuff that the Nebraska Angels have done and my clients have done, I've probably been, you know, party to 25, you know, maybe more of applications for these credits. And I think, one, it's a good thing. Where it really helps is in this conversation about they're trying to get investments, so Senator Schumacher, I can almost assure you that Ryan and Eric are going to pick your brain in the hall after this and see if you want to make investments into their company. (Laughter) They were really happy that you were asking questions. You seemed really eager and they want to give you the opportunity to get even more involved. And so as part of that, and, you know, as Angels sort of get into it, you know, they're inherently in a discussion where you're not an industry expert in this or you're very likely not to be an industry expert. You're really betting on Eric or you're betting on Ryan. You know, at the same point, you're very cognizant of the fact that the best of the best of the best of venture capitalists are wrong 80 percent of the time in the investments that they make. This is exceedingly risky stuff. And there's a million different things that can go wrong. So when Ryan is sitting there trying to tell you how he's going to take down Gallup from the middle of Norfolk with three people, it really helps to be able to say, oh, and one other thing, if you invest, there's this great opportunity that Nebraska has where you can get up to 40 percent of your money back on initial investment. And what that does is it, you know, for all of the Angel Investors that are sitting there on the line and they're like, I really like them but it's really risky, hmm, well, you just pushed me over the edge. And that is where this program

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

Revenue Committee
February 05, 2015

really comes into play is that sometimes it is that final carrot that entrepreneurs need to be able to get people over the line and actually make that investment. And in...it really does come down to those conversations. The other good thing about it...I'll put my sort of president of Nebraska Angel hat on, when we're trying to draw in members and this is creating an organization where we have members that are interested in Angel investing and, you know, not everything that we do is within the state but sort of inherently over half the deals that we invest in are in the state when we we're trying to encourage people say, hey, this is something you should think about. This is a great thing to do. It gives us another carrot to say, you probably heard about the Nebraska Angel Tax Credit. Would you like to know how to take advantage of that? Would you like to be introduced to companies that qualify for this? And it gives us one other thing to sort of talk about. It allows us to raise the topic of conversation about Angel investing and we get into...that immediately leads into all these great conversations about ecosystem building and infrastructure and, you know, how do we make Nebraska a better place. And so that's sort of my glowing endorsement for the Angel Tax Credit itself. The other thing that I want to talk specifically about is sort of the \$3 million versus \$5 million price allocation right now. So we have sort of a weird scenario that happens in the current environment where because all of the credits are gone on day one and because of this relatively well-known tax credit right now, you have Angels that will go to a company and say, great, I want to invest in your company. I've heard about Angel Tax Credits. How do I get those? And the company now has to say, wow, I'm really happy you're interested but they're all gone this year. And so now the investors feel like they lost something. It was something they never had to begin with, but it was dangled out there and taken away. So now they feel like they've lost something and you've actually created a barrier to companies getting invested at this point. An then the other thing that happens is you get, you know, and the reason that you have everything that accumulates and is gone on day one is because you have to then get creative lawyers, like myself, that are involved and you know, you effectively...you effectively create bridge loads or mechanisms is a way to sort of delay the investment until that first day. And so effectively all...the reason that it was all gone on day one is that all of the investment activity for 2014 saved up and accumulated and it was all submitted in December so they could hit that day one activity. And so now you just increased the transaction costs for the company. You've just created additional barriers for them and actually made their job a little bit harder in some respects to getting this done. And so that's one of the real dangers of having this threshold as low as it is, is that when it's gone, you know, the people all of a sudden felt like they lost something, so. I'll stop there and if anybody does have any questions. [LB156]

SENATOR GLOOR: So Mr. Dillashaw, the issue of it being all gone that quickly because of the pent-up demand that's been there, are we really addressing that? I think, maybe Senator Scheer was asking questions along those lines. So if we delayed that a couple of weeks, I mean, have we really addressed that problem or aren't we always, we hope, going to have that problem because we do so well, we have so much Angel investing going that the enthusiasm eats up those credits very quickly? [LB156]

BART DILLASHAW: Well, sort of. I mean you...more is always better, so sort of start off with that. I mean, I do think that even with \$5 million you'll probably see it go relatively quickly. But I would rather...so if I get to ask, I'd rather have \$10 million, you know, to the extent I can sort of throw that out there. Great, you know. Yeah, you know, more is better, but \$5 million is certainly better than \$3 million. And at some point you do sort of max out, you know, at a \$10 million dollar level. That equates to about \$30 million dollars of investment. You know, I think that we heard a stat that said we did \$14 million last year so that would be doubling the amount of Angel

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

Revenue Committee
February 05, 2015

investment that took place. So you're not, you know, while 35 cents out of the dollar may not be at risk, you know 65 cents are. So you're not going to get people spending good money over bad just to collect the credits. So there is a...it will cap out there, but, you know...yes, I would love to see even more than \$5 million. [LB156]

SENATOR GLOOR: Other questions? Yes, Senator Brasch. [LB156]

SENATOR BRASCH: Thank you, Chairman Gloor, and thank you for your testimony today. You said two words that I had to look up on my iPhone quickly. Venture capitalist. [LB156]

BART DILLASHAW: Yes. [LB156]

SENATOR BRASCH: Compare a venture capitalist to a Angel investor, please. [LB156]

BART DILLASHAW: So typically, a...these are not precise terms of art, so there is a little bit of fuzziness in how they're used colloquially. But in general, a venture capitalist is going to denote a professional money manager who manages money for other people. So it's going to be an organized fund versus Angels are investing for themselves. And that's generally the critical...the critical issue. And then with that, with venture capitalists you're talking about an exponential increase in volume, so most funds are probably in the hundred, two billion dollar range versus (inaudible), you know, or could be making investments of, you know, minimum of \$5 million, you know, sometimes considerably in excess of that versus Angels, you know, do much smaller chips. [LB156]

SENATOR BRASCH: Does Nebraska have venture capitalists? [LB156]

BART DILLASHAW: A few. [LB156]

SENATOR BRASCH: We do have a few? [LB156]

BART DILLASHAW: Yeah, not enough. [LB156]

SENATOR BRASCH: And are they also Angel Investors? [LB156]

BART DILLASHAW: They are...no, because they come in at different stages. You know, again, a venture capitalist is probably trying to put \$3 million in play versus an Angel is probably giving people that first initial idea and it's probably only going to put, you know, generally \$7 million. So when Eric and Ryan get to the next level, and they need to, you know, branch out to their, you know, full national organization and hire a sales team of 100 people, they're going to need 10, 20, 30, 40 million dollars of investment to be able to roll that out. When they get to that level, that's when the venture capitalists come in. [LB156]

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

Revenue Committee
February 05, 2015

SENATOR BRASCH: And you're the president of the Angel Investment group? [LB156]

BART DILLASHAW: It is...our group is called the Nebraska Angels and so we are a group of about 60 individual Nebraskans who meet. [LB156]

SENATOR BRASCH: You're a recipient of those funds? [LB156]

BART DILLASHAW: Well, we...the way that our group works is all of our individuals are individual investors so we are not a fund. We are just a group that gets together that helps...you know, helps people sort of aggregate, evaluate, and work through the process of Angel investing. To give you...there's a lot of work that goes into this, so to give you sort of like a sense of, we invest in about one out of every hundred deals that we see, you know, we as a group. And so there's a lot of sort of like screening and getting to know it and evaluating terms that, you know, you get a lot more efficient when you team up with other like-minded people and so that's the sort of the purpose of a group like the Nebraska Angels. [LB156]

SENATOR BRASCH: You've answered all my questions. Thank you so much. [LB156]

SENATOR GLOOR: Senator Schumacher. [LB156]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. Thank you for your testimony. Are there other Angel investment groups in Nebraska besides yours? [LB156]

BART DILLASHAW: They are...there are no others that are as large or as organized. Now, there are sort of informal groups of people that sort of get together and invest on a deal. You know, there's...see someone down at the club or it's your relative, you know, who you get wind of something, hey, Bob or Betty may be interested in this. Hey, want to look at this together? So you get sort of informal groups but no one...there's not another organized group like ours. [LB156]

SENATOR SCHUMACHER: And your group is about 60, I think you said. [LB156]

BART DILLASHAW: Uh-huh. [LB156]

SENATOR SCHUMACHER: Do you invest outside of Nebraska? [LB156]

BART DILLASHAW: We do. [LB156]

SENATOR SCHUMACHER: Okay. And the entrepreneurial environment, the fire in the belly, compare Nebraska to some of the other places you invest. [LB156]

BART DILLASHAW: It's sort of a loaded question, because we don't invest in people that don't have fire in their belly. So when you're doing this stuff, you're betting on the entrepreneur. So...so, yeah, we wanted that...if you don't have fire in the belly, you won't get investment from anyone. Now having said that, Nebraska's ecosystem is great. We're finding a lot more people with that kind of fire in the belly. Honestly, when it comes down to the ecosystem, what you look for more than sort of the individual entrepreneur, like I said, that's sort of table stakes. What gets interesting is when you see who the entrepreneurs surround themselves for support in that work. So if they're in an environment where they can draw upon additional resources, which may be financial resource, but it could also be connections to industry or just good mentors, when you see someone that has surrounded themselves with people of influence or people with connections, that's when you get really interested. And then when we talk about ecosystem, that's really what we're talking about. It's that surrounding infrastructure that helps the individual entrepreneur with fire in their belly to be better in what they're doing. [LB156]

SENATOR SCHUMACHER: Then on average, what percentage of the action do the Angels end up with compared to the idea person? [LB156]

BART DILLASHAW: It wildly varies because that, you know, this gets into the valuation discussion. So, for most Angels who are going to be investing at an earlier stage, the companies are going to be worth less. You know, we typically are going to take between 20 and maybe 30 percent of the company with our individual investor. But, you know, that's a fundamental discussion of, you know, like you said, when you go to talk about how much you're going to put into Powderhook, one of the things you're going to say is, well, how much...what percentage of the company do I get for that? And that's just a fundamental discussion that goes into the valuation and that depends on what Eric has done to this point. [LB156]

SENATOR SCHUMACHER: But your general reaction is somewhere the investor gets about 30 percent, does not get control? [LB156]

BART DILLASHAW: Typically not, no. Angels are passive as a breed. They don't...they've all got day jobs, you know, or they're retired or they've got other stuff to do. They're playing golf. They don't want to run a company. [LB156]

SENATOR SCHUMACHER: Part of the issue is, you made somewhat of a case for a bigger pot of money to deal out of because we're not meeting the demand and really the Angel investment, 35, 40 percent is just a risk softener. That's basically what it is. [LB156]

BART DILLASHAW: It's two things. It's a risk softener and it's a way to bring up the topic. Frankly, it's a spotlight on Angel investing that says, hey, this is a thing. We do this here in Nebraska. Would you like to learn more? [LB156]

SENATOR SCHUMACHER: Okay. Now, can you think of a mechanism that we might put together, incorporate in here, or whatnot, where...okay, the company burns in purgatory, taxpayers are out. Angels are out of the... [LB156]

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

Revenue Committee
February 05, 2015

BART DILLASHAW: Well, I take a little bit of...or I would pose a counter argument to that. And you heard Randy sort of say this, from the state really what I think you're trying to do is build a thriving ecosystem so that you have entrepreneurs with fire in their belly that are now in (inaudible) where they can get financing and they can get support and they can get all of the stuff. And that's really the value to the state because when you get a Hudl, you get 200, you know...they're making...they're, one, making a lot of money so they're paying a lot of taxes but they've also got 200 employees and they're now renting out the Haymarket, basically, you know, revitalized that entire area. And so the benefit to the state is when you have successful businesses that generate tax revenue, you know, on down the line. And so with Angel investing, even if you have a company fail, there is leftover infrastructure there and that you now have 18 investors that are used to the idea of Angel investing now and said, oh, I guess this is a thing. I guess I know how to do this and it is easier for the next person. Likewise, all of Eric's employees are going...they're not going to go work for a big company. They're going to work for another start-up. That increases the level of talent and that's really where you get the buildup and that's the benefit. [LB156]

SENATOR SCHUMACHER: In most of these cases though, there's going to be failure. [LB156]

BART DILLASHAW: Yeah. [LB156]

SENATOR SCHUMACHER: And when the one hits, okay, is there anyway that you can see that the state can have a piece of the action to fund it off of the one that hits to come back into the system? [LB156]

BART DILLASHAW: Absolutely. I mean look, Hudl is a great example. I mean, I have no idea how much they put back into the state. [LB156]

SENATOR SCHUMACHER: No, I'm not talking tax money and nebulous spin-off, I mean, does the state have 5 percent piece of the action? [LB156]

BART DILLASHAW: Oh, Invest Nebraska. Dan was here. It's a direct investment entity that the state can directly apply funds into these companies. [LB156]

SENATOR SCHUMACHER: Right, but that's not Angel Investment. That's a different program. [LB156]

BART DILLASHAW: I would call that Angel investing. I mean, they invest alongside Angels. [LB156]

SENATOR SCHUMACHER: Excuse me, funded by this program. [LB156]

BART DILLASHAW: It's not funded by this program, that's right. [LB156]

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

Revenue Committee
February 05, 2015

SENATOR SCHUMACHER: So basically at some point, theoretically, if this is worth it, we should be able to self-fund this thing from the ones that hit without a taxpayer...if we spread the risk off of this growing plume of activity... [LB156]

BART DILLASHAW: Yeah, I mean, at a general level. I mean, with the Nebraska Angel Tax Credit there is no direct mechanism to return money back into it, so, you know, the inherent sort of assumption is that, oh, these companies will grow or there will be a \$30 million exit where you now have a bunch of new millionaires, hopefully, that are all Nebraska residents that will, hopefully, go spend stuff. I mean, that for the Angel Tax Credit program, that's where I assume it's going to come back. There are other state programs that allow you to have that direct equity stake. [LB156]

SENATOR SCHUMACHER: But right now, there's no refunding mechanism in Angel? [LB156]

BART DILLASHAW: No, not...no, not as I understand the way, in the tax credit is currently. [LB156]

SENATOR SCHUMACHER: If the one that hits, the taxpayers don't have 2 percent of the action or 5 percent of the action that would cycle back... [LB156]

BART DILLASHAW: Not through this program. [LB156]

SENATOR SCHUMACHER: ...and keep the engine running. Thank you. [LB156]

BART DILLASHAW: I'm assuming that's right. Yeah. [LB156]

SENATOR GLOOR: Thank you. I'm sorry. Senator Scheer. [LB156]

SENATOR SCHEER: Sorry, I just thought of something. Angel Investors, \$25,000. Can an investor invest in more than one opportunity for a current year and still receive the credits on each one of those? [LB156]

BART DILLASHAW: Yes, up to \$300,000. You max out at some point, but that's putting a million bucks in. [LB156]

SENATOR SCHEER: Thank you. Thanks, Senator Gloor. [LB156]

SENATOR GLOOR: Thank you, Mr. Dillashaw. Other proponents? [LB156]

KEVIN KAMMER: Senator Gloor and members of the Revenue Committee, my name is Kevin Kammer, spelled K-e-v-i-n K-a-m-m-e-r, CEO of Prairie Cloudware in Omaha and testifying in

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

Revenue Committee
February 05, 2015

support of LB156. I would also like to thank Senator Stinner for introducing LB156. Prairie Cloudware is an Omaha-based digital payments start-up whose mission is to provide services to banks and credit unions so that they can meet their customers' need for security, convenience and control as we increasingly use digital services to pay for goods and services. Specifically, Prairie Cloudware is building a software as a service solution that uses secured cloud technology to interconnect a variety consumer devices on-line, mobile, wearable devices, and other things that are connected to the Internet with key financial data that resides at banks, as well as the emerging fraud protection services offered by companies like Visa and MasterCard and others in the industry. One of the investment thesis that I had when joining the company...actually, I was not the founder of the company but I came on about a year ago to take over as the CEO and what attracted me most was the investment thesis that we had the opportunity to retain and develop talent in Nebraska. And that many of the individuals, the young entrepreneurs that were coming out of our school systems like PKI and the Raikes school were not being given opportunities to create and obtain jobs here in Nebraska where they could use that talent and apply it in this great state. It was interesting to me...I'm probably toward the end of my career, but very interested because of the experience I had both with First Data and the dealings with companies like ACI that I wanted to apply that capability in the know-how that I had back to developing a company here in the state. We've had actually two rounds of investment where investors have received Angel Tax Credits. To date, \$1.4 million of our total investment of \$5.4 million has qualified for the tax credits. In our Series A Round in November of last year, we received \$415,000 from eight unique investors that qualified for the Angel Tax Credit. And in 2014, we received \$965,000 from seventeen investors. So, 21 unique investors of my shareholders have qualified for the credit that may not have invested in our company without the opportunity to receive the tax benefit. Currently, we have 17 employees with plans to double this number during 2015 as we launch our services in the market. In 2014, in preparation for some of the growth we expect to experience, we began partnering with companies, with institutions like Peter Kiewit Institute, PKI at UNO, the Interface Code School in Nebraska in Omaha, and the Raikes School down here at UNL to begin to identify and recruit young software engineers wishing to apply their education without having to leave Nebraska. We're confident in our ability to give them a challenging opportunity that will retain their interests in wanting to stay here and apply the things that they've learned back into our great state to build additional companies like ours. With that, I'll close and thank you for the opportunity to testify on behalf of LB156 and support that you've given Angel Investors to this point. [LB156]

SENATOR GLOOR: (Exhibit 4) Thank you. Questions? Seeing none, thank you. Other proponents? Anyone in opposition to this bill? Anyone who would like to speak in a neutral capacity? Senator, you're recognized to close. By the way, let me read into the record that we have a proponent in a Mark Hasebroock and partners from Dundee Venture Capital who are in support. [LB156]

SENATOR STINNER: Well, thank you. Thank you for this opportunity and thank you for the testimony. I think we covered the waterfront on venture capital, how it works. My concluding comments and I'd just like to refer to an article in the Lincoln Journal on January 27, 2015, entitled "Angel Tax Credit Not Keeping up with Demand." One of the quotes in there is from Joseph Lauber, the man at the Nebraska Department of Economic Development who manages the credits this year: We had a bigger demand than available credits. The fund created to help spur investments and start-ups, more than 50 start-ups are eligible for the fund including Bulu Box, Travefy Flywheel, CropMetrics, Vitru and Best Option Trading, though not all have been

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

Revenue Committee
February 05, 2015

funded by the program. So there is terrific demand. I think we've demonstrated that. I think they've demonstrated with testimony how the fund works and how valuable it is to the state of Nebraska and what the return is. I did try to data mine with the Department of Economic Development how many jobs were created. And this is what I found out. And this analyzes the 2012 Tax Credit Investment employment data. Of the companies that have filed an annual report in July of 2013 on their progress through 2012, baseline employment rose from 14 to 55. And, of course, then they try to extrapolate that 264 percent increase in employment and they estimate that the baseline increased from 46 to 167. That's the beginning of the program. I have no idea where it's at today. There is another bill out there that's asking the Department of Economic Development to give us more current information. This bill does sunset in 2019. I'd just like to give it an opportunity fully funded to see what the results are, take a look on an annual basis at the numbers to make sure that it's effective. And, Senator, I do not want to have a situation where we put strings on that tax credit. I think that that perverts the program. It certainly, from my aspect, if I was putting money in, first of all, it's a fairly risky investment but I will say this. If I get involved or if you get involved in an investment as an Angel Tax Credit person, I think it takes a little element of risk out because as an investor, you're going to be able to loan your expertise to that company, that business acumen that you've gained over your years of experience. So it takes a little bit of an element of risk. From the banking side of things, intellectual property is hard to bank. I mean, you take filing on goodwill or intangibles, really difficult. So commercial banks generally don't get involved, but there are situations that may arise where somebody comes into my bank and applies for a credit, and I say, you need some additional capital which happens quite a little bit. Certainly, this is a program that I can put out in front of people to generate that capital to make it a more bankable situation. And if we look at the SBA, 30 percent capital is required on start-ups with the SBA, that's another program. Invest in Nebraska is a tie-in program with this Angel Taxpayers. Fits really well. I think we have momentum in the state to create that ecosystem that they're talking about. I think we've moved the dials from 50th to 37th. Let's try to just increase it a little bit further so that we can really look back and say, aha, we helped Nebraska grow. We helped rebuild that middle class. So I would ask that you would support this program. [LB156]

SENATOR GLOOR: Yes, Senator Scheer. [LB156]

SENATOR SCHEER: Thank you, Senator. I just have to mention. I feel a little better because of my age and I'm not very tech savvy, but we were talking about all the technological corporations that we're trying to develop, and everyone that came up to testify either had a printed piece that they wrote and read from or handwritten testimony that they read from. It just made me feel better that we haven't lost the old thing, so. (Laughter) I thank them for that. [LB156]

SENATOR GLOOR: Yeah, nobody used overhead projectors either. I did notice that. Thank you. Oh, I'm sorry, Senator Brasch. [LB156]

SENATOR BRASCH: Thank you, Chairman Gloor. Since you said you did a little data mining here, do you have the locations of these start-up companies, or are they...? [LB156]

SENATOR STINNER: No, that's all confidential is what they told me. [LB156]

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Transcriber's Office

Revenue Committee
February 05, 2015

SENATOR BRASCH: We know one is in Norfolk, one is in Lincoln, maybe one is in Omaha. I'm not sure where the other is or how many are...greater Nebraska. [LB156]

SENATOR STINNER: Excuse me, I may have some. I may actually have that data. [LB156]

SENATOR BRASCH: Oh, that's what these are? Is that what all these...or investors? [LB156]

SENATOR STINNER: Let's see, there is engineering services, software publishing, Omaha, Omaha, Lincoln, Hastings, Laurel, Kearney, Lincoln, Beatrice, Kearney, Pawnee City. No Scottsbluff yet, but we do have some qualified investors from Scottsbluff. I think if we broaden the program we're going to get more geographic dispersion in this. That's the 2012, I'm sorry. [LB156]

SENATOR BRASCH: That's the investors or the companies? [LB156]

SENATOR STINNER: This is Angel Investment Tax Credit recipients. That's where they're from. [LB156]

SENATOR BRASCH: Okay. Very good. That's the only question I had, so thank you very much. [LB156]

SENATOR STINNER: Okay. [LB156]

SENATOR GLOOR: Seeing no final questions, thank you, Senator Stinner. [LB156]

SENATOR STINNER: Thank you for your time. [LB156]

SENATOR GLOOR: And that will end the hearing on LB156. We're going to take a very short break before we start with the last half of our hearings. [LB156]

BREAK

SENATOR GLOOR: During the break some of you may have noticed that our committee clerk was slowly but surely sliding under the table. The flu and the fever got the best of her and so the role of committee clerk is going to be played by Jan Foster. We appreciate her help very much. She's the clerk for the Banking, Commerce and Insurance Committee and the clerks help each other in these unusual circumstances. And we appreciate Jan's help today. Thank you, Jan. On to LB228. Senator Watermeier, welcome. [LB228]

SENATOR WATERMEIER: Chairman Gloor, members of the Revenue Committee, I am State Senator Dan Watermeier, spelled W-a-t-e-r-m-e-i-e-r. I am representing District 1 in the

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

Revenue Committee
February 05, 2015

southeast corner of the state and I'm here today to introduce LB228. LB228 addresses Nebraska's corporate income tax rates. The intent of the bill is to align the two existing rates into parity with the top two individual income tax rates. Under current Nebraska law the corporate income tax consists of two brackets and rates, 7.81 percent for income greater than \$100,000 and 5.58 percent for income under that amount. LB228 does not alter these two brackets. Rather, the bill proposes that the two rates be amended to 5.01 percent on the first \$100,000 of taxable income and 6.84 percent on taxable income greater than \$100,000. Once again, the proposed rate adjustments would align with the two highest Nebraska individual income tax rates. According to the tax foundation, of the 44 states and the District of Columbia that have a corporate income tax, the maximum corporate rate is lower in 26 states than it is in Nebraska. Only 17 states and the District of Columbia have a higher maximum corporate rate. The change in rates as proposed applies only to C corporations. Other business organizations, often referred to as pass-through business entities, such as limited liability companies, limited liability partnerships, general partnerships, professional corporations, Subchapter S corporations, and sole proprietorships pay taxes based on Nebraska's individual income tax rates. It seems like a reasonable undertaking to bring Nebraska's corporate income tax rates as close as possible into parity with other forms of business entities that pay at the lower individual rates without increasing the income tax on any corporations doing business in Nebraska. This would have happened under a similar bill introduced in 2013 that set corporate tax rates using the same rates and brackets as used for individual filers. I would argue that it is not a good tax policy to enact higher tax rates upon businesses that, for whatever reason, are structured as C corps and cannot make a Subchapter S election or operate under an alternative pass-through form of business organization. For the sake of equity in competition, one form of business structure, the C corp, should not be discriminated against over other forms of business structures. In summary, I believe that it is in the state's best interest to assure that Nebraska's corporate income tax rates are as close to parity with individual rates as possible. I urge the committee to look favorably on LB228. I would be happy to try to answer any questions, but I know there is going to be better testimony behind me. And I see Senator Schumacher smiling back there at me. And I'm sure that I can't compete with him but I'd be glad to try. [LB228]

SENATOR GLOOR: Senator Watermeier, was there ever any discussion about since the \$100,000 level probably hasn't been looked at or touched for quite a while, was there ever any discussion of maybe moving that up to try and capture more smaller--I use the term in a relative sense--smaller operators? [LB228]

SENATOR WATERMEIER: There was quite a bit of discussion back in December already on this issue that we talked about it and I didn't want to make it more complicated than I want it. If you really feel like this has an opportunity to be discussed fully, I'd be glad to look at those. If you want to have another bracket, that would be fine with me. But we just felt like I wanted to not put the shift or the change and not affect everyone. So that's why I decided to leave it where it was. [LB228]

SENATOR GLOOR: Okay. Any questions? Senator Schumacher. [LB228]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. [LB228]

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

Revenue Committee
February 05, 2015

SENATOR GLOOR: I delayed him as long as I could. [LB228]

SENATOR WATERMEIER: I was hoping he'd fall asleep. [LB228]

SENATOR SCHUMACHER: With regard to that, a couple of years ago we discussed the notion of raising that \$100,000 up to several hundred thousand dollars. And then once a company reached that level and got into the higher tax bracket there would be a clawback. And so a thing would be self-funding so the little smaller companies would have the benefit of the bracket increase but the larger companies, the bracket increase would be clawed back over their income and so there was no fiscal impact or very little fiscal impact on it. Basically, it was giving the smaller guys a break and taking the benefit of the lower bracket away from the bigger guys. [LB228]

SENATOR WATERMEIER: And that's one of the reasons that I really struggle with this, because it felt like what we originally laid out was going to not help the average guy, the entrepreneur. And I would certainly be open to those discussions, I really would. I wasn't involved in that. Was that before I came? [LB228]

SENATOR SCHUMACHER: It may have been. [LB228]

SENATOR WATERMEIER: Because I don't remember the discussion. The only one I studied was the one in 2013, which would have been the first year I was here. [LB228]

SENATOR SCHUMACHER: Thank you. [LB228]

SENATOR WATERMEIER: Thank you. [LB228]

SENATOR GLOOR: Other questions? Thank you, Senator Watermeier. [LB228]

SENATOR WATERMEIER: Thank you, Chairman. [LB228]

SENATOR GLOOR: You're going to stay? [LB228]

SENATOR WATERMEIER: I'm going to stay and listen, but I probably won't close. I do need to get to Appropriations but I do want to listen to the discussion. [LB228]

SENATOR GLOOR: We appreciate your work in Appropriations, especially if you can come up with more dollars for tax. Proponents. [LB228]

JOHN CEDERBERG: (Exhibit 1) Good afternoon, Chairman Gloor and members of the committee. I'm John Cederberg, J-o-h-n C-e-d-e-r-b-e-r-g, I am the elected treasurer of the

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

Revenue Committee
February 05, 2015

Nebraska Chamber of Commerce and Industry and the vice chair of its taxation council. And I have been asked to represent here today the State Chamber, the Lincoln Chamber, the Nebraska Bankers Association, and the Nebraska Federation of Independent Businesses. We kind of pooled our time here so that you don't have to listen to four of us. It's my first time over this this year and I was looking forward to getting acquainted with you all again. This is not going to be as exciting as the previous bill. It's a very simple bill. There are two things that I wanted to bring to you. One is that we have an image of C corporations being the big monsters in the world and that the pass-through entities that are paying tax on individual returns are the little guys. If you go back to the last Department of Revenue Annual Report for 2011, 87 percent of the C corporation returns with positive taxable income had \$100,000 or less in taxable income; 95 percent had \$500,000 or less. So we're basically bringing together comparable businesses in terms of tax rates here. And that's really the objective of the bill. The vast, vast majority of C corporation returns are from businesses that are extremely comparable to the innumerable S corporation, LLC, partnership returns that are being filed. The other point that I wanted to make is that since 1987, I think many of us have just missed the C change in tax structure in our business climate. I'm not going to read my testimony to you. If the page would like to hand this out, I did make extra copies. But a couple of things are striking. One is, guess what. Fifty percent by 2011--according to the Tax Foundation--fifty percent of the private sector employees were employed in pass-through businesses. That's S corporations, LLCs, partnerships. Not only that, interestingly enough there are 2.4 nationally, there are approximately 2.4 S corporation returns for every C corporation return that's filed. So it's really...there's really been this C change and it's not a tax issue. It's a tax issue at the federal level after the 1987 Tax Reform Act. The federal incentives for being pass-through were so significant that you've had this transition of small businesses to pass-through form. And the ones that are left in C corps are the ones that can't change. They're legacy C corps and they have ineligible shareholders. Maybe they had a shareholder family who did a tax plan with shareholders in the company that you can't undo now, an estate plan. But the whole purpose of this bill is focused on looking at who's left as the C corp. The majority of them, the vast majority of them are very comparable to the small businesses. They're...at that level, they're really the minority. And it's time, from a policy standpoint, to bring the rates together. And that's why the State Chamber supported this bill or the version of this bill back in 2013. That's why all of the Chambers--I think you're going to hear from the Omaha Chamber in a minute--support this bill, the bankers, the independent businesses, that it is time to conform the rates for pass-through businesses and for those C corps that are left, basically, in among the small business community. With that, I would be certainly willing to respond to questions. [LB228]

SENATOR GLOOR: Thank you, Mr. Cederberg. Are there questions? Senator Sullivan. [LB228]

SENATOR SULLIVAN: Thank you, Senator Gloor. Thank you, Mr. Cederberg. If as you said the bulk of the C corps tend to be the smaller ones, would you be amenable to the comment made earlier of raising the \$100,000 threshold and also considering the clawback to lessen the fiscal impact? [LB228]

JOHN CEDERBERG: I haven't talked to my Chamber about that, but let me take off the Chamber hat. There is...there are two issues in that question. One is for the really big boys that are left, that 5 percent that have taxable incomes over half a million. Are we competitive taxwise? And I realize incentives get involved with those people too, but are we competitive with

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

Revenue Committee
February 05, 2015

other states? You know, how would that impact the situation? And then the other is the matter of the focus of the bill. Personally, if we did some work on it, you know, there may be some merit in the proposition that looked kind of like the federal graduated rate brackets where you end up perhaps at some level of income, getting to a flat rate that may be the current rate. Our focus really is to try and get the 95 percent of those returns that are C corps and the pass-throughs, which we're a small-business state. You've got to...you and I have had this conversation other years that Nebraskans pay most of their business income tax through their individual returns. If you look at the Department of Revenue statistics, it's fascinating that only about a third of the corporate returns are indicated to be S corp returns whereas nationally 2.4 to 1. I don't think so. The difficulty in those kind of statistics is we don't ask S corporations to file returns unless they either have multistate income or multistate residents. And so I would guess that the majority of Nebraska S corps probably don't need to file a return; same with partnerships. And so it's difficult for us to get a really close handle on how much business incomes goes through individual returns. But we're a small-business state and that's really our focus. And if for fiscal reasons and so forth one needed to do something, sure, I'd be willing to get involved in those discussions. [LB228]

SENATOR SULLIVAN: Thank you. [LB228]

SENATOR GLOOR: Questions? Seeing none, thank you. Good afternoon. [LB228]

DAVID BROWN: Senator Gloor and Senators, thank you for having me here today. I'm David Brown, that's spelled D-a-v-i-d B-r-o-w-n, I'm the president and CEO of the Greater Omaha Chamber of Commerce. Normally, you would find testimony like John having our name attached to all the other Chambers and business organizations that agree with their statement. And, frankly, I think we would normally do that. In addition, we agree with everything that John has said. I happened to be in town today and so for me to earn my keep my public policy person said, you need to show up and speak at the Revenue Committee today. I had a really great speech already lined up to kind of say everything that John had already talked about so I'm not going to be redundant. I will kind of focus on one particular piece I found interesting in the dialogue here. While 95 percent of the businesses in this state are small businesses and we agree wholeheartedly that trying to equalize tax rates between all businesses makes sense here. One point that I've continued to talk about over the past several years is that the tax structure in this state really needs to be focused on those folks who might not ever earn incentives. And so is it a fair place for people to operate in a way they can be profitable? In 2012, KPMG and the Tax Foundation joined together and did a study that looked at seven different types of businesses in the state. And they did something kind of unique, they said here's seven different businesses that typically show up in the state of Nebraska. And here's what the tax situation would be for those companies if they were a resident here already or if they were new or expanding operations to the state and was their tax situation going to be different. And what we found was that they were radically different because our incentives are designed to help attract more investment and create more jobs. Companies do that, the incentives kick in, they have an opportunity to actually have an effective lower rate for taxes in the state. One of the areas that was looked at was the 5 percent, the corporate headquarters in the state and what their tax situation would be like compared to several of the other 50 states. And we found that for a new headquarters of a major employer coming to the state, because the incentives would apply, we would be in the top three or four states in terms of competitiveness for those companies with the effective taxes they

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Transcriber's Office

Revenue Committee
February 05, 2015

would be paying. For existing headquarter operations, however, we ranked 33rd out of 50 states. So I went back and looked at what that meant for our community and realized that the companies that are in that 5 percent--for a community like Omaha that has five Fortune 500 companies and five Fortune 1000 companies and a host of other companies probably that are in some of those highest tax brackets--we're essentially telling them that it's okay for us to have great competitive tax rates for everybody else but for you, not so much. And so I went back and tried to figure out, are they paying less in philanthropy, are they volunteering less, are they not paying their taxes on their existing facilities which tend to be larger and therefore big property taxpayers. And, of course, all the answers to all of those are no, no, and no. They're paying all of those things at great levels. And so in addition to what John had to say my only comment is this: While it's always easier to take a look at the folks that are the largest, they also have huge impacts on our state. And for us to say we can sort of balance this out on the lower folks by taking more from the larger folks is just as unfair, I think, as us having different levels of taxes for small businesses if they're C corps versus S corps or LLCs. So with that, I'll be happy to take any questions you might have. [LB228]

SENATOR GLOOR: Senator Schumacher. [LB228]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. And thank you for your testimony. If you know, there's supposed to be parity between the S-type corporations and the C-type corporations. [LB228]

DAVID BROWN: Yes. [LB228]

SENATOR SCHUMACHER: How does the math work out that a 5 percent tax on the first \$100,000 and a 6.84 percent tax on the rest above \$100,000, how is that parity with the S corporation where there's no tax on any corporate level? [LB228]

DAVID BROWN: I can't speak to it, Senator. John probably could speak to it much better than I can. [LB228]

SENATOR SCHUMACHER: Okay, all right. Okay. I should have asked him that. Thank you. [LB228]

SENATOR GLOOR: Senator Scheer. [LB228]

SENATOR SCHEER: I guess I would just comment that as I heard you talking about the larger industries in Omaha, profit is profit. And we shouldn't discriminate against those that make more profit than those that make less profit. And if we don't encourage profit, no business stays alive. And the whole object of any business is to grow and make money and the bigger you grow, presumably, the more money you make, but you shouldn't be penalized for that growth. And unfortunately, when we start talking about clawback, that's exactly what we're doing is...because you are fortunate enough and you've worked hard enough to get larger and make more money, all of a sudden you're still not paying your share. And I guess at some point we have to figure out

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

Revenue Committee
February 05, 2015

what that fair share is. But I keep...I'm tired of hearing about everybody's got to pay their fair share when they're already paying more than literally every other position in the state. So, you know, Omaha is very fortunate, they have some very wonderful companies, they're very philanthropic. Omaha would not be...Nebraska would not be what we are without some of those larger institutions. And so I fully understand what you said and I totally agree with that and appreciate the comments. [LB228]

DAVID BROWN: Thank you, Senator. All of those companies have operations all across the state, as you know, and employ thousands and thousands of people. The more profitable they are, the more people they can employ in the state. So, thank you, Senator. [LB228]

SENATOR GLOOR: Other questions? Seeing none, thank you, Mr. Brown. [LB228]

DAVID BROWN: Thank you, Senators. Appreciate the opportunity. [LB228]

DICK CLARK: I apologize to the transcribers for bumping the microphone in their ear like that. Chairman Gloor, members of the Revenue Committee, my name is Dick Clark, D-i-c-k C-l-a-r-k, I'm director of research for the Platte Institute. Thank you for this opportunity today to speak in support of LB228. Senator Watermeier's bill would modestly reduce the corporate tax rates in the state, lowering the rate on income under \$100,000 and lowering the top corporate income tax rate to equal the top personal income tax rate. Corporate taxes are pretty convenient politically because they give taxpayers the impression that businesses are paying the tax burden out of their profits. But research from the Tax Foundation and others shows that corporate taxes are actually among the most economically destructive of taxes because they target the dollars used to make investments that spur economic growth. In reality, while corporations pay the tax bill to the state, corporate taxes are not truly a tax on businesses at all. They're more like a backdoor sales tax or a work tax on consumers and workers. Any business, whether organized in a manner that subjects it to corporate income tax rates or personal income tax rates, must externalize the cost of taxation through increasing the prices of the goods and services that it sells while making fewer investments in its work force than it otherwise would make with the dollars that it generates in profit. Nebraska's corporate income tax is uncompetitive nationally and it's among the highest in our region. Among our neighbors only Iowa has higher tax rates on corporate income and two neighboring states do not tax corporate income at all. Not only do high corporate tax rates create sticker shocks for firms potentially relocating to Nebraska, but they also make the tax system more political and less equitable by incentivizing lobbying over corporate tax incentives. In fact, relatively little revenue is generated in the grand scheme of things from the corporate tax but it still remains an economic roadblock to small businesses that do not qualify for relief under Nebraska's assorted incentive programs. Taxation should be transparent, it should be efficient, it should be neutral as much as possible. Lower, fairer taxes are the best incentive our state could put in place to enable a growing, healthy economy. Whether through LB228 or via another vehicle like the comprehensive tax reform in LB357, it is imperative that this Legislature address the problem of high and uncompetitive taxes in our state. Thank you again for this opportunity to testify. [LB228]

SENATOR GLOOR: So, Mr. Clark, so are you saying in part that the incentives that we have which make us competitive cloud the transparency issue? [LB228]

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

Revenue Committee
February 05, 2015

DICK CLARK: I think that the incentives that we have are there to compensate for something. And what they're compensating for is a high tax environment. I understand why they're there. I certainly don't assign any blame to the folks who have worked to figure out ways to reduce the tax burden for companies that we desperately need to bring into the state. I'm just saying that I think a broad-based reform to the tax rate, lowering the tax rate is better than that targeted approach in a lot of ways. I know that Senator Watermeier and others have also been involved in trying to figure out how to look at what you get from the incentive programs, how to examine those and determine how much return on that investment the state is really seeing. I think that's awfully important too. But I'm not here to talk to you today in favor of ending any of those incentives. I'm not about attacking the existing incentives. I just hope that future reforms will be broader based and not so narrow. [LB228]

SENATOR GLOOR: Questions? Senator Schumacher. [LB228]

SENATOR SCHUMACHER: Thank you, Chairman Gloor. If a corporation makes that dollar and it then turns around before the tax man cometh and spends that dollar on increased wages for its employees, on hiring a new employee, on paying its executives more, on making a depreciable or deductible capital investment that dollar comes off the income and there is no tax. So does not a higher corporate tax encourage higher wages, encourage higher pay for executives, encourage everything but dividends? [LB228]

DICK CLARK: I'm not so sure about that, Senator. You know, frankly, I think that the market is better than central planners at figuring out how much should be devoted to a C corp for next year versus how much can be consumed right now. And I'm not sure that that would be the reaction. I think that the reason you see wages rise is not likely to be simply because we've got to spend ourselves out of this money. It's more likely because they see a marginal revenue product from that particular worker or class of employees that needs to be compensated for before they get hired away by somebody else. [LB228]

SENATOR SCHUMACHER: But if it takes its profit and reinvests it in either depreciable capital items or personnel, whether it's exec compensation or wages, and shows no profit on the bottom line, it pays no tax. [LB228]

DICK CLARK: But again there, the incentive has to do with timing. Right? If you don't invest it right away, right, if you show that gain over a tax year, then you will have some tax liability or maybe the time wasn't right to invest. [LB228]

SENATOR SCHUMACHER: Well, we have all these fancy carryforwards, carrybackwards, 20 years out. [LB228]

DICK CLARK: Again, something obfuscates what the real tax liability is and how people can navigate the tax waters here in our state. And if you're a big shop you can really dig into that and have a lot of people helping you strategize how to use your resources most effectively. I think the smaller guy has a harder time. [LB228]

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

Revenue Committee
February 05, 2015

SENATOR SCHUMACHER: Can you go through the math with me? There was talk that this made it...C corps on parity with S corps and LLCs and partnerships, how does 5.01 percent on the first \$100,000 and 8.64 percent on the next end up with the entities paying comparable taxes...entities and their shareholders paying comparable taxes? [LB228]

DICK CLARK: Well, obviously, since the brackets break very differently, really what we're talking about is parity between the top rates. Right? And that's often what some of your favorite sources...all the various index makers look at is the top rate on the corporate side or on the personal side so they can adjust, Senator. But I think it is something that relocation consultants and others do look at and it's something that affects Nebraska's competitiveness, is that top rate. I think that's a very important piece to this bill is relief on that side. And, of course, the relief for the smaller businesses at the lower bracket is important too. [LB228]

SENATOR SCHUMACHER: But the fact the top bracket is the same doesn't get rid of the fact that the C corporation is double...or income on the C corporation to the shareholder is double taxed, at the corporate level and at the individual level, whereas only single taxed on the S corporation. [LB228]

DICK CLARK: Okay, Senator. [LB228]

SENATOR SCHUMACHER: So it's not parity. [LB228]

DICK CLARK: I agree with you, it's not perfect parity. But it's certainly parity in terms of what the top rate is on either side. I'd like to see a tax code that doesn't penalize people based on the way that they're organized to the extent that the current one does. I think this is a step in that direction. [LB228]

SENATOR SCHUMACHER: Thank you. [LB228]

DICK CLARK: Thank you, Senator. [LB228]

SENATOR GLOOR: Senator Scheer. [LB228]

SENATOR SCHEER: Thank you, Senator Gloor. Following up on Senator Schumacher, because I know Paul's intent may not be bad. But what type of corporations would move into a state or stay in a state that their tax policy said, we may have a \$20 million investment but you have to either spend all the money on additional equipment or raise the rate of your pay to utilize all the rest of your profit because if you make any profit, we're going to really tax you very steeply? How much investment or movement would there be in a state that did that? [LB228]

DICK CLARK: Well, I think the dollars tend to flow where they're welcome, where they're treated better. And we've seen that not just in terms of investment dollars but in terms of the worker migration that follows job opportunities. And so it's not just the investment dollars that

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

Revenue Committee
February 05, 2015

may not flow to high tax states, but ultimately, it's an awful lot of AGI that may leave those states in favor of greener pastures, so. [LB228]

SENATOR SCHEER: So would it be a safe assessment to say that most either individuals that own a corporation or shareholders that own a corporation would expect some type of return on the investment of those dollars? [LB228]

DICK CLARK: Well, I'd sure hope so. I'd sure hope so because otherwise it wouldn't be a very rational exercise or expenditure of time there. You know, I think it's important to remember that when we see a dollar in profit generated, that's because somebody out in the market was served well and they chose to come and give some business to that entity that was providing them a "gooder" service. And when somebody serves the market exceptionally well, then they're able to really grow their business. And that's the sort of thing we should encourage, not disincentivize. [LB228]

SENATOR SCHEER: Okay, thank you. Thank you, Senator. [LB228]

SENATOR GLOOR: Go ahead Senator. [LB228]

SENATOR SCHUMACHER: Thank you, Senator Gloor. One quick follow-up. Fiddling with our corporate tax rate by approximately 1 percent pales in comparison to the 35 percent federal corporate rate, doesn't it? I mean, isn't that where the culprit is? [LB228]

DICK CLARK: It does, Senator. And I think I saw a news item in the last day or two where only recently we had one of these so-called socialist republics in Europe that exceeded our corporate tax rate. France came back out on top, so they're number one again. But yeah, we have very high corporate taxes in this country. Certainly, the state corporate tax is a small component of that, but it's the component that we can talk about doing something about here in this building, so. [LB228]

SENATOR SCHUMACHER: But in France you could serve good wine in your corporate offices. [LB228]

DICK CLARK: And then see cars burning in the street at night, I believe, so. [LB228]

SENATOR SCHUMACHER: Thank you. [LB228]

DICK CLARK: Yes, sir. [LB228]

SENATOR GLOOR: Any other questions? Thank you, Mr. Clark. [LB228]

DICK CLARK: Thank you. [LB228]

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

Revenue Committee
February 05, 2015

SENATOR GLOOR: (Exhibit 2) Other proponents? Anyone who would like to speak in opposition? Anyone in a neutral capacity? Seeing none, Senator, you're recognized to close. Senator Watermeier waives. And that will end the hearing on LB228. We will now move to LB246, Senator Sullivan. Let me do this for the clerk. We have a proponent...I believe the letter is in your files from Matt Litt, Americans for Prosperity, as a proponent. Thank you. Sorry, Senator Sullivan. [LB228]

SENATOR SULLIVAN: (Exhibit 1) Thank you, Senator Gloor, and here's to an early adjournment perhaps. I'm Senator Kate Sullivan, K-a-t-e S-u-l-l-i-v-a-n, representing Legislative District 41. LB246 amends the Nebraska Advantage Microenterprise Tax Credit Act to increase the allowable net worth of an individual actively engaged in the operation of a farm or livestock operation from \$350,000 to \$500,000 and still meet the definition of a microenterprise. Currently, an application will not be accepted from an individual actively engaged in the operation of a farm or livestock operation with a net worth of more than \$350,000, including any holdings by a spouse or dependent based on fair market value. The act does not place, by the way, a net worth requirement on any other individual other than someone actively engaged in the operation of a farm or livestock operation. Given that the average value of an acre of land in central Nebraska was a little over...about \$4,200 in 2013, a small farm of 160 acres would mean a net worth of more than \$670,000. Eighty acres of a center pivot irrigated land in central Nebraska is worth more than \$715,000. As we all know, it takes way more than 80 or 160 acres of land to make a go of it in today's farm economy. A small farmer or rancher that owns property and wants to branch out into a microenterprise would be automatically disqualified by the net worth provision. LB246 isn't a big increase, but it will expand the pool of those eligible to tap into the potential tax credits that the Legislature created in the Nebraska Advantage Microenterprise Tax Credit Act. Legal counsel has advised that I needed an amendment dealing with when this change would become effective. AM196 says that the changes to this section will be operative for all applicants for benefits received after the effective date of the bill. And I have the copies of the amendment, if the pages wouldn't mind distributing that. So that is, in essence, what I'm trying to accomplish with LB246. I appreciate your time and interest and I encourage you to advance it. Thank you. [LB246]

SENATOR GLOOR: Thank you, Senator Sullivan. Questions? Senator Scheer. [LB246]

SENATOR SCHEER: Thank you, Senator Gloor. I'm not real familiar with it, Senator Sullivan, and hopefully you'll be able to answer the question. If not, maybe somebody else along the line will. Why is the exclusion only to agribusiness people? [LB246]

SENATOR SULLIVAN: On the net worth? I have no idea. [LB246]

SENATOR SCHEER: So why have it at all? Why wouldn't we just want to strike it entirely? I mean, why are we taking one occupation and making it have limitations where others don't? [LB246]

SENATOR SULLIVAN: Well, that's a good point, and I'd certainly be open to that. I suspect, though, that knowing full well that there are significantly large farming operations and still

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

Revenue Committee
February 05, 2015

trying to keep it into the context of a "microenterprise," I would guess that's perhaps why they have the net worth limitation. [LB246]

SENATOR SCHEER: Well, but you have a lot of people throughout the state that have vast wealth as well and they're free to go into a microenterprise, so I get that there are. But on the same hand, that would be true of a bunch of other industries, regardless professional or anything else. [LB246]

SENATOR SULLIVAN: I think it probably would do us...if we would go to...choose to go down that path, it might serve us well to look into the background and the history a little bit more before we jumped into that because I suspect there might be some more reasoning that I'm not aware of. [LB246]

SENATOR SCHEER: Yeah. I just thought perhaps maybe you knew that. Yeah, okay. Thank you. Thank you, Senator Gloor. [LB246]

SENATOR GLOOR: Senator Schumacher. [LB246]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you, Senator Sullivan, for introducing this and giving another facet to our diamond that we've got to cut here. There's a limited amount of funds right now if I seem to remember some of our hearings that are in this, something like \$6 million or \$10 million. [LB246]

SENATOR SULLIVAN: No. It's only \$2 million is the...\$2 million. Yes. [LB246]

SENATOR SCHUMACHER: Just \$2 million? [LB246]

SENATOR SULLIVAN: Yeah, uh-huh. [LB246]

SENATOR SCHUMACHER: Okay. So there's a relatively small amount of money in this pot that we're dividing. [LB246]

SENATOR SULLIVAN: Exactly. [LB246]

SENATOR SCHUMACHER: By doing this, we are increasing the number of people to fight over that relatively small amount of money. And it has no fiscal note so obviously we're not gaining or losing from the fiscal point of view, but doesn't...without increasing the pot, does increasing the number of people eligible just make it harder for people to get this money? [LB246]

SENATOR SULLIVAN: Well, you can look at it that way and I did think about that. But it goes back to what I'm saying about a small farm, in this day and age, reaching that net worth

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

Revenue Committee
February 05, 2015

threshold and still being a very small farm and trying to diversify its operation in order to stay on that land. That's why I'm looking, specifically. Now, you look at the different kinds of entities that have applied for these dollars, agriculture is just one of them. You see applications coming from mining, from manufacturing, even education, arts and entertainment. So I can't speak to any of those and will it limit and put more stress on making choices on the applications? Well, yes, probably. I'm looking out for rural Nebraska and the people that are on the land and small farms. And so that's why I'm coming to you with this alternative today. [LB246]

SENATOR SCHUMACHER: Thank you, Senator. [LB246]

SENATOR GLOOR: Senator Brasch. [LB246]

SENATOR BRASCH: Thank you, Chairman Gloor. And thank you for bringing this forward. I believe you possibly have someone here to come forward. I have visited with some of the microenterprise individuals in the past in our district and it's been very good to rural Nebraska and not specifically, that I'm aware of, to farms. And I do see this as being a benefit to include a farm in this opportunity, a small farm to be able to have another occupation to help bring in dollars to provide for a family, say a young family trying to pay a farm payment or equipment payment. And I do believe I've seen the microenterprise fund used...there's a nice booklet. I didn't memorize it though and I'm not sure if they're here today or not. But they've helped people, I thought I saw, in Lincoln and other areas on small, microenterprise business. [LB246]

SENATOR SULLIVAN: Sure. They've helped them in a lot of different ways. But specifically to my point with this piece of legislation, farms and agriculture have previously been included in having opportunity to access this. But it's just that they've been limited by the net worth threshold. And I'm just upping that a little bit because in this day and age, they can bump up against that and still be a very small farming operation. [LB246]

SENATOR BRASCH: And I believe it would be a benefit. Otherwise, it is excluding that particular sector of farms. So I have no other questions. Thank you. [LB246]

SENATOR GLOOR: Senator Sullivan, I'm trying to run through my own head examples and not having a very good...I mean, give me some idea of what we're talking about with these microenterprises. What kind of operations do they run? [LB246]

SENATOR SULLIVAN: You mean across the board and not just specific to agriculture? [LB246]

SENATOR GLOOR: Yeah. Well, specific to... [LB246]

SENATOR SULLIVAN: Or specifically...well, first of all, sometimes it's kind of hard. As I think Senator Stinner mentioned, we aren't privy to some of the specific kinds of applications. But you might see a small farming operation get into the niche market of doing some direct marketing with some of their meat, Bluestem Beef, example. [LB246]

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

Revenue Committee
February 05, 2015

SENATOR GLOOR: Strawberry patch is, yeah. [LB246]

SENATOR SULLIVAN: Strawberries or I think I know someone in Bradshaw who's doing...raising some things for the floral market. [LB246]

SENATOR GLOOR: I think I know an apiarist as an example, beekeeping. [LB246]

SENATOR SULLIVAN: Yes. Yeah, so there would be a whole variety of different things. [LB246]

SENATOR GLOOR: Okay. That's fitting in with what I thought, but I thought I'm going to see. All right, thank you. Other questions? Seeing none, thank you. You are staying to close or at least staying, I hope. We'll now move on to proponents. Opponents? Those in a neutral capacity? Senator Sullivan. Oh, hang on. Do you have a second? Senator Scheer. [LB246]

SENATOR SCHEER: I'll have to have you come up here because I just have a comment really, not a question. But really the way these numbers read, it excludes almost every farmer now that has any farm ground at all. It really limits it to really what I'll call the hobby farmer type person that maybe has the 25 or 40 acres because they're going to have some other wealth besides the ground in and of itself as well. So I mean, they're either those that are raising chickens or ostrich or bees or whatever the little miscellaneous deal and it really excludes a really large number of people to be involved in. [LB246]

SENATOR SULLIVAN: You're probably right but to go beyond that to Senator Schumacher's point, we probably need to think about raising the cap. [LB246]

SENATOR SCHEER: Absolutely. [LB246]

SENATOR SULLIVAN: And so I'm not proposing that at this time. [LB246]

SENATOR SCHEER: Yeah. No, I agree that you would have way more people going after not a larger...no larger group of dollars, but times have changed. Thank you for bringing this, though. Thank you, Senator Gloor. [LB246]

SENATOR SULLIVAN: Thank you. [LB246]

SENATOR GLOOR: Thank you, Senator Sullivan. And that will end the hearing on LB246. Thank you all for your time and patience. [LB246]