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Appropriations Committee  
February 01, 2018

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[AGENCY 72]

SENATOR STINNER: Any additional proponents? Seeing none, any opponents? Seeing none, anybody in the neutral capacity? Seeing none, that concludes our hearing on Agency 93, Tax Equalization and Review Commission. We will now open the hearing for Agency 72, Department of Economic Development. Good afternoon. [AGENCY93]

DAVE RIPPE: (Exhibit 1) Good afternoon. Good afternoon, Chairman Stinner and members of the Appropriations Committee. For the record, my name is Dave Rippe, D-a-v-e R-i-p-p-e, and I am the director of the Nebraska Department of Economic Development. I appear before you today in support of the changes to the department's budget as outlined in the Governor's recommendation. It's good to be back with my friends from the Legislative Fiscal Office. By way of introduction, I started with the Department of Economic Development on the 18th of December so I pretty much have it all figured out by now (laughter) and I am a Nebraska native, born and raised in Malcolm, Nebraska; educated here in Lincoln; Nebraska Wesleyan University undergraduate degree in accounting; master's of business administration from University of Nebraska at Lincoln. And then I came here and begged Mike Calvert for a job and Mike hired me for my first job out of grad school as a fiscal analyst and so I was able to work for a little over two years in this office with this body. And I sat right where Jeanne is sitting right now, a little bit different on this side of the table. After working with the Legislative Fiscal Office, I worked with the Department of Economic Development as a business recruiter. And I spent the last eight years running the economic development corporation in Hastings, Nebraska. In November, I told the Governor I would be honored to come down and serve our state and serve as the director of the Nebraska Department of Economic Development. And it's in that capacity that I appear before you today. I'm very pleased to be back working to grow our state. Although I wish I were here today under more growth-oriented circumstances--that's what we do, we're a sales agency--but just like the businesses, people, and communities of our state, when times are tough, we must make tough decisions and move forward accordingly. The Department of Economic Development supports the Governor's budget recommendations, and we are prepared to implement these adjustments and manage within the framework of the committee's recommendations. The Department of Economic Development is prepared to implement the reduction in funding to the Small Business Innovation Act. We have utilized all funds from the

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former Nebraska Progress Loan Fund and redirected funds collected after 9/30/17 to the BioScience Innovation Cash Fund as outlined in LB641 from last year. The Governor's recommendations include a transfer of the unexpended balance collected prior to that date of approximately \$1 million. I support the Governor's recommendation. It should be noted that this transfer does not impact the current funds being receipted to the BioScience Innovation Cash Fund under the parameters of LB641. That cash fund is populated by repayments from the Nebraska Progress Loan Fund. There are about ten loans outstanding under that fund. And from 2018 to 2023, the "am" schedules on those I think we'll collect somewhere around \$4 million, rough number, assuming 100 percent repayment. And those repayments will populate the BioScience Fund as outlined under LB641. In Nebraska, we invest in our people. Our customized Job Training (Cash) Fund is one of those funds where there are questions nearly every year relating to the cash balance sitting in the fund. As of December 31, 2017, that number was approximately \$10.5 million. Those funds are in various stages of use and that was one of the fun things that I was able to learn as I started here how those are used. Approximately \$2.2 million are in the process of being disbursed in active and ongoing contracts. So you can imagine as we negotiate and as we secure a contract with a company to hire and train and educate our Nebraskans here they don't hire all of those people day one. Those folks are hired sometimes out over two or three years and so those training contracts, they don't occur just in a short block of time. They cycle. Another \$2 million are associated with commitments and obligations under the InternNE program. We can get a little bit more into that program later, but those funds also cycle. And so those commitments are ongoing and so you don't see those all take place either. So about \$2 million are tied up in those contracts. Another \$6 million are committed across the board and so I would call those precontractual commitments but commitments that we've made to companies that have either announced or on the verge of announcing. That's about \$5 million of those are committed to different projects; another \$1 million are active projects, what I would call...they're sitting in the hopper in our business recruitment division. Most of those, candidly, are tied to projects that we're working with in Sidney right now, obviously a great area of interest and need in our state. And I can certainly elaborate more on that later too. All said, our Job Training Cash Fund has an unobligated balance, which is what we track in-house, of less than \$20,000. And we can certainly walk through that math if you have any questions when I finish here. We do plan to continue to help our businesses invest in our people until every last dollar is expended. The department appreciates that Senator Smith has recommended a transfer of \$10

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million over the next two fiscal years from the General Fund to the Job Training Cash Fund per LB947. We support the Governor's recommendation to strengthen work force development and InternNE program. Over the last seven years, we've allocated nearly \$11 million to over 600 companies that facilitated 2,750 internship experiences across our state. These are companies big and small. As a not-for-profit in Hastings, Nebraska, I had, I believe, four different interns that came and worked for me in my office. One of those young ladies is a researcher up at the Omaha Chamber of Commerce now; another is our director of talent solutions in Hastings full time, great job that allowed a young lady to stay in her hometown. Another one is playing semi-pro soccer so he doesn't really count. But most of them, even in our little shop, facilitated terrific internships that resulted in Nebraska graduates staying in our state and certainly contributing to our economy, really a great program and well appreciated by those employers, those 600 businesses that have participated. In Nebraska, speaking of our businesses, we also invest in our businesses, both big and small. The Business Innovation Act, BIA, receives approximately \$6 million in annual funding. Economic analysis we did on our BIA fund, for every \$1 of public funds that we put into companies via BIA, we see nearly \$7 in follow-on private capital invested--great leverage. We also see another \$7 in private revenues that are realized by those companies. In the time of the Business Innovation Act, the program has helped to facilitate the creation of nearly 500 jobs that pay, on average, better than 30 percent of the state average wage, the types of jobs that help people to buy homes and pursue their dreams. And so we're very proud of the money that's being put to work under the BIA program. It's also worth noting if you look at the venture capital landscape of Nebraska, the year that the Business Innovation Act was passed our state ranked 49th in venture capital investments in Nebraska at zero dollars. Somehow we were ahead of Mississippi. Today our state ranks 31st. Last year there was \$80 million in venture capital in Nebraska, 19 different projects. In the time since we passed the BIA, which are used as leverage funds to help pull in private dollars, we've leveraged nearly \$300 million of aggregated venture capital into our state, outside dollars that have come in to help support Nebraska businesses grow. And so when you look at what the purpose of government funds can be in the business world, really we're seeing terrific performance under our BIA program. But for what it's worth, don't get too excited yet. California still leads the nation in VC deals, more than 1,800 deals just last year and more than \$30 billion in VC investment so we've got a lot of ground to make up but we'll keep working. We administer a number of other programs at the department; and as time allows and questions dictate, I am happy to address them. Please know

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that we are in the business of growing Nebraska by investing in our people, our communities, and our businesses, and we greatly appreciate your support in enabling us to do so. I would like to thank the Governor and the committee for supporting the Department of Economic Development in our mission to grow the state of Nebraska. I'm happy to answer any questions that you may have. [AGENCY 72]

SENATOR STINNER: Thank you. Questions? Senator Wishart. [AGENCY 72]

SENATOR WISHART: Can you explain a little more what is it that attracts venture capital to our state? [AGENCY 72]

DAVE RIPPE: Quality investments. And so, for instance, the BIA program allows us to get in and help companies early. And we have matching funds for SBIR and STTR grants, phase zero funds that really help them get research off the ground. That leverage is private investment. Companies like Virtual Incision and LifeLoop and CompanyCam and Quantified Ag and, you know, companies that are doing cool things, a lot of neat names when you look down the project list. And so helping these companies early on, you know, in any kind of investment that predevelopment or the early stages of the company are the most risky. We work hand in hand with Invest Nebraska and other investment groups, private investment groups around the state to help vet and qualify investment. We work very closely with the university. I was just over at Innovation Campus last week with a company and so really we work to help prove concepts. We work to help come in with the company and ultimately the success of that company dictates the investment of venture capital. [AGENCY 72]

SENATOR WISHART: Okay. So we've got this as a tool, you spoke about the university as being a tool. Are there any other tools that other states have that we're missing here? [AGENCY 72]

DAVE RIPPE: I'm looking forward to learning that. [AGENCY 72]

SENATOR WISHART: Okay. [AGENCY 72]

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DAVE RIPPE: When you look at the type of results we're getting out of this program and how we're growing on our own here in the state, that's incredibly encouraging and it's a great way for us as Nebraska to do business. When you look at the price of business recruitment and what it takes to get a Toyota-Mazda or whatever other project of the month is in the news, that's a much different ballgame. And so with the dollars we have in our BIA program and the way we're able to work with our partners around the state like the university, it really is a great way for us to grow our economy here. And certainly as a legislative body, as the Department of Economic Development, I do believe it is incumbent upon us to find more ways to do so. [AGENCY 72]

SENATOR WISHART: Okay. [AGENCY 72]

SENATOR STINNER: Additional questions? Senator Bolz. [AGENCY 72]

SENATOR BOLZ: Thank you. Hi, Director. [AGENCY 72]

DAVE RIPPE: Hello. [AGENCY 72]

SENATOR BOLZ: Just a couple of quick questions, and my apologies for missing part of your commentary. I did catch some of your comments about the BIA program. If I remember correctly from some of the information I've reviewed, that program has been underspending historically. And I just wondered if that was your understanding as well and if you could help me understand maybe why that's not fully spending the appropriated amount of dollars. [AGENCY 72]

DAVE RIPPE: So we covered just a little bit ago, Senator, how our funds work; and you're probably familiar with this from past years in programs like Job Training where those commitments expand out over two, three years maybe--no different in Business Innovation Act. And so you have companies that are in varying degrees of research and development. And so a lot of times those grant awards when they go out will take place over two or three years. And so we have about a \$6 million annual allocation for BIA. We do use those on an annual basis. If you look today, I think there's probably about \$2.5 million in that fund. We take applications on a monthly basis. And so it would stand to reason that halfway through the year we've expended

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about half the funds. And so my anticipation is that by the time we end this fiscal year we will have expended the balance of those. [AGENCY 72]

SENATOR BOLZ: Okay. Okay. And you think that that applies to the history of the program so I think it's been...the last time I looked at it, it was underspending kind of over the history of the program. And so you think that sort of flow of the dollars in and out explains even the historical underspending? [AGENCY 72]

DAVE RIPPE: I do. And we do have a, kind of a detailed year...that breaks down the year of where those dollars are in process, contractually committed, or however it might work. And I'll have our staff get that to your office. [AGENCY 72]

SENATOR BOLZ: Okay. My other question is a little bit more philosophical and since you're a new director, I'd be sort of curious to get your thoughts on it. It's always been less than my preference that some of the programs in Economic Development don't have an underlying, ongoing funding stream. When I hear from businesses that reliability is the number one concern in terms of working with policymakers, what are your thoughts about whether or not we need to work together (inaudible) department and this committee to find those sustainable funding streams or is it okay that we sometimes have to have those conversations year by year? [AGENCY 72]

DAVE RIPPE: I think it makes it very difficult to have those conversations year by year. Reliability, predictability is certainly important and would obviously be the preference of our state's businesses and our department, the staff that administer our programs. The nice thing about how we do things now with the appropriation, putting money into a cash fund is it does allow us to participate in projects on the front end, you know, as opposed to, for instance, a tax credit which has been discussed as a sustainable way to fund programs. If you're a business on the recruitment end or a start-up in need of cash on the front end, you can imagine the importance of the net present value of cash. And certainly that's a strong tool in the recruitment end and on the business expansion when we're competing against for projects. We met a couple years ago when I was in a different capacity with the Hastings Economic Development Corporation, and at that time we were asking for an infusion to the Site and Building

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Development Fund. That program receives about \$2.6 million annually carved out from the doc stamp and we were asking for an injection. That injection has been utilized and here we are again saying, gosh, it would be nice if we could have a little bit more as budget allows into that program. Part of the difficulty that we discussed at that time with Senator Kuehn was how are these programs performing. And as we've discussed with some of the other senators, if we knew privately that we could go out and borrow money and make 20 percent on our money, every day of the week we'd go to the bank and borrow money at 4 or 5 percent because we know that investment is performing. I don't believe we've done a good enough job as the Department of Economic Development in outlining the performance of our funds. And so one of the things that you can count on from our department by the time you're sitting in these seats next year is some baseline analysis of how our funds are performing, some success metrics around our funds. How do we define success? That's one of the things that we get into with our programs is we inherit rural work force housing or we do have InternNE and everybody has a different definition for success. For instance, in the intern program, success could be higher wages but it could also be prevention of brain drain and retention of college graduates. And so one of the things that our department will work diligently on over the next year is establishing those metrics and assigning ROI to our funds so that we can better determine which funds matter and then possibly how we can fund them, sustain them hopefully. [AGENCY 72]

SENATOR BOLZ: Great. I think your staff heard you. [AGENCY 72]

SENATOR STINNER: Senator Wishart. [AGENCY 72]

SENATOR WISHART: In terms of InternNE, are you generally working with college students? [AGENCY 72]

DAVE RIPPE: So InternNE was expanded I believe the year before last to include 11th and 12th graders, which when we start talking about success metrics makes it hard to determine because kids can go a long way in a little amount of time. We work with businesses and that is where it is a little bit easier. Imagine signing a contract with one business that's going to hire 15 interns rather than trying to track the students. The students do back feed into the process so we can track them a little bit. But we work with businesses on that. I think that we were just putting

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some numbers to how many students, potential students there are in the state--college students and high school juniors and seniors. And I'm trying to remember if that number was 200,000, Dr. Dearmont, and so...but generally we probably facilitate about 300 internships per year, students. [AGENCY 72]

SENATOR WISHART: Okay. [AGENCY 72]

DAVID RIPPE: And over the life of the program we've worked with about 600 different companies and so, you know, you might see about 100 different companies a year on average. And so it's...we sign contracts with the company that facilitates their internships with the students. [AGENCY 72]

SENATOR STINNER: Additional questions? I have a couple questions. One of them goes back to the venture capital idea and incenting venture capital. One is the angel investment tax credit that is now I believe capped at \$4 million. It's been oversubscribed I believe almost every year that I've been around. Is it oversubscribed this year and what are your thoughts about possibly increasing the angel investment tax credit to \$5 million I think was the initial request by the Heineman administration? [AGENCY 72]

DAVE RIPPE: My understanding is that program is traditionally oversubscribed. In the absence of us being able to do some stronger data analysis, Senator, on our programs, I don't feel comfortable this year telling you whether or not we should increase that program versus another versus another. That's a question that I would rather answer next year candidly. I would rather know where our dollars best perform first. [AGENCY 72]

SENATOR STINNER: Do you have other programs that are oversubscribed as well? [AGENCY 72]

DAVE RIPPE: Our InternNE program is out of money. Customized job training is out of money. Our Business Innovation Act is allocated in full every year. And so the programs, the aid programs that we do administer we administer fully. [AGENCY 72]

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SENATOR STINNER: And do you have programs that are undersubscribed? [AGENCY 72]

DAVE RIPPE: To my knowledge we do not. On our housing side, we allocate 100 percent of the dollars. And I can't recall. And certainly I'll work with staff, but I don't believe that we have any programs that are undersubscribed. [AGENCY 72]

SENATOR STINNER: Now allocate, define allocate. Is that somebody made an application and has certain requirements to do before they get...draw the money out or is (inaudible) going out the door? [AGENCY 72]

DAVE RIPPE: Well, again, you know, I would say all of our programs work over a number of years, whether it's a housing program or another program that we administer is the community center...convention and community center financing fund. These programs the dollars are disbursed ongoing and so to the best of my knowledge and, again, I'll work with staff to clarify, but certainly if we had a pot of money that was undersubscribed on an annual basis, we would be talking with Jeanne and others to figure out a better way to put those dollars to work. [AGENCY 72]

SENATOR STINNER: Okay. Thank you. Any additional questions? Senator Bolz. [AGENCY 72]

SENATOR BOLZ: One more. I wanted to ask about your recommendation related to the Nebraska Progress Loan Fund. We got some information that maybe federal expectations wouldn't allow us to make that transfer and that instead those dollars needed to be transferred into something that was similar to its original purpose. Does your legal staff have a different analysis? [AGENCY 72]

DAVE RIPPE: I have two understandings. My understanding is that state policy is that we return unused federal funds to the General Fund. We also have guidance from the Treasury that these funds should be used to support small business. I would be more inclined to lean toward your legal staff or whoever might be able to make a final determination for us. [AGENCY 72]

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SENATOR BOLZ: Thanks. [AGENCY 72]

SENATOR STINNER: Senator Wishart. [AGENCY 72]

SENATOR WISHART: Just a follow-up question to that. If we do determine that these funds need to remain in support of small business and not be transferred, do you have any recommendations what we should do with that million dollars? [AGENCY 72]

DAVE RIPPE: Our programs of greatest need right now if we balance the budget and everything was wonderful and we fulfilled all of our obligations and there was dollars left over at the end of the day, obviously the intern program is what we hear from our customers is a program of great need. And certainly where we are fully expended in that program right now, being able to invest in our people and our businesses simultaneously would be a wonderful opportunity. [AGENCY 72]

SENATOR WISHART: Okay, good. [AGENCY 72]

SENATOR STINNER: Thank you. Any additional questions? Seeing none, thank you. [AGENCY 72]

DAVE RIPPE: Thank you so much. [AGENCY 72]

SENATOR STINNER: Any additional proponents? Seeing none, any opponents? Seeing none, anybody in the neutral capacity? Seeing none, that concludes our hearing on Agency 72. We'll now open the hearing on Agency 65, Department of Administrative Services. [AGENCY 72]