

Dr. Kenneth E. Poole



Investing for Nebraska's Future: Re-balancing Our Economic Development Portfolio

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Prepared for the Nebraska Economic Development Task Force in
partnership with Legislative Resolutions 388 and 389 (2018)



CREC – Helping Regions Compete

CREC engages with an array of federal, state, local, and philanthropic clients.

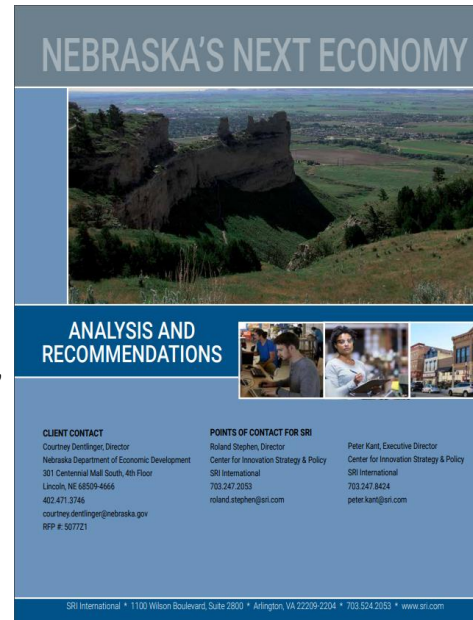
Ways we achieve our mission:

- a) Understand the economic forces impacting regions and localities
- b) Assist local leaders in formulating knowledge-based strategies
- c) Develop transformational models that support knowledge-driven economic prosperity

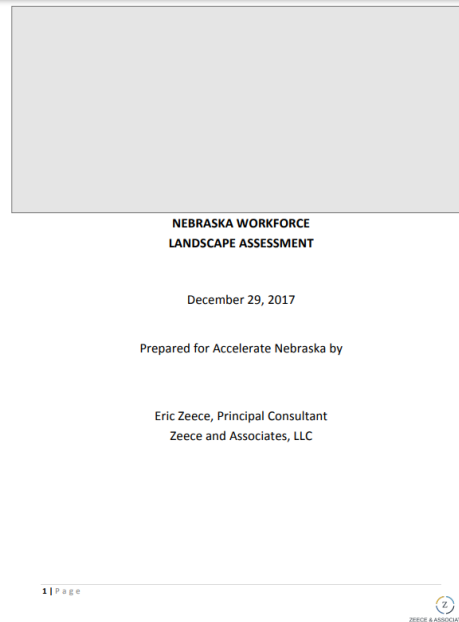


Background - Recent and Relevant Studies

- Innovation and High Wage Jobs
 - SRI International, *Nebraska's Next Economy*, 2016
 - Battelle Technology Partnership Practice, *A Competitive Advantage Assessment and Strategy for Nebraska*," 2010



- Talent and Skill Needs
 - Eric Zeece, "Nebraska Workforce Landscape Assessment," 2017
- Economic development priorities
 - Blueprint Nebraska (early stages)



Research Approach

- Reviewed existing studies
- Examined budgeted programs and tax expenditures
- Profiled the state's economic development programs



- Interviewed more than 55 stakeholders
- Facilitated a focus group with 25 legislators (October 26, 2018)

How Economic Development Can Help

- Monitor competitive disadvantages
- Level the playing field for Nebraska firms that could locate elsewhere
- Address economic disparities facing different communities
- Encourage the development of new industries or entrepreneurial activities
- Make the state more attractive to private investors and skilled workers



Nebraska's 4 Economies

Economic area type	Urban areas	Small cities and towns – east/central	Small cities and towns - western	Other rural areas
Economic areas	Omaha, Lincoln	Kearney, South Sioux City, Grand Island, Columbus, Norfolk	North Platte, Scottsbluff	
Economic base	Diverse, technology-intensive businesses and large anchor institutions	Town centers, manufacturing and distribution		Farms and ranches
Population growth	High	Medium	Negative (63/93 counties, 2010-2014)	
Median Wages 2017	Medium – \$17.64-\$18.03	Medium – \$16.05-\$16.70	Low – \$15.54 - \$15.63	Low (not available)
High-paying industries	Agricultural and medical biosciences		Food wholesaling	
Potential Capital investments	Tech-intensive, transportation infrastructure, quality of place	Infrastructure, education, business capital, broadband, quality of place		
Unemployment	Low	Low	Low	Low

Common Rural Economic Pain Points

Dependence on a few industries

Distance to markets and suppliers

Isolation from world-class innovation

Infrastructure gaps
(rail, highways, water, broadband)

Limited competitive advantage for regional/national companies

Small and tight labor markets

Outmigration of young talent

Limited access to community amenities

Limited capacity and resources to identify and act on opportunities

4 Pillars of Economic Growth

- *Develop Nebraska's workforce*
- *Eliminate red-tape*
- *Improve the state's tax climate*
- *Tell Nebraska's story around the country and across the globe*



Gov. Pete Ricketts
Ryan Soderlin, BH News Service

Economic Development Policy Priorities

- Nebraska offers 28 economic and workforce development programs
- FY2019, Nebraska appropriated \$645 per business establishment to these programs.
- Neighboring states appropriated at least 30 percent more.
- Nebraska leaders prioritized special industry assistance, tourism, and technology transfer

State Budgeted Economic Development Spending Per Business, Nebraska and its Neighboring States

State	Economic Development Spending per existing business
Nebraska	\$645
Missouri	\$942
Colorado	\$845
Kansas	\$1,057
Iowa	\$1,561
Wyoming	\$1,988
South Dakota	\$3,023

Source: Council for Community and Economic Research (FY 2019 State Economic Development Expenditures/2017 BLS Establishments)

Nebraska Dept. of Economic Development Budget

- Managed a total FY 2019 budget of \$65 million
- Received \$8.5 for staff & admin support:
 - \$6.2 million (state and cash operating funds)
 - \$2.3 million (federal funds)

Agency / Program Name	FundType	FY 2016-17 Appropriation	FY 2017-18 Appropriation	FY 2018-19 Appropriation
072 Economic Development (Total)		67,448,684	64,523,311	65,391,876
601 Community & Rural Development				
Operations	General	267,862	256,205	259,393
Operations	Cash	688,787	768,983	857,885
Operations	Federal	1,874,694	1,888,665	1,901,439
State Aid	General	500,000	500,000	470,000
State Aid	Cash	11,250,000	14,645,665	15,063,965
State Aid	Federal	23,937,950	18,841,043	18,841,043
<i>Subtotal Community & Rural Dev</i>		38,519,293	36,900,561	37,393,725
603 Industrial Recruitment				
Operations	General	4,849,393	4,539,345	4,591,015
Operations	Cash	499,011	500,093	501,046
Operations	Federal	247,630	247,630	247,630
State Aid	General	6,585,600	6,195,776	6,020,352
State Aid	Cash	14,397,194	11,389,194	11,887,247
State Aid	Federal	249,341	249,341	249,341
<i>Subtotal Industrial Recruitment</i>		26,828,169	23,121,379	23,496,631
655 Civic/Community Center Financing				
Operations	Cash	36,222	36,371	36,520
State Aid	Cash	2,065,000	4,465,000	4,465,000
<i>Subtotal Civic/Community Ctr Financing</i>		2,101,222	4,501,371	4,501,520

Statutory vs Discretionary Incentives

Statutory Incentives

- Entitlement for eligible companies
- Low administrative costs
- Difficult to determine “but-for” (level of influence the incentive had on the investment decision)

Discretionary Incentives

- Tax and direct grant or loan investments
- Company must apply for the program or credit
- Can be performance-based
- Require active staff management
- Require annual economic development agency staff and related appropriations



Nebraska Advantage Act

- Largest state incentive program
 - In 2017, it represented \$144 million in **foregone revenues** according to the Department of Revenue estimates
- Helps different kinds of companies, in the form of program “tiers.”
- New tiers layered over old ones, so benefits don’t hang together as a coherent program.

Estimates of Foregone Revenues from Nebraska Advantage

Year	Total Credits and Rebates
2014	\$ 132,593,584
2015	\$ 133,425,275
2016	\$ 247,376,560
2017	\$ 144,240,141
2018	\$ 161,987,573
2019	\$ 182,383,066
2020	\$ 202,982,390
2021	\$ 207,825,310
2022	\$ 212,591,170
2023	\$ 215,667,228
2024	\$ 214,495,014
2025	\$ 216,391,489
2026	\$ 187,985,939
2027	\$ 183,346,268

Nebraska Advantage Act

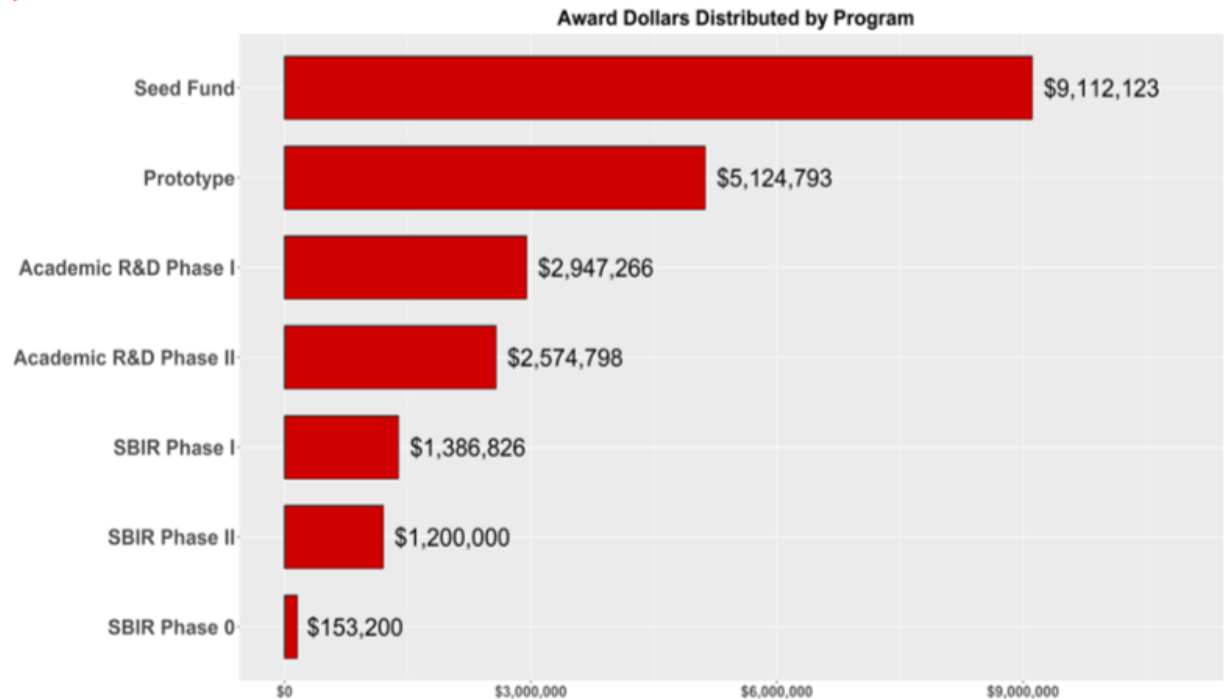
Program complexity makes it difficult to understand

Tier	1 Exporters, R&D, MFG, IT	2 A Economic Base Industry	2 B Data Centers,	3 Job Expansion No New Investment	4 Investment Credit	5 Investment inc. Renewable Energy (Rnew)	6 Super Advantage	Rural Rural Level 1 (R) OR Small Town Level 2 (SmT)
New Jobs	10	30	30	30	100	0	75 / 50	2 (1R) OR 5 (2SmT)
New Investment	\$1M	\$3M	\$200M	\$0	\$11M	\$35M or \$20M (Rnew)	\$10M / \$103M	\$125K (1R) OR \$250K (2SmT)
Incentives	Wage Credits/ Partial Sales Tax Refund	Wage Credits/ Sales Tax Refund/ Prop Tax Exemption	Sales Tax Refund/ Personal Property Tax Exemption	Wage Credits	Wage Credits/ Sales Tax Refund/ Prop Tax Exemption	Sales Tax Refund on capital purchases	Wage credit/ Sales Tax Refund/ Prop Tax Exemption	Refundable wage credit

Innovation-based Economic Development Programs

- Business Innovation Act
- Nebraska Innovation Fund

Business Innovation Act, Distribution of Funding 2014-2018



Talent-oriented Economic Development Programs

- Customized Job Training Program
- Young Talent Development



Labor force participation rate by race, ethnicity, and gender

Latino	75%	Black	68%
White	70%	Asian	66%
American Indian & Alaska Native	64%		

for age 16-19 labor
force participation -
53%

for age 65+ labor force
participation - **22%**

Source: University of Nebraska Omaha
Center for Public Affairs Research

REPORT RECOMMENDATIONS

Parallel Strategies for Urban and Rural Nebraska

Rural

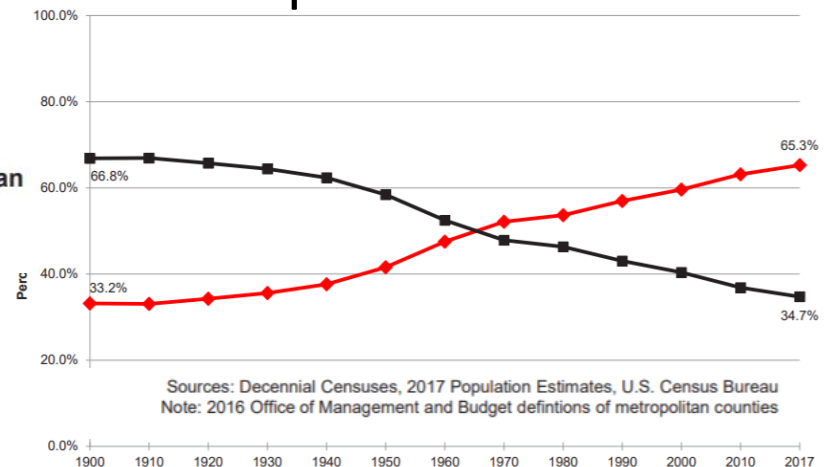
1. Create communities where people want to live
2. Leverage assets to develop a strong business climate
3. Enhance the talent pool in rural areas
4. Help rural businesses succeed

Urban

1. Foster Innovation and Entrepreneurship
2. Develop and grow clusters
3. Prepare and recruit skilled talent
4. Attract and retain globally competitive firms

Percent of Nebraska Population in Metropolitan and Nonmetropolitan Counties: 1900 - 2017

— Metropolitan counties (13) — Nonmetropolitan counties (80)



Going forward: Policy Options



TALENT:

Prepare existing workers to provide a talent pipeline for Nebraska employers



INNOVATION and ECONOMIC DYNAMISM:

Promote emerging economic opportunities through innovation and entrepreneurship



COMMUNITY BUILDING:

Build on their strengths to retain the viability of rural communities



HIGH WAGE, HIGH IMPACT INVESTMENT:

Ensure that Nebraska can compete for major high-wage, high impact investment opportunities



VALUE AND TRANSPARENCY:

Improve process to demonstrate value

Strategy:
Preparing
talent for
today and
tomorrow

Expand Nebraska Talent Advantage

Possible Legislative Action:

- Dedicate funding to the customized job training program
- Expand the customized job training program authority to allow technical assistance
- Authorize about \$5 million per year for five years

Strategy: Preparing talent for today and tomorrow

Create Nebraska Talent Connect

Possible Legislative Action:

- Redesign the Intern NE and Apprentice NE programs
- Provide staff resources to increase awareness about apprenticeship options
- Provide \$2.5 million in matching funds to support training wages for 500 workers to help smaller firms employing their first interns and/or apprentices

Strategy:
Preparing
talent for
today and
tomorrow

Enhance ACE Scholarships

Possible Legislative Action:

- Expand authority of ACE to include ACE Tech Plus program
- Provide staff resources to promote the enhanced program and manage the increased program resources
- Provide \$5 million in scholarship funds for 1,000 scholars in the first year

Strategy: Fostering Innovation & Economic Dynamism

Foster growth and scale-up firms

Encourage technology adoption

Expand small business intros to tech resources

Enhance capital formation

Possible Legislative Action:

- Expand efforts to link entrepreneurs and small businesses to technology resources
- Increase funding for Business Innovation Act programs from \$7 million to \$14 million per year

Strategy: Preparing Stronger Communities

Promote regional competitiveness

Possible Legislative Action:

- Create a competitive program to help local partners propose community initiatives focused on:
 - Companies in target sectors or
 - The talent that those companies employ
- Allocated \$2 million for grant awards

Strategy: Preparing Stronger Communities

Invest in broadband

Possible Legislative Action:

- Authorize \$3 million for a competitive pilot program to create rural telework centers

Strategy: Preparing Stronger Communities

Develop local leadership capacity

Possible Legislative Action:

- Allocate resources to a rural economic development leadership development program
- Allocate \$500,000 for staff and resources

Strategy: Preparing Stronger Communities

Support small & rural communities

Possible Legislative Action:

- Create a site and building development fund
- Provide matching funds for "new resident welcome centers"

Strategy:
Leveraging
high wage,
high impact
opportunities

Streamline Nebraska Advantage

Possible Legislative Action:

- Authorize up to \$30 to 50 million annually for new Nebraska Advantage credits
- Reduce the terms of credits to no more than 5 years
- Offer a “tax credit buy-out” program for outstanding credits tied to years 6-10
- Authorize DED to take a more active role in the process and provide the staff resources to do so effectively
- Simplify the data reporting and validation process

Strategy:
Leveraging
high wage,
high impact
opportunities

Create a deal closing fund

Possible Legislative Action:

- Authorize a deal closing fund to help level the playing field for Nebraska
- Set basic standards for qualifying projects
- Establish procedures for ensuring transparency in the application, project review, and reporting process
- Provide \$5 to \$15 million for state investments in high impact opportunities

Strategy:
Demonstrate
Value and
Ensure
Transparency

Clarify economic development program goals

Possible Legislative Action:

- Encourage continued progress in data sharing between state agencies and the Legislature
- Encourage the DED in monitoring timely performance goals and metrics that are feasible to collect
- Empower DED to direct investments according to metrics
- Ensure DED has the staff capacity to succeed in this role

Strategy:
Demonstrate
Value and
Ensure
Transparency

Assign DED the responsibility for managing incentive programs

Possible Legislative Action:


- Authorize DED to serve as the primary agency monitoring the state's economic development incentives, including discretionary tax credits
- Ensure DED has the resources to attract the staff needed to succeed in this role.

Strategy:
Demonstrate
Value and
Ensure
Transparency

Improve program and portfolio analysis and reporting

Possible Legislative Action:

- Mandate (subject to expansion of DED staff resources) that DED report economic and fiscal return on investment results (benchmarked to expectations) for discretionary economic development programs



Concluding Thoughts

- Top issues to be addressed
 - Talent development
 - Rural population decline
- Prepare for Nebraska's next generation economy
 - Commit to innovation and entrepreneurship
- Re-imagine Nebraska Advantage to address today's problems
 - Program is not sufficiently flexible to address these priorities

Questions

What is the entire economic development portfolio, how is each piece contributing?

How to prioritize Nebraska's economic development portfolio?

How much discretion is the legislature willing to provide to the state's economic development professionals?

How relative is the importance of using the tax code vs using on budget grants and loans?

What is the right mix of investment for the state's ***economic development engine*** vs ***those being left behind***?