

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

Banking, Commerce and Insurance Committee  
February 14, 2012

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[CONFIRMATION]

The Committee on Banking, Commerce and Insurance met at 1:30 p.m. on Tuesday, February 14, 2012, in Room 1507 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on gubernatorial appointments. Senators present: Pete Pirsch, Chairperson; Mark Christensen; Mike Gloor; Chris Langemeier; and Paul Schumacher. Senators absent: Beau McCoy, Vice Chairperson; Rich Pahls; and Ken Schilz.

SENATOR PIRSCH: Why don't we get started. We have a...this is the Banking, Commerce and Insurance Committee and we have a gubernatorial appointment. My name is Pete Pirsch, for the record, P-e-t-e P-i-r-s-c-h, representing Legislative District 4. I'll be chairing the gubernatorial appointment for today, which is the only matter of business. And today, we have an appointee, Catherine Lang, as Director of the Department of Economic Development. Welcome. [CONFIRMATION]

CATHERINE LANG: Thank you. [CONFIRMATION]

SENATOR PIRSCH: And why don't we get started. Could you just simply tell us about your background and we'll go from there. [CONFIRMATION]

CATHERINE LANG: All right, thank you very much, Chairman Pirsch and members of the Banking, Commerce and Insurance Committee. I'm pleased to be here today. I've...Governor Heineman has asked that I be the Director of the Department of Economic Development and I'm honored by that opportunity. As well, you may be aware that I am currently the Commissioner of Labor for the state. And before the body and still in Government (Military and Veterans Affairs) Committee is LB971 which would propose to merge the two agencies, and then I would end up being a director of only one agency instead of two. I've been in state government for just over 30 years. I started as a law clerk at the Nebraska Department of Revenue in 1981 and did that for two years while I was in law school. I had the pleasure of serving as a staff attorney for a number of years after that, and my primary focus in the early years was on property assessment, property valuation, equalization issues for the state of Nebraska. In 1996, then-Governor Nelson appointed me as the Property Tax Administrator, so that was my first official appointment as a director. I had been a division director prior to that and that was my first time of administering an entire program and managing a part of an agency. In 1998, the Legislature chose to separate the division of property taxation from Revenue and created a separate state agency, the Department of Property Assessment and Taxation, and for just under 10 years, close to 8 years, I was the director of that agency as the Property Tax Administrator for the state. I was reappointed as Property Tax Administrator by then-Governor Johanns in 2002. In approximately 2006, Governor Heineman was seeking a new Tax Commissioner and I had the pleasure of offering my services for that position. I also told him at that time that I felt that the time had come to

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go ahead and merge the Department of Property Assessment and Taxation back with the Department of Revenue. I felt that that would create a cost savings for the state, that there could be an agency director that would be eliminated. I told him that I would stand by my advice and counsel to him no matter who he chose as the Tax Commissioner at that time; and I felt that was a prudent thing to do because the reason for having the separate state agency and the reason for having the Property Tax Administrator was to work to depoliticize the valuation process for Nebraska. I think many of you will remember back in the '90s that the property valuation process, the equalization of value across the state was a very contentious and political issue. And the Legislature's goal in creating that separate agency and creating those appointments for six-year terms was to try to reduce that noise around that issue and try to formulate a more objective approach to the valuation of property in Nebraska. And I felt we had achieved that; therefore, I felt that the reason to have two separate state agencies was really no longer necessary for Nebraska. Doug Ewald was chosen as the Tax Commissioner, which was an excellent choice. It was the first time that we'd ever had a CPA as our Tax Commissioner and Doug has been a great leader for the Department of Revenue and I was very pleased to serve for two years as his deputy. We made a lot of changes inside the agency and it was a great, great pleasure to serve with Doug. And then in 2008, early on in that year, the Governor had considered whether or not the merger of the Department of Labor and Department of Economic Development would be something that he would be interested in. He charged a number of agency directors to look at those two agencies and determine whether or not there was any possibility of bringing those two agencies together. And a proposal was put together and brought to him and at that time they chose not to merge the agencies. And then there was a resignation by the then-Commissioner of Labor, (Fernando) Butch Lecuona, and the Governor asked me in September of 2008 if I would be the Commissioner of Labor. I was very excited and very honored by that opportunity. I did have to admit to him at the time that I didn't know what the Department of Labor did, and yet at the same time I'd be very willing to go and manage the agency. I was pleased by his confidence to allow me to do that. The Department of Labor, I think we all look back now and are very pleased that at that time we did not move forward to merge the two agencies together. It would have been absolutely premature. The Department of Labor at that time, many of you may remember, was under incredible financial problems. We had a liability to the federal government, we had overspent our federal grants. As I came into the agency as the commissioner, learned very early on the depth of the problem, and it was permeated throughout the entire financial system of the agency. And this is an agency that manages a number of federal grants, some General Funds, some Cash Funds, but 98 percent of the funding is federal grants, and truly, we had a mismanagement of those grants at that time. We have now worked for three and a half years to bring ourselves out of that problem and we are within now the final six months of a corrective action plan that will bring us into compliance with accounting standards, government accounting standards, and in particular, compliance with the rules and requirements of the U.S. Department of Labor, so we're very pleased to have this slowly moving behind

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us. And the opportunity now to be the Director of the Department of Economic Development, I think, is appropriate to offer that to the Legislature at this time. I think that there is tremendous opportunity in bringing these two agencies together. When the Governor asked me to be the Commissioner of Labor, one of the things he charged me with, and I am sure he charged the Director of Economic Development with the same thing, and that was to create as much collaboration as possible between the two agencies. Richard Baier, the then-Director, came to us at the Department of Labor and asked us to participate in the Battelle study and we were very, very pleased to have that opportunity. We contributed not only financial resources to that study, but also our staff time and resources to the study. So much of what goes on in economic development, and it may not be the predominant issue, but it certainly is an underlying and very important issue to economic development, and that is your work force. If it's not the first or second issue that a company brings to the attention of the Department of Economic Development in terms of location or expansion or growing or starting a business in Nebraska, it's certainly the third issue that they raise. Where do I find my work force? How do I cultivate and bring that work force forward? How do I train and what opportunities and programs do you offer for that? And so I see the vision, and this is not only a vision about being the director and the commissioner at the same time, but it really is a vision about the merger and that is business leads. Business creates jobs in Nebraska. The Department of Economic Development does not create jobs, the Department of Labor does not create jobs. The Department of Economic Development certainly supports the creation, expansion and growth of business in Nebraska, but it is that business leads, business is first, business is there first. The Department of Economic Development, as a support to that effort, has programs that help business do that. We're also the sounding board for our business sector to be able to bring back to us the concerns and hurdles and issues that they face in being successful in our state. And as they converse and bring those issues to us in the Department of Economic Development, we use that information to inform public policy, modernize the incentive programs, create the initiatives that were brought to the Legislature a year ago, the talent and innovation initiatives that really are now not even a year old. So we are in our infancy of a lot of programs that are probably focused more toward small business and small business development and entrepreneur development in Nebraska for the very first time. We certainly have Nebraska Advantage. Nebraska Advantage is our major incentive programs for business attraction in Nebraska. A lot of that is focused on larger businesses, trying to attract them here or have them grow here. I see the talent and innovation initiatives as that effort that we have to help small business in Nebraska. So if you have business leading, you have the Department of Economic Development right behind that, supporting that effort. Then right behind that, what will come from the merger is a direct collaboration and partnership between our staff members and the two agencies, bringing forward those work force programs, those employment and training programs that are within the Nebraska Department of Labor. And we have a number of grants that come from the federal government to help us with that, and so we see that being an absolute dovetail for what we're doing in economic development, and then

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partnering that with the Department of Labor. [CONFIRMATION]

SENATOR PIRSCH: Wonderful. Well, thank you for that and I should probably mention we're joined here today, Senator Paul Schumacher and Senator Mark Christensen, Senator Mike Gloor, and Senator Chris Langemeier. And so at this time, I'll just open up. Are there any questions that any of the senators have? Senator Langemeier. [CONFIRMATION]

SENATOR LANGEMEIER: Thank you, Chairman Pirsch. Ms. Lang, you talked a little bit about this all based on...this appointment based on a bill that might merge these. Do you know, what's the intentions if that bill never does go any farther than it is today? [CONFIRMATION]

CATHERINE LANG: Well... [CONFIRMATION]

SENATOR LANGEMEIER: Will you remain both for an indefinite amount of time or...? [CONFIRMATION]

CATHERINE LANG: I believe that I will remain the director and the commissioner for the near future. At that point, my...there's always the opportunity for the Governor to consider a different option. But I don't have any indication from him that at that time...that at this time he would consider that, so I would be the agency director for both. [CONFIRMATION]

SENATOR LANGEMEIER: Thank you. [CONFIRMATION]

CATHERINE LANG: Yes. [CONFIRMATION]

SENATOR PIRSCH: Very good. Senator Schumacher? [CONFIRMATION]

SENATOR SCHUMACHER: A couple different questions. You mentioned a pretty sorry state of affairs a few years ago in the department. What corporate culture led to that sorry state of affairs and how do you plan on arranging things so that culture does not reemerge and take us back into that kind of situation? [CONFIRMATION]

CATHERINE LANG: Well, that's a great question and thank you for asking that. One of the things that permeated the culture at the Nebraska Department of Labor in those days and it...I will tell you, it is absolutely eradicated at this point, is that the department saw themselves as a standalone entity. They didn't see themselves as part of or needing to be part of the rest of state government. One of the things that I have always been supportive of ever since I became a director of an agency was the need to collaborate and work within the Enterprise Solutions of state government. I'll give you an example. In the years as being Property Tax Administrator, I felt that our focus as an

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agency was on the issues of property value, assessment and equalization, the process that was going on, especially as an oversight agency in that case. What I didn't want to embroil myself in or waste our time and resources with were some of those administrative functions that are much better done under the leadership of the Department of Administrative Services and those Enterprise Solutions that are offered to state agencies. Especially, I believe, starting under Governor Johanns and particularly under Governor Heineman, there has been a strong push to assure that agencies work within the Enterprise Solutions and until I came to the Department of Labor, that just was not the philosophy within the agency. And so what we started to do immediately was to assure that we were working within the Enterprise Solutions, whether that was the Nebraska Information System or our now-called EdgeOne, which is our accounting and budget system. We had the opportunity as the Department of Labor to participate in the development of that. And at that time, we had our own accounting system, it was a federally-supported system, and we said, oh, we don't need to go over there and be with that state system. Well, lo and behold not too many years after that, that system was decommissioned. Now the agency had to go and be part of that Nebraska Information System. We had done no planning for that. We had not worked in it, we did not understand it, we had not participated in it to assure that it would work for the Department of Labor. [CONFIRMATION]

SENATOR SCHUMACHER: Hmm. [CONFIRMATION]

CATHERINE LANG: So from day one, we have, at the Department of Labor, embraced every Enterprise Solutions offered to us by the state of Nebraska from NIS to IT to printing and to our facilities management, so we will never go back. [CONFIRMATION]

SENATOR SCHUMACHER: Okay, then one follow up to that then. In economic development and in the nature of an economy, generally there is the organization of capital or natural resources, the population either is labor or consumptive population, or know-how technical ability to do something. With regard to the first of those things, the organization of our capital, we currently have a situation where there's lots and lots and lots and lots of money. It is invested in no interest-bearing interest accounts, dead instruments or very low interest, a stock market roller-coaster which may or may not lead to anywhere, overpriced farmland which doesn't produce anymore, an acre at \$5,000 an acre or at \$10,000, doesn't matter what you pay for it. That being a critical part of economic development, what do you see as the role of the Department of Economic Development in helping us, leading us, laying some type of mechanism in place for the organization of our capital so that we can organize money and then use that money to attract the type of know-how that may be native to the state, it may have to be imported to the state under that capital structure, and then play it with a situation where we've got a work force that's somewhat underemployed traditionally? How do we bring those elements together, starting with the organization of that capital?  
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CATHERINE LANG: That's a very, very good question, thank you. What I see our opportunity in the Department of Economic Development, particularly in light of the effort that's been put forth to bring to our attention the information in the Battelle study, it allows the state of Nebraska in terms of its support initiatives to the creation of business, the expansion of business and the growth of business, to be very targeted with what we're doing. If we know as a state where our strengths are from an economic perspective, then we can target our efforts to try and attract those sorts of businesses to Nebraska. We refer to those in terms of our clusters, of which the study points out the primary clusters that Nebraska should focus its attention on, and then working to develop programs around those that will support the increased activity of those clusters. But in terms of the capital, and what I guess I'm visualizing it as, is if a lot of the capital is currently, sort of, parked, people refer to it as sitting on the bench, how do we bring that into the game? I think the focus of the Department of Economic Development in that regard is to be there and be ready to attract and encourage that capital investment here in Nebraska, because as companies choose to bring that capital back into the economy, we need to be there to attract them to our state. [CONFIRMATION]

SENATOR SCHUMACHER: But attraction, I'm talking about internal capital already here, not attracting somebody, organized capital from a board room on the East Coast or the West Coast or...and saying come here because we've got cheap electricity, we've got cheap labor, we've got cheap land, we've got cheap whatever, but actually organizing our capital, because those people that come here from the outside don't come here because they're looking to be charitable; they're looking to take advantage of the resources. So what do we do to organize our internal capital rather than economically develop by just moving an industry from one state to the other, which is not really economic development, it's just moving pieces of the puzzle around on a map? [CONFIRMATION]

CATHERINE LANG: And what I meant is that in that attraction is not necessarily from out of state, just in any investment into the economy, back into the economy whether it's a Nebraska company or not. So I agree with you; it is about attracting that investment into our state. Our companies need to be ready to be able to do that and when they are, we want to be able to be there to support them in those initiatives whether it is to help them understand our Nebraska Advantage initiatives, our talent and innovation initiatives, we have our block grant resources that are available; all of those things come to bear on for a company to consider in terms of do they want to add that new line, do they want to take their existing plant and expand it. And we have those conversations with companies all the time, working with them to help do anything that we can within the programs that we have to help them be successful as they bring their capital, their investment into Nebraska, whether its an existing Nebraska company doing it and bringing it into our economy or a company coming from outstate. [CONFIRMATION]

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SENATOR SCHUMACHER: But not to belabor the point, but one part. Let's just suppose, you know, in cities of just the average, outside of Omaha and Lincoln, 20,000 population, that there's, oh, 50 people that have got \$1 million parked, that's \$50 million times 10 cities, that's, you know, half-a-billion dollars parked, if those people don't want to invest in an apartment building or a strip mall or go out and bid up farmland or whatever, that they'd want to invest it into an enterprise? [CONFIRMATION]

CATHERINE LANG: Um-hum. [CONFIRMATION]

SENATOR SCHUMACHER: What do you see kind of as a mechanism that can be structured in order to facilitate their mobilization of that capital into a common pool to do what half-a-billion dollars can do? How do we do that? We don't know how to do that now. I'm looking for suggestions to how we do that. [CONFIRMATION]

CATHERINE LANG: What I would say to you is that one, we'd be happy to take that question and concern under advisement and examine that from an economic development perspective. But we also know that we do have programs now available, our site and development programs, our angel investment programs, all of those to bring to bear, to help support those businesses as they make those decisions. But I'm not...I guess what I'm perhaps not understanding is whether or not you're asking how do we work with those businesses to actually help them understand the enterprise... [CONFIRMATION]

SENATOR SCHUMACHER: They're not businesses yet, they're just piles of money. [CONFIRMATION]

CATHERINE LANG: Piles of money to invest in and create an enterprise. And then what we are out talking to people about is those enterprises where we believe Nebraska has the most to gain from that particular industry sector. And there are about five industry sectors where we are focusing our attention primarily to create those, what we call primary jobs, and so it's around those sectors that we have our effort focused and working with investors who are looking to do that. [CONFIRMATION]

SENATOR SCHUMACHER: Okay, thank you for your answers. [CONFIRMATION]

CATHERINE LANG: Okay, thank you. [CONFIRMATION]

SENATOR PIRSCH: Yes, Senator Gloor. [CONFIRMATION]

SENATOR GLOOR: Thank you, Senator Pirsch. And thanks for taking time with us, although it's probably not an option as I recall, it's keeping it with...you've got a unique experience. You've already been through the merger of a couple of departments with taxation and revenue. [CONFIRMATION]

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CATHERINE LANG: Um-hum. [CONFIRMATION]

SENATOR GLOOR: Anything that you learned or took away from that, that will help you with what's being proposed currently? [CONFIRMATION]

CATHERINE LANG: Well, it's the process of managing change and it's managing change on a couple of levels. Obviously, within the agency itself, among the staff members that you are bringing together, you need to help facilitate that change process for everyone. You need to make sure that you have a very open communication process so that people can bring their concerns, their questions, and their ideas forward. So we have been talking within each agency about how can we best work together, where are the places where we have those opportunities to have a direct connection at first, and then more will come from that. And so we've already been working on those issues. During the hearing on LB971, Senators Harms and Mello offered, and I agree and was pleased about their offer, to talk about bringing in a consultant to try and also manage the change that's going to occur for the stakeholders. So it's not just what's happening inside, but it's what's happening around the agency and everyone that depends on that agency for either the services or the programs that we are managing. And so we will be utilizing the services of a consultant to assist us with that change management because what we want to do again is hear from them about the concerns, the ideas that they have that can be made better through this merger opportunity, and any of the other issues that they want to bring to our attention as we work through this. [CONFIRMATION]

SENATOR GLOOR: I'm glad you're taking a proactive approach, because it can certainly get to be disruptive to this to the extent of dysfunctional if you don't try and address some of those, so good for you. [CONFIRMATION]

CATHERINE LANG: You are absolutely right about that. [CONFIRMATION]

SENATOR GLOOR: Thank you. [CONFIRMATION]

CATHERINE LANG: Yes, you bet. Thank you. [CONFIRMATION]

SENATOR PIRSCH: I appreciate your testimony today and as I understand it from your testimony, you don't feel that the merger of the two departments then will lead for a competition for attention, but rather they're complementary and that's what really the catalyst has been for integrating the two into a seamless type of one-stop shopping, if I understand the concept correctly, but... [CONFIRMATION]

CATHERINE LANG: Yes. [CONFIRMATION]



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SENATOR PIRSCH: And so I thank you for that. One area that I just wanted to ask about is, you know, I know in California and our neighboring state of Iowa, Governor Branstad is cultivating relations abroad in an effort to attract business investment/job creation to his state. [CONFIRMATION]

CATHERINE LANG: Um-hum. [CONFIRMATION]

SENATOR PIRSCH: And I just wanted to get your input if you agree as to the increasing importance of global investment here in the state. We do a lot of exporting and that's a prime, you know, it's always been a prime consideration to this state. But in terms of now looking for investment dollars for the purpose of job creation in the state, would you agree that that's an increasingly important topic? [CONFIRMATION]

CATHERINE LANG: Yes, it is, Senator Pirsch, and it's an area that we have increased our attention on not only with the reverse trade mission that occurred, but also with the trade missions that we initiate to go abroad, in particular in China. We know from an agricultural perspective, we have tremendous export capacity which is very, very helpful to the state in terms of its economic success. The same is also true, though, of the increased for an investment in Nebraska. There are a number of companies particularly recently from China, that have invested in Nebraska opening plants and creating opportunities for the employment of our citizens. And so, yes, it is a very important part of what we do. [CONFIRMATION]

SENATOR PIRSCH: Thank you so much. Are there any other questions at this time? Would you like to take some closing remarks, Director, or...? [CONFIRMATION]

CATHERINE LANG: I don't believe so. I believe that I've outlined what I wanted to today, so thank you. [CONFIRMATION]

SENATOR PIRSCH: Okay, very good. Well, thank you for your testimony here today. And that said, we'll then close this hearing, so thank you. [CONFIRMATION]

CATHERINE LANG: Thank you. [CONFIRMATION]