

# **“Examining Access to Capital and Other Headwinds to Entrepreneurship”**

Testimony before

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Chairman Vitter, Ranking Member Shaheen, and members of the Committee thank you for inviting me to testify today.

My name is Dan Hoffman, CEO of Invest Nebraska. Invest Nebraska is a non-profit statewide venture development organization (VDO) located in Lincoln, Nebraska. Invest Nebraska was founded in 2002 by representatives of the Nebraska Department of Economic Development, the University of Nebraska, the Nebraska Chamber of Commerce and the private sector to increase entrepreneurs’ access to private capital in Nebraska.

Like many VDOs across the country, we focus on building partnerships among regional assets that support entrepreneurship, connecting high growth companies with existing state/local support programs, and providing investment capital, in coordination with the Nebraska Department of Economic Development which is matched by private investors.

## *Nebraska’s History with Entrepreneurship*

Nebraska has a rich history of entrepreneurs identifying problems, finding solutions, and starting companies. But the basic tenets of this entrepreneurial history can be traced back to our culture: a strong work ethic, the expectation to solve problems ourselves, and collaborate with our neighbor. We do it the Nebraska Way. However, for the state to remain competitive for its entrepreneurs and grow its economy, we must accelerate the building of Nebraska’s entrepreneurial infrastructure.

For the past 30 years, state policymakers in Nebraska have struggled with the issue of increasing investment capital or venture capital in the state. In 1985, Governor Bob Kerry’s office released a report on the status of venture capital in the state since Nebraska ranked close to last place. State policymakers have attempted to address this issue by developing policy options to assist entrepreneurs since that time. Unfortunately most of these efforts did not address some of the fundamental infrastructure deficiencies in the state’s entrepreneurial network.

The 2010 Battelle Study, commissioned by the Nebraska Department of Economic Development and the Nebraska Department of Labor, was the first comprehensive study that looked at the

state's clusters, entrepreneur funding deficiencies, private investor network, and innovation strengths. This study along with the recommendations of the Nebraska Legislature's six-member Entrepreneurship and Innovation Task Force, which included Senator Fischer, resulted in the 2011 Talent and Innovation Initiative.

This initiative consisted of four main programs: an annual \$1.5 million state appropriation for companies that hired college interns, an annual \$2.5 million state appropriation for a site and building fund, an annual \$3 million state appropriation for an angel investment tax credit program, and an annual \$7 million under the Business Innovation Act.

The programs funded under the Business Innovation Act (BIA) address many of the infrastructure deficiencies that earlier state policymakers failed to identify. The programs administered by the Nebraska Department of Economic Development include:

- 1) A SBIR/STTR grant program that provides a \$5,000 Phase 0 SBIR planning grant to a business applying to a federal SBIR program and a matching grant of up to \$100,000 for those companies receiving a Phase I or Phase II SBIR/STTR grant award;
- 2) A Research and Development (R&D) grant program that provides grants to a business working with a researcher at any postsecondary educational institution in the state to develop a new product or process. A Phase I grant is funded up to \$100,000 and a Phase II grant is funded up to \$400,000. Both grants must be matched 100 percent by the business;
- 3) A Prototype grant program that provides up to \$150,000 to a business that is developing a new product or process. The grant must be matched 50 percent by the business;
- 4) A Commercialization/Seed investment program that provides up to \$500,000 in investment capital, through a convertible note or part of an equity round of financing, held and managed by Invest Nebraska. This funding must be matched 100 percent by private investors;
- 5) A Value-added Ag Program that provides funding through the R&D Grant Program, Prototype Grant Program, or Commercialization/Seed Investment Program for any agriculture related product or process but at a lower 25 percent match requirement; and
- 6) A Microenterprise Program that provides technical assistance and micro-loans to businesses with less than ten employees.

A 2014 economic impact study conducted by Dr. Eric Thompson at the UNL Bureau of Business Research resulted in some remarkable metrics and outcomes for a program that existed for only 2.5 years:

- 1) \$1 of BIA funding resulted in \$5.12 of private investment funding;
- 2) \$1 of BIA funding resulted in \$2.32 revenue from sales;
- 3) 162 direct jobs were created with an annual wage of \$50,617 (Nebraska's annual average wage for the period was approximately \$41,000);
- 4) 307 total jobs (direct and indirect) created with an annual wage of \$49,609;
- 5) \$1.22 million state and local tax impact; and

- 6) \$53.45 million of annual economic impact to Nebraska's economy from the \$7.3 million of total BIA funding disbursed during the study period.

Nebraska has also seen its venture capital ranking increase dramatically according to the MoneyTree™ Report compiled by Thomson Reuters in coordination with PriceWaterhouseCoopers and the National Venture Capital Association. Historically Nebraska has ranked towards the bottom in this report. In 2011, no deals were funded in Nebraska ranking Nebraska last and tied with Arkansas, Mississippi, Alaska, and Wyoming. In 2015, Nebraska had climbed to 25<sup>th</sup> place, with thirteen deals funded at \$199.98 million. Even if one excludes the \$72.5 million raised by Lincoln-based Hudl in that year, Nebraska would have ranked 34<sup>th</sup> place. We are on the right path.

### *The State of Entrepreneurship in Nebraska Today*

The level of collaboration occurring in the state today is remarkable. In five years, the state has seen a surge in activity among various partners creating the needed entrepreneurial infrastructure including:

- The NMotion Accelerator in Lincoln
- The Straight Shot Accelerator in Omaha
- The build out of Nebraska Innovation Campus including the re-location of the UNL Food Processing Center to the Campus
- The Omaha Startup Collaborative in the Exchange Building
- The Fuse Co-Working Space in Lincoln
- Business Plan Competitions at UNO, Creighton, UNL, and Wesleyan
- Pitch Competitions in Hastings, Kearney, Lincoln, and Omaha
- The Bio-Connect wet lab incubator on Nebraska Innovation Campus
- Code schools in Omaha and Lincoln

Nebraska is fortunate to have a very active group of investors that provide funding and mentorship to early-stage businesses in the state.

Founded in 2006, the Nebraska Angels is an angel network of 60 accredited investors that deploys, on average, close to \$2 million in capital in eight deals annually in Nebraska and the Midwest.

Dundee Venture Capital in Omaha, led by serial entrepreneur Mark Hasebroock and Beth Engel, invests \$500,000 - \$1 million in high-growth, early-stage technology companies. Most of their investments are in e-commerce, B2B SaaS, or consumer networks.

TreeTop Ventures is a network of accredited investors that invests in start-up companies in the Omaha and Lincoln areas.

And as previously mentioned Invest Nebraska invests \$100,000 - \$500,000 in early stage companies in Nebraska and must be matched 1:1 by private investors. We are agnostic as to the type of companies we invest in.

## *Examining Capital Access and Headwinds into the Future*

While the future holds great promise for the state's entrepreneurship environment, there are some major obstacles that lie ahead.

1. Access to venture capital for later stage rounds – Early stage companies have access to seed and angel capital within Nebraska. Dundee Venture Capital will fill a void by funding deals between the \$500,000 - \$1 million range. However, the state lacks venture capital funds willing to fill later stage rounds with funding at the \$2 million and greater amounts. These funding levels fall to investors outside of Nebraska. Venture capital investment activity in states and regions is often viewed as a leading indicator of future job creation, economic growth and competitiveness. According to a study by the National Venture Capital Association, companies backed by VC investments contribute disproportionately to job creation in the U.S., with 11 percent of U.S. jobs and 21 percent of GDP attributable to the companies that received venture capital investments at early development stages.<sup>1</sup>
2. Lack of funding and mentoring for Bioscience Companies – Currently, Invest Nebraska is the only investor willing to investing in early stage biotech companies. This presents challenges in finding local co-investors. According to the Battelle Report, Biosciences is one of five industry cluster strengths that have a larger concentration of employment than found nationally and are adding jobs more rapidly than at the national level. The bioscience industry is also one of four industry clusters that have a substantial level of core technology competencies as measured by publications, patents, and new start-up companies. Failure to address this opportunity will result in the state neglecting one of its core strengths.
3. Lack of women and minorities starting high-growth businesses – This is a problem that is not unique to Nebraska. Many states and communities are attempting to address this challenge. However, interested partners need to collaborate and find solutions that fit the state's entrepreneurial landscape.
4. Expanding entrepreneurial endeavors outside of Omaha and Lincoln – Another problem not unique to this state. With over half of the state's population residing outside of Omaha and Lincoln, deliberate consideration is required to confront this geographic chasm.

The last three obstacles need to be addressed by Nebraska's stakeholders. Collectively, we understand our opportunities and constraints, our strengths and weaknesses. Solving these impediments to growth requires solutions resolved the Nebraska Way.

But it's the first obstacle where the federal government has a public policy role to assist the country's flyover states – those states that are underrepresented by venture capital investment as well as venture capital funds.

The Small Business Jobs Act of 2010 created the State Small Business Credit Initiative (SSBCI), which was funded with \$1.5 billion to strengthen state programs that support lending to small

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<sup>1</sup> *Venture Impact: The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy*, published by IHS Global Insight and the National Venture Capital Association, 2009.

businesses and small manufacturers. Participating states could choose to design their individual SSBCI programs to support financial institutions' lending or to support venture capital investing. In 2011 and early 2012, The U.S. Department of Treasury approved over 140 different SSBCI programs for 57 participants, including 47 states. The department approved 36 state-run venture capital programs in 30 states, including Nebraska. This represented a total of \$403 million of SSBCI funds allocated to venture capital.

The flexibility under this Act allowed state program managers to assess market needs in their respective states and design customized program structures. Commonly selected program structures for capital deployment included direct investment funds, co-investment funds, fund-of-funds, and 3<sup>rd</sup>-party managed funds.

While the program is set to expire in March 2017, it might behoove federal policy makers to review the outcomes of the SSBCI and compare them to the outcomes of other federal programs that stimulate private sector investment. Specific attention should be given to where these other federal programs are being utilized and the geographic barriers encountered by flyover states.

### *Conclusion*

Nebraska has made great entrepreneurial strides during these past five years. The Omaha and Lincoln region is making a name for itself as part of the Silicon Prairie. However, challenges remain which must be confronted and solved by Nebraska's stakeholders.

Thank you