

HOUSE BUSINESS AND INDUSTRY COMMITTEE

In lieu of a regular meeting the Business and Industry committee members attended a meeting at the Coach House East, in Room 114, at 9:00 a.m., January 8, 1981, which was a seminar entitled "Economic Development -- The Issue of the 80's". All members were present except Rep. Vincent who was excused. The committee researcher, Paul Verdon, was also present. The agenda is attached, EXHIBIT A.

Economic development is possible in every community that wants to use it. It depends upon the people and their willingness to get involved. Economic development is the life blood of any industry. A development director's main goal is the ability to balance required services that industry will demand compared to what local governments can provide with the dollars coming into a community that are necessary to provide its services to industry.

The potential is in every city and town in Montana if people themselves are willing to take advantage of it. There must be strong moral support and, to a lesser degree, financial support. We have to develop the economy within the state by utilizing products that are produced in Montana.

The resources available were listed and the first major resource is the people of the community who want to expand or go into business. The economic developer's job is to find all resources available, and use them.

Jack Hill, the Executive Director of the Great Falls Growth Council, feels Montana tax laws are a disincentive to development in Montana. He thinks the state should have a well organized, well directed, and staffed economic development department. He suggested a 1 mill levy for this purpose.

Les Prentice, Director, Missoula Redevelopment Agency, feels Montana is lacking in skilled labor, tax incentives, investment capital, roads - all the basic structures needed by industry are lacking. As economic director for Missoula, he is exploring many things for diversification of industry to provide jobs. He feels the community has great potential for helping its own economy and that of the state. Industries need assistance on infrastructure services.

Carol Daly, Executive Director of the Private Industry Council of Montana, Inc., explained the Council is privately funded by the Department of Labor funds until Title 7. Its purpose is to get private industries more involved in the training programs. It is incorporated and its members are appointed by and serve at the pleasure of the governor.

The board was formed last spring to create additional jobs, and to bring money into the state, and send Montana products out of state. They decided to work primarily with Montana based industries rather than trying to bring industries in, and concentrate on small businesses already in the state by helping them with feasibility studies, financing, etc. Undercapitalization is the biggest problem. There are cash flow problems after beginning, management is a very important problem (people with excellent design ideas are not especially well qualified to manage their business). The businesses that come to them are businesses that have problems already. They need to provide tools that are unavailable. There is a need for coordination between state agencies. There are 10-15 people working on economic development in the state. Need to eliminate

1/8/81

Page 2

duplication. Private Industry Council can help out on some things, but there is a need for more coordination between banks and other resources. Need to get information out and let people know what Montana products are here. Need to mesh ideas with money - maybe some development company could buy the idea on a royalty basis. Need to provide people with the opportunities available to them. Need to respond to opportunities as they come along. Federal money has guidelines on it. Need to assist a person with no strings that are not flexible. Need less regulation.

Bruce Finney, Western Analysis, Helena, economist, said Montana is part of the national economy, and inflation is the #1 problem and it is expected to double in 6 years. Inflation goes up, the prime rate goes up, and bankers follow. Productivity growth is the paramount issue. The cause of inflation is demanding too much or not producing enough. It is a vicious cycle that needs to be broken. The savings rate makes for higher productivity rate.

Most jobs occur in small businesses. Over 60% statewide growth occurred in businesses with less than 50 people and less than 2/3 of businesses. Many Montana employees don't work year around because of the seasonality of production and construction, so incomes are less, although wage rates are slightly above the national average. Trade and services provide most of the growth. Montana will continue to grow, but is subject to economic constraints. He feels there should be expansion of present or new businesses already in Montana.

The capital shortage in Montana is because there is a shortage nationally. There is a crying need to stimulate investment every place. Montanans tend to save more even though incomes are less. Loan to asset ratio is a little lower.

Dick Bourke, Western Analysis, Helena, feels there is a need for equity capital in Montana. It is encouraging that banks do more to supply more money to the small borrower. Large businesses and industries can find the capital. Small people who generate most of the jobs need assistance. We need more flexible loans. The private sector approach to financing would be preferable to state funding if the state were involved.

Senator Towe said the public sector approach has its merits. The public/private approach can combine the best of two worlds. The Small Business Investment Company (SBIC) is a private for profit company and is run by a board of directors. He would suggest that perhaps 75% of the purchase of stock would be written off over a period of five years - \$4,000 worth of stock and \$3,000 would be repaid making an investment of \$1,000. State tax credits are going to be necessary to get this kind of investment. This would raise money, but it might not raise enough money to make the idea work.

The state has a tax credit and the state has to determine what a qualifying investment is; the private sector runs the entity. Instead of one entity, many may be organized. This would encourage competition.

He suggests a public agency similar to the Board of Investments be set up by executive branch appointment. The staff would be in a state agency. Money would be raised internally and make venture capital available through the sale of bonds secured by a stream of future tax revenues. This is the most feasible

1/8/81

Page 3

approach given the tight budget situation to provide flexibility to any type of financing. The state could simply agree contractually to take a percent of the gross to recapture investment.

The public sector approach has budgetary constraints in staffing in a manner which will allow it to have professional people. The state pay classification would have to be gotten around. The approach would have to be bipartisan. The SBIC would be a private for profit company and would be eligible for loans at 3% below money market mortgages, and the SBA would be able to buy non-voting preferred securities. It would have professional personnel. It would sell stock to the public and raise some money through that. It would be run as a private corporation in a for profit manner which would give it greater probability of being a success rather than being under state funding and direction of operation.

Because \$750,000 might not be enough money to make this a viable entity, the state could provide match money which would make success more possible. Flexibility and high risk acceptance are prerequisites.

Senator Reagan spoke on HJR 49, alternate ways of allowing branch banking. Montana is one of 13 states that does not permit branch banking. Federally chartered Savings and Loans can branch bank, as can federally chartered credit unions. What a federally chartered credit union can do a state chartered one can do with the approval of the state.

Branch banks are highly restricted. We have chain banks and multibank holding companies in Montana that function very much like a branch. Many traditional differences between banks, S&Ls, and credit unions have been almost removed. Small banks will feel this greatly.

The bill as drafted is not really a bill and will allow banks to be established within three miles from the unit bank in a community of less than 50,000.

When you have the development of the ETS electronic system, and when you have the federal government removing all usury ceilings, overriding state laws, and requiring interstate banking, she looks for the federal government to repeal the McFadden Act and the Banking Act and allowing international banking.

Rep. Jay Fabrega proposed the creation of 11 SBICs funded to \$1 million of private funding with a 50% tax incentive over 4 years. These would be located in Kalispell, Missoula, Butte, Helena, Great Falls, Bozeman, Havre, Lewistown, Billings, Glasgow, Miles City to make it unnecessary for anyone to have to come to Helena.

The bill proposes creation of the Montana Development Finance authority and Montana Development Council would be formed under this act. The SBIC \$1 million can be converted to \$5 million because of the loans that can be obtained from the SBA at a 4-1 ratio, and at a reduced rate of interest. The Montana Development Finance Authority would be attached to the Montana Department of Administration, and staffed by personnel reporting directly to the Department of Administration director.

The Montana Economic Council would require an appropriation of \$1,750,000 from the general fund to be contracted to the Montana Council; 10% would be needed for staff and expenses of the Council. This Council would advise the SBICs and provide the one or two capitalists (which don't come cheap), and the

1/8/81

Page 4

rest of the money would go for investments in the SBIC. Bonds would be issued and the state would provide the guarantee. There would be a sinking fund requirement of 40%. As of now, that would have to come out of the general fund. This would be an ideal place for coal tax funds, but until the suit is settled, there might be a hesitancy.

The inventory and property taxes in Montana keep people from locating here unless they need water or coal, etc. He recommended that the interim revenue oversight committee give all its time to studying a replacement tax doing away with the personal property tax on business, and come up with a land tax and a business unemployment solution.

Local governments are in bad shape. Funding under the property tax system is becoming so tight that some of the vital functions cannot be provided. He wants to balance the financial economic distribution of locating in Montana and to figure out a way to fund local governments.

Other persons speaking were Ken Nordtvedt, who felt the proper reform of tax policy is the best way to get our economy going again. There needs to be a profit motive for businesses.

Dan Kemmis feels there is some potential for SBICs to be effective, but there may be other ways, too. How banks invest their own money to benefit the economy of the state is important. Leveraging and backing money from the coal tax money might provide economic development funds. Money could be put into banks from state funds on a certificate of deposit situation, so the banks could make significant loans.

The meeting continued, but the committee had to return to the Capitol for other meetings.

REP. W. JAY FABREGA, CHAIRMAN

Josephine Lahti

Josephine Lahti, Secretary

22-7A

ECONOMIC DEVELOPMENT -- THE ISSUE OF THE 80's
CoachHouse East Hotel - Room 111
Helena, Montana
January 8, 1981

- 9:00 Welcome and Introductions
Darryl Lee, Acting Chairperson, MEDA
- 9:10 The View from the Front Lines
Local economic development specialists discuss the problems they face, the resources they have -- and those they need -- to successfully foster economic growth or stabilization in their communities
Tony Priete, Executive Director, Bear Paw Development Corporation, Havre
Jack Hill, Executive Director, Great Falls Growth Council
Les Prentice, Director, Missoula Redevelopment Agency
And others.
- 10:15 Break
- 10:30 Capital Formation and Development Finance
Is there a shortage of capital in Montana? What can -- or should -- the state do to assist small or new companies to obtain financing for development? Can Montana successfully attract manufacturing plants from other areas?
Bruce Finney and Dick Bourke of Western Analysis, Helena, present their findings on these and other questions
- 11:30 Branch Banking -- Would it help?
A report on the pro's and con's from the chairperson of the legislative interim committee which has been studying the issue
Senator Pat K. Regan, of Billings
- 12:00 Lunch -- on your own
- 1:30 Legislation Addressing Economic Development Problems
What seems to be needed? What's being proposed?
Representative Jay Fabrega, of Great Falls
Senator Thomas Towe, of Billings
Representatives James Azzara and Dan Kemmis, of Missoula
Forrest H. Boles, President, Montana Chamber of Commerce
And others.
- 3:30 The Executive Initiative
A new administration with some new ideas on economic issues
Gary Buchanan, Special Assistant to Governor Ted Schwinden
- 4:00 Summary and Adjournment