

MINUTES OF THE MEETING
NATURAL RESOURCES SUBCOMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

The meeting of the Natural Resources Subcommittee was called to order by Chairman Swift on January 15, 1987 at 8:00 a.m. in Room 317 of the State Capitol.

ROLL CALL: All members were present. Also present were Carl Schweitzer, Senior Fiscal Analyst, from the Office of the Legislative Fiscal Analyst (LFA) and Sib Clack, Budget Analyst, from the Office of Budget & Program Planning (OBPP).

Tape 17A:000

DEPARTMENT OF COMMERCE:

Business Assistance Division:

Ms. Carol Daly, Administrator, gave the overview of Division functions (EXHIBIT 1).

Discussion:

(Small Business Development Center (SBDC) Program: Ms. Daly said the business development function, under the Division's reorganization plan, is being designed to serve as the pivot point for the proposed SBDC. This will be made possible by a grant from the Small Business Administration (SBA).

Rep. Manuel (178) asked what is the amount of the proposed grant; and is a match required. Ms. Daly said the grant is \$221,000 and a match is required, half of which must be in cash and the other half in a soft-match. For the cash match, the department proposes to use the unfilled position pulled back from vacancy savings; and other resources within the Division. The soft-match will be provided almost entirely by local development organizations, the university system and community colleges - particularly Dawson Community College.

In response to a question from Sen. Smith, Ms. Daly said there will be some university staff used for computer programming and training activities.

Sen. Smith (213) asked if, when businesses inquire about locating in Montana, it is "tough" to tell them Montana has close to the highest property taxes in the nation and the highest Workers' Compensation rates. Mr. Colbo said

there are instances where businesses cannot succeed; but, the department is working - and will continue to work - with agencies to mitigate the impact of these problems. The work with agencies Directors has been suspended during the session. He said he is particularly concerned with the transportation problems in Montana, because there is something fundamentally wrong.

Rep. Devlin said, existing businesses are in dire straits, so perhaps the concentration should be directed to helping those businesses, rather than trying to promote new businesses. Ms. Carol said the department is working hard in both areas.

In response to a comment by Chairman Swift, Mr. Colbo said, in the Business Assistance Program this fiscal year, more funds have been raised than the department has spending authority for. He said he feels there should be authorization to spend funds the department reasonably feels it can generate. Chairman Swift said general fund match monies make it difficult. Mr. Colbo said those campaigns and programs the department can do in cooperation with the private sector - which enhance and expand opportunities of the basic program - do not replace basic program expenditures, nor should they be counted on to.

In response to a question from a committee member, Mr. Colbo said less than 20 percent of funds allocated to this program are spent on out-of-state business promotion.

There was continued discussion of a general nature.

Tape 17B:000

Sen. Story said he thinks department personnel have not realized how "tough" it is for the public to obtain realistic assistance from state departments. He gave several specific examples.

In response to a comment from Rep. Devlin, Ms. Daly said as soon as she became aware of the closure of the U.S. Gypsum plant in Lewistown, she called the President of U.S. Gypsum in Chicago to see if there was anything the department could do. The reason for the closure is that the transportation is too far from their markets. She met with the regional Vice-President last Monday to attempt to find someone to reactivate the business.

Mr. Colbo (186) said there is a modification request to create an office in the Pacific Rim to expand Montana's markets. Carl asked, is to promote tourism the reason for using the accommodation tax as part of the financing. Mr. Colbo said yes. Chairman Swift asked if the department has looked at the demands of foreign markets to determine if there might be products developed to meet those needs, in addition to what Montana already offers. Mr. Colbo said yes, and the modification proposal is a further step in this direction.

Montana Promotion Division: (236)

Mr. John Wilson, Administrator, gave an overview of the Division programs. He said the Division is "two-pronged". First, there is a sizeable commitment to promoting Montana through motion picture and television commercials. Second, it aims to replace general fund with a special revenue fund, specifically related to HB84. HB84 is sponsored by Rep. Winslow and essentially asks for a 4 percent state-wide accommodations tax, with 3 percent staying on the state level and 1 percent distributed to local regions.

He showed the committee some slides and video tapes of media promotional efforts.

Tape 18A:000

Discussion:

Chairman Swift (348) said the committee might have a problem with an accommodation tax.

Rep. Devlin (374) asked the department to furnish data on the dollar amount cooperating states contribute to cooperative advertising.

Sen. Smith (444) asked if there is a sales tax enacted, would this accommodation tax be an add-on. Mr. Colbo said it could be an add-on or it could be exempted.

In response to a question from Sen. Story, Mr. Wilson said HB84 would bring in from 4.8 to 5 million dollars.

There was committee discussion of a general nature.

Science & Technology Development Board: (532)

Mr. Sam Hubbard, Executive Director, Montana Science and

Natural Resources Subcommittee
January 15, 1987
Page 4

Technology Alliance, gave the overview of program functions. He submitted a document titled "1989 Biennium Funding Proposals" (EXHIBIT 2); and one titled "Investment Commitments" (EXHIBIT 3). There are now 19 investment projects.

Tape 18B:000

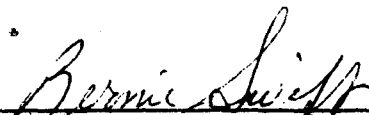
Mr. Hubbard presented a slide show on the following: program components; administrative structure; proposed projects' review process; results of department efforts; funded projects (by categories); potential economic impacts; the entrepreneurial process; financing the entrepreneurial process; and future program directions. (Secretarial Note: An outline of proposed projects for the 1989 biennium is in Exhibit 2, Page 3.)

Chairman Swift (535) said he is concerned about duplication of costs and efforts and asked if HB84 addresses this question. Mr. Colbo said he has been working with the Governor's office on this. After the committee work session, he will be able to outline the basic organizational structure to show the combination of functions to be included in HB84. Chairman Swift said the committee will be interested in this information.

Economic Policy & Research Program: (085)

Mr. Steve Huntington, Administrator, Office of Economic Analysis, gave an overview of program functions. He submitted a booklet titled "Build Montana" by the Governor's Council on Economic Development, dated January, 1987 (EXHIBIT 4). He also submitted a sheet titled "Budget and Spending Comparison FY1984 - FY1989" (EXHIBIT 5). (Secretarial Note: Comments on the differences between the LFA and the Executive budget are contained in Exhibit 5.

ADJOURNMENT: There being no further business, the meeting adjourned at 11:25 a.m.


BERNIE SWIFT, Chairman

DAILY ROLL CALL

NATURAL RESOURCES

SUBCOMMITTEE

DATE

1/15/87

NAME	PRESENT	ABSENT	EXCUSED
Senator Boylan	X		
Representative Devlin	X		
Representative Manuel	X		
Senator Smith	X		
Representative Spaeth	X		
Senator Story	X		
Representative Swift	X		



EXHIBIT 1
DATE 1/15/87
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BUSINESS ASSISTANCE DIVISION
Department of Commerce

The Business Assistance Division of the Department of Commerce is in most cases the first rung on the ladder which is the economic development process. It is where many entrepreneurs and businesses first come into contact with state and local development efforts. Before the process is completed, many others will be involved -- MEDB, MSTA, SBA, CDBG, Montana Ambassadors, LDOs, local governments, etc. -- but it begins here.

Persons who call the Division's Business Licensing Center on its tollfree hotline frequently do not yet even have a business. They are researching an idea, trying to figure out how to convert it to reality. The Licensing Center provides quick, one-stop help in identifying needed licenses and permits, either sending the related forms directly or arranging with the issuing agency to send them. In addition, in the course of exploring the callers' business ideas with them, licensing staff can find out other needs which the firm has -- in marketing, production, financing, and so forth -- and link the callers with the appropriate technical assistance providers in the Division.

On average the Division receives 130 Licensing Center calls monthly which require the sending of materials. About that many again are handled entirely by telephone, for an annual total of over 3,100.

The licensing center used to be staffed by one fulltime professional. This Fall, in order to make more efficient use of staff, all Division personnel were cross-trained to respond to licensing calls. Now secretarial staff handle routine licensing calls, with those requiring special handling being given to appropriate and available professional staff.

In finance, as in licensing, many clients are people who are just planning businesses, and are unable to obtain needed financing -- or don't know where to start looking for it. Many have inadequate or non-existent business plans, pro formas, and so forth. Financial planning is the Division's heaviest demand area.

Prior to this Fall, one fulltime person assisted clients in loan packaging.) Now, with the strengthened finance staff of two (one accountant/financial planner, and one management/finance specialist), more time can be devoted to assisting businesses in the preparation and presentation of bankable business plans, and more businesses can be served.

Since re-staffing the financing section in mid-September, the Division has begun intensive work with over 30 firms. Two jobs have been retained at a fiber optics manufacturer in Bozeman (throughconventional bank financing), six new jobs have been

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created in Bozeman through a relocation from South Dakota, four new jobs are being created at a Helena sign company (through SBA and MEDB financing), and two fulltime and two parttime jobs have been created at a pellet plant in Ravalli (through an SBA guarantee). Several other applications are pending at various lending institutions.

Frequently, however, it turns out that firms who think their problems are strictly financial, actually have deficiencies in marketing, management, production control, or other areas. These businesses require a much broader range of assistance, and often two or more Division staff members are working with the same firm on different problems.

The marketing program has one person who counsels new or expanding firms about packaging, market identification and penetration, distribution networks and outlets, advertising, and similar concerns. Since the beginning of the fiscal year he has provided extended counseling services for 162 firms or individuals, and responded to 736 telephone inquiries. In addition the Division, in cooperation with the Montana Ambassadors and the U. S. Small Business Administration sponsored six marketing workshops this Fall, which were attended by 454 persons.

Marketing staff also work with Montana manufacturers to introduce them to wider markets through attendance at industry trade shows, of which six are being attended this fiscal year.

Another arm of the marketing effort is the "Made in Montana" labelling effort. I doubt there is anyone in the state who is unaware of that campaign at this point. Over 20,000 labels are sold each month, and at least 1,700 retail stores feature Made in Montana products. There is a "Made in Montana" media and in-store Christmas campaign which urges shoppers to "Give a Gift of Montana", and a spring billboard campaign directed at visitors to the state urges them to "Take Montana Home". Over \$235,000 a year worth of public service time has been obtained to help make this program work.

In addition to arranging Montana trade missions and the state's participation in foreign trade shows, the international trade office provides expert technical assistance in shipping, freight forwarding, letters of credit, credit checks of foreign buyers, and so forth. The division tracks foreign trade leads (204 this fiscal year so far), disseminates them to appropriate Montana manufacturers or service providers, and provides the use of a Telex to facilitate international communications (100 this year).

Because of the limited staff (one) and travel budget the division has had in the past to support this function, it has been considerably restrained in its ability to promote actively foreign trade or reverse investment opportunities. For the coming biennium it is proposed to begin to create a Pacific Rim

trade office, to establish a permanent Montana presence in that key market area. In future years the office could support Montana businesses doing business in the Orient through commercial transactions customs clearance for import and export, follow-up on business contacts, assistance in arranging joint ventures, license agreements, reverse investments, setting up business exchange meetings, promoting Montana as a destination for Asian tourists, conducting seminars about economic opportunities in Montana, and placing advertisements in key business and tourism publications.

In the past the Division has had a business development assistance officer, who worked with small manufacturers to promote government contracting opportunities and help resolve technical problems in production management. This position has had to be left vacant for much of this fiscal year in order for the Division to meet its required vacancy savings and budget cuts. A business location officer has continued to monitor and disseminate government contract leads, however, distributing 124 so far this fiscal year).

The business development function is being redesigned under the Division's reorganization to serve as the pivot point for the proposed Small Business Development Center program, to be funded by the federal Small Business Administration. Currently Montana is one of only seven states not currently participating in the SBDC program.

Through the SBDC grant, the Division would work with the University System, community colleges, and local development organizations, to bring expanded, specialized business development services closer to the small business community, particularly in more rural areas. Two business specialists would work out of a western office (co-located with the Division, which would coordinate and provide secretarial and administrative support for the entire program), and two out of an eastern office, to be located at Dawson Community College in Glendive. The specialists would circuit ride their territories, with clients being identified and appointments made through local development organizations. University system expertise would be used on problems which could not be solved by staff specialists.

In addition, university, state, and federal economic development resource data bases would be interconnected and expanded where necessary to make it possible to identify technical expertise available to businesses, conduct government contract searches on-line, access transferrable technologies and more.

Not all the Division's work is done with existing Montana entrepreneurs or businesses, however. The Division's business location program actively works to bring new business activity to the state through the recruitment of plant start-ups or expansion facilities. In this effort the Division works closely with the Montana Ambassadors and other private sector individuals (such

as the sponsors of the "Friday in Montana" campaign), who provide the bulk of the financing and a great deal of the follow-up for recruitment work.

One of the major problems the Division has had in the past was that although it was able to generate numerous leads even through its limited national or regional advertising activities, it did not have the staff capability to aggressively follow-up on them. In the last three months all recruitment information has been computerized, and there are now two staff members (one recently reassigned from administrative activities) now working fulltime on recruitments and expansions.

In assessing the value of the Division's activities in this area, I honed my figures down to include just those firms in which but for the Division's work, it is likely the relocation or expansion would not have occurred. Using that very conservative estimate, the Division is responsible for 11 relocations to the state so far in the biennium, with company estimates of 300 jobs created or to be created. In addition, 94 jobs were created through Division-assisted expansions. Estimated private investment for these 394 jobs is \$14,928,000 which translates to \$656,100 in Montana personal and corporate income taxes a year.

In the broader picture, the Division has participated in and facilitated over 20 relocations or expansions in the biennium, resulting in a total of 923 jobs created, with an annual gross payroll of approximately \$20 million.

It is axiomatic that businesses do not locate to "Montana", however. They locate in Billings, or Sidney, or West Yellowstone, or another specific community. In order to land a new business, the community must be prepared to deal with the information needs and other requirements of the locating firm. To help cities, towns, counties, and tribes prepare to meet those demands, the Division (again in cooperation with the Montana Ambassadors) operates the Certified Communities program, which helps participating entities plan and carryout effective local development programs designed specifically by and for those communities. In its first year of operation, 20 communities completed the rigorous program and were certified "Better for Business". Again that many are involved in the program this year.

Finally, the Division provides staff support to the Montana Ambassadors, a non-profit, non-partisan group of 200 business leaders who use their own time and financial resources to assist the state in its business relocation and expansion efforts.

In response to our November, 1986, written report, we received two inquiries from members of this committee. One asked us to address the question of results, and I hope I have done that.

The second asked why, if all these things are being done, Montana's business image is perceived as being low. I can answer that only by saying that each person's perception of the state's business climate depends upon where he or she is standing, what business s/he is in, what effect international or international events have had on that business, and so forth. Many of the business climate issues frequently cited -- workers compensation, the worldwide unitary method of tax apportionment, property tax rates, and similar matters -- are simply beyond the ability of this Division to address or alter. We operate in the area of technical assistance -- not legislation or regulation.

We work to improve the business climate through increased effort and outreach. We have reassigned people to put them in the areas where the greatest needs are. We respond to every inquiry we receive. To receive our services a business need not be high tech, need not be a basic industry, need not be employing certain types or classifications of employees, need not be located in a specific geographic area. We have no funds to make grants or loans. We control no tax incentive programs. We try to create a positive business climate by serving as small business advocates, by identifying the public and private resources that can help a business and the roadblocks that can impede it -- and by working directly with businesses to make sure that they get the full benefits of those resources, and that wherever possible the barriers are eliminated or overcome.

EXHIBIT 2
DATE 1/15/87
NO. Commerce
Dept.

MONTANA SCIENCE AND TECHNOLOGY ALLIANCE

1989 BIENNIUM FUNDING PROPOSALS

MSTA -- PURPOSE
AND BACKGROUND

The Montana Science and Technology Alliance (MSTA) was created by the 1985 Legislature to create a partnership of business, government and universities in our state to help strengthen and diversify Montana's economy through support for the development and application of innovative science and technology projects. During the 1987 biennium, the Alliance operated with a budget of \$2 million, appropriated from the Alternative Energy Account. \$300,000 was earmarked for administrative expenses and \$1,650,000 for direct technology investments (the total amount available was reduced by \$50,000 as a result of the Governor's budget cuts).

PROGRAM ADMINISTRATION

The program is administered by a 15-member board of directors which establishes investment policies and makes investment decisions, and a 2-person staff provided by the Department of Commerce.

FOUR PROGRAM CATEGORIES

During the current biennium, the Science and Technology Alliance has made investments in projects in four separate categories: (1) research capability development, (2) applied research, (3) technology transfer and technical assistance, and (4) seed capital.

PROGRAM RESULTS

Almost the entire \$1,650,000 available for direct investments has been committed, with the project breakdown as follows:

Research Capability Development (2)	\$	231,713
Applied Research (4)		109,597
Technology Transfer (4)		99,600
Seed Capital (9)		<u>1,200,000</u>
Total		\$1,640,910

The funded projects represent both new technologies and new technology applications, with almost half of the funded projects being in agriculture, wood products, and energy, three technology areas which (along with minerals) have been given special priority for funding by the board.

ECONOMIC

* UP TO
NEW JOBS

* NEW ACCESS TO
RISK CAPITAL

**1989 BIENNIUM --
FUNDING PROPOSALS**

**RESEARCH AND
DEVELOPMENT**

**\$2.75 MILLION FROM
ALTERNATIVE ENERGY**


SEED CAPITAL FUND

**\$16 MILLION BONDING
PROGRAM**

The potential economic impact of the Alliance's activities to date is significant. If all the capital projects were to achieve their business development objectives, between 1,000 and 1,250 new jobs could be created in Montana's economy by 1991. In addition, applied research projects in wood products and agriculture could make our state's products in those areas much more competitive in the future. And finally, the Alliance's staff efforts to interest out-of-state venture capital investors in Montana has resulted in second round financing for Montana companies totalling \$2.6 million.

For the 1989 biennium the Governor has proposed an ambitious funding program for the Science and Technology Alliance which would entail two components. The first would provide \$2.75 million for the biennium from the Alternative Energy Account for the general category of research and development. Funds would be used to create up to three "centers of excellence" to stimulate practical research through a partnership between the university system and affected private industry (\$1,000,000); business development assistance including a network of incubator facilities in the state's major population centers (\$400,000); a technology transfer clearing house (\$363,000); ongoing support for individual research capability development projects (\$200,000); and continued support for individual applied research projects (\$450,000). Administrative expenses of \$337,000 will be requested from this account. These research and development funds will be requested through the regular legislative appropriations process.

The second program component involves establishing a 6-year seed capital fund of up to \$16 million to be invested in up to 3 Montana Capital Companies and directly in seed and start-up stage entrepreneurial companies. This fund would be created by issuing taxable bonds which would be secured by the coal trust. The bonds would feature a deferred debt service characteristic which would enable the program to retire the bonds with income earned from the seed project investments (these projects usually take from 5 to 7 years to pay off). Administrative expenses of \$178,000 over the biennium will also be requested from bond proceeds.




This bonding program will be proposed through the introduction of separate legislation which will require a three-quarters vote of the Legislature for final approval.

RETURN ON INVESTMENT

As is currently the case, the Alliance will seek a return on investment on all project investments commensurate with the original investment and the degree of risk involved in the project, the objective being to retire the seed capital bonds without having to resort to the Trust and to generate adequate earnings from applied research and technology transfer projects to support such efforts in the future.

MANY ECONOMIC BENEFITS FOR MONTANA

Montana can continue to benefit from the Science and Technology Alliance in a variety of ways. Most significantly, the Alliance will provide the principal support for the continued development of the entrepreneurial sector of the state's economy --the sector which has perhaps the greatest potential for creating new jobs over the next several years. Secondly, the program can serve as a "pump priming" example for the private sector, resulting in private investors eventually providing the bulk of needed risk capital to support entrepreneurial business development. Finally, through applied research and development efforts, the traditionally dominant sectors of our economy -- such as agriculture, wood products, and minerals -- can once again be made more efficient and thereby more competitive in both national and international markets.



PROPOSED 1989 BIENNIAL BUDGET

RESEARCH AND DEVELOPMENT (from Alternative Energy
Account)

Research Capability Development	
* Centers of Excellence	\$1,000,000
* Individual Projects	200,000
Technology Transfer and Business Development Assistance	
* Incubator Network	400,000
* Technology Transfer Clearing- house	363,000
Applied Research Projects	450,000
Administrative Expenses	<u>337,000</u>
 Total	 \$2,750,000

SEED CAPITAL FUND (from proposed bond proceeds)

Direct Technology Investments*	\$3,000,000
Investments in Montana Capital Companies	2,000,000
Administrative Expenses	<u>178,000</u>
 Total	 \$5,178,000

*Bonds will be issued in this amount only if the Science and Technology
Development Board believes the proceeds can be invested productively.

EXHIBIT ³
DATE 1/15/87
HB Commerce
Dept.



INVESTMENT COMMITMENTS

(as of November 1, 1986)

EXHIBIT 4
DATE 1/15/87
TO Commerce
Dept



GOVERNOR'S COUNCIL ON ECONOMIC DEVELOPMENT
JANUARY 1987
MONTANA DEPARTMENT OF COMMERCE

EXHIBIT 5
 DATE 1/13/87
 Commerce
 Dept.

OFFICE OF ECONOMIC ANALYSIS

BUDGET AND SPENDING COMPARISONS FY 1984-FY 1989

EXPENSES

	Actual 1984	Actual 1985	Actual 1986	OBPP 1988	LFA 1988	OBPP 1989	LFA 1989
FTE	7.00	7.00	7.00	7.00	7.00	7.00	7.00
P.S.	160,651	185,788	182,589	192,578	196,125	192,374	195,296
OP.	191,697	219,802	112,767	114,200	58,641	109,230	57,096
EQUIP.	2,421	8,631	8,393	1,411	2,131	1,188	1,908
TOTAL	354,769	414,221	303,749	308,189	256,897	302,792	254,930

FUNDING

G.F.	354,769	414,221	264,578	268,189	236,897	262,792	234,930
FED.	0	0	39,171	40,000	20,000	40,000	20,000
TOTAL	354,769	414,221	303,749	308,189	256,897	302,792	254,930

* FY 1984 and 1985 expenditures include the Council on Science and Technology (the advisory body which dissolved and gave rise to the current Science and Technology Alliance). The 1985 Legislature authorized the FTE which staffed the Council on Science and Technology to remain with the Office to support the Governor's Council on Economic Development. However, funding for the FTE was not authorized. The Department was directed to internally shift priorities to fund the position. The General Fund program transfers (amounting to \$29,253) which were made in compliance with that direction were excluded from the LFA "current level."

*FY 1984 and 1985 expenses include \$75,000 per year paid for Economic Reporting and Forecasting Services from the Bureau of Business and Economic Research at the University of Montana. The Department was directed by the sub-committee to delete all payments to the Bureau and make the best of internally available services. That direction has been implemented.

*The Office will again request \$40,000 in EDA planning grant funds for each year of the coming biennium. Although the likelihood of receiving all or part of that request is doubtful, restoring the current level federal spending authority would allow the Office to spend whatever grant amount is received.

VISITORS' REGISTER

NATURAL RESOURCES

SUB COMMITTEE

BILL NO. Department of Commerce DATE 1/15/87

SPONSOR _____

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Carol Daly	DEPT. OF COMMERCE		
Keith L. Colbo	✓ ✓		
John Wilson	✓ ✓		
Gary Wundrow	✓ ✓		
Carolyn Dressing	Commerce		
Clark Jones	G F Tobacco		
Steve Shirley	See State Power		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM
PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

NATURAL RESOURCES

SUB COMMITTEE

BILL NO. of Commerce

DATE 1/15/87

SPONSOR

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
<i>Gay Poole</i>	<i>Carroll</i>		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.