

MINUTES OF THE MEETING  
BUSINESS AND INDUSTRY COMMITTEE  
MONTANA STATE SENATE

April 8, 1987

The forty-fourth meeting of the Business and Industry Committee was called to order by Chairman Allen C. Kolstad at 10:00 a.m. on Wednesday, April 8, 1987, in Room 410 of the Capitol.

ROLL CALL: All committee members were present except Sen. Mike Walker who was excused.

EXECUTIVE ACTION ON AND DISCUSSION OF HOUSE BILL NO. 863: Chairman Kolstad requested that Ms. Mary McCue explain the proposed amendments to HB 863. She stated that the amendments were important technical amendments but did not make substantial changes in the bill. Amendments one and two make it clear that the video poker machines are to be placed only in places which are already licensed to sell alcoholic beverages. Amendment three is a technical amendment which inserts into the definition of licensee the language "keno machines" to make it clear that a licensee is someone who has a license for a poker or keno machine. On page three there are the same kinds of technical amendments to make the language consistent. On pages five and six language was inadvertently left in concerning splitting the fee between the State and the locality which should have been taken out because the fee was changed from a percentage to a flat fee. The portion of the sentence that states "the license expires on June 30th of each year" must be retained so that there will be a certain date on which the license expires, making it the only portion remaining from line 20 on page five through line seven on page six. There is no longer a splitting of the fees, as it will now all go to the department for administering this part of the title.

Sen. Thayer asked if the keno and draw poker machines record keeping mechanisms would be the same, or would everyone have to deal with one set of rules for one and a different set of rules for the other. Ms. McCue answered that in Section Eight of the bill, on pages eight and nine, the language for the keno machine is the same as for the poker machines. Sen. Meyer wanted to know if the language on the top of page ten on (i) "total coins accepted by BOTH coin ACCEPTORS" meant that the machines have to have two coin acceptors, and Ms. McCue answered, "Yes." Sen. Meyer wanted to know if perhaps that should be changed since some machines have only one coin acceptor. The question was deferred to Mr. Phil Strobe who represents the Montana Tavern Association. He stated

that the language in the bill, which is a grandfather clause, would cover the situations where an older machine had only one coin acceptor and he felt that the industry would prefer to leave it that way. Sen. Thayer wanted to know how the tax would be computed and collected on the grandfathered machines, and Mr. Strobe answered that it would be based on the receipts as reported by the operator during the two year life period of the grandfathered machine. Chairman Kolstad wanted to know what the average life is of one of these machines. Mr. Strobe deferred to Mr. John Poston who answered that it was difficult to say because there are at least twelve types of machines in use presently and the top of the line ones will probably last four or five years whereas the cheaper ones may last only two or three years. Sen. Thayer asked if they all had meters on them and Mr. Poston stated that to his knowledge they all have meters on them. Sen. Kolstad wanted to know if the meters recorded the number of quarters that go into them, and Mr. Poston answered "Yes." Sen. Neuman wondered if taxing keno machines would proliferate live keno games because they are not taxed and wondered if this bill would be broad enough to include the taxing of live keno as well as the keno machines. Sen. Kolstad deferred the question to Ms. McCue who stated that in her opinion that could not be done because this bill was designed to deal with just machines. Sen. Neuman felt that it was perhaps unfair to tax machine gambling and not live gambling. Sen. Boylan commented that if they were to start that, all types of church bingo games, etc., would have to be taxed. Ms. McCue noted that most other forms of live gambling can be taxed at the option of local government. Sen. Neuman wanted to know what the local governments are doing about live keno games. The question was deferred to Mr. Allen Tandy, Billings, who stated that their local government charges \$750 for a license. Sen. Williams asked Ms. Rose Foley if the rules for keno in Jefferson County differ from those of Lewis and Clark County, and she answered that she didn't know about the rules, but she knew that the license fees were all different. Sen. Neuman stated that he would confer with the Legislative Council to see if taxing live keno would fit under the title of this bill and perhaps try to amend it on the floor.

Sen. Meyer made a MOTION to AMEND HB 863 to read that the machines would not be required to have two mechanisms, but could have one or two. The Motion was seconded by Sen. Weeding.

Discussion of Sen. Meyer's proposed amendment: Chairman Kolstad asked Mr. Strobe how the industry would feel about the proposed amendment and he stated they would not approve of the amendment because it would be a step backward. Their feeling is that there are definite advantages to having two mechanisms. Sen. Meyer asked Mr. Randy Reger to comment and he stated that of the fifteen or more different makes of keno machines they have looked at, only one brand has two mechanisms. All the others have one. If the law limits the machines in this state to those with two mechanisms, anyone who wants to sell machines within this state has to retool to make the second mechanism. If you want machines with two mechanisms only, it will eliminate all other suppliers to this state, because they will not wish to completely change their production. Sen. Neuman stated that he would speak against the amendment because the people who have most of the machines in the state and most of those working with the machines like the language of the bill as it is. Sen. Meyer felt that having one or two does not make any difference and all that the requirement for two mechanisms does is eliminate competition in the sale of the machines by those companies who produce those with only one mechanism. Sen. Neuman felt that the double mechanism was there to aid in collection of the tax in case there were malfunctions or those types of things. Sen. Weeding wanted to know if the machine would continue to operate if the meter malfunctioned, and Mr. Poston answered "No." Sen. Weeding then asked if the poker machines that were disallowed two years ago could be converted into keno machines and be brought back onto the market, and Mr. Strobe answered that it could be done if the two year grandfather clause is left in. A supplier who has a lot of the old style poker machines with a single slot, no printers, they are now unusable on the market, but with Sen. Meyer's amendment, a simple amount of display mechanism can be pulled out and they can be sold and used for another two years as keno machines. For two years they would not need the printers. It would cost about \$100 for that change and adding a printer would cost about \$750. Sen. Kolstad wanted to know how much the machines now cost and the answer was around \$3,000.

The Motion to ADOPT THE AMENDMENT PROPOSED BY SEN. MEYER FAILED with Sen. Thayer and Meyer voting in favor of the Motion and the remaining members voting against it.

Sen. Harry McLane made a Motion that the first set of amendments be adopted. The Motion was seconded by Sen. Paul Boylan and the MOTION PASSED UNANIMOUSLY.

Sen. Thayer noted that he had been contacted by the city of Great Falls and they would like the committee to consider amending the law to allow them to go from 15% to 20% for tax purposes. Sen. Williams stated that if such an amendment were passed, with about a \$16,000 average on each machine, it would put the \$1,500 up to around \$2,200 to \$2,300 on each machine at 15%.

A MOTION by Sen. Ted Neuman and seconded by Sen. Bob Williams that HB 863 BE CONCURRED IN AS AMENDED PASSED UNANIMOUSLY.

CONSIDERATION OF HOUSE BILL NO. 905: Rep. Cal Winslow, House District 89, Billings, chief sponsor of this bill explained that another bill, HB 862, calls for funds (approximately \$3,000,000 per year) that are intended to flow into the education trust to be used in economic development in the State. Of that, about \$900,000 per year will be available for science and technology. HB 906 will address finding out which areas are most in need in Montana by addressing research and development funding to be administered by the science and technology to go back to the Universities to be used in research and development of our basic industry, such as agriculture, transportation, minerals, and timber, etc. Rep. Winslow stated that he had a proposed amendment which would take the appropriations out of HB 905 because there would be a double appropriation if left in because the money for this is now placed in HB 2. If this bill were not to pass, and HB 862 passed, science and technology would get \$900,000 more. If HB 862 were to fail, the coordinating clause is in here that HB 905 fails also. Rep. Winslow noted that every state that he has seen which has shown some economic development has also increased their research and development at the university level.

PROPOSERS: Ms. Kay Foster, Billings, representing the Billings Area Chamber of Commerce in support of HB 905 stated that during the past Fall they had a 16 member Economic Transition Task Force appointed by the Governor, and one of the primary recommendations made by the group was that Montana must strengthen and expand the role of education in economic development. She quoted from their report, and stated that the thrust of their recommendation

was that we should do exactly what Rep. Winslow is asking.  
(Page 10 of EXHIBIT 1)

Mr. Carrol Krause, Commissioner of Higher Education, University System of Montana, Helena, stated that he and the university presidents have spent a good deal of time trying to develop some areas where the systems can be involved in economic development. They feel that this bill has a lot of opportunity. He explained that the money does not come directly to the university system, but goes to Science and Technology Board and there would have to be applications for it. They feel that the potential is that university systems provide this expertise throughout the state to people who need some assistance for various development projects. He felt that the fact that there were private partnerships with government and the university system would be a very positive move. He noted that they are certainly committed to economic development and that this bill would help to provide some seed capital for them to be more involved in the past.

OPPONENTS: There were no opponents to HB 905.

DISCUSSION OF HOUSE BILL 905: Chairman Kolstad called for questions from the committee. Sen. Thayer noted that a bill was passed a few days earlier that would allow S&N to sell bonds and he wondered if this bill was needed now that the other bill had passed. Rep. Winslow answered that that bill had to do with investment funds, or capital funds which are extremely important, but the research should be done so that it will be known what would really fit in Montana and where the needs are. Sen. Thayer then stated that it seemed to him that particularly in the area of agriculture there has been a great deal of research done and some new technology developed at MSU, and then generally they just get exported out of Montana into the world and someone takes that new technology and goes somewhere else and creates jobs, etc with it. He feels that perhaps a policy should be implemented that those technologies should first be offered within the state. Mr. Krause answered that it is a problem because often in the attempts to find someone to develop these projects, there is not enough venture capital in the state to do it and projects are picked up by out-of-state firms. He then stated that the plan for the future is to look at some aspects differently such as looking at more ways to use grain presently produced in the state rather than just trying to find ways to produce more. They have developed a hot line for any citizen in Montana who might have new

adventuresome ideas and needs some expertise and business assistance to keep from failing. They hope to have an 800 number whereby they can more fully dedicate their efforts to helping Montana businesses. They do, however, feel that business should help bear the cost of that, because they don't feel this should all be done with tax support, thus the requirement for matching funds. Sen. Thayer cited the fact that a bill had been passed to help alleviate the venture capital shortage, and expressed his feeling that it should be insisted upon that every effort should be made to assure that projects would be developed in Montana. Rep. Winslow stated that if the language of the bill could be more specific, he would certainly not oppose that and that on page 4 one of the criteria for investments would be that there is the prospect of an economic return for the State. Rep. Winslow deferred to Mr. Steve Huntington, Administrator of the Office of Economic Analysis, Department of Commerce, who stated that there are two phases. The \$16,000,000 bond fund mentioned by Sen. Thayer will kick in at the conclusion of the research project once the research concludes that gets the process of the product to bring it to commercialization. That is where the seed, or venture capital kicks in. In the agreements that the S&NB makes with its applicants, it says that the product must be developed in the state or there is a penalty upon payback, thus an incentive to keep those projects within the state. Sen. Williams wanted to know what was meant by "in kind" matching funds, and Rep. Winslow answered that sometimes they can provide staffing, facilities for the research, etc.

Rep. Winslow closed the hearing on HB 905 by emphasizing his feelings that this is a very important aspect in the overall picture of economic development for Montana, and that the universities can and should play a critical role in the state's future development. He feels that the bill looks at the basic industries that make the state important such as agriculture and mining.

EXECUTIVE ACTION ON HOUSE BILL NO 905: A motion by Sen. Darryl Meyer, seconded by Sen. Harry McLane that the proposed amendments by Rep. Winslow BE ADOPTED PASSED UNANIMOUSLY. (EXHIBIT 2)

A MOTION by Sen. Gene Thayer, seconded by Sen. Bob Williams that HB 905 BE CONCURRED IN AS AMENDED PASSED UNANIMOUSLY.

Business & Industry Committee  
April 8, 1987  
Page 7

The next meeting of the Business and Industry Committee will be on Thursday, April 9, 1987.

There being no further business, Chairman Allen Kolstad adjourned the meeting at 11:27 a.m.

  
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SENATOR ALLEN C. KOLSTAD, CHAIRMAN

ADDENDEUM TO THE MINUTES:

Immediately following the meeting, members of the committee in informal discussion decided to hold HB 905 in the committee until the outcome of HB 862 was determined. The secretary was directed by Chairman Kolstad to withdraw the prepared committee report. Therefore, no committee report of HB 905 is attached to this set of minutes.

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## ROLL CALL

Business & Industry

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 4/8/87

NAME	PRESENT	ABSENT	EXCUSED
ALLEN C. KOLSTAD, CHAIRMAN	✓		
TED NEUMAN, VICE CHAIRMAN	✓		
PAUL BOYLAN	✓		
TOM HAGER	✓		
HARRY H. McLANE	✓		
DARRYL MEYER	✓		
GENE THAYER	✓		
MIKE WALKER			✓
CECIL WEEDING	✓		
BOB WILLIAMS	✓		

Each day attach to minutes.



COMMITTEE ON

Business & Industry

DATE

4/8/87

## VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Don Ingels	Mt. Chamber of Commerce	905	X	
Ray Foster	Bldg Chamber of Commerce	905	X	
Chester Bullock	MT.A.	863	x	
Roselee Bullock	Silver Saddle	863	x	
Carnegie / Kransse	Comm. of H.R.D	905	X	
Allyn	City of Billings	905		
Barry Regier	" "	905		Amend
John P. Patton	Helena not	905	x	
John	Valley Pk	863		
Jon Meredith	Dept. of Revenue	863		
Steve Huntington	Dept. of Commerce	905		
Ray Bennett	Coin Machine Op.	863	X	
Phil Stroppe	Mt Tarein ass	863	x	
Maude Durkee	" " "	863	x	
Bob Durkee	" " "	863	x	
Alce Hansen	M L C T	863	✓	

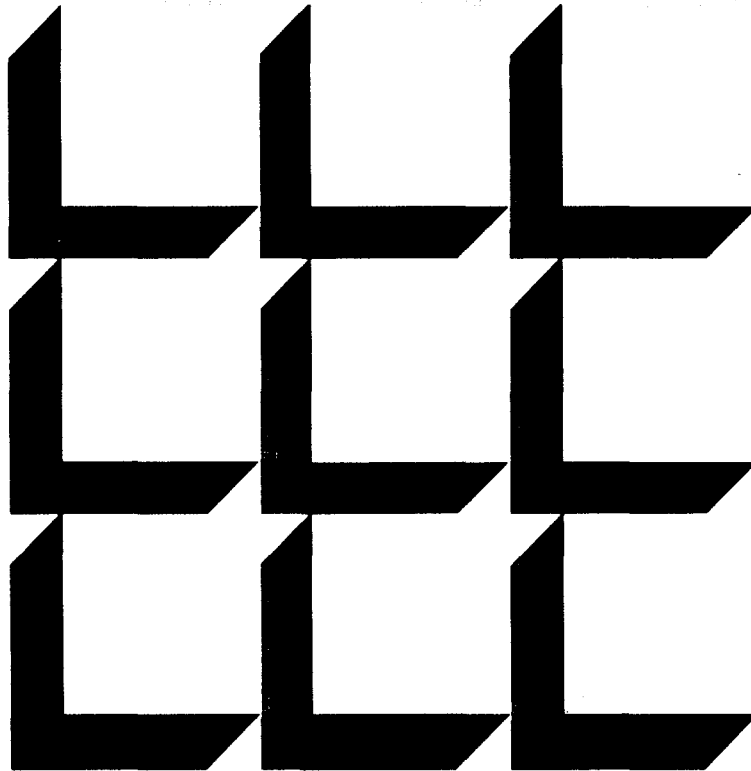
**KAY**  
**FOSTER**

SENATE BUSINESS & INDUSTRY

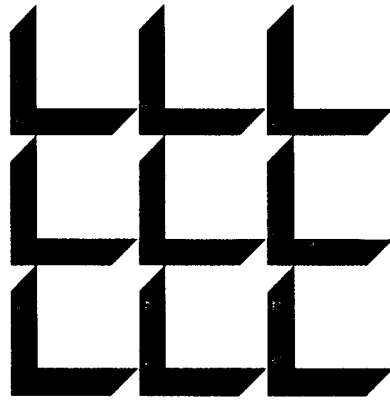
EXHIBIT NO. 1

DATE 4/8/87

BILL NO. HB 905



ECONOMIC  
TRANSITION  
TASK FORCE REPORT  
TO THE GOVERNOR



# ECONOMIC TASK FORCE REPORT TO THE GOVERNOR

NOVEMBER, 1986

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H.B. 905 ON TITLE  
4-8-87 DATE  
1 EXHIBIT NO.  
SENATE BUSINESS & INDUSTRY

November 13, 1986

The Honorable Ted Schwinden  
Governor  
State of Montana  
Helena, Mt. 59601

Dear Governor Schwinden,

The Economic Transition Task Force appointed by you this past summer is pleased to submit its report and recommendations.

The Task Force operated for 100 days and was able to solicit the views of many Montana citizens on the future strategic direction of our state's economy and on needed changes in our management of and support for economic development activities. The enclosed report summarizes these findings.

On behalf of the Task Force, we thank you for this opportunity to serve Montana and for your confidence in our participation.

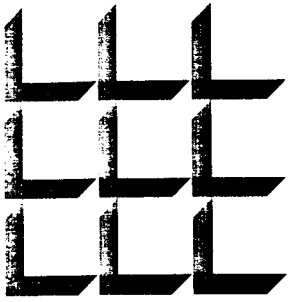
Respectfully submitted,

Robert Kelly, Co-chair  
Champion International  
Missoula, Mt.

Lindsay D. Norman, Co-chair  
Montana Tech  
Butte, Mt.

RK/LDN: jm

Enclosure



# Task Force Members

Al Bell, president of MetCo Kenworth and member of the Governor's Council on Economic Development, Great Falls

Don Cecil, vice president of operations, Cardinal Drilling Co., Billings

Rep. Jerry Driscoll, business manager and secretary-treasurer of Laborers Local #98, president of Montana AFL-CIO, Billings

Ross Fitzgerald, president, Montana Grain Growers Association, Great Falls

Kay Foster, owner, The Plant Lady, member Billings City Council, Billings

Chase Hibbard, president, Sieben Live Stock Company, Helena

Ed Jasmin, president, Norwest Bank, Helena

Bob Kelly, Co-chair, public affairs manager, Champion International, Missoula

Curtis Meeds, president and general manager, Best Western Holiday Inn, Glendive

Dr. Lindsay Norman, Co-chair, president, Montana Tech, Butte

Dan Regan, vice president in charge of consumer services, conservation and industrial marketing, the Montana Power Co., Butte

Nils Ribi, president and CEO, Ribi Immunochem Research, Inc., Hamilton

Alan Richardson, general manager, Montana Tunnels Project, Pegasus Gold Corp., Helena

Jim Richard, planner, local government and environmental consultant, chairman of the Montana Wildlands Coalition, Malta

Steve Studt, president and publisher, Great Falls Tribune, Great Falls

Faye Woods, manager, Woods PowrGrip, Inc., Wolf Point

# Executive Summary

The Economic Transition Task Force, appointed by Governor Ted Schwinden, was established to recommend possible avenues that Montana should explore in order to provide a more attractive climate for existing businesses as well as those businesses that might have an interest in investing in Montana.

The Task Force operated for only 100 days. During that time, Montana business people, educators, entrepreneurs, labor and trade associations were contacted and asked for their views, recommendations, and guidance on the problems and the opportunities facing Montana's economy. Additional expert advice was solicited through public testimony. The Task Force report represents the views of a broad cross section of Montana business, labor and education.

It became apparent to the Task Force that to achieve a growing, robust economy, Montana will have to implement a two prong economic strategy. On the one hand, the state's important natural resource industries cannot be abandoned, but must become competitive in world markets as well as work to expand and strengthen existing markets. The need to add value to existing Montana products is paramount.

Concurrently, Montana must actively seek and nurture new business that may provide diversity by capturing the economic advantages inherent in the newer technologies, services and skills of the next decade and the 21st Century.

The Task Force believes the climate is right to break the logjams that have impeded effective action in the past and to open a new era of economic opportunity. The primary energy and innovation for strong state and regional economies must come from the private sector. Private and public leaders must act as full partners with the citizenry with whom they share a common destiny and

help provide the leadership needed to achieve common goals. If a new economic era is to emerge, the Task Force believes several key goals must be pursued.

Montana needs a stable, more equitable tax system that is less dependent upon property taxes and mineral resource taxation. Appropriate tax incentives are needed to attract new businesses and to encourage the expansion of existing industries.

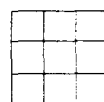
The state's higher education system must play a more active role in developing Montana's economy. But to do so, our colleges and universities must first be funded at competitive levels and there must be adequate incentives in place to catalyze campus research and innovation.

Lagging private and public investment in new business must be stimulated through the creation of new venture capital funds and the modernization of Montana's banking system. It is also time for Montanans to fully acknowledge their many assets and actively and aggressively promote the state and its products.

Montana must take a hard look at existing laws and regulations which may be perceived as disincentives to economic activity and growth. Finally, if Montana is to grow, state government must continue to develop the policies and attitudes needed as advocates for economic development.

The Task Force has extensively examined and discussed the changes or objectives noted. Numerous actions are recommended that, in the minds of the many citizens of Montana who participated in the Task Force deliberations, would improve Montana's climate for economic growth. The Task Force believes many more actions will, in time, have to be undertaken. However, for now, the suggested actions may be a worthwhile first step on the road to an improved economic climate in Montana.

State economic responsibility, in sum, is a demanding matter. A strategy to carry out that responsibility is more than a package of financial incentives and promotional activities, or a collection of all the latest programs. An effective state economic strategy requires DIAGNOSIS of opportunities and risks a VISION of the future that culminates in pragmatic and politically realistic ACTION. It requires institutions whose LEADERS are knowledgeable and effective and among which PARTNERSHIPS are forged to pursue common purposes.



# Introduction

The Economic Transition Task Force was created by Governor Ted Schwinden to address a variety of problems plaguing the Montana economy in the 1980s, and to develop recommendations for an improved economic climate. The Task Force's membership represents a broad cross-section of Montanans, with members from the state's labor, conservation, agriculture, tourism, small business, education, innovation, finance, public interest and natural resource sectors.

The Task Force's mission evolved from a conference held in Butte in July entitled "Montana: An Economy in Transition." The keynote presentation by Dr. David Birch, economist and expert in job creation at the Massachusetts Institute of Technology, portrayed the results of his research on the Montana economy. The conference was sponsored by Governor Schwinden, the Montana Power Company, the Montana Ambassadors, the Montana International Trade Commission and the Montana Department of Commerce.

Dr. Birch's findings indicated that, while other regions of the United States, particularly the Northeast and the Sunbelt states, have adapted to meet the changing world economy, Montana and the Rocky Mountain states seem to have been left behind. The region is heavily dependent on resource based industries and has not realized growth in the dynamic, entrepreneurial activities that have caused growth in many other states.

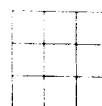
Several very positive steps already have been undertaken by the state in response to these problems. In addition to the progress already realized through the Build Montana Program, the Governor's Council on Economic Development was created to begin identifying long-term solutions to the state's economic problems. This organization has addressed a variety of issues and, in 1985, submitted a package of 31 recommendations to the governor and the 49th Legislature. Currently the council is analyzing three specific problem areas in the Montana economy—liability insurance, agricultural debt and business climate. With the involvement of the governor, the council will again submit recommendations to the Legislature this January.

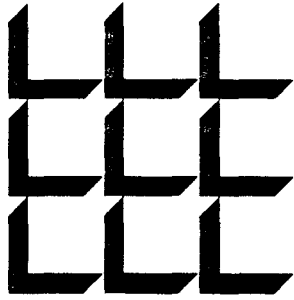
The Montana Ambassadors program is another example of a group working toward the goal of long-term economic development for Montana. Through its recruitment, community development, marketing and protocol activities, the Ambassador organization has had numerous successes since it was created in 1984. This program is an excellent example of the public/private sector partnership the state sought to build when it initiated its economic development efforts in 1982.

The goals of the Economic Transition Task Force are different than those of the Ambassadors or the Governor's Council on Economic Development, both of which are ongoing programs designed to operate over the long term. The Task Force operated for only 100 days. During this time it reviewed the Montana economy, highlighting both the assets that can be enhanced to foster development and the liabilities that need to be addressed in order to create a more positive environment for economic growth. The Task Force recommendations center on improving the climate for economic growth in order to create an atmosphere that will be more attractive to new business as well as to existing businesses that have an interest in adding value to the state's natural resources and other commodities.

The Task Force met several times and gathered information from telephone surveys, letters soliciting suggestions for improving the state's business climate, as well as from public testimony. Through this effort, thousands of Montanans contributed to the final report. The Task Force developed recommendations that will need to be addressed by the executive branch, other government agencies, the universities, the business community, and other entities across the state. These recommendations are intended to create an improved economic climate for long-term growth and to address problems that may be inhibiting economic activity in the short term.

Dr. Birch pointed out that it is time for Montanans to stop fighting with each other and get on with the job of establishing their state as a competitor in the national and global economies. The Task Force represents a positive step in that direction.





# A Strategic Direction For Montana's Economy

Montana has arrived at a crossroad in its economic history. Its traditional agricultural and resource-based industries no longer afford the stability and prosperity the state once knew. Yet, these are the industries that will underpin Montana's transition from the primary commodity-based economy of today to a future when newer, service, technology and product-oriented industries are important contributors to its economic base.

In the short term, mining, forestry, agriculture and energy must continue their important roles as foundations of Montana's economy. But, to avoid economic stagnation, the state must support and encourage diversification and innovation in these traditional industries with special attention to developing value-added advantages.

For the longer run, Montana must continue building the economic framework necessary to encourage development of the new businesses that will carry the state into the next century as a full-fledged participant in regional as well as world markets.

Montana's first major task may well be to undertake a change of attitude. Montanans have been creatures of their economic past. Their early history of exploitation and the environmental and political concerns of recent decades have created an apparent ambivalence about economic growth that remains in many of their laws, their regulations, their beliefs and their institutions.

The world may not perceive Montana as a fertile environment for new economic development until statutes and regulatory language are updated to reflect a desire for growth. To make the necessary changes, Montanans must look closely at every aspect of public governance. Areas of concern include the state's tax system, the legal climate, the educational system, the ability to fund new development and the expressed attitudes of Montana leaders.

Restructuring the state's tax system is essential if it is to encourage economic growth. Montana is over-dependent on property taxes, discouraging business from locating here. The state may also be relying too heavily on natural resource taxes whereas 90 percent of other states have successfully used a sales tax to help fund economic activity. As a result, oil, gas and mineral producers here may face an uphill battle to be competitive with producers in similarly endowed states. To spur development, Montana must take steps to balance and broaden its tax system and to provide tax incentives that invite and reward responsible businesses.

One of the state's most valuable resources is its people; its workforce. Strengthening and expanding the role of education in economic development is critical to the state's future. Montana's educational system has played and must continue to play an essential part in providing the well-trained workforce and the technical



innovation the state will need for economic expansion. Montana should strengthen its existing institutions and establish centers of excellence for research and applied technology as well as supporting centers of information. In as large an area as Montana, the state will need to create statewide extended education opportunities so that new information and new skills are available to all who want or need them.

Montana must examine its statutes and regulations with an eye to revising those that are disincentives to economic growth or lead to inefficiencies and high business costs. Tort reform should be considered to allow the insurance industry in Montana to become stable and provide reasonably priced liability coverage needed by business, individuals and government. The workers' compensation system must be revised so it can be affordable for employers, fair to workers and competitive with systems in other states.

A state's ability to develop economically is largely dependent on its ability to capitalize new business and industry. At present, Montana lacks a pool of venture capital adequate to fund major business development. To create an atmosphere for capital formation, the state must build upon and expand its existing financial mechanisms and modernize its banking laws to enable financial institutions here to be competitive with other western states.

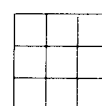
Even as Montanans begin to understand how they are perceived by others—and make changes necessary to alter adverse perceptions—they should also be attentive to how they perceive themselves. They need to be aware of self image and always view themselves as a state with viable and highly marketable assets. They need to be conscious of their role in the world of commerce and actively and aggressively promote and market Montana and its products—nationally and internationally. Such promotion would include developing a modern transportation system to get Montana products to expanded markets. It would mean taking greater advantage of trade shows, travel shows, marketing symposiums, regional and world fairs to expose Montana products and assets as a tourist attraction to the largest audience possible. Self promotion would also entail state government constantly taking an active role in educating Montanans to an increased awareness of what they have to offer.

Montana will need continuing clear, unequivocal public and private leadership on its journey to economic prosperity and full citizenship in the world community of commerce. It is essential that these leaders make even stronger commitments that will enable them to pursue their common goals. Only then, working in cooperation, from the chambers of the legislature to the wheatfields of

the highline, will Montana realize its future in its fullest potential.

It is impossible to establish priorities for all the steps that will advance Montana to a more prosperous future. The Task Force limited its attention to only those items that would have DIRECT RELEVANCE TO AN IMPROVED ECONOMIC CLIMATE and which were identified by major sectors of Montana's citizenry to be in need of attention.

The following report seeks to establish specific goals and objectives that would assure Montana's future economic growth. Specific tactics or action items are identified in support of these goals and objectives—representing the collective input of many Montana business people, educators, private citizens and labor and trade associations.



# Montana Must Establish A More Stable and Equitable Tax Structure

Montana must embark upon a major reevaluation of the state's tax system if it is to create an environment and the necessary balance that will attract economic development. Many of our present tax laws, practices and attitudes were spawned by economic and political realities that no longer exist. The existing system, both real and perceived, not only discourages new enterprise in the state, but it has become an albatross of bad public relations. Testimony presented at Task Force public hearings revealed a perception of Montana's tax system as hostile, even punitive, to entrepreneurial efforts.

## Montana Needs A Balanced Tax System

Montana needs to broaden its tax base and move away from an over-dependence on property taxes and taxation of the state's mineral resources. The net effect of current tax practices has been to discourage business expansion and natural resource exploration and development in the state, and has contributed to state revenue deficits. The Task Force has several recommendations for helping balance the system.

**Repeal the Unitary Method of Taxation:** The unitary method of taxing multi-state and multi-national corporations that operate in Montana is a red flag to companies that could bring new economic opportunities to the state. Montana is one of only three states that has a worldwide unitary tax method. The Task Force concludes that the negative perceptions created by the current unitary tax are a serious hindrance to attracting new business, industry and capital to Montana.

**Reduce the Coal Severance Tax:** Montana's coal severance tax is literally pricing Montana coal out of its market. Changes in rail hauling rates have minimized marginal distance advantages enjoyed by Montana coal before 1984. Currently coal from Montana costs almost twice as much at the mine as Wyoming coal. The result is a steadily eroding market for Montana coal, a market that could totally disappear once current coal contracts expire in the next few years. Reduction of the coal severance tax could moderate high production costs, helping Montana coal producers compete for valuable and highly important midwestern markets and enhance future market potential.

**Enact Local Option Taxing:** Montana's local governments and school systems lean heavily on property taxes for needed revenue. When the cost of providing services increases, they must raise mill levies. The inevitable increase in property taxes led to a virtual citizens tax revolt in the last general election. The Task Force concludes that giving local governments the option of creating local taxes with voter approval would provide much-needed flexibility for creation of new revenue sources, as determined to be appropriate and necessary by local citizens.

**Express Top Income Tax Rate as It Actually**

**Applies:** Montana's top effective income tax rate of 11 percent is not actually applied. It serves only to contribute to the perception of Montana as a high tax state. The Task Force recommends abolishment of a tax rate that is more apparent than real.

**Broaden the Tax Base:** Montana depends on mineral resource taxes to supply the third leg of the "tax stool" that in most states is provided by a general sales tax. However, declines in resource tax revenues have caused that stool to become decidedly unstable. The Task Force recommends consideration of a statewide general sales or consumption tax to broaden the Montana tax system, to provide property and income tax relief and to stimulate economic development in the state. Moreover, many of the Task Force proposals could be funded by a general sales tax.

## Montana Should Create Tax Incentives To Spur Economic Development

Significant tax incentives for economic development is a language entrepreneurs read loud and clear. Montana should continue to modify its tax structure, as it did in a very positive and productive manner in 1985. Those modifications enabled the Montana petroleum industry to become more competitive, as well as contributed to making Montana more attractive for oil and gas exploration and development. Unfortunately, the world oil prices have since been severely depressed. Through similar review and modification of the tax structure additional risk-takers may be encouraged to initiate development that can benefit Montana's economy. The Task Force recommendations are:

**Provide a Two-Year Royalty Exemption on New Oil and Gas Production on State Lands:** This incentive will stimulate new exploration and development at a time when dramatically decreased oil prices have caused a corresponding drop in exploration. This tax exemption has the advantage of applying only to production that does not exist and is, therefore, revenue neutral.

**Create a Tax Holiday on Residual Oil and Gas**

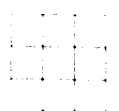
**Recovery:** Nearly half of the state's 6,200 wells are stripper wells, that produce residual oil and gas at an equivalent of less than ten barrels a day. However, operating costs for these wells do not drop just because oil prices drop. The wells simply become less profitable. When stripper wells are abandoned, their reserves are lost forever. Because residual oil and gas accounts for more than 32 million barrels of reserves in Montana, the Task Force recommends a tax holiday pegged to energy market prices to keep stripper wells in production.

**Introduce Tax Incentives for Value-Added**

**Product Development:** Adding value by turning Montana's raw materials into finished products results in expanded markets and opportunity for profit, but requires capital investment in the technologies and equipment to produce these products. Such investment becomes more attractive when the state rewards risk-taking with significant tax advantages. The Task Force recommends adoption of appropriate income, property and other tax relief during the formative stages of new and/or expanding businesses that seek to expand markets for Montana products.

**Create a Uniform Property Valuation System:**

Existing methods of determining property values in Montana, for tax purposes, are confusing and, at times, perceived as arbitrary. The Task Force recommends that existing legislation and methods for arriving at property valuations be reviewed to see if there is inequity in property valuations.



# Montana Must Strengthen And Expand The Role Of Education In Economic Development

To thrive, both new and old businesses need an environment enriched by the spirit of inquiry and the flow of information provided by a quality educational system. Montana's colleges, universities and vocational centers must play an expanded role in creating the well-trained workforce demanded by business and industry and provide the innovation and creativity that will lead to new entrepreneurial activity. The state must assure that our educational system is able to provide leadership for the economic expansion Montana hopes to achieve.

## Montana Must Create Incentives For Expanded Research And Development

Institutions of higher education are important sources of innovation and entrepreneurship that can lead to expanded entrepreneurial activity. Support of such research can help plant most of the seeds of Montana's future economic health. Current practices and policies that are disincentives to creative research on our campuses should be removed. The Task Force recommends:

**Allow for Full Funding for Research:** At present, researchers in Montana's universities and colleges are handicapped by a requirement that "indirect costs" associated with a project be, in effect, deducted from the total amount of a federal or private grant or award. Indirect costs include the presumed costs of rent, utilities, support and administrative staff—in short, the "overhead" which is partially covered by other funds. This legislative budgeting procedure has the effect of automatically reducing the funds available for all research grants and awards. Yet, those conducting the research are expected to produce as if funded at 100 percent! The Task Force recommends eliminating all required general fund offsets of indirect costs for research grants and awards.

**Encourage Collaborative Research:** Establish a uniform policy that would encourage all units of the state's university system to conduct research and collaborations with Montana-based businesses. Incentives should be provided for both the university and the business.

Model research agreements should be adopted that reflect such issues as the protection of proprietary information and a reasonable return for both parties.

## Montana Should Establish Applied Research Centers Of Excellence

Montana's economy has been compared to that of a Third World country. It exports raw materials and does not reap the economic benefits from converting those raw materials into products with added value. The state often imports technology from more developed economies and loses the economic benefits of creating new technologies of its own. Although several of Montana's universities and colleges maintain research centers serving major resource industries, these centers have traditionally focused primarily on production. For example, research is underway to improve the state's ability to produce more wheat, grow and harvest more timber, mine more coal. Yet, the markets for these raw materials are threatened by surpluses, declining demand and uncompetitive production costs. The Task Force recommends:

**Expand Existing Research and Development Facilities:** The charter of Montana's existing resource oriented research facilities should be expanded and revised into "Centers of Excellence" for applied technology, and product and market development. Centers would be

established at Montana State University to serve the agricultural industry—at the University of Montana to serve the wood products and timber industry—and at Montana Tech to serve the mineral extraction industries. It is also recommended that a center for research and market development serving Montana's tourism industry be established at an appropriate location and in a suitable institution.

Centers of Excellence would be restricted to the pursuit of new markets, new applications for traditional products and new value added products for Montana's existing industries. Matching of state funds with other monies should be required to provide necessary financial leverage.

## Montana Should Establish Statewide Extended Education Opportunities

If Montana is to attract new enterprise to the state, it must be able to provide a well-trained workforce as well as the capability of retraining workers in new skills when necessary. Post-secondary education entities are far-flung in a large state. Many communities are simply too far from centers of learning to provide meaningful educational opportunities. Yet, facilities for training of a workforce are a primary factor weighed by business and industry when selecting a location. The Task Force recommends:

### **Expand Statewide Learning Opportunities:**

Montana must utilize advanced technology such as telecommunication systems to provide educational opportunities wherever needed in Montana—no matter how remote. The system would provide both on-the-job and off-job training opportunities as well as degree programs in "classrooms" that require little more than a television set and a cable hookup.

## Montana Must Support The University System To Competitive Levels

Although a strong higher educational system is universally recognized as a major key to economic development, recent fiscal difficulties in Montana have resulted in University System budgets being reduced to levels that threaten the very existence of the system. As a result, instructional quality has suffered, physical plants are deteriorating and students, faculty and

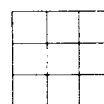
qualified research staff are leaving the state. To restore the quality of Montana's colleges and universities, the Task Force recommends:

### **Fund Campuses at Competitive Levels:**

The current practice of the Montana Legislature is to fund the university system with a "formula" approach based on the level of enrollment and calculated using averages of financial support at peer institutions in other states. A drawback of this method is its focus on quantity rather than quality. Another problem is the Legislature's practice of funding at levels below the peer averages called for in the formula. If formula funding is to continue, it should be at 100 percent.

**Improve Faculty Compensation:** Declining support for Montana's university system and a serious decline in actual real dollars available are evidenced by relatively low faculty salaries on all the state's campuses. Montana's universities are much less competitive than peer institutions in western states in their ability to attract and retain qualified faculty. The Task Force recommends the low level of university faculty compensation be addressed in order to preserve the quality of the educational system.

**Initiate Entrepreneurial Extension Services:** It is recommended that Montana's campuses serve as entrepreneurial development centers providing local services, where private providers are not available, for new business start-up and development and acting as extensions of Department of Commerce programs. Services would run the gamut from assistance in setting up bookkeeping systems, marketing programs, financial packages and guidance through the state's maze of permitting and licensing requirements. In addition, the Cooperative Extension Service should reorient its activities to include providing financial and business management information and skills to Montana agriculturalists.



# Create An Environment For Capital Formation And Business Investment

Sufficient capital is essential to fuel the economic expansion needed in Montana. Yet, Montana is often lacking in this vital ingredient so important for fostering and developing new enterprise. Montana must make the laws and create the policies that will encourage capital formation and private investment.

## Montana Needs A Venture Capital Pool

There are small pockets of venture capital available in Montana, but not enough for major economic development. There are few risk-oriented investors in the state. Lending policies appear to be more conservative than ever after the belt-tightening of the recent recession. However, it may be possible for the Legislature and policy makers to take steps that are fiscally neutral to create financing sources for new enterprise. The Task Force recommends:

**Direct the Montana Board of Investments to Invest in Venture Capital Funds:** A capital pool of at least \$25 million should be established for investment in venture capital funds.

**Expand the Montana Capital Company:** Increase the amount of income tax credit available to potential investors under this act from 25 percent to 50 percent.

## Montana Should Increase Support For Innovation

The Montana Science and Technology Alliance provides the startup capital for innovative technology and supports a broad range of applied research and technology projects. Although the Alliance has made impressive gains that should help Montana's business economy, it is severely hampered by funding constraints. The Task Force recommends:

**Increase Support for the Science and Technology Alliance:** The program should be augmented to provide a venture capital pool earmarked for business development and commercialization of applied research and technology products.

## Montana Should Modernize Banking Laws

Laws regulating Montana banks are often viewed as archaic compared to other states and prevent these institutions from realizing their full potential as sources of business investment and leaders of economic development. The Task Force recommends:

**Amend Existing Laws to Allow Branch Banking:** Montana banks have entered a new era of financial activity and old laws intended to protect banking territories now serve only to make banks uncompetitive with other lending institutions. Banks are prohibited from establishing branches while savings and loan associations and other financial entities are free to extend operations at will. These restrictions should be removed so that banks can establish branches and compete successfully for new markets.

**Change Banking Laws to Allow Mergers and Consolidations:** When banks are able to merge or consolidate with other banks, or cooperate through interstate banking agreements, normally larger pools of assets are created from other parts of the country that can be used to capitalize

economic investment at home. Present banking laws inhibit Montana banks from participating in these greater operation efficiencies and the larger pool of investment expertise. It is time for Montana investment dollars to remain in-state for the good of the state's economy.

## Aggressively Promote And Market Montana's Assets

While much of the Task Force's attention has been directed to what Montana does NOT have—and remedies explored—there is great potential in what the state DOES have. For example, the possibilities for a vital tourist industry are tremendous in a state with singular natural beauty and myriad recreational opportunities. Also, Montana generates many commodities and products that could be directed into new markets. Exploration of additional marketing approaches should be a high priority.

## Montana Should Expand Its Transportation System

Investment decisions on port facilities, rail service and airport service directly influence the state's economy and impact the pattern of private investment. Private and public leaders in all of these institutions can play a key role in improving the state's economy.

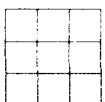
Montana is currently limited to truck transportation or the Burlington Northern Railroad for shipping most locally produced commodities or products out of state. As a result, the state's ability to access north/south markets is limited or very expensive. Creation of an adequate and competitive transportation system is essential for marketing the products of economic expansion. Maintenance and expansion of adequate air and ground transportation systems are essential for economic expansion. The Task Force recommends:

**Maintain the State's Road System:** Adequate funding is necessary in order to maintain Montana's existing road systems, which are essential for commercial and public transportation.

**Create an Intermodal Transportation Hub:** Existence of an intermodal truck/train, state-of-the-art transportation hub, tying in with the Union Pacific Railroad, would allow Montana exporters to reach key markets currently not accessible, especially the lucrative California market.

Creation of additional competition in the transportation industry would also have the effect of reducing the rates of existing carriers in the state.

**Improve Air Transportation:** Additional ports of entry to accommodate foreign travelers and commerce are essential for enhancing the development of international travel. The intra- and inter-state air travel from, and between, many cities in Montana is inconvenient and often unavailable. A concerted effort by the public and private sectors to encourage additional air service is vital to present and future economic development.



# Montana Must Enhance State Promotion Of Business Activity

Many Montanans must revise their attitudes toward economic expansion and begin to view Montana as a state with viable assets and valuable products. State government must provide the leadership Montanans may need as they begin to rethink their role in the evolving world of commerce. The Task Force recommends:

**Expand Recognition of Entrepreneurs and New Business:** Formalized recognition of successful entrepreneurs and risk-takers will continue to provide incentive and encouragement for new enterprise and reinforce the vision of an expanding and highly supportive state economy.

**Expand Promotion of Montana Products and Business:** Numerous options are available to expose Montana products and assets to new markets. National and international trade shows provide an opportunity to promote Montana and its products to new populations. The state should play a revitalized role to ensure that Montana is well-represented at the expositions, world fairs, and other cultural and product exchanges held throughout the country and the world.

**Improve General Understanding of Montana Publics:** The state should take a more proactive

role in providing Montanans with an increased awareness of their own assets and the positive influence of economic development on their lives. Many communities, such as Butte and Helena, have developed hometown "booster" programs. These programs could serve as prototypes for statewide boosterism.

## Montana Should Increase Tourism Promotion And Opportunities

Montana has enormous potential as a tourist destination. Blessed with scenic beauty and a colorful history, the state already enjoys a thriving tourist industry. However, use of sophisticated marketing and promotion techniques can expand the benefits of this highly desirable commercial activity. The Task Force recommends:

**Target Key Markets:** Modern market data surveys are capable of identifying publics that have a high potential for visiting Montana. Marketing programs targeting these populations make maximum use of promotional dollars and provide greater conversion rates.

**Establish Visitor Centers on Montana's Borders:** Visitor centers at major points of entry around the state provide an opportunity to "sell" travelers on Montana attractions and recreational destinations. As a result, travelers are persuaded to spend more time—and more tourist dollars—in the state.

**Expand Tourism Agreements with Neighboring States and Canada:** Montana can realize significant economies by greater coordination with neighboring states and Canada for regional promotion. Pooling of advertising and promotional dollars makes it possible for individual states to participate in costly national and international promotions that would otherwise be unaffordable. The Old West Trail Commission is an example of a regional advertising cooperative.

**Enact an Accommodations Tax to Fund Tourism Promotion:** There is a certain logic to using "bed" taxes to fund tourism promotion. Popular in many parts of the country, accommodations taxes are paid primarily by visitors to an area, while local citizens enjoy the commercial benefits of increased tourism. The Montana Legislature should consider enacting a tax with the revenues earmarked specifically for marketing the state as a tourist destination.





# Revise Existing Statutes And Regulations That Are Disincentives To Economic Development

A state's regulatory and legal environment plays an important role in either encouraging or discouraging economic development. Considerable comment was received by the Task Force suggesting that some outmoded and often punitive legal measures now on the books may be serious deterrents to economic growth. It is time for Montana to review its laws and regulations and identify those that may be inhibiting entrepreneurial activity.

## Montana Must Pursue Tort Reform To Establish A Fault-Based Justice System

Montana is experiencing a liability insurance crisis, as is true throughout the nation. Insurance carriers have pulled out of some markets, making liability insurance unobtainable at any price. Changes need to be made in Montana's justice system to provide a more stable and equitable operating environment. The Task Force recommendations include:

**Cap Punitive Damage Awards:** Punitive damages are awarded to punish defendants, not reward plaintiffs, and are considered a form of non-economic damages. The Montana Legislature should amend the Montana codes to limit damage awards according to a defendant's net worth, and not to exceed a set amount. Judges, not juries, should determine the amount of an award.

**Limit Contingent Fees:** While contingent fees broaden a plaintiff's ability to sue, they also encourage lawyers to seek unjustifiably large settlements. Fee arrangements between attorneys and clients may remain unregulated with the exception that clients should receive the larger portion of any settlement. Contingent fees should be capped.

**Enforce Civil Procedure Rule II to Discourage Frivolous Law Suits:** Unjustified lawsuits have been a contributor to the liability crisis. Montana has an existing statute requiring lawsuits to be well-founded in fact and law. This rule should be enforced.

**Grant Courts the Authority to Mandate Structured Damage Awards:** Large, lump sum awards can create problems for both plaintiffs and defendants. Courts should have the authority to structure awards if it is in the best interest of the plaintiff or defendant.

**Alter Montana's Doctrine of Joint and Several Liability:** In order to encourage insurance companies to provide liability coverage, Montana's doctrine of joint and several liability should be changed so defendants are held responsible only to the degree they are found negligent.

**Modify Collateral Source Rule:** The collateral source rule in Montana must be modified so that courts must receive evidence of the amount of collateral source payments. All sources of compensation, except state and federal programs that are required by law to seek subrogation, should be admissible as evidence so that judges can make informed decisions regarding the reimbursement of providers of prior and future compensation.

## Montana Should Revise Securities Laws To Assist Innovative Small Business Creation and Expansion

Laws to regulate the issuance of securities by business play an important role in either encouraging the establishment and growth of entrepreneurial business, or discouraging it. Montana's securities laws and regulations are antiquated when compared to progressive, growth-oriented states. Montana is perceived as a difficult state to deal with on securities matters by new businesses and those wishing to locate in the state. The Task Force recommends:

**Adopt a New Uniform Securities Act:** A new securities act, that is uniform with the majority of the states, is needed and should be adopted by the Montana Legislature. Present efforts to improve the securities laws and regulations are

helpful. However, a comprehensive overhaul will be more effective and will put Montana on par with other states. In addition to providing adequate protection for investors, a new securities act will give more flexibility for Montana business to raise capital through the sale of stock and provide for workable employee stock ownership programs.

## Montana Must Change Restrictive Laws And Rules That Lead To Business Inefficiency And High Costs

It is important to assure that harmful, even though unintentional, government action does not hinder the development of a market-driven and competitive economy. Montana has a number of laws on the books that may detract from economic development by forcing business and industry to comply with standards that may be unrealistically stringent or that provide questionable benefit. For example, within the transportation industry, the Task Force recommends:

**Review the Caboose and Agency Laws:** It is unclear what the actual cost-benefit relationship is regarding rules and regulations addressing the caboose and agency laws. A comprehensive review may be needed to establish the proper balance between added costs and safety.

**Deregulate the Bus Industry:** Bus tours from other areas contribute to Montana's tourism industry. Current bus industry regulations that have the effect of discouraging tourism should be eliminated or modified.

## Montana Must Revise Workers' Compensation Laws

Montana needs a workers' compensation system that is both fair to the injured worker and affordable to the employer. The present system is becoming too expensive for employers to continue paying premiums and requires too much litigation on behalf of injured workers to obtain fair and due benefits. The Task Force generally supports the recommendations of the Workers' Compensation Advisory Council, but believes additional investigation should be given to the Department of Labor and Industry recommendations, including:

**A: Modify Lump Sum Benefits.**

**B: Make Benefits Sure and Obtainable Without Litigation.**

**C: Encourage Earlier Return to Work by the Injured Worker.**

## Montana Should Amend The Hard-Rock Mining Impact-Mitigation Act

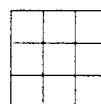
Montana will continue to rely on the state's mineral wealth as the basis for a major part of the economic expansion in the coming decade. That growth will depend on the state's ability to compete with other mineral-rich states in attracting operators willing to explore and establish mining operations in Montana. The state needs to examine current laws that are intended to mitigate the economic and social impacts of mine development. Modification may be necessary to those sections that are unreasonably stringent, are currently applied in an unreasonable and uneconomic manner, or are serious deterrents to investment. The Task Force recommends:

**Eliminate Secondary Impact Requirements:** Mine developers are required to pay upfront projected costs for primary social, environmental and economic impacts caused when new mines are located in a community. The act also calls for developers to establish and pay for the costs of secondary impacts that might be indirectly related to the mining activity but more often are predicated on economic decisions made by others. The Task Force does not believe mine developers should be held responsible for the decision making of unrelated parties. Elimination or modification of the secondary impact requirement is recommended.

**Adopt Local Government Implementation Option:** It is proposed that local government entities be given the option to waive the impact requirements of the Hard Rock Mining Impact Mitigation Act.

## Enhance State Government Business Leadership And Assistance

State government must continue to play a key leadership role in Montana's economic recovery and development. It is up to government, at every level and in every branch, to develop the policies and attitudes needed to actively promote new enterprise, foster economic expansion in the state, and remove the negative perceptions that hinder new investment. Current statewide efforts that promote, enhance and encourage business development must be strengthened and continued.



# Montana Should Create A Strong State Advocacy For Business And Development

State government must continue to take a strong position in support of development and reinforce that position with actions and policies consistent with economic growth. The Task Force recommends:

**Reaffirm the Executive Policy Supporting Economic Development:** The governor of Montana should continually reaffirm the goal of economic development as a matter of state policy and mandate all executive branch agencies to support such a policy.

**Provide Support to Local Development:** Montana's towns and cities often lack the necessary technical and administrative expertise to effectively expand their economies and attract and nurture new business. State government should become more involved in assisting these communities with their economic development objectives. Programs such as the "Certified Communities" and "Main Street" programs are examples of efforts that should be more actively supported by state government with both funding and expertise.

**Encourage Business Participation:** All sectors of the economy that will be impacted by new laws and regulations should be more actively consulted and considered before being enacted or applied. Existing laws and regulations should be

reviewed, with input from business and industry, to identify those that are out moded or anti-development.

## Montana Must Improve Long-Term Economic Development Planning

Montana needs to inventory its assets, resources and systems in order to systematically plan for long-term economic growth. Action taken now to initiate detailed studies of resource potentials can help developers anticipate requirements for future economic expansion. The Task Force recommends:

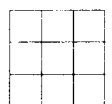
**Inventory Long-Term Timber Supply:** Reliability and adequacy of the timber supply is a major concern of one of Montana's key industries. The greatest portion of commercial timber is on federal lands. The state should coordinate a study to determine the local land base and harvest quantities that are necessary to support the forest products industry. The state should then aggressively represent to federal authorities the land bases and harvest supplies necessary to support future industry needs.

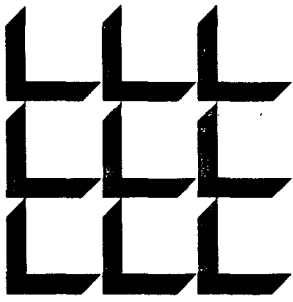
**Institute an Agricultural Products Data Base:** Montana agricultural producers have traditionally focused on production-oriented information. However, competition from imports and the growth of a world market indicate the need to redirect agricultural research into development of new markets, new applications and value-added production. A centralized data base, available to all producers, would provide valuable information to help the industry make realistic marketing, production and investment decisions.

**Encourage Advanced Communications Capabilities:** Montana's ability to attract many non-traditional businesses depends upon the availability of modern communication systems. A plan designed to promote the development and continued modernization of telecommunications systems within the state must be developed.

**Establish Contract Logger Bonding Program:** The state should encourage a private funding mechanism that can provide bonding and performance assurances to enable logging contractors to secure U. S. forest timber sales.

**Continue the Linked Deposit Agricultural Lending Program:** The Linked Deposit Farm Loan Program shows enough promise that it merits continuation. The program should be put in place for two more years to effectively capture its economic potential.





# Montana's Recent Economic History

The recession of the late 1970s and early 1980s impacted Montana more severely than the rest of the country and brought about an era of fundamental change in the state's economic base.

The change was dramatically evidenced by the closure of the Anaconda Minerals Company smelting and refining operations in Great Falls and Anaconda. Soon after came the suspension of all copper mining activities in Butte and the bankruptcy of the Milwaukee Road. Montana lost 8,000 basic jobs between 1979 and 1983.

When the nation began to recover from the recession in 1983, it became apparent that Montana was experiencing problems that went beyond recessive factors. The state's primary, natural resource industries continued to be afflicted with lack of demand for their products. It has become apparent that Montana's economic activity is faltering.

Although Montana agriculture is a model of efficient production of commodities such as grain, several factors tend to negate efforts in this basic Montana industry. A costly and shrinking transportation system makes access to markets a problem. Competition for Montana's markets has increased from other nations that export grain, namely India and China. An agricultural credit crisis is causing the failure of many farms.

In the face of these problems, overproduction of grain has caused prices to drop sharply. This, combined with the debt crisis, creates a situation that, according to a state study, will result in half the state's farmers being forced out of business within five years. Unless farmers can begin adding value to their products and thereby open up new markets, the agricultural situation could worsen.

Montana's forest products industry is also facing serious competition—from Canadian exports of timber. The result is lower prices and shrinking markets for Montana lumber. Timber supply has become uncertain and potentially inadequate because of administrative constraints on the use of timber resources in the national forest system. In addition, the timber base in Montana is becoming dominated by smaller diameter timber that would require new processing technologies at a time when investment is not encouraged.

Non-metals mining in Montana is also having problems. Oil and gas exploration and drilling of new wells have come to a standstill because of a

world oil surplus. Coal is also experiencing the impact of the energy surplus. As a result, many Montanans believe the state should modify its 30 percent coal severance tax. A step in this direction was taken by Governor Ted Schwinden in 1985 when he announced a program in which one-third of the coal severance tax paid on coal produced above the current base level would be rebated to the producer.

There are some bright spots in Montana's economic picture with certain sectors standing out as examples of successful cooperation between business and government.

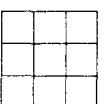
Tourism, considered a basic sector industry because it brings in out-of-state dollars, grew moderately, but steadily, even through the recession. Further growth is anticipated in this area through continuing cooperation between the private and public sectors.

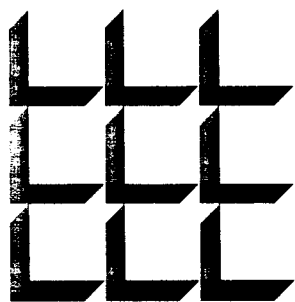
The service sector of the Montana economy also enjoyed growth, following a national trend. Nationally, the service sector has experienced enormous expansion, while traditional sectors, including manufacturing, have suffered declines.

Montana's own manufacturing sector, still heavily reliant on natural resources, has shown some growth and diversification. The state is attracting an increasing number of manufacturers who produce goods ranging from rinser/dryers for silicon wafers to high quality replicas of antique rifles.

Although coal and the oil and gas industries are lagging since the recession, hard rock mining in Montana has shown some promising signs. Precious metals activity is taking place at the Golden Sunlight Mine near Whitehall and at the Montana Tunnels project at Jefferson City. The Montana Resources Corporation has resumed copper mining activities in Butte and, in 1986, a new talc mining and milling facility opened near Ennis.

The Montana economy, compared to that of other states, appears to be in a holding pattern, with some of the state's industries showing moderate growth, and others performing little better than they did during the recession. It is appropriate for Montana's policy makers, business leaders and private citizens to work together to ensure a healthy economic future for the state.





# Montana's Assets For Growth

**Workforce:** Montanans take pride in their work, a fact acknowledged in numerous surveys and studies in recent years showing productivity in the state is among the highest in the nation. Montana ranked fourth highest in the United States in terms of value added per worker per year, according to a study conducted by INC. magazine in October 1985. By adding value of more than \$62,000 per worker annually, Montanans are \$24,300 above the national median in this measure of productivity.

Montana's workforce is also well-educated, ranking fifth among the 50 states in the percentage of workers over the age of 25 who are high school graduates. Montana is 7 percent above the national median of 68 percent.

**Education:** Montana is a leader in developing its human resources. From primary to secondary schools, low student-teacher ratios and one of the highest ratios of computers to students in the country, are preparing Montana youngsters for the future. Montana's schools have far fewer students than schools nationwide, with 44.6 percent having less than 100 students. This compares with the national average of 10.5 percent. A high percentage of Montana's high school seniors take the American College Testing Program (ACT) exam and score well above the national and regional averages. Montana also ranks second in the nation in the percentage of high school graduates who attend institutions of higher education.

The state's colleges and universities offer residents and non-residents alike tremendous opportunities in higher education. Two universities, Montana State University in Bozeman and the University of Montana in Missoula, offer a wide range of graduate and undergraduate courses in the arts and sciences, medicine, engineering, law, education, business administration, forestry, agriculture and architecture. Montana Tech in Butte is widely recognized by the petroleum and mining industries for the quality of graduates it produces. Each of these institutions maintain extensive research facilities with programs for engineering, forest immunobiology, cancer virus replication, mineral processing and hydrology, to name just a few. Cooperation between university and industry researchers is common in Montana and has been encouraged by these institutions.

Montana has 10 additional public and private colleges across the state.

A well-developed vocational-technical education system in Montana offers students the opportunity to learn useful skills in fields such as accounting, computer programming, welding, electronics and agri-mechanics. Students are trained so they can immediately join the workforce upon graduation. Montana's vo-ed schools work with business and industry to develop new programs as they are needed.

**Natural Resources:** Natural resources have provided prosperity to Montana for decades. Today they account for the majority of dollars generated by the state's manufacturers. For example, processing of agricultural and forest products account for 60 percent of the wages and salaries in the manufacturing sector.

Bountiful supplies of natural resources will play a continuing role in the future economic growth of Montana. Ranking first in the nation in coal resources and reserves, Montana has over 75 billion tons of recoverable low-sulphur reserves. The state also has large reserves of oil and natural gas. Montana has a long history of oil and gas production and great potential exists for new discoveries. An additional resource that Montana has in abundance is hydroelectric power generated by numerous dams on the state's rivers.

As a result of this abundance of energy, Montana's energy costs are among the lowest in the nation.

Potential also exists for mining of non-fuel minerals in Montana. Gold production has increased in recent years, as has mining of silver, copper, lead, molybdenum, zinc and antimony. The state has reserves of chrome, platinum, palladium and tungsten. Other minerals found here include bentonite, phosphate, gypsum, vermiculite, limestone, barite and the largest deposits of pure talc in the United States.

Timber resources in the state are vast and varied. Numerous timber species are harvested from Montana's base and processed into plywood, particleboard, fiberboard, studs, houselogs, posts and poles. The forest products industry in Montana employs 45 percent of the state's manufacturing workforce and adds millions of dollars of value to an important raw material.

Myriad agricultural products are produced and processed in Montana. The state has gained an international reputation for its beef, wheat and barley. Montana is also a leader in the production of sheep, wool, oats, dry beans, sugarbeets, potatoes and honey. The state has the largest amount of acreage in strip cropping in the United States and is second in total land in farms and ranches.

**Development Financing:** Long-term financing for industrial development is available from several sources in Montana. Industrial Revenue Bonds (IDBs) for manufacturing projects are issued and made available through local governing bodies and the Montana Economic Development Board (MEDB). IDB's are an attractive source of long-term financing for projects involving land, buildings or equipment. Because the interest income is exempt from state and federal taxes, the interest rate charged for loans financed with these bonds is usually lower than conventional rates.

The MEDB also administers the state's program of coal tax loans. Through this program, 25 percent of the new revenues flowing into Montana's coal tax trust have been placed in an in-state investment fund to be used for long-term, fixed-rate loans to Montana businesses. Since it was authorized by the 1983 Montana Legislature, the MEDB has invested a total of over \$38 million in the Montana economy.

Also authorized by the Legislature, the Montana Capital Companies Act was designed to make venture capital available in the state. This act provides for a 25 percent tax credit as an incentive to individual investors in qualified Montana companies. The companies, in turn, must invest the funds in small in-state businesses.

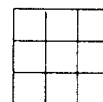
To provide capital for technology firms in the early startup stages, the 1985 Legislature created the Montana Science and Technology Alliance. The alliance has invested over \$1.6 million in technology projects in Montana. Most investments are made on a matching fund basis with the business.

Montana businesses are served by over 160 traditional commercial lending institutions. These include independent banks and affiliates of major holding companies. Montana also has a number of state and federally chartered savings and loan associations and credit unions. The state's investment banking firms develop capital for business and industry by underwriting IDBs, corporate bonds, stock issues and by other innovative means.

The Federal Small Business Administration offers a variety of financing programs for small businesses in Montana. Nearly all businesses are eligible for SBA financing for buildings and equipment.

**Lifestyle:** With its natural beauty and plentiful recreational opportunities, Montana can offer a lifestyle that could have an important impact on decisionmakers who consider startup, expansion or relocation of existing companies.

Recreational options, which also make the state a popular tourist destination, include backpacking, boating, hunting, fishing, nordic and alpine skiing, combined with cultural activities, uncongested cities and a well developed transportation system.



Amendments to HB 905 (3rd reading)

1. Title, lines 9 and 10.  
Strike: "PROVIDING AN APPROPRIATION;"
2. Page 3, line 25 through line 8, page 4.  
Strike: section 4 in its entirety  
Renumber: subsequent sections
3. Page 5, line 12.  
Strike: "5"  
Insert: "4"
4. Page 5, line 14.  
Strike: "5"  
Insert: "4"

# STANDING COMMITTEE REPORT

APRIL 8, 1987

MR. PRESIDENT

We, your committee on BUSINESS AND INDUSTRY

having had under consideration HOUSE BILL No. 863

THIRD reading copy ( BLUE )  
color

WALLIN ( NEUMAN )

## NET INCOME TAX ON VIDEO POKER MACHINES

Respectfully report as follows: That HOUSE BILL No. 863  
be amended as follows:

1. Page 2, line 8.  
Following: "means"  
Insert: "  
(a) with respect to the licensure of keno machines,"
2. Page 2, line 10.  
Following: "23-5-421"  
Insert: "; and  
(b) with respect to the licensure of  
video draw poker machines, an establishment that is  
licensed to sell alcoholic beverages for consumption on  
the premises"
3. Page 2, following line 13.  
Insert: "or keno machines"
4. Page 3, line 13.  
Following: "poker"  
Insert: "or keno"
5. Page 3, line 15.  
Following: "poker"  
Insert: ", bingo, or keno"

~~XXXXX~~  
~~DO NOT PASS~~

(CONTINUED)

~~DO NOT PASS~~

SENATOR ALLEN C. EOLSTAD, Chairman.



.....APRIL 9,..... 19...37..

6. Page 5, line 20 through line 2 on page 6.  
Following: "23-5-615." on line 20  
Strike: remainder of line 20 through "towns." on line 2 of  
page 6
7. Page 6, lines 3 through 7.  
Following: "year" on line 3  
Insert: "."  
Strike: remainder of line 3 through end of line 7
8. Page 15, line 17.  
Strike: subsection (ff) in its entirety  
Renumber: subsequent subsections

Amendments, HB 863  
9098a/C:JEANNE\wp:jj

AND AS AMENDED,

BE CONCURRED IN

.....  
SENATOR ALLEN C. KOLSTAD, CHAIRMAN