

MINUTES

MONTANA HOUSE OF REPRESENTATIVES
51st LEGISLATURE - REGULAR SESSION

SUBCOMMITTEE ON NATURAL RESOURCES

Call to Order: By Chairman Gary Spaeth, on January 20, 1989, at 8:00 a.m.

ROLL CALL

Members Present: All members of the committee.

Members Excused: None

Members Absent: None

Staff Present: Evan McKinney, LFA
Jane Hamman, OBPP
Donna Grace, Committee Secretary

HEARING ON DEPARTMENT OF COMMERCE

List of Proponents and Group they Represent 26:A (001)

John Wilson, Department of Commerce
Andy Poole, Department of Commerce
Tom Clinch, Department of Commerce
Carolyn Doering, Department of Commerce
Sandy Courtnage, Department of Commerce

Testimony:

Montana Promotion Division

Mr. John Wilson, Administrator of the Montana Promotion Division reviewed the activities of the Division and stated that, as the Montana Promotion Division, they are responsible for the promotion of the state as a tourism destination and as a place to film major motion pictures and television commercials. Mr. Wilson presented the committee with a packet of printed materials produced by the Division during the last year and a half, some of which were produced in cooperation with other entities. The program is funded primarily by the accommodations tax and, by passing that tax, the division had been encouraged to increase expenditures for tourism in the state and that is exactly what has happened. New income has been created for existing Montana businesses, in some cases new businesses have

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been established and, in addition, there are new jobs in Montana in the tourism industry.

Mr. Wilson also presented members of the committee with copies of the Marketing/Work Plan developed by the Division. Exhibit 1. He presented a video and slide presentation of activities in the state during the past year.

Mr. Wilson also discussed the cooperative efforts between the Division, private business and the various communities within the state, as well as with neighboring states. Of special interest to the committee was the advertising planned to encourage tourists to return to Yellowstone Park. He stated that there was a \$240,000 budget already in place, with costs shared 50/50 between Montana and Wyoming which is directed totally toward Yellowstone. He also stated that Governor Schwinden and the Wyoming Governor had requested \$3 million from the federal government for a three-year public information campaign but they had been turned down.

Senator Jergeson and Representative Iverson expressed feelings that they felt their area of the state was ignored. Referred to as "Russell Country", they stated that accommodation tax dollars had been used to feature casinos in Great Falls as the beauty of the area. Senator Jergeson stated that there is a great flush of traffic from the east on Highway 2 through their area and some advertising relative to that area should be done. The problem, according to Mr. Wilson, was that Havre has to "get it's oar in the water" relative to being a part of that area. Several other questions were asked regarding the distribution of advertising dollars between the seven areas in the state.

Mr. Wilson stated that funds are prorated between the areas according to the collection of accommodations tax in each region. Senator Jenkins also asked how the division was able to measure tourism dollars being expended by people from the Pacific Rim. Mr. Wilson replied that they know that there were 7,000 Japanese and 6,000 Taiwanese in the state last year but he did not know how many of them were here as a direct result of the advertising program.

Mr. Wilson stated that there was another issue that was not outlined in the LFA analysis. The issue was a request to transfer the Super Host program from the Business Assistance Division to the Montana Promotion Division. He stated that they get all of the telephone calls and

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requests for information and administratively it would be a wise move. The money for this program is statutorily appropriated and involves \$77,000 and one FTE. Mr. McKinney clarified some of the information given by Mr. Wilson.

Executive Action: (470)

LFA Analysis - Exhibit 2.

Issue No. 4: Transfer of the Super Host Program from Business Assistance to Montana Promotion.

MOTION: Representative Swift made a motion that the program be transferred as suggested.

VOTE: MOTION PASSED. All present voted yes.

Issue No. 1. The executive budget includes .33 FTE for a data processing position that was excluded from the LFA budget.

MOTION: Representative Iverson made a motion to accept the executive recommendation.

VOTE. MOTION PASSED. All present voted in favor of the motion.

Issues 2 and 3. The LFA includes \$613,374 more for advertising and \$33,862 more for grants to regions than is included in the executive budget. Mr. McKinney stated that the difference was in the estimate of anticipated revenue in the accommodations tax fund.

MOTION: Senator Iverson made a motion that the Executive recommendation be adopted

VOTE: MOTION PASSED. All present voted yes.

Montana Science and Technology Alliance

27:A (001)

Mr. Gene Huntington, Executive Director, presented an overview of the Montana Science and Technology Alliance. He presented members with a copy of the biennial report of the Alliance. Exhibit 3. An outline of Mr. Huntington's remarks are contained in Exhibit 4.

Mr. Huntington stated that the Montana Science and Technology Alliance is a financing agency which was created by the legislature in 1985. They operate with

HOUSE SUBCOMMITTEE ON NATURAL RESOURCES

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a board of directors which make investment decisions based on the recommendations of the staff. When the program was created the general goal was to encourage development of the state's entrepreneurial sector by financing projects or companies that are trying to commercialize innovative technology development. There are two financing programs, the Seed Capital Program and the Research and Development Program. Mr. Huntington explained that the Seed Capital Program was to be expanded by HB 700 which was the Seed Capital Bond Act passed by the 1987 session of the legislature. However, the White Decision found that the Seed Capital Bond Act was unconstitutional and the things the program and legislature had intended it to do were inappropriate according to the Supreme Court. Mr. Huntington stated that there is now legislation being introduced which would rectify the problems.

Executive Action:

LFA Analysis - Exhibit 5.

Issue No. 4. The LFA budget funds the program with alternative energy funds while the executive budget funds the program with general funds.

MOTION: Representative Iverson made a motion that, in order to comply with the policy established by the Department of Natural Resources, that the alternate energy funds be de-earmarked and placed in the general fund.

VOTE: MOTION PASSED. All present voted yes.

Issues No. 1, No. 2 and No. 3. The LFA budget is based on the level of funding provided to the program prior to establishment of the seed capital program, and included 3 FTE. The executive is \$11,000 below the LFA. Mr. Huntington said he would concur with the figures as they stand.

MOTION: Senator Jergeson made the motion that the LFA budget be adopted in each of the issues.

VOTE: MOTION PASSED. All present voted yes.

Research and Information Division (608)

Sandy Courtnage, Administrator of this Division, gave an overview of the responsibilities of the division which include monitoring and analyzing the Montana economy, formulating policy recommendations through the Governor's Council on Economic Development, conducting

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specific economic analysis projects, distributing economic and demographic information through the Census and Economic Information Center, maintaining and presenting information on the department's economic development programs as requested, and providing services for the department director as needed. An outline of Ms. Courtnage's comments are attached as Exhibit 6. A copy of the Report "Economic Conditions in Montana, 1988", prepared by the Research and Information Division was distributed to the committee. Exhibit 7.

Discussion followed specifically in relation to duplication of services that might be taking place in this division. Since there was a considerable amount of concern over this matter by committee members, Ms. Courtnage was asked to return to the committee at a later date with more complete information relative to the program. No executive action will be taken until the Division appears before the committee later.

Announcements/Discussion: Meeting on Monday, January 23, at 8:00 a.m. Discussion will continue on Department of Commerce. The Research and Information Services Division was asked to appear before the committee again on Thursday, January 26.

ADJOURNMENT

Adjournment At: 11:00 a.m.



REPP. GARY SPAETH, Chairman

GS/dg

1726.mina

DAILY ROLL CALL

NATURAL RESOURCES

SUBCOMMITTEE

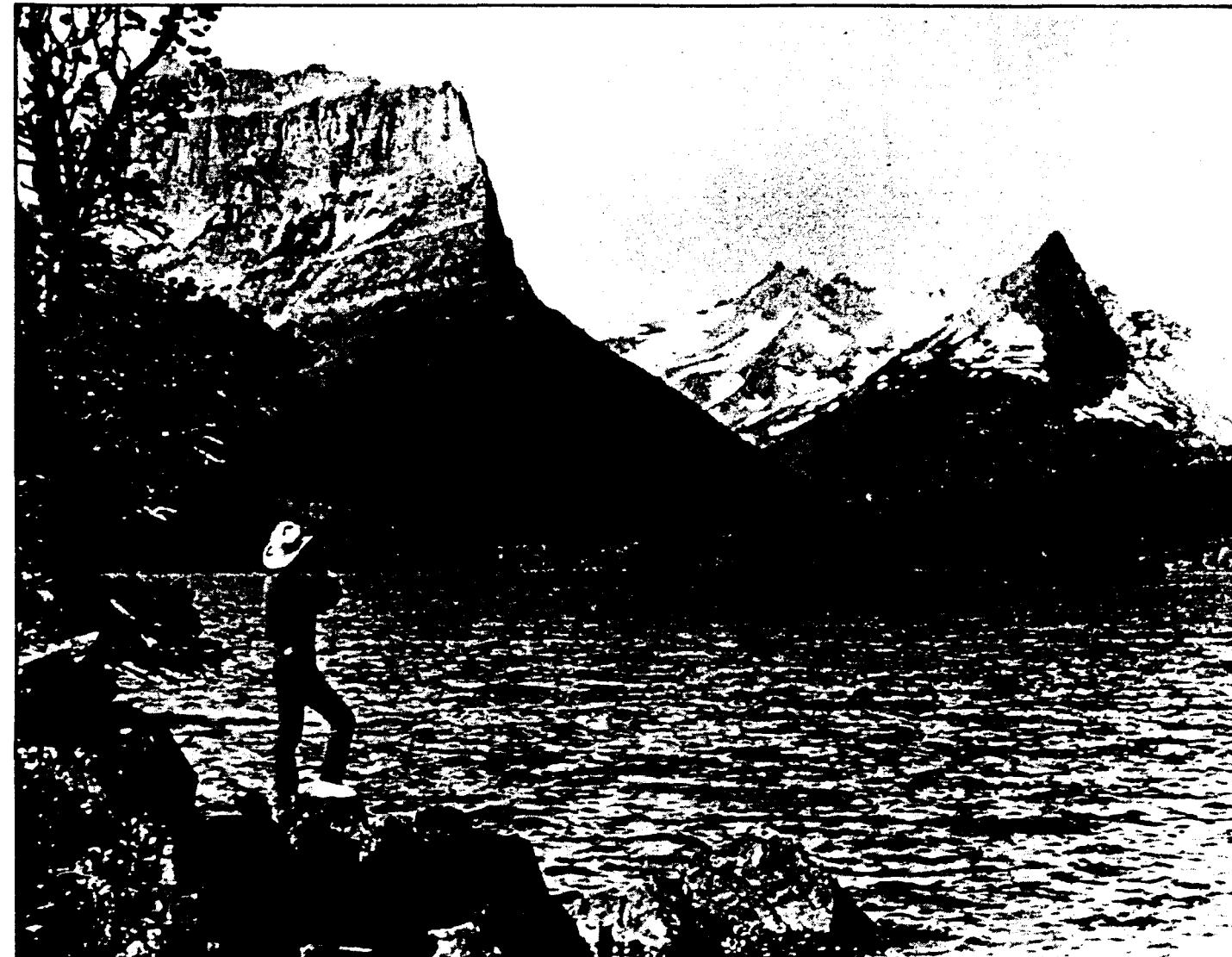
DATE

January 20, 1989

EXHIBIT 1
DATE 1-20-89
HB _____

Montana

Unspoiled, unforgettable.



Marketing/Work Plan July 1, 1988 — June 30, 1989

Montana Promotion Division
Department of Commerce
1424 9th Avenue
Helena, MT 59620

6501 52 00000

06:11 PM 19-Jan-89

AGENCY: DEPARTMENT OF COMMERCE

LEGISLATIVE ACTION

PROGRAM: MONTANA PROMOTION DIVISION

BUDGET ITEM	Fiscal 1990			Fiscal 1991		
	Executive	LFA	Difference	Executive	LFA	Difference
FTE	14.33	14.00	.33	14.33	14.00	.33
Personal Services	\$369,580	\$354,548	\$15,032	\$370,958	\$355,899	\$15,059
Operating Expenses	3,110,715	3,417,067	(306,352)	3,112,337	3,428,794	(316,457)
Equipment	4,000	4,000	0	1,000	1,000	0
Non-Operating	1,118,676	1,135,607	(16,931)	1,118,676	1,135,607	(16,931)
TOTAL EXPENSES	\$4,602,971	\$4,911,222	(\$308,251)	\$4,602,971	\$4,921,300	(\$318,329)
FUNDING						
State Special Rev	\$4,252,971	\$4,561,222	(\$308,251)	\$4,252,971	\$4,571,300	(\$318,329)
Other	350,000	350,000	0	350,000	350,000	0
TOTAL FUNDING	\$4,602,971	\$4,911,222	(\$308,251)	\$4,602,971	\$4,921,300	(\$318,329)

	FTE	Gen Fund	Total Funds
	0.33	0	15,736

Issue 1. The executive budget includes .33 FTE for a data processing position that was excluded from the LFA budget.

Issue 2. The LFA budget includes \$613,374 more for advertising than is included in the executive budget.

Issue 3. The LFA budget includes \$33,862 more for grants to regions than is included in the executive budget.

EXHIBIT 2
DATE 1-20-89
TB

6501 51 51450

AGENCY: DEPARTMENT OF COMMERCE

12:16 PM 17-Jan-89

LEGISLATIVE ACTION

PROGRAM: TOURISM (Superhost)

BUDGET ITEM	LEGISLATIVE ACTION		
	Executive	Fiscal 1990	Difference
FTE	1.00	1.00	0.00
Personal Services	\$30,182	\$29,304	\$878
Operating Expenses	50,285	50,285	0
TOTAL EXPENSES	\$80,467	\$79,589	\$878
FUNDING			
General Fund	\$0	\$0	\$0
State Special Rev	78,372	77,494	-\$78
Federal Revenue	2,095	2,095	0
TOTAL FUNDING	\$80,467	\$79,589	\$878

	Executive	Fiscal 1991	Difference
	LFA	LFA	Difference
		1.00	1.00
Personal Services	\$30,199	\$29,321	\$878
Operating Expenses	50,162	50,162	0
TOTAL EXPENSES	\$80,361	\$79,483	\$878

EXHIBIT 2
 DATE 1-20-89
 TB

Montana Science & Technology Alliance

1989
Biennial Report

EXHIBIT 3
DATE 120-89
HB _____

THE MONTANA SCIENCE AND TECHNOLOGY ALLIANCE

- CREATED THROUGH ACTION BY THE 1985 LEGISLATURE
- GOAL - ENCOURAGE DEVELOPMENT OF THE STATE'S ENTREPRENEURIAL ECONOMY THROUGH COMMERCIALIZATION OF INNOVATIVE TECHNOLOGY
- TWO FINANCING PROGRAMS:
 - * RESEARCH AND DEVELOPMENT FINANCING
 - TO DATE: 29 PROJECTS - \$2.2 MILLION IN ALLIANCE FUNDS MATCHED WITH \$2.6 MILLION IN NON-STATE FUNDS
 - * SEED CAPITAL FINANCING
 - TO DATE: 7 COMPANIES - \$720,000 COMMITTED IN ALLIANCE FUNDS MATCHED WITH \$1.4 MILLION IN PRIVATE FINANCING
- PROGRAMS EXPANDED THROUGH LEGISLATIVE ACTION IN 1987 - HB 700
- CONSTITUTIONAL TEST CASE - WHITE DECISION
- ALL PROGRAM FUNDING HAS COME FROM APPROPRIATION OF THE ALTERNATIVE ENERGY COAL TAX ACCOUNT
- BONDS SALES AUTHORIZED BY HB 700 DID NOT OCCUR - NO BOND PROCEEDS HAVE EVER BEEN RAISED OR EXPENDED

EXHIBIT 4
DATE 1-20-89
HB

WHITES V. THE MONTANA SCIENCE AND TECHNOLOGY ALLIANCE

- CONSTITUTIONAL TEST OF BONDING MECHANISM
- INITIATED AND DRIVEN BY THE ALLIANCE
- BRIEFED AROUND THE HOLLOW V. THE MT. ECONOMIC DEVELOPMENT BOARD CASE (PUBLIC FUNDS FOR PRIVATE PURPOSES)
- MAJOR POINTS OF THE WHITE DECISION:
 - * BOND PROCEEDS, FROM BONDS GUARANTEED BY THE CREDIT OF THE STATE, CANNOT BE USED FOR FINANCING PRIVATE CONCERNS NOT UNDER CONTROL OF THE STATE.
 - * THE DELEGATION OF LEGISLATIVE AUTHORITY TO THE SCIENCE AND TECHNOLOGY BOARD IS TOO BROAD IN HB 700.
- EFFECT OF THE DECISION:
 - * BOND PROCEEDS CANNOT BE USED AS A FUND SOURCE IN NEW ALLIANCE LEGISLATION.
 - * THE BOUNDS OF THE SCIENCE AND TECHNOLOGY BOARD'S AUTHORITY MUST BE SPECIFICALLY DEFINED IN NEW ALLIANCE LEGISLATION.

EXHIBIT _____
DATE _____
HB _____

SEED CAPITAL PROGRAM

- SOURCE OF FINANCING FOR EARLY STAGE BUSINESSES

- * BUSINESSES BASED ON INNOVATIVE TECHNOLOGY
- * START-UP STAGE
- * EXPANSION STAGE

- VENTURE CAPITAL STYLE FINANCING CRITERIA

- * EXTENSIVE BUSINESS PLAN EVALUATION EMPHASIZING MARKET POTENTIAL AND FUTURE FINANCIAL VIABILITY - NOT CURRENT ASSET POSITION
- * SEEKING FINANCIAL RETURN IN ADDITION TO GENERAL ECONOMIC DEVELOPMENT BENEFITS
- * COMPANIES WITH POTENTIAL FOR \$3 MILLION IN ANNUAL SALES BY YEAR 5
- * AMOUNTS OF BETWEEN \$50,000 AND \$350,000 PER "ROUND" OF FINANCING - NO MORE THAN \$750,000 TO ANY ONE COMPANY
- * ALL ALLIANCE FINANCING REQUIRES AT LEAST 100% PRIVATE MATCH
- * ONGOING INVOLVEMENT WITH PORTFOLIO COMPANIES

- \$615,000 IN SEED CAPITAL FINANCINGS DISBURSED TO DATE

ESTIMATED PORTFOLIO VALUE BY 12/89: \$850,000 - \$1 MILLION

EXHIBIT
DATE
HB

CENTERS OF EXCELLENCE

BIOTECHNOLOGY - \$200,000

ADVANCED MATERIALS - \$200,000

MINERAL PROCESSING AND WASTE TREATMENT - \$200,000

ENTREPRENEURIAL ASSISTANCE - \$100,000

UNIVERSITY SYSTEM INVOLVEMENT:

- UNIVERSITY OF MONTANA
- MONTANA STATE UNIVERSITY
- MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
- EASTERN MONTANA COLLEGE

PRIVATE COMPANY INVOLVEMENT:

- SKYLAND SCIENTIFIC, INC.
- RIBI IMUNOCHEM
- CHROMATOCHEM
- MCNEIL TECHNOLOGIES
- AMERICAN CHEMET
- CRYSONICS, INC.
- BIONOMICS, INC.
- MONTANA RESOURCES, INC.
- MONTANA ENERGY RESEARCH AND DEVELOPMENT INSTITUTE
- MONTANA HYDROPROCESSING, INC.

- CENTERS ARE DISTINCT ENTITIES - FUNDS CONTROLLED BY GOVERNING BOARDS WITH MAJORITY PRIVATE SECTOR MEMBERSHIP - UNIVERSITY FACILITIES AND ADMINISTRATIVE ACTIVITY
- ALL CENTER FINANCINGS REQUIRE 100% NON-STATE MATCH

EXHIBIT _____
DATE _____
HB _____

OTHER RESEARCH AND DEVELOPMENT FINANCING

UNIVERSITY SYSTEM - PRIVATE SECTOR COLLABORATIONS

TARGET TECHNOLOGY AREAS:

- MINERALS**
- AGRICULTURE**
- FORESTRY**
- ENERGY**
- MATERIALS SCIENCE**
- BIOTECHNOLOGY**
- MICROELECTRONICS**
- COMPUTER SCIENCE**
- HAZARDOUS WASTE TREATMENT**

EXHIBIT _____
DATE _____
HB _____

BUDGET SUMMARY

	FY86 Actual	FY87 Actual	FY88 Actual	FY89 Projected*	FY90 Requested	FY91 Requested
FTE	2.00	2.00	5.00	6.00	5.00	5.00
Administrative Expenses	149,034	149,627	509,183	241,400	349,400	345,900
Seed Capital and Research and Development Financing	156,578	1,366,340	1,268,836	0	Pending Legislation	Pending Legislation
Administrative Expenses	298,661	750,583		695,300		
Seed Capital and Research and Development Financing	1,522,918	1,268,836			Pending Legislation	

ALL FUNDS EXPENDED WERE APPROPRIATED TO THE ALLIANCE FROM THE ALTERNATIVE ENERGY COAL TAX ACCOUNT.
NO BOND FUNDS WERE EVER DERIVED OR EXPENDED.

EXHIBIT
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* FY 89 administrative expenses were intended to be greater in relation to the Seed Capital Bonding Program.
Additional revenue would have been derived from bond proceeds.

PROPOSED 1989 LEGISLATIVE ACTION

- RESTORATION OF RESEARCH AND DEVELOPMENT PROGRAM

*** APPROPRIATED FUNDS**

- GENERAL FUND**
- NON-TRUST COAL TAX REVENUE**
- COAL TAX TRUST**
- OTHER**

- RESTORATION OF SEED CAPITAL PROGRAM

*** FUNDS MANAGED FOR RETURN - INSTATE INVESTMENT FUND**

- ADMINISTRATIVE BUDGET FOR OVERALL PROGRAM - \$350,000 ANNUALLY

*** APPROPRIATED FUNDS - GENERAL FUND**

EXHIBIT _____
DATE _____
HB _____

AGENCY: DEPARTMENT OF COMMERCE

PROGRAM: MT SCIENCE & TECH ALLIANCE

LEGISLATIVE ACTION

BUDGET ITEM	FTE	Executive	LFA	Difference	Fiscal 1990	Fiscal 1991	LFA	Difference
Personal Services		2.00	3.00	-1.00		2.00	3.00	-1.00
Operating Expenses		\$69,512	\$112,468	(\$42,956)		\$69,824	\$112,468	(\$42,644)
Equipment		79,938	49,652	30,286		77,872	49,587	28,285
Non-Operating		0	0	0		0	0	0
TOTAL EXPENSES		\$449,450	\$460,014	(\$10,564)	\$447,696	\$471,686	(\$23,790)	

FUNDING

	General Fund	State Special Rev	Other Revenue					
General Fund	\$449,450	\$0	\$449,450					
State Special Rev	0	460,014	(460,014)					
Other Revenue	0	0	0					
TOTAL FUNDING	\$449,450	\$460,014	(\$10,564)	\$447,696	\$471,686	(\$23,790)		

	FTE	Gen Fund	Total Funds
Issue 1. The LFA budget is based on the level of funding provided to the program prior to establishment of the seed capital program, and includes 3.00 FTE	1.00	0	97,600
Issue 2. The executive budget includes \$12,000 in other compensation that is not included in the LFA budget	0.00	0	12,000
Issue 3. The executive budget includes \$58,571 more on operating expenses than the LFA budget.	0.00	0	58,571
Issue 4. The LFA budget funds the program with alternative energy funds while the executive budget funds the program with general funds.			

EXHIBIT 5
1-20-89

OFFICE OF RESEARCH & INFORMATION SERVICES
Notes for 51st Legislative Session
Subcommittee Budget Hearing
January 1989

The Office of Research & Information Services was formed from the former Office of Economic Analysis, which contained some of the current office functions.

The office:

- o monitors and analyzes the Montana economy;
- o formulates policy recommendations through the Governor's Council on Economic Development;
- o conducts specific economic analysis projects;
- o distributes economic and demographic information through the Census and Economic Information Center;
- o maintains and presents information on the department's economic development programs as requested; and
- o provides services for the department director as needed.

Staff:

- o administrator;
- o two economists;
- o a research specialist;
- o an administrative officer;
- o a program manager for the data library;
- o an administrative assistant;
- o a library technician; and
- o a one-third time computer programmer.

The office's philosophy is simple:

Good information is crucial to making good decisions. Office users include public sector decisionmakers interested in good public policy, Montanans who are considering starting a business or expanding an existing business, out-of-state businesses considering Montana as a business location, and private citizens.

EXHIBIT 6
DATE 1-20-89
HB _____

The office compiles, maintains and distributes economic and demographic information in order to make information accessible.

Functions:

RESEARCH & ANALYSIS

Economic conditions

Inquiries on general economic trends in Montana and on specific localities are received daily.

The office researches requests as necessary and provides either oral or written analysis to a variety of users such as:

- o the business community; [1,073]
- o other state government agencies; [1,184]
- o federal government; [120]
- o local government; [250]
- o educational institutions; [196]
- o and the public.

Last fiscal year ('88), state government was the biggest user of our service with business requests running a close second. Local government and academic users were third and fourth.

In addition to compiling and organizing other people's data, we also publish our own analysis.

A report entitled **Economic Conditions in Montana** is prepared for each regular session of the Legislature. An executive summary of that report is available for you today. The entire report will be available in February. Please contact us if you would like a copy.

Exe. Summary
This report contains information on the statewide economy as well as data on 12 sub-state regions.

CENSUS & ECONOMIC INFORMATION CENTER
Montana statistical information

A great deal of information is collected at public expense by a variety of state, federal and local government agencies describing some facet of the daily lives of citizens and taxpayers.

The office, through the Census and Economic Information Center (CEIC), is the central storehouse through which much of this information becomes available for public review and use.

EXHIBIT _____

DATE _____

HB _____

The CEIC, for example, has had a formal data distribution agreement with the U.S. Bureau of the Census for 10 years, and, as such, is the lead agency in a statewide network of 18 data center affiliates.

These affiliates are located in public and university libraries across the state. In addition, this year the center is participating in a pilot Business & Industry Data Center program, which expands the distribution focus from established libraries to include contacts for data assistance through local chambers and LDOs. Montana is one of 15 states chosen to participate in this program.

The goal of this program is to educate potential users about data available to them and to put information easily into the hands of business decisionmakers.

In fiscal 1988, requests to the center tallied 3,598. Two-thirds of these requests came over the phone and complexity ranged from requests that were able to be answered quickly to those that took several days or a week of research.

** County Profiles

A major resource document used by all levels of governments as well as the educational and business community in Montana is the County Profiles. This document currently is being updated, and will be completely revised after the 1990 Census.

Enclosure: tables that will be updated.

Census coordination

One of the tasks of the office and the CEIC in particular is preparation for the 1990 federal census.

Work began several years ago when the center participated in surveys about geographical boundaries by which census information will be collected, tabulated and distributed and has continued periodically since.

Office involvement will increase significantly in 1991 when data collected will start flowing into the center.

Our modified budget request includes .5 FTE -- for clerical and computer programming assistance beginning the last half of 1991.

The census data collected determines such things as eligibility for federal grant programs, public facility and infrastructure planning and funding, and voting district apportionment. Of particular interest to Montana this census will be the population outcomes with its possible ramifications to Montana.

Governor's Council on Economic Development

The council provided the governor and the department with private sector, local government and educational expertise in economic development planning and strategy formation.

EXHIBIT _____

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During the 1989 biennium the council completed two major pieces of work.

The Insurance Subcommittee was charged with developing potential solutions to Montana's obstetrical malpractice insurance crises.

In the short time allowed, the committee recommended the formation of a broader-based council whose charge was to study in depth the factors contributing to the crisis.

The governor appointed the Obstetrical Services Availability Advisory Council, which not only included council members but health care providers, attorneys, representatives of the insurance industry, the legislature and the public.

The office provided staff support for the council.

**

The culmination of the Governor's Council on Economic Development was the publication of The Next Century: Strategies for Advancing Montana's Economy.

The document presents a concise picture of Montana's economy and outlines broad public strategies through which state and local governments can assist private economic development.

The strategies are tailored for a state with tight fiscal realities and involve little in the way of new expenditures.

It presents for discussion courses of action that focus on what state and local governments can do to strengthen all sectors of Montana's economy.

optional

- { - Workforce investments;
- Entrepreneurship & business innovation supports;
- Physical infrastructure considerations;
- Strengthen local governments' fiscal capacity; and
- Strengthen state fiscal capacity.

The office also provides staff assistance to the Governor's Council.

GCED -- not included in current budget request. If reconstituted by the administration and located in Commerce, it would require a funding increase.

Special analysis projects

The analytical capabilities and economic information housed in the office provide the foundation for a number of special projects completed during the 1989 biennium including:

- periodic updates on Montana economic conditions,
- an extensive review of the EIS for the small Intercontinental Ballistic Missile Program ("Midgetman") proposed for location at and around Malmstrom Air

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Force Base,

- and annual updates for the Montana Coal Board designation of local areas as coal impacted.

The office staff also participates in the energy planning activities of the Northwest Power Planning Council and of the Governor's Advisory Committee on Revenue Estimating.

Some of these projects are routed to the office through the Director's Office. The office also provides other services for the director's office such as gathering information for presentations, managing publications productions for parts of the department.

EXHIBIT _____
DATE _____
HB _____

January 1989

DEPARTMENT OF COMMERCE



STAN STEPHENS, GOVERNOR

1424 9TH AVENUE

STATE OF MONTANA

(406) 444-3494

HELENA, MONTANA 59620-0401

January 1989

The Honorable Stan Stephens, Governor of Montana, and
Members of the 51st Legislature

Attached is the executive summary of the forthcoming Economic Conditions in Montana, 1988. The summary describes the current jobs recovery in Montana, discusses the general shift in the type of employment in the 1980s, and provides a brief description of the jobs outlook for 1989 and 1990.

The full report presents a more complete overview of the Montana economy from a statewide perspective, including a brief economic history of Montana from 1880 to the present, more details regarding the growth of various economic sectors in the last 20 years, and information on income, unemployment, and population not contained in the executive summary. The report also details economic conditions in each of 12 regions statewide. Each region is analyzed using data on population, employment, unemployment, and income. Many of the tables used in the analysis contain information specific to the counties that comprise a given region.

As with two previous reports, the report on economic conditions in Montana is sponsored by the Governor's Council on Economic Development, which was created by Executive Order No. 15-83. The council is staffed by the department's Office of Research and Information Services. Please contact that office at 444-3814 to obtain the full report.

I believe that the enclosed executive summary and the forthcoming full report on economic conditions in Montana will provide valuable information and insight to both public and private decisions makers.

Sincerely,

Andy J. Poole
Andy Poole
Acting Director

EXHIBIT 7
DATE 1-20-89
RB

ECONOMIC CONDITIONS IN MONTANA, 1988

EXECUTIVE SUMMARY

**Phil Brooks, State Economist
Office of Research and Information Services
Montana Department of Commerce**

January 1989

**EXHIBIT _____
DATE _____
HB _____**

ECONOMIC CONDITIONS IN MONTANA, 1988 Executive Summary

The Montana economy, as measured by jobs, currently is growing, and jobs have been increasing since late 1986. Figure 1 shows that the recovery was weak until the fourth quarter of 1987. Also, the distribution of the economic recovery was uneven across the state in 1987, with most of the job growth occurring in the western third of Montana. Preliminary data for 1988 indicate that the recovery was more widespread last year. Employment and population growth overall in the 1980s, however, has been erratic, and the growth in employment between 1979 and 1987 was less than the national average. The growth that occurred was generally characterized by a shift from wage and salary jobs to self-employment.

Shift in Jobs in the 1980s

Data from the U.S. Bureau of Economic Analysis show that over the period 1979-87, jobs in Montana increased by about 14,000 overall. There was a net loss of 11,000 wage and salary jobs, while the number of self-employed increased by roughly 25,000 (all in the non-agricultural sector). This movement represents a substantial shift from wage and salary jobs to self-employment. This shifting phenomenon was also experienced by the neighboring states of Idaho and Wyoming, and to a lesser extent by North Dakota and South Dakota, but Montana's self-employment growth rate was higher than the average for its contiguous states. There also was shift among sectors in Montana within the wage and salary category.

The principal industries where self-employment gains occurred included: assorted consumer services (e.g., recreation, repair, and health services), 8,000 jobs; various business services (such as management consultants, building maintenance, and data processing services), 6,000 jobs; real estate activities (operators/lessors, agents), 4,000 jobs; and special trade construction contractors (e.g., plumbing/heating, electrical), 2,000 jobs.

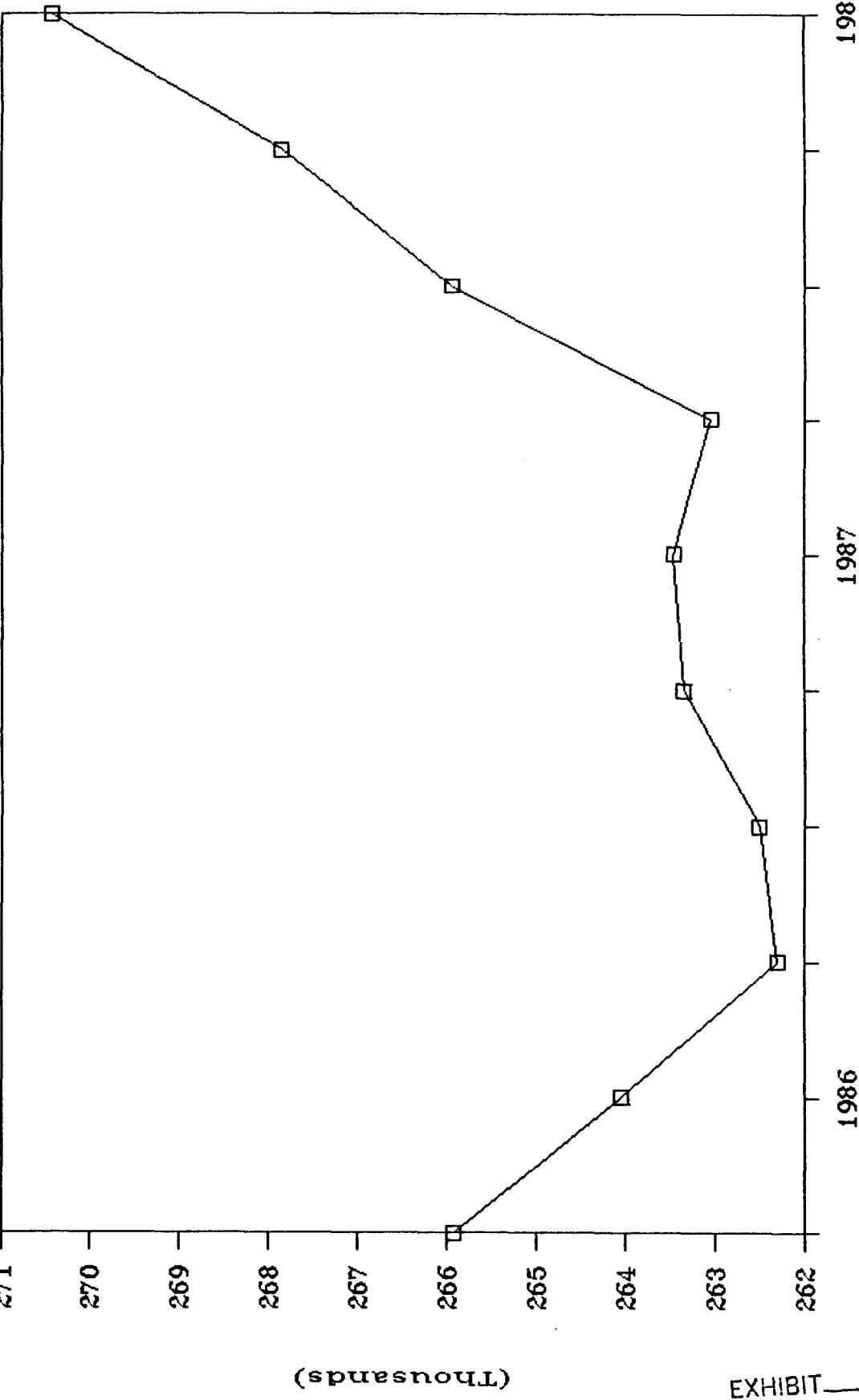
Wage and salary job losses occurred primarily in construction (principally building construction related jobs), 7,000; manufacturing (wood products - 2,600, primary metals processing - 2,100, food products - 1,400), about 6,000 jobs; railroads, 4,000; and wholesale trade, 2,500.

On the other hand, wage and salary employment increased in other segments of the Montana economy, with the largest increase in private services producing 9,000 jobs over the 1979-87 time period. Most of this increase was in health services (5,500

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Figure 1

Montana Seasonally Adj Wage/Salary Jobs
(1st quarter 1986-2nd quarter 1988)



Source: Research and Analysis Bureau, Montana Department of Labor and Industry, unpublished data.

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jobs), and in business services (3,000 jobs). Eating and drinking establishments also saw an increase of approximately 2,000 jobs.

Fluctuations in Job Levels

The decade of the 1980s saw great job level fluctuations. The Montana economy suffered from the 7-month national recession of 1980 and from the 1981-82 recession. Both the national and the Montana economy rebounded in 1983 and 1984. The national economy slowed in 1985 and 1986, slowing economic growth in Montana. In addition, Montana's dependence on natural resource industries contributed to instability. For example, the 1980s saw wide swings in oil and gas jobs, including a decline in 1985 and 1986.

The state also had two other factors contributing to an overall job decline in 1985 and over most of 1986--the statewide drought in 1985 and job losses associated with several manufacturing plant closures in 1985 and 1986. In addition, other manufacturing industries upgraded facilities and production methods, substituting new machinery for labor.

The Recent Recovery

Various industries in the state started their recovery at different times, but the average date was the end of 1986 (Figure 1). The private services sector growth preceded the overall economic recovery (in fact this sector grew throughout the 1980s). Retail trade and federal government jobs also recovered sooner than the overall economy. Services increased by about 5,000 wage/salary jobs between 1986 and 1988, with the largest increase in health and related social services. Retail trade grew by approximately 1,700, with eating and drinking places showing the most growth. Lastly, federal jobs increased by about 800, partly related to the fire fighting effort. Table 1 presents information on 1986-1988 wage and salary jobs for all segments of the Montana economy except agriculture and the military.

Mining started to recover in the early spring of 1987, with the metal mining industry increasing by about 1,000 jobs between 1986 and 1988 (Table 1). This increase largely resulted from the opening of a number of new gold mines, one platinum/palladium mine, and the reopening of the Butte copper mine. The manufacturing sector began its recovery in September 1987, as did construction in a small way.

Jobs in several segments of the Montana economy declined over the recovery period including wholesale trade, state and local government, and the communications industry. The latter industry has been declining since 1981, partly as a result of the AT&T

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break-up. Wholesale trade also has been declining since 1981, partially related to less oil and gas exploration. In addition, jobs in state and local government have decreased since 1986.

Distribution of the Recovery Geographically

The growth in jobs between 1986 and 1987 was quite uneven across the state. Nearly all of the growth occurred in the western third of the state, namely the Kalispell, Missoula, Helena, Butte, and Great Falls regions. The most notable exception to that pattern was Stillwater County, where the opening of a platinum/palladium mine resulted in a county jobs growth rate of 16 percent.

Based on available county data through June 1988, growth in 1988 appears to be more even geographically. Only the Miles City region of southeastern Montana showed a decline in jobs. Employment in Rosebud County (part of the Miles City region), however, increased between 1987 and 1988 as the result of coal development.

Jobs Outlook for 1989 and 1990

An analysis of forecasts from the Bureau of Business and Economic Research in Missoula, the Federal Reserve Bank of Minneapolis, and the First Interstate Bank suggests continued growth in nonfarm wage and salary jobs in 1989. The forecasts range from zero growth to a 1 percent increase. The estimates, however, may be conservative because the forecasts were made prior to a very recent upward revision of the historical jobs estimates.

A jobs forecast for specific sectors is available only from the Bureau of Business and Economic Research, which projects a 1 percent growth or about 3,000 jobs for 1989. More than half of the increase is expected in private services, with other increases seen in forest products and metal mining. No increase is projected for government.

The forecasted increase for 1990 is similar to 1989, with projections ranging from zero to an 0.8 percent increase. Again, most of the increase is projected for private services, with a small decrease forecasted for forest products.

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Table 1

MONTANA NON-AGRICULTURAL WAGE AND SALARY JOBS, 1986-1988
(Thousands of Jobs)

	1986	1987	1988	Prev.	1987-1988	1987-1988 % Change
TOTAL NON-AGRICULTURAL JOBS	275.4	276.0	279.6		3.6	1.3%
MINING	5.8	5.7	6.3		0.6	10.5%
Metal Mining	1.2	1.7	2.2	0.5	29.4%	
Oil and Gas Extraction	2.3	2.0	2.0	0.0	0.0%	
Coal and Other Non-Metals	2.3	2.0	2.1	0.1	5.0%	
CONSTRUCTION	10.2	8.7	8.7		0.0	0.0%
General Building Contractors	2.8	2.4	2.4	0.0	0.0%	
Heavy Construction Contractors	2.9	2.3	2.3	0.0	0.0%	
Special Trade Contractors	4.5	4.0	4.0	0.0	0.0%	
MANUFACTURING	21.1	21.0	21.3		0.3	1.4%
DURABLE GOODS	12.8	12.9	13.1	0.2	1.6%	
Lumber and Wood Products	8.2	8.4	8.1	-0.3	-3.6%	
Primary Metals Processing	1.2	1.2	1.2	0.0	0.0%	
Other Durable Goods	3.3	3.3	3.8	0.5	15.2%	
NON-DURABLE GOODS	8.4	8.1	8.2		0.1	1.2%
Food and Kindred Products	2.8	2.7	2.7	0.0	0.0%	
Printing and Publishing	2.4	2.4	2.5	0.1	4.2%	
Petroleum Refining	0.9	0.8	0.8	0.0	0.0%	
Other Non-Durable Goods	2.3	2.2	2.2	0.0	0.0%	
TRANSPORTATION AND UTILITIES	20.4	19.6	19.4		-0.2	-1.0%
Railroads	3.7	3.4	3.3	-0.1	-2.9%	
Other Transportation	8.1	8.0	8.2	0.2	2.5%	
Utilities	8.5	8.2	7.9	-0.3	-3.7%	
WHOLESALE TRADE	15.4	14.8	14.7		-0.1	-0.7%
RETAIL TRADE	57.2	57.9	58.9	1.0	1.7%	
General Merchandise and Apparel	8.3	8.6	8.6	0.0	0.0%	
Food Stores	8.5	8.5	8.8	0.3	3.5%	
Auto. Dealers and Service Stations	7.8	7.8	7.9	0.1	1.3%	
Eating and Drinking Places	21.7	22.0	22.4	0.4	1.8%	
Other Retail Trade	11.0	11.1	11.2	0.1	0.9%	
FINANCE, INSURANCE, AND REAL ESTATE	13.1	13.3	13.3		0.0	0.0%
PRIVATE SERVICES	62.1	65.0	66.9		1.9	2.9%
Hotels and Other Lodging Places	6.9	6.9	7.1	0.2	2.9%	
Personal Services	3.0	2.9	3.0	0.1	3.4%	
Health Services	21.9	23.1	23.4	0.3	1.3%	
Other Services	30.4	32.0	33.4	1.4	4.4%	
GOVERNMENT	70.2	70.0	70.1		0.1	0.1%
Federal-Civilian	12.7	13.2	13.5	0.3	2.3%	
State Government	19.4	19.0	19.1	0.1	0.5%	
Colleges and Universities	8.8	8.6	8.6	0.0	0.0%	
Other State Government	10.6	10.3	10.5	0.2	1.9%	
Local Government	38.0	37.8	37.5	-0.3	-0.8%	
Local Education	22.8	22.8	22.6	-0.2	-0.9%	
Other Local Government	15.2	15.0	14.9	-0.1	-0.7%	

Sources: Research and Analysis Bureau, Montana Department of Labor and Industry for 1986 and 1987 data; Office of Research and Information Services, Montana Department of Commerce for 1988 data, based in part on published and unpublished information supplied by the Montana Department of Labor and Industry.

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DATE Jan. 20

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IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY