

MINUTES

MONTANA SENATE 51st LEGISLATURE - REGULAR SESSION COMMITTEE ON BUSINESS AND INDUSTRY

Call to Order: By Chairman Gene Thayer, on April 7, 1989,
at 9:30 a.m. room 413-15.

ROLL CALL

Members Present: Chairman Thayer, Vice Chairman Meyer,
Senator Boylan, Senator Noble, Senator Williams,
Senator Hager, Senator McLane, Senator Weeding, Senator
Lynch

Members Excused: None

Members Absent: None

Staff Present: Mary McCue, Legislative Council

Announcements/Discussion: Chairman Thayer said there would
be an informal meeting at this time, to hear a proposal
from economic development corporations that had some
proposed legislation that they would like this
committee to introduce as a committee bill.

Evan Barrett from Butte said he was going to present the
proposal to the committee. He stated that his group
had been working out some 'tax breaks' that would focus
on secondary value adding industries, and they found
there wasn't that much they could do in terms of tax
incentives. He said there were good tax incentives in
place already.

He said they found the statewide key to economic
development was secondary value added
industrialization. He said virtually every economic
development organization in the state had been involved
in constructing this legislation, such as the tax
incrementing experts and the bond council. He said
they were looking for a new tool to help local economic
development efforts to attract value adding industries
at the secondary industrialization level.

Mr. Barrett said study groups had pointed out two
areas where we were hurting in value added
industrialization, and these were capital and infra-
structure. He cited national studies as having shown

that for every 1,000 industrial expansions planned in this country, there were 15,000 communities competing. Therefore the odds for getting an industrial expansion were fifteen to one, and those odds were even greater for us, because a lot of cities built a building for the expansion, and had all their services in place. He stated that we had resources in Montana, but we didn't have the infra-structure in place for value-added industries. He said the proposed bill would establish a tool, and the use of a slight modification of our existing law, would allow local governments access to the tool.

Dr. Dennis Winters said there were three or four things which could be done to get an industry to come into an area. He said you could give tax relief, tax incentives, or tax increments. He stated that they had studied the tax incentives and Montana stood very well in incentives. He stated that tax increments were a good idea that had worked all over America and it would help in the value-added area. He said value-added needed investment before it would work.

He said Montana was an aggregate raw resource base which was unequalled in the world, and already had many primary industries. He said Montana had the natural resource talc, and if you grind it and added a pleasing fragrance, you would increase its value almost eight hundred times in value. He said we weren't doing that in-state, so we weren't getting those jobs. He explained that Montana only had one meat packing plant that cut forty-seven animals per day, and in order to exist in the business you needed to cut at least eighty-three an hour. He said we needed better mills for our barley and oats, because we produce highest quality in the United States, and ship them somewhere else for milling. He reiterated that we were still in the primary stage.

He said that when you talked about the secondary investment development, you ran into the need for infrastructure, and that basically meant utilities, highways, and railroads. He said most Montana towns expected the industry to provide that infrastructure, but when you were competing, you had to do the providing. He stated that in six years we had lost 20% of our basic industry jobs. He said basic industries meant industries, where the money coming into an area was coming from outside the area. He stated that we had lost those because we didn't invest in the secondary industrial phase, and that was why we needed some approach to give towns an incentive for building

an infrastructure.

Evan Barrett gave each committee member a copy of the proposed legislation. (See Exhibit #34) He said the proposal basically took existing provisions of tax increment financing law, which was currently used for urban renewal districts, and applied the concept to industrial infrastructure improvements. He stated that it would allow a local government to define a tax increment financing district, and allow increased taxes from growth production, to be focused right back into the district.

He said he was asking for a suspension of the rules to get the proposal on the floor. He said it didn't hurt anybody and provided a new tool for economic growth in Montana.

Chairman Thayer said he was familiar with tax increment districts, because they had put one in during the time he was mayor of Great Falls. He said he didn't see how this would work in a raw site. He said that unless you had some existing businesses already paying taxes, you were going to have to invest in the site up front, and you would need an enticement, such as a railroad. He stated that an anchor tenant was needed, but something still needed to be done to get that first tenant in the district.

Dr. Winters said the local government had to invest in that raw site, up front, in order to get the park going. He said he agreed, a city would have to try to pick a site that already had some enticement. He said the bill would provide the tool.

Chairman Thayer said that if your were creating a district, you froze the tax level at that point, and as people added more businesses and more infrastructure in that area, the tax increment accrued back into that area to install services. Mr Barrett said the proposal was for a ten year district, subject to extension only through bonding.

Senator Lynch reiterated that new taxes were what went into keeping the infrastructure process going.

Chairman Thayer said the old tax increment law that was established many years ago was expiring at the end of this year, so the proposal would take that law and apply it to industrial parks.

Mr. Barrett told Chairman Thayer that some of the people who supported this legislation were the Anaconda Development Corporation, Roger Young from the Great Falls Chamber of Commerce, and Billings, Missoula, and Bozeman development organizations.

Recommendation and Vote: Senator Lynch Moved to ask for a suspension of the rules on that day, so the proposal could be prepared for a hearing next week. Senator McLane seconded the motion. The motion Carried Unanimously. Chairman Thayer said he would make the motion on the Senate floor, during order of business #6.

HEARING ON SENATE JOINT RESOLUTION 21

Presentation and Opening Statement by Sponsor: Senator Halligan, Senate District 29, Missoula, said SJR 21 was a study resolution to take a look at economic development impact of tax incentives, deductions, and exemptions which were in the tax code. He said that for several years they had been told they must look at what could be done for economic development in Montana, but they had never looked at all of the different capital gains deductions, exemptions, and credits in the tax codes. He said legislators all came in with deductions and exemptions to help different areas of the economy, but he said they had never taken a comprehensive look at all of these tax incentives to determine if they had an impact on economic development in Montana. He stated they needed to target their economic development, so they could take advantage of Montana's resource based economy. He said SJR 21 proposed to have the Revenue Oversight Committee be the lead agency to look at the issue, evaluate the effectiveness, and move forth from there.

List of Testifying Proponents and What Group They Represent:

Janelle Fallon - Executive Director, Montana Petroleum Association
Kay Foster - Self

List of Testifying Opponents and What Group They Represent:

None

Testimony: Janelle Fallon said that in 1985 they were among the industries who came before the legislature seeking tax incentives. She said they had been successful, and she supported this legislation because it was an

excellent idea to look at all of the tax incentives which had been passed recently.

Kay Foster said she served on the Governor's Council of Economic Development and this bill was a step in the right direction. She said that as the committee knew, Billings was overtaking Butte in asking for tax breaks this year.

Questions From Committee Members: None

Closing by Sponsor: Senator Halligan said this bill was endorsed by the Taxation Committee and funding was needed for the study.

DISPOSITION OF SENATE JOINT RESOLUTION 21

Discussion: None

Amendments and Votes: None

Recommendation and Vote: None

HEARING ON HOUSE BILL 765

Presentation and Opening Statement by Sponsor:

Representative John Vincent, House District 80, said HB 765 had a lot of support across the state. He gave the secretary written testimony from several different businesses. (See Exhibits #1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13) He said the bill received eighty-three positive votes in the House. He said it needed a three fourths vote in the Senate, to be sent to the Governor, because it involved an appropriation of in-state investment funds. He said the Governor was in support of the bill. He said Bob Heffner of the Department of Commerce, and the department's intern Bill Pedersen had worked long and hard to develop the legislation the administration had wished to present.

He said the intent of HB 765 was to assist in the finance and development of microbusinesses. He said the program would make market rate loans available for administration at the community level, in amounts up to \$20,000. He said the loans would be available to firms having fewer than ten employees, and gross revenues of less than \$500,000 per year. He said those businesses constituted about 82.5% of all businesses in the state, and virtually produced all of the job growth in Montana

during the 1980's. He said that currently they had no institutional source of finance. He said the average loan size for the SBA was over \$100,000 and the average loan size for the coal tax loan program was over \$300,000. He said the cost of credit investigation and servicing for a small commercial loan many times prevented banks from being active in microbusiness lending. He said the kinds of businesses they were concerned about today, were very small and had a difficult time securing the funds they needed to get started, or to capitalize a project.

He said the kind of business they were looking at were like that of Cindy Owens who made coats and called them the "most beautiful coats in the world". He said she had gone to the New York trade show with six coats priced at \$700 each. He said she had obtained a booth, sold all of the coats she had taken, and she took orders for over 200 more. He said that when she came back to Montana, all she needed was a loan to buy the materials for making the coats on order. He stated that she had not been able to acquire the loan.

List of Testifying Proponents and What Group They Represent:

Representative Swysgood - House District 73
Bob Heffner - Small Business Development, Department of
Commerce
Mike Letson - Director, Department of Commerce
David Martin - Headwaters RC&D Economic Development
Committee
Powell County Progress Economic Development
Corporation
Deer Lodge Chamber of Commerce
Michael Varone - Vice President, Norwest Bank, Helena,
Montana
Jim Tutwiler - Montana Chamber of Commerce
Steve Huntington - Executive Director, Montana Science
and Technology Alliance
Judy Smith - Montana Women's Economic Development Group
Organization
Missoula Community Business Incubator
Don Driscoll - Mayor, Havre, Montana
Jim Smith - Human Resource Development Councils
Ladine Bowen - Executive Director, Butte-Silver Bow
Chamber of Commerce
Butte Economic Development Coordinating Council
John Filz - President, Bitterroot Valley Development
Corporation
Mike Grove - President, 1st National Bank, White
Sulphur Springs, Montana
Skip Lynch - Bitterroot Resource Development Council

Jim Davis - Anaconda Local Development
Ann Prunuskey - Montana Alliance for Progressive People
Kathy Spar - Executive Director, Glendive Forward
Richard Osborn - Self, Darby, Montana
Laurie Shadoan - Bozeman Chamber of Commerce
Bill Chumrau - Director, Missoula Community Business
Incubator
Tony Priete - Executive Director, Bear Paw Economic
Development Corporation
Hal Frasier - Vice President, 1st Security Bank,
Missoula, Montana
Lynn Robson - Self, Bozeman, Montana
Kris Kaufman - Environmental Information Center
Brenda Nordlund - Montana Women's Lobby
Dan Kemis - City of Missoula
Dianne Ayres - Alternative Machining, Hamilton, Montana
Dixie Swenson - Client Manager, Headwaters Entrepreneur
Resources
Kay Foster - Billings Chamber of Commerce

List of Testifying Opponents and What Group They Represent:

G.L. Depuydt - written testimony (Exhibit #27)

Testimony: Representative Swysgood said he was the executive director of the Beaverhead Development Corporation in Dillon, Montana and he agreed with everything Representative Vincent had said. He said economic development was a frustrating assignment. He said HB 765 was directed toward to an area, whereby the small business owner could receive financing, or initial help. He urged the committee to look at page 7, where the program had been directed to six project areas, and he said he wanted that number increased to at least ten. He said there was a great need for helping small Montana businesses. He said HB 765 was a good bill for business and economic development, and he urged the committee to give it favorable action.

Bob Heffner said they had the administration's support of HB 765, however that support was conditioned on a single amendment to the bill. He said he was presenting the administration's reasons for support, with the one proposed amendment. He said the amendment would reduce the number of pilot projects to three. He handed the committee a synopsis of the bill and other exhibits to explain why the bill was needed, what it did, how it actually worked, and why the one amendment was essential to the bill. (See Exhibits # 14, 15, 16, and 17)

He said the synopsis explained how the bill

worked, and what it did. He said they also were given the proposed amendment, with an explanation for the House amendments already adopted. He called attention to the cost benefit analysis, and said it demonstrated realistic, conservative calculations that every dollar expenditure invested in the program would reap approximately \$3.60 in direct benefits. He said there was also a summary of a recent survey, which demonstrated that there was a market for micro loans. He reviewed the written testimony, and read portions into the record.

He reiterated that the amendment should be three pilot projects because they were using trust funds and they wanted to test the program on a minimum scale, before committing to a broad scale. He asked the committee to please support the bill.

Mike Letson said Bob Heffner had done a good job of presenting the bill, and the Department of Commerce supported HB 765. He said they felt confident in setting up three pilot projects, and thought this would test the market, and render some valuable operating experience.

David Martin said they favored the bill as it was, without the proposed amendment. He said he believed six test sights would give a better scenario of what would happen throughout the state. He said the three projects probably wouldn't go to smaller communities, so he favored six projects so that the program wouldn't be used only in the larger populated areas. He said other states had experienced success with this type legislation.

Mike Varone said all Norwest Banks favored HB 765 as proposed, with the amendment. (See Exhibit #18)

Jim Tutwiler said they supported the bill for several reasons. He said small businesses were often overlooked as a major contributor to an expanding economy, everyone was looking for more business growth and jobs in Montana, and this should encourage small entrepreneurs. He read his testimony into the record. (See Exhibit #19)

Steve Huntington said that their organization, and other public and private financing organizations, did not provide the type of financing that was contemplated in this act. He said they saw many people they could refer to this type of program, because those people did not fit the criteria of their financing. He said they

thought the bill would provide a very effective financing tool.

Judy Smith said she worked with over 75 microbusiness enterprises, doing technical assistance and training. She said many of the people beginning a microbusiness did not have an understanding of how to start a business, how to develop a market, and mostly they didn't have an understanding of how to find the capital they may need to start a microbusiness. She said one of the things they taught was how the businesses might develop the financial information needed to interest a traditional financial institution. She said they found that in most cases, even training and packaging had not produced the needed loans.

She said their particular program was based on the model used in HB 765. She said that in Missoula they were able to provide that type of assistance, and the average on those loans was \$5,000 to \$8,000. She said the Saint Paul program was able to document, that for every loan given, they documented creation of 2.2 jobs. She said the program should be thought of in the situation of job creation, and a beginning of stimulation of the general economy.

She said that in Missoula they were able to be a model for these kinds of projects because the County gave them \$20,000, and the City Council recently gave them a pledge of \$250,000 to enter into this kind of loan fund potential.

She said Missoula was in favor of six sites across the state. She stated that Missoula was considered a rural model for this particular project, and she felt that was not an accurate way to test rural models in Montana. She said three projects wouldn't really test the different things that were happening throughout Montana economy.

She stated that they tended to work with non-traditional entrepreneurs, and 80% of the people they worked with were women, often single parents, often people who had not been able to find better than minimum wages anywhere else. She said the significant part of the program was helping welfare recipients to become economically self-sufficient, and watch them grow through self-employment and self-sufficiency.

Don Driscoll said they saw the microbusiness development act as playing a major role in helping to develop local economy. He said the city of Havre was searching to

develop job opportunities, and the act was needed, because they needed assistance from government entities. He read his testimony into the record. (See Exhibit #23)

Jim Smith said he spent the first half of the session with the joint appropriations subcommittee on services. He said they spent a lot of time looking at case loads for public assistance, and those case loads had grown because of people leaving the state. He said they couldn't do much to prevent new welfare recipients, but they could help people get out of that system, and the best way to do that was through employment. He said that was what HB 765 held the promise of. He said the agencies he represented were actively involved in placing people in employment, and preparing them to be good employees. He said most of those placements were made in the eighty-two and one half percent of the businesses in Montana that employed less than ten people. He said that for those purposes, they thought HB 765 was awfully important, and would do a lot of good toward helping Montana's economy and Montana's people.

Ladine Bowen said one group she represented was the Butte Economic Development Coordinating Council, which brought nine different full time entities in Butte together to work for economic development. She said they endorsed HB 765, because they understood the problems facing small business growth and development. She said HB 765 would play a very important role in adding another tool to help the small businessman. She said each of the entities in their community saw approximately three businesses per week, who needed the type of funding, management, and training assistance offered in the legislation. She encouraged them to please support the legislation.

John Filz said their group was a private stock corporation, and were run entirely by a volunteer board of directors. He stated that no one made any money, because all of the money the corporation made on loans was turned back into the revolving loan fund. He said they had been in existence for twenty years, and had loaned out \$350,000. He said they had done that with an initial stock offering of \$11,000, and the balance of the money had either been profits or leverage of SBA money. He said they had provided a significant amount of technical assistance to all the loan recipients, either directly or indirectly, using volunteer resources. He stated they had presently reached a point where they had loaned all of their money, and

needed another capital source. He said they were covered by the Security and Exchange Commission's regulations, and for that reason, opposed the amendment to reduce the project numbers. He said he would, in fact, like to see ten projects funded. He stated that they had created between one hundred twenty-five and one hundred and fifty jobs with about ten loans. He said that about one hundred of the jobs had been the result of eight loans made in the last five years. He said their largest loan had been for \$30,000, and in twenty years they had never lost any money.

Mike Grove said he supported HB 765, and wished to speak to them on three levels. First, as a local banker in rural Montana, he said the testimony they had heard about the economics of making small business loans was true. He said that to buy a car you needed a credit check, an application, a lien on the car, and insurance. He said that to make a business loan required a multitude of projections, balance sheets, an understanding of the proposed business, and a general knowledge of the individuals' abilities of those involved with the business. He said they had to look at a complex evaluation in order to be able to make that small business loan, and that made it difficult to make those loans economically. He said many banks made small business loans, but it was becoming more difficult.

He said this was a good program which was needed to fill the gap in our state, and he thought anyone from a small town knew what a new business with ten jobs could mean. He said he felt the key part of the bill was the technical assistance, because any business needed to be good at marketing, innovation, development, and planning to survive. He said the technical training was vital, and could even be used to help businesses who didn't need a loan. He said he would echo the fact of a need for six sites or more.

He said he was also on the Governor's Council for Economic Development, and they had produced a report with a recommendation to do something very similar to this. He said he served on the American Bankers Executive Committee for Agriculture and he had taken a copy of the report to a Washington D.C. meeting. He said the committee had thought the report exciting, and revolutionary, and had begun work with members of Congress and the White House for a similar development. He encouraged the committee to support HB 765.

Skip Lynch said he was currently working with approximately 150 people, looking for funding for marketing assistance. (See Exhibit #20) He handed the committee letters from Stevi Machine, Inc. of Stevensville, and Wadsworth Manufacturing of St. Ignatius (See Exhibits #29 & 30) He read the letters to the committee. Both exhibits expressed support for HB 765.

Jim Davis said that in the last six months, they had forty business in Anaconda, come to them seeking funds. He said the businesses needed technical assistance to help them develop their product and grow into a larger firm. He said they had some expertise in managing the small loan programs, and they found the small loans were the most successful. He said he would speak to a higher number of projects because they felt there were easily ten groups who had the capabilities of delivering these services.

Ann Prunuskey said they wished to go on record in support of HB 765. She said all of her points of testimony had already been made, and she urged them to keep the project sites to at least six, and more if possible. She said the numbers were important, to keep a good balance between rural and urban.

Kathy Spar said her organization was a local development organization, which was in eastern, rural Montana. She said this type of legislation was the key to survival of small business and a healthy state, and they asked the committee's full support of HB 765.

Richard Osborn said he hoped to develop "Mead", which was a white honey wine. He said HB 765 was the type of program he needed for producing his product. He read his testimony into the record. (See Exhibits #21 & 22) He said he wished to produce his Montana product, and urged support of HB 765.

Laurie Shadoan said they would not reiterate, and would urge support of HB 765.

Bill Chumrau said their group provided technical and financial assistance for microbusinesses, based on the fact that research indicated that most often microbusinesses failed because they lacked business planning, planning skills, and the planning ability to get financing. He said he would not repeat previous testimony, but would like to encourage bankers to get into the microbusiness lending program, as opposed to necessarily setting up a separate loan fund. He said that in Missoula they operated on a loan guarantee

program with a financial institution. He said they supported this legislation and thought it was appropriate to consider more than three sites.

Tony Priete presented his written testimony for the record. (See Exhibit #24) He said they strongly supported the bill and asked that the projects cover the entire state of Montana. He said that in many cases it was harder to find a few thousand than it was to finance a multi-million dollar business. He issued a warning that any agency who requested assistance funds was going to be scrutinized, to insure that the agency had the professional staff capable of insuring that the funds and program were carried out as intended.

Hal Frasier said that about 90% of their bank's lending was done in the small business area. He said he was a board member of the Missoula Incubator Program, and supported, administered, and gave loans to a joint-owned fund effort with the Missoula Wetco Program, which represented the community incubator program. He said he wanted to strongly urge them to support HB 765, to create more funds for microbusiness development programs.

Lynn Robson said she had worked for about seven years in the Job Training Partnership Act Program, which provided employment and training in Bozeman. She said that during those years, they had discovered that self-employment could help, because those who became self-employed often hired others, and increased the tax roles. She said the Vermont Job Start Program was quite unusual, in that for ten years they had a statewide microbusiness capital fund program. She said that program had a failure rate of less than 5%, and that was the kind of return you could expect from this program. She said she thought it was a needed program, and she urged the committee to support the bill.

Kris Kaufman said environmentalists were not against business, and they were concerned about the impact businesses had on the environment in Montana. She said they stood in support of HB 765, because it promoted the types of businesses that were compatible with a clean and healthful environment of the state. She said they thought it was an appropriate use of the coal tax money.

Brenda Nordlund said she thought the interesting array of support for the bill indicated the diversity, and demand of interests that needed to be served. She said she spoke on behalf of the Montana women who were, and

women who aspired to be business owners, who would be helped by HB 765.

Dan Kemis said he was a member of the Missoula City Council, and the city had asked him to testify on behalf of HB 765. He said the city of Missoula had already pledged \$250,000 for this type of program. He said that in 1982 he had been one of the chief sponsors of initiative 95, which established the in-state investment program, and this bill would utilize money from that in-state investment program. He said he believed the in-state investment program had been successful in many ways, but it had never been able to get money into small businesses in Montana. He said that in order to make this kind of program available to small businesses, they really had no choice but to take the money out of the trust fund, and he realized that was difficult, but he encouraged them to do so. He said he also encouraged them to not reduce the number of pilot projects, because with a state the size of Montana he didn't think there would be a good reading on a smaller number. (See Exhibit #28)

Dianne Ayres said she agreed with what had been testified to, and urged their support of HB 765 without the amendment. She said there should be at least six pilot projects, and possibly ten. She said her business needed additional capital to further develop and employ more people. (See Exhibit #25)

Dixie Swenson said she supported the legislation and presented her written testimony. (See Exhibit #26) She said she also urged six sites for the projects, because she thought it was necessary to test it on a wider variety of projects.

Kay Foster said they supported the bill for all the above reasons.

Questions From Committee Members: Senator Meyer asked Mr. Letson to clarify their position, as to why they wanted to limit this to three pilot projects and reduce the amount of money?

Mr. Letson answered that the administration was in favor of this program, but they wanted to test the program and make certain it would work, before money was loaned throughout the state. He said they wanted to make sure the training facilities, training sessions, and everything else was properly in place. He said they needed to remember, that this program would turn a lot of local development agencies into bankers, so there

would be some degree of expertise required in granting loans, taking collateral, and collecting loans. He said these were not grants, but loans, and they wanted to make sure the program was done right. He said, should the program soon prove to be working, he would be one of the first proponents to increase the size of the program across the entire state.

Senator Williams asked, if they felt a lot of these people would be turned into bankers, wouldn't they feel that a lot of the bankers would be in a position to offer their expertise to development agencies? Mr. Letson said, that having been a banker for a number of years, he was sure the bankers could generate some expertise. He said one of the hesitant points he would like to bring, was that he would hope the development agencies wouldn't bail bankers out of bad loans.

Senator Noble asked Bob Heffner what was the survival incidence of small businesses starting new? Mr. Heffner said they had a business birth-death statement, done by the research and analysis bureau of the Department of Labor, and Montana's survival rate for two years was in an excess of over 80%. He said they kept hearing the national statistic about 80% failures, and felt we were far above that rate, and said he also thought the national figures applied to a five year period. He reiterated that the program wasn't specifically targeted at start ups.

Senator Noble asked if the program would tie up all the business' assets for collateral, or would it allow them enough latitude to get started? Mr. Heffner said the requirement for giving all receivables as collateral was applied to the development loan companies, not to the businesses that receive the loans. He said they were stating that when the Department of Commerce made a low interest development loan to a revolving loan company, it was going to obligate these funds, and one of the conditions would be all of the receivables, of that company. He said, in other words, we have a first lien on all the loans, and in turn, when the revolving loan company made a loan to a small business, their kind of collateralization requirements ran somewhat similar to those of a bank.

Chairman Thayer asked, how the pilot locations would be selected under this bill?

Mr. Heffner said they would anticipate making the choices very similar to the the fashion of an early development block grant program. He said that took applications

for economic development. He said that first of all, there would be four or five months rule writing process by the advisory board. He said that once the specific rules and regulations were set forth, he would anticipate an announcement of a statewide competition to choose the strongest proposals, on the criteria they had set forth. He said they must also take into account that the legislation language required a rural to urban balance.

Closing by Sponsor: Representative Vincent said the bill had not had a single opponent appear, throughout the entire process, and only a few opposing votes in the House. He said he did disagree with the administration, relative to the number of pilot projects. He said he fully agreed with the director of the Department of Commerce, that they needed to test this program. He said he didn't think there was any doubt in that area, but he was questioning the number of projects needed, to have an adequate test. He said he did not know the exact number of projects needed, but he would favor a higher number. He said he thought it was important to remember that when this bill was originally introduced, it was unlimited on the number of projects. He said the House Appropriations Committee had given six projects as the number they thought would be appropriate. He said the reasons were because, on page 6 there was a statement that the legislature intended the department would strive to present a list of candidates for appointment that was based geographically, and included both urban and rural communities of the state. He stated that he simply suggested there would be a two to one imbalance, unless there was some community in Montana that was somewhere between urban and rural. He said six projects would offer them the opportunity to strike the kind of balance that was called for in the bill. He said he thought it was obvious that the business community favored at least six projects, and three would require saying no to a lot of good applicants.

He said the bill contained a sunset provision, and in four years this bill was over unless the legislature specifically reauthorized the statute. He stated he did not have any doubt that would happen, because he thought the tests would prove this a viable program. He said the primary difference was to what constituted the right number of tests, and he reiterated that testimony had favored at least six.

DISPOSITION OF HOUSE BILL 765

Discussion: None

Amendments and Votes: None

Recommendation and Vote: None

HEARING ON HOUSE BILL 600

Presentation and Opening Statement by Sponsor:

Representative Vincent, House District 80, said he had communication with the Department of Commerce, and they were going to oppose HB 600, but he still wanted to present the bill. He said he thought the bill was a good idea, and he wanted to make the case. He said he believe HB 600 had passed the House unanimously. He said the bill was close to a copy of a 1978 Washington State Statute, which put in place their one-stop master license business system. He said he used their statute and changed the names to fit the Montana Departments, in order to make it compatible with our terminology. He said he had selected the Washington model because most research reading he had done, had nationally recognized the Washington State Business Licensing System as the most advanced, sophisticated, and cost effective business licensing system in the United States today.

He said most small business people spoke about the licensing problems, permit problems, the confusion and the red tape. He said there had been continued progress in that regard, but he thought this bill provided the best vehicle to solve those problems.

He said that on page 2 there was some very compelling language which instructed legislature and the Department of Commerce in what to do. Representative Vincent read the entire language from page 2, through line 10, on page 3, which he thought was relevant to the point. He said it was a coordination effort, without denying separate agencies their legal authority needed.

He said that in Washington state, when a new business started, the applicant went to a one-stop licensing center and received one application form to apply for all the licenses they needed. He said the one stop provided the applicant with all of the state licenses they needed, all on one license form, and they

were issued one business number for use throughout the licensing agencies. He stated the information was in the computer, and renewal became automatic throughout the computer system. He asked the committee to please consider the bill.

List of Testifying Proponents and What Group They Represent:

None

List of Testifying Opponents and What Group They Represent:

Ralph Peck - Deputy Director, Department of Agriculture
Mike Letson - Director, Department of Commerce
G. L. Depuydt - Written Testimony - Exhibit #27

Testimony: Ralph Peck said the goal of HB 600 was admirable and should be striven for, however his understanding of the master licensing program proposed would make the licensing system more complex, confusing, and expensive. He said that by outward appearances, the proposed master license would seem to be a boon to business, but he thought the bill would add another level of bureaucracy and inefficiency in government. He presented his written testimony for the record. (See Exhibit #31)

Mike Letson said the administration rose in opposition to this bill. He read his testimony into the record. (See Exhibit #32) He said the stated intent of HB 600 was to reduce cost, eliminate duplication, eliminate unnecessary licenses, and prevent delay. He said that sounded great, until you studied the legislation. He said he thought HB 600 actually created more government, a need for more staff and personnel, a need for new computer equipment, and created duplication. He said the bill did not reduce government, but expanded and slowed government.

Questions From Committee Members: Senator Williams said he had worked with out-of-state groups who wanted to start a summer camp in central Montana. He said he had accompanied them to Helena, and spent three days trying to assist them in getting the licensing they needed. He said they had worked extensively, and still did not get enough answers that the groups felt comfortable in knowing what licensing was required. He said one of the groups had testified in Lewistown that the conditions for licensing and permits were discouraging in Montana.

Mike Letson said putting a licensing center in the Department of Commerce would not address the questions the Senator had raised. He said there were two things that would address the questions raised, and those were: (1) The attitude that existed in every state agency toward licensing needed changing. He stated that as the present Director of the Department, he would be happy to assist anyone personally, and hopefully others within the Department felt the same. (2) The laws that legislature made toward licensing needed something.

Senator Noble asked if the Secretary of State could provide the necessary licensing?

Mike Letson said that was possible for certain types of business, but Senator Williams was referring to something different. He said their situation was more complex, other criterias were involved. He said that whenever you dealt with things such as water flows and stream pollution, there were other entities to consider. He said these considerations would still exist with HB 600 in effect. He said that unless some of the existing licensing laws were eliminated, they weren't ready for the approach HB 600 took.

Senator Weeding said one of the complaints industry had, was the multitude of licensing that must take place to start an operation. He said the idea of one license deserved consideration.

Mike Letson said he agreed that there was merit to the principle and the common numbering system, but this bill created more bureaucracy, spent more money, and hired more people.

Closing by Sponsor: Representative Vincent said this was a good bill, and he knew the system worked. He said the bill allowed for a sequential time frame for the problems to be resolved, and allowed for some flexibility. He said he was sorry there was opposition to the bill, because he thought they were letting the business community down by not passing the legislation.

DISPOSITION OF HOUSE BILL 600

Discussion: None

Amendments and Votes: None

Recommendation and Vote: None

DISPOSITION OF HOUSE BILL 240

Discussion: Mary McCue passed out copies of amendments which had been requested.

Amendments and Votes: Senator Williams moved to Amend HB 240 with the amendments contained in Exhibit #36.

Senator Noble made a substitute motion to Adopt the amendments in Exhibit #37. The motion Failed, with Senator Williams, Senator Weeding, Senator Hager and Senator Thayer opposing. Action reverted back to Senator Williams' motion.

Chairman Thayer asked if there was any discussion on the motion? The question was called for. The motion Failed, for lack of a quorum.

Recommendation and Vote: Senator Meyer made a motion HB 240 BE NOT CONCURRED IN. Senator Noble seconded the motion.

Senator Weeding made a substitute motion that HB 240 BE CONCURRED IN. Senator Meyer called for the Question. The motion failed, with Senator Hager, Senator Lynch, Senator Noble, Senator Meyer, Senator McLane, Senator Boylan, and Senator Thayer opposing the motion.

Discussion: Senator Hager said there were laws on the books to do this now, and he didn't think they needed more legislation.

Senator Williams said he didn't know of any other legislation available to get something in motion. He said he felt some type of action should be initiated.

The motion reverted to Senator Meyer's motion that HB 240 BE NOT CONCURRED IN. The motion Carried, with Senator Williams, and Senator Weeding opposing the motion. Senator Thayer carried the adverse committee report on the Senate floor.

DISPOSITION OF HOUSE BILL 550

Discussion: Chairman Thayer said there had been amendments suggested by the bill's sponsor, Representative Vincent, and the Department of Commerce.

Amendments and Votes: Senator Meyer moved the amendments in Exhibit #35.

Mary McCue said the amendments did three things. She said they were taking world class out of the title and again out of the bill. She said she had substituted John Wilson's suggested language, "up-to-date, technologically complete, and architecturally appropriate". She called attention to section 1, page 2 where it said the department shall act as the lead agency in preparing the plan. She said that sentence went back to read the way it was before, that the Department of Commerce shall develop this plan. She said amendment #6 inserted a section that stated the Department would act as the lead agency, in cooperation with the others. She said amendment #7 was just saying that the funding must be provided from existing appropriations. She said the bed tax statutes already allocated money to Commerce and the University System travel program. She said those were the two funding references in a. & b., and c. was the one third designated from the Department of Hiway's Revenues. She said John Wilson had also suggested the \$49,000 limitation. Mary McCue said Mr. Wilson had approved of the amendments this morning, over the phone.

Chairman Thayer asked Mr. Ingels if this was the funding question he had mentioned? Don Ingels said they were concerned, because there was a legislative history, that the bed tax promotion money would be protected, and would be used for promotion. He stated that Mr. Wilson's amendments suggested one third of the funding would come from that bed tax fund. He said that if one third was taken from the bed tax fund that was to be used for promotion, he said his question was a serious one. He said that if you removed that money for this research project, he felt it would set a precedent for others wishing to tap those funds. He said so far legislature had protected the fund for promotion only, and not for internal use? He said the Chamber of Commerce supported the bill, but they, and many others, wouldn't have offered support for taking money out of the promotion fund for the study of tourism centers.

Senator Noble said he thought the whole idea was, that proponents wouldn't mind paying something toward this. Don Ingels said, no, I'm very much aware of what happened with the Inn Keepers and the Chamber when the bill came up to finance this legislative oversight committee. They said no, that money should go to promotion of tourism. He said he understood the intent of the law was to amend that portion of the money for external promotion, to bring tourism in, but there was 1% set aside for research. He said that 1% amounted to

about \$100,000 per year. He said they would like to see this studied, but wanted to see two thirds of the cost come from the 1% research money, and one third from the Highway.

Don Ingels told Chairman Thayer, the 1% of the bed tax money earmarked for tourism promotion research, and that went to the University.

Mary McCue asked where that stipulation was located in the statutes, as she would like to review it a moment? She asked Don Ingels if he wanted two thirds of the project cost to come from the 2.5%, which was the Montana Travel Research Program, and one third from the Highway Department. Mr. Ingels said yes, that was what they wanted.

Senator Meyer withdrew his motion to move the amendments in Exhibit 35.

Amendments and Votes: Senator Meyer made a motion to Amend the amendments in Exhibit #35; by stating is subsection (b) that two thirds be paid by the University System Special Revenue Fund. and 1/3 from Highways, and delete subsection (a) altogether.

Chairman Thayer said the rationale for adopting this amendment was, that the bed tax money already had funds allocated for research, which was diverted into a fund at the Universities. He said this stated support for the project, as long as research funds were used, and the promotion portion of the bed tax money remained protected.

The Question was called for, on Senator Meyer's motion. The motion Carried, with Senator Williams and Senator Hager opposing the motion.

Discussion: Senator Williams said the fiscal note indicated \$15,570 a year, and the amendments stipulated \$49,000. He asked why there was a different figure specified? Mary McCue said that was the figure John Wilson had proposed she put in the amendments.

Mary McCue said the \$49,000 was in there for a cap, and the two year total for the project amounted to \$49,000.

Amendments and Votes: Senator Meyer made a motion to adopt the Amendments in Exhibit #35, As Amended. The motion carried Unanimously.

Recommendation and Vote: Senator Noble made a motion HB 550 BE CONCURRED IN AS AMENDED. The motion Carried, with Senator Hager opposing.

DISPOSITION OF HOUSE BILL 783

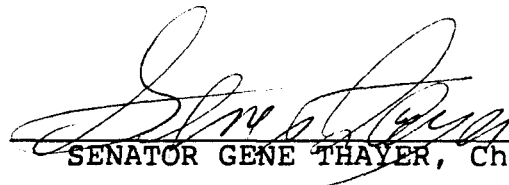
Discussion: Mary McCue said the amendments simply gave rule making authority to the Department of Revenue. She said she had also drafted a statement of intent. (See Exhibit #38)

Amendments and Votes: Senator Williams moved the amendments in Exhibit #38. Senator Noble seconded the motion. The motion Carried Unanimously.

Recommendation and Vote: Senator Weeding made a motion HB 783 BE CONCURRED IN AS AMENDED. Senator McLane seconded the motion. The motion Carried Unanimously. Senator Harp carried HB 783 on the Senate floor.

ADJOURNMENT

Adjournment At: 12:32 p.m.


SENATOR GENE THAYER, Chairman

GT/ct

ROLL CALL

BUSINESS & INDUSTRY COMMITTEE

DATE 4/7/89

51st LEGISLATIVE SESSION 1989

NAME	PRESENT	ABSENT	EXCUSED
<u>SENATOR DARRYL MEYER</u>	✓		
<u>SENATOR PAUL BOYLAN</u>	✓		
<u>SENATOR JERRY NOBLE</u>	✓		
<u>SENATOR BOB WILLIAMS</u>	✓		
<u>SENATOR TOM HAGER</u>	✓		
<u>SENATOR HARRY MC LANE</u>	✓		
<u>SENATOR CECIL WEEDING</u>	✓		
<u>SENATOR JOHN "J.D." LYNCH</u>	✓		
<u>SENATOR GENE THAYER</u>	✓		

Each day attach to minutes.

SENATE STANDING COMMITTEE REPORT

April 8, 1989

MR. PRESIDENT:

We, your committee on Business and Industry, having had under consideration HB 240 (third reading copy -- blue), respectfully report that HB 240 be not concurred in.

Sponsor: Vincent (Thayer)

BE NOT CONCURRED IN

Signed: 

Gene Thayer, Chairman

Y.C.
4/8/89
11:36
11:40

SENATE STANDING COMMITTEE REPORT

April 8, 1989

MR. PRESIDENT,

We, your committee on Business and Industry, having had under consideration HB 550 (third reading copy -- blue), respectfully report that HB 550 be amended and as so amended be concurred in:

Sponsor: Vincent ()

1. Title, lines 7 and 8.

Following: "COMMERCE" on line 7

Strike: remainder of line 7 through "UNIVERSITY" on line 7

Insert: "ACTING AS LEAD AGENCY IN CONJUNCTION WITH OTHERS"

2. Title, line 9.

Strike: "WORLD-CLASS"

3. Page 2, lines 13 through 15.

Following: "commerce" on line 13

Strike: remainder of line 13 through "UNIVERSITY" on line 15

4. Page 2, lines 16 and 17.

Following: "commerce" on line 16

Strike: remainder of line 16 through "UNIVERSITY" on line 17

5. Page 2, line 19.

Strike: "world-class"

Insert: "up-to-date, technologically complete, and architecturally appropriate"

6. Page 2, line 21.

Following: "Montana."

Insert: "The department shall act as the lead agency in preparing the plan, in cooperation with the university system travel research program, the department of highways, the department of fish, wildlife, and parks, the Montana state university school of architecture, and other appropriate agencies."

7. Page 3.

Following: line 13

Insert: "NEW SECTION. Section 2. Funding. (1) Funding to implement [this act] must be provided from existing appropriations as follows:

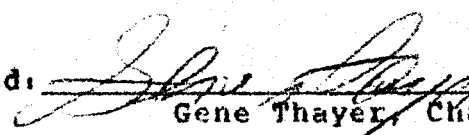
(a) two-thirds by the university system from the special revenue fund in 15-65-121(1)(b); and

(b) one-third by the department of highways from the special revenue fund.

(2) Total planning costs may not exceed \$49,000."

Renumber: subsequent section

AND AS AMENDED BE CONCURRED IN

Signed: 
Gene Thayer, Chairman

SCRHB550.408

SENATE STANDING COMMITTEE REPORT

April 8, 1989

MR. PRESIDENT:

We, your committee on Business and Industry, having had under consideration HB 783 (third reading copy -- blue), respectfully report that HB 783 be amended and as so amended be concurred in:

Sponsor: O'Keefe (Harp)

1. Title, line 10.

Following: "FUND;"

Insert: "GRANTING RULEMAKING AUTHORITY;"

2. Page 1.

Following: line 11

Insert: "STATEMENT OF INTENT

It is the intent of the legislature that the department of revenue adopt rules necessary to implement the Montana state-sponsored credit card program. The rules may include provisions governing the procedures for contacting financial institutions to determine if they would accept the state as a sponsoring entity for a credit card program and for negotiating the rate for the state's fee.

In participating in a credit card program, the state may contract with a number of financial institutions to establish the state as a sponsoring entity. The state may not contract to assume any liability for lost or stolen credit cards."

3. Page 2.

Following: line 13

Insert: "(3) The department may adopt rules necessary to implement the credit card program."

Renumber: subsequent subsection

AND AS AMENDED BE CONCURRED IN

Signed: 

Gene Thayer, Chairman

Statement of Intent adopted.



Bill & Pam Bryan's

OFF THE BEATEN PATH

PERSONAL ITINERARY PLANNING FOR THE NORTHERN ROCKIES
109 EAST MAIN STREET BOZEMAN MONTANA 59715 406.586.1311

TESTIMONY H.B. 765

"Microbusiness Finance Program"

Submitted by: Bill and Pam Bryan, Principals
Off The Beaten Path
109 E. Main
Bozeman, MT 59715
(406) 586-1311

Dear Senate members:

Our business is four years old. It began operation as a travel planning service for people wanting to vacation in the Northern Rockies, with two employees and now has expanded to 6 full-time people. We are foreseeing an increase to 15 full-time equivalent in three years as our expansion plans materialize.

We support the concept of a community based microbusiness finance program because when we began our business it took us a year to capitalize our business mainly through out of state investors. We assumed local banks would not have been interested due to the experimental nature of our business and because it is a service business. An in place microbusiness program would have been useful to us and saved us thousands of dollars in expenses we incurred pursuing out of state investors. As our business expands capital is difficult to find in spite of our progress toward our business goals. A microbusiness finance program could help us greatly speed up our rate of growth. We urge you to pass this bill in order to support community based enterprise.

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 2
DATE 4/7/89
BILL NO. HB 765

The Big Sky Country



MONTANA HOUSE OF REPRESENTATIVES

John Vincent
Speaker

March 31, 1989

Steve Huntington
Science and Technology Alliance
46 North Last Chance Gulch
Helena, MT 59601

Dear Steve:

House Bill 765, an act to Create a Microbusiness Development Corporation Grant Program, is being heard again on Friday, April 7th at 10:00 a.m. in Room 410, here at the Capitol.

I would appreciate it very much if you could testify on the bill.

Sincerely,

A handwritten signature in black ink that reads "John".

JOHN VINCENT
Speaker

JV/phj

THE MICROBUSINESS DEVELOPMENT ACT
House Bill 765

-SYNOPSIS-

The purpose of the Microbusiness Development Act is to assist in the finance and development of the small, locally-owned businesses that make up the majority of the Montana economy. The program will provide the capital for market-rate loans, administered at the community level, in amounts up to \$20,000, for firms having fewer than ten employees and gross revenues of less than \$500,000 per year.

Such businesses constitute 82.5% of all enterprises in the state, and produced virtually all job growth in Montana in the 1980's, yet currently (because of the diseconomies of small scale in lending) have no institutional source of finance--whether from banks or public programs. Average loan size for the SBA is over \$100,000; average loan size for the Coal Tax Loan Program is over \$300,000. The cost of credit investigation and servicing for small commercial loans likewise prevents banks from being active in microbusiness lending.

Management training and oversight go together with the money, to make sure the loans are secure and the projects financed are successful. Clients who do not have a professional-quality business plan and finance proposal, together with proper record-keeping, accounting and other management systems, will have to complete a business training program (provided by the local corporation that administers the loans) designed to produce these critical elements for business success.

The combination of training and oversight with small and appropriate amounts of finance is a key feature of the program, which is modeled on six years of successful experience by a community loan fund in Minneapolis, called WEDCO. The experience at WEDCO, and with some pilot projects in Montana, shows that revolving funds which combine management training with finance have lower loan-loss rates than an average commercial bank.

The legislation requests a one-time appropriation of \$2.2 million dollars from the Instate Investment Fund of the coal tax trust to create a development loan fund administered by the Department of Commerce. Development loans (interest-only loans at a rate sufficient to cover State administrative costs), in maximum amounts of \$200,000, will be made to qualified microbusiness development corporations (MBDC's) to capitalize community-based revolving loan funds.

Ex. #3
4/7/89

Microbusiness development corporations are defined to be nonprofit corporations whose function is to provide management training, technical assistance and access to finance to microbusinesses, and to monitor the performance of microbusiness loan recipients. Detailed qualifications, rules and guidelines for these corporations will be developed by the Department of Commerce, in conjunction with an advisory board of thirteen members representing the financial community, local development groups and microbusiness owners.

In general, MBDCs will be required to demonstrate their ability and plan to: 1) provide training and financial oversight; 2) administer a revolving loan fund; 3) investigate and qualify loan proposals; and 4) secure sufficient sources of operating income. MBDCs will also be required to demonstrate broad-based community support, and a sufficient market or client base to fully utilize the proposed revolving loan funds. In selecting among competing proposals, attention will also be given to geographic representation of and service to all areas of the state, including both rural and urban communities.

Development loan funds may be used by the MBDC's to make direct loans to microbusinesses, not to exceed \$20,000 to any one business; or funds may be deposited to guarantee loans made by financial institutions to microbusinesses, with the same dollar limitation per loan and per business. Development loan funds may not be used for any other purpose, including operating expenses of the MBDC; however, interest earned on deposits or loans from these funds may be used for operating expenses.

Matching contributions to the revolving loan funds will be required, on the ratio of one dollar from other sources to each three dollars of program funds. Upon a finding of nonperformance or noncompliance in administration of revolving loan fund, a corporation may be declared in default and required to remit the full amount of the development loan. To this end, development loans will be secured against the corporation's receivables (its entire loan portfolio).

Support for this initiative has been universal among all those with whom the idea has been discussed, and who have aided in developing the draft legislation: bankers, businesspeople, local development corporations, job training and educational organizations, and technical staff at the Business Assistance Division and Board of Investments.

Sufficient organizational experience, and financial and training expertise, exist in communities throughout the state to project that at least eight to ten local microbusiness development corporations can be qualified and capitalized within the first two years of program operation.

QUESTIONS AND ANSWERS
on the
MICROBUSINESS DEVELOPMENT ACT

1. What will the program cost, and how will it benefit the state?

a) COSTS:

A small and declining general fund appropriation will be needed to start the program, until enough development loans have been made for interest income to cover administrative costs. We estimate a need for \$64,000 in the 1st year, \$20,000 in the 2nd, and zero in the 3rd and thereafter.

The state will also lose interest earnings of 8.15% on the 2.2 million appropriated from the Instate Investment Fund. Once the full appropriation is drawn, that amounts to \$179,300 per year.

b) BENEFITS:

For microbusiness, investment per job created is extremely low. At least one new job will result from every \$5,000 of development loan funds invested (micro-loans will leverage additional private investment, in many cases). In the first round of investment, 440 jobs will be created. At even a below-average wage of \$13,000 - \$14,000 each, that means \$5.9 million in new personal income, producing

a \$207,240 increase in annual state income tax revenues.

More gains will come from reductions in welfare and unemployment costs. We estimate that at least 30% of jobs created or retained--132 in all--will be filled by people who would otherwise be receiving unemployment or welfare benefits. At an average reduction in costs of \$3,060 each, that means

a \$403,920 savings to welfare/UI programs.

These calculations are conservative in every respect. Investment per job generated is as low as \$1,668 for some micro-loan programs. The wage level used above is 20% less than average production wages in Montana. Reductions in welfare and unemployment cases could be much higher. Still more gains, not taken into account, will come from increases in licensing, excise and other consumption taxes.

Gains far exceed costs; and the loan pool will be invested not just once, but perpetually reinvested in small, locally owned Montana businesses, continuing to create new jobs and related benefits. Turnover, or full reinvestment, should occur about once every two to three years for small loans of this kind.

4/7/89

2. Is this trust-busting?

The principle author of the Instate Investment Act agrees that the use of funds contemplated here is entirely in accord with the original intent of the Act. What is being done is to free a small part of the Fund from the constraints of trust fund fiduciary regulations--constraints that now prevent the money from being used to make small loans to truly small businesses. And the appropriation from the IIF is not to be spent: it is to be invested, over and over again, in small companies at the community level. Capital is sequestered from operating expenses; is secured; and is recoverable.

3. What about security?

(a) Loss rates for combined training/finance/oversight programs are lower than regular bank loss rates, and can be covered from loan loss reserve requirements placed on the MBDC's.

(b) Capital (the development loan fund) will be strictly sequestered from operating funds at the state and local level; any repayments of principle to the state will go back into the development fund.

(c) Principle on development loans will be secured by a first lien on all microbusiness loans of each MBDC: a minimum ratio of 1.3 : 1 of collateral to investment.

(d) Principle can be recovered in two ways:

i) Through default, in case of nonperformance by an MBDC, in which case the corporation's receivables revert to the microbusiness development fund;

ii) Through non-renewal of the interest-only feature of the development loans. These loans will be made on an interest-only basis for a set term. If it is decided not to renew at the end of the term, an amortization schedule can be negotiated, to recover principle in a gradual fashion that does not disrupt the income or operations of the MBDC.

4. Where will the MBDC's get their operating income?

About one-third will come from interest earnings on microbusiness loans. If development loans to MBDC's are made at 4% (enough to cover administration at the state level), and microbusiness loans are made at the current market rate of 13%, net interest earnings will be about \$20,000 per year. The remainder of a typical \$60,000 operating budget could come from fee income for training and loan packaging, local government support, private contributions, private foundations, federal grants, or the 1/10 mill levy for economic development available to Montana counties.

Ex. #21

4/7/89

5. Why not low-interest loans to the microbusinesses?
Why should they pay market rate?

The intent of this program is to finance economically sound and competitive expansion or start-up projects whose only fault is that they are too small to receive attention from existing public programs or regular commercial lenders. The economist's definition of a competitive project is one that can pay market rates. This program overcomes a market failure known as diseconomies of scale: the subsidy is in the credit investigation, management training and oversight costs, not the interest rates.

EXHIBIT NO. 5DATE 4/7/89BILL NO. HB 765

April 7, 1989

TO: Committee of Business and Industry

Dear Sirs:

I am founder of a non-profit organization known as (CIP), Creativity, Innovation, Productivity, Inc., Co-founder of (PNS), Product Networking Service, Inc., and President of the Montana Inventors Association. The purposes of these three (3) organizations are to help innovators to be protected and to give them help in becoming successful small businesses.

As a result of my travelings throughout the state, I have found that there is a great need for helping people with ideas. One of the major obstacles is FUNDING FOR THEIR BUSINESSES! Since Montana has more small businesses per capita than any other state, and 82.5 percent of all businesses in Montana have 10 employees or less, I would like to testify IN FAVOR OF house bill 765...The Microbusinesses Development Act.

Fred E. Davison
R.R. 1, Box 37
Highwood, MT 59450
733-5031

FAX: 406-444-4105

SUMMARY

Survey of Montana Banks
on
Market for Microbusiness Lending

On March 2, 1989, a questionnaire was mailed to 175 Montana banks, to help determine if there is a market for small commercial loans (under \$25,000) to small companies, accompanied by management technical assistance and oversight. Forty-two banks have returned the questionnaire.

1. One third of the respondents agreed that there is some size below which commercial loans become impractical for a private lender. Twenty-four percent said loans of \$15,000 or less were rare or unlikely.
2. More than 83% said there was a size below which SBA guaranteed loans become impracticable--and 64% said SBA guaranteed loans below \$25,000 were rare or unlikely.
3. Asked to identify commercial financing needs not met by current private and public lenders, respondents checked the following categories:

Equity capital	45.2%
Venture capital	83.3%
Risk capital	88.1%
Debt finance of working capital	52.4%
4. Ninety percent of all respondents said administrative costs of commercial loan investigation and servicing were higher than costs for personal loans; 52% said commercial loan costs to the bank were two or more times greater than personal loan costs.

-continued-

Ex. #6
4/7/89

Summary - p. 2

4. Estimate of Micro-Lending Market. Twenty-six banks responded to questions on the likely market size for an institution in their market area, specializing in commercial loans under \$25,000, and providing management training and oversight. These statistics are derived from their estimates:

a. Number of loans made per year (average):	32
b. Dollars loaned annually (average):	\$661,923
c. Sum of dollars loaned (all responses):	\$17,210,000
d. Total population served (all responses):	370,500
e. <u>Annual micro-loan market per 1,000 population:</u>	<u>\$46,451</u>
f. <u>Annual micro-loan market, Montana:</u>	<u>\$37,160,000</u>

Methodology of Market Estimate. All respondents' individual estimates of the total annual dollar lending market for a new institution specializing in micro-loans in their own market area were summed [(c), above]. Each respondent also identified the population range of the market area for which the market estimate was made. Midpoints of the individual market population ranges were summed, for all responses, to give the total population for which the estimates were given [(d), above]. 3,000 was used as the midpoint of the lowest range, and 85,000 as the midpoint of the highest range.

Total annual dollar market was divided by total population served, and multiplied by 1,000, to yield the dollar market estimate per 1,000 population. [(e), above]. This procedure was equivalent to calculating the dollar market per 1,000 population for each response, and then calculating the average market per 1,000.

Finally, the annual dollar micro-loan market per 1,000 population was multiplied by 800 to yield an estimate of the total Montana lending market for micro-loans [(f), above]. By reducing respondent's estimates to a loans per 1,000 figure, we avoided "double-counting" multiple responses referring to a single market area.

The market identified by this survey is seventeen times greater than the total amount of revolving loan fund capitalization requested for the microbusiness finance program.

4-7-89

B. Please check the types of commercial financing for which you feel there actually is a need in your market area that is not met by current private and public finance institutions.

- N=42 45.2% 1. Equity [19 yes, 23 no]
- 83.3% 2. Venture capital (large-scale, quasi-equity, high risk/return) [35 yes, 7 no]
- 88.1% 3. Risk capital (mid to large-scale, debt financing, less well secured than is normally "bankable") [37 yes, 5 no]
- 52.4% 4. Debt financing of working capital (inventory/receivables)
- 6 \$100,000 or greater 5 \$25,000 or less
- 11 \$50,000 - \$100,000 (1 responded to all 3)

C. With regard to very small-scale commercial loans (\$25,000 or less) please give your best estimate of the following:

- N=23 1. Number of inquiries/applications your institution receives annually for loans in this size range: (avg) 41
2. Number of loans you would estimate are actually closed, annually, from this applicant/inquirer pool: (avg) 18

D. If there were an institution in your market region specializing in very small scale commercial loans (sub \$25,000), and capable of carrying out intensive credit investigation, management training and loan servicing in that area, what would be the size of the market for that institution?

- N=23 1. Likely number of feasible projects, i.e., loans closed per year: (avg) 32
2. Likely amount of total investment annually: (avg) \$661,923

E. Population of market area for which estimates in (C) and (D) are made:

- N=40 18 5,000 or less 4 15,000 - 25,000
- 10 5,000 - 15,000 6 25,000 - 50,000 2 75,000 +

Ex. #6

4/7/89

F. Please compare the administrative cost of investigating, setting up and servicing a commercial loan secured by business assets (equipment, inventory, etc.) to the costs of other types of loans of similar size and term:

1. Compared to personal loans (signature loans), commercial loan costs are:

N=42 0 less 4 equal 16 somewhat greater

16 2 - 3 times greater 6 more than 3X greater

2. Compared to consumer loans (appliances, autos), commercial loans costs are:

N=42 3 less 5 about equal 15 somewhat greater

13 2 - 3 times greater 6 more than 3X greater

DEPARTMENT OF COMMERCE

Ex. #6
4-7-89



STAN STEPHENS, GOVERNOR

1424 9TH AVENUE

STATE OF MONTANA

(406) 444-3494

HELENA, MONTANA 59620-0401

ASSESSMENT

Survey of Montana Banks -- Microbusiness Lending

The attached analysis is a summary of responses to a survey on commercial financing needs, mailed to all Montana banks on March 2, 1989. In particular, the survey attempted to assess the need and market for specialty institutions providing intensive credit investigation, management training and oversight linked to "micro-lending," i.e., commercial loans of \$25,000 or less.

This is not a scientific survey and its results should be interpreted cautiously, for two reasons.

1. Though it is a large sample survey (42 responses out of a bank "universe" of 175), it is not a strictly random survey. There was broad representation of all sizes of institutions and market areas. But ultimately, this is a survey of those who chose to respond. Those who did not may have quite a different pattern of opinion.
2. No pretesting was done on the questionnaire, so we are not entirely certain how respondents interpreted the questions. Most important, in questions D.1. and D.2., an estimate was requested of the market for a specialty micro-lending institution. Respondents may have understood we meant to assess the additional market for a new institution in their area; or they may simply have assessed the total market for micro-loans, including the market they already serve as banks.

The market identified, however, is extremely large -- over 36 times the \$1.1 million to be invested annually by the micro-business finance program. It is reasonable to conclude that specialty institutions (the micro-business development companies proposed under the program) can either create an additional micro-loan market equal to 1/36th of the existing market, or win a 1/36th share of the existing market.

With these caveats in mind, the survey offers a valuable contribution to our understanding of commercial financing needs in the state.

Bob Heffner
SBDC Director

March 10, 1989

Date: March 30, 1989

To: Business and Industry Committee

From: Tobacco Valley Economic Development Council
P.O. Box 788, Eureka, Montana 59917

Subject: Statement of Position: House Bill 765

The Tobacco Valley Economic Development Council strongly supports HB-765. As a local development organization dedicated to planned economic growth, we see the microbusiness loan program as a necessity in implementing economic diversification.

Many residents of the Eureka area have expressed interest in business start-up and expansion. Most of these projects would require \$10,000-\$20,000 in loan funds. This small amount of necessary capital usually precludes conventional financing avenues. The money available through the microbusiness loan program would definitely facilitate economic growth in this types of businesses.

A second part of HB-765 which would be of enormous benefit to local entrepreneurs is the management and business training feature. It has been apparent in working with local small business owners, especially those in the start-up phase, that there is a great need for support services. Many of these otherwise sophisticated business people, lack proficiency in business plan preparation, accounting, record-keeping, and/or the governmental interface necessary for a successful venture. Support and guidance through these critical first months of business formation and operation can mean the difference between success and failure.

Please give careful consideration to all aspects of this Bill. The Tobacco Valley is "ripe" for this type of program. We would respectfully submit that this area be considered as a prime candidate in the "pilot program" selection process. With so many motivated small business entrepreneurs looking for adequate financing, the success of the program would be guaranteed. Attached is a listing of those business entrepreneurs who have expressed interest in the microbusiness financing program.

4/7/89

* of possible employees	Type of Business/Needs
2-3	1. <u>BoPeep Productions</u> - video productions for pre-schoolers. They have three professional quality videos completed. Need business assistance in record-keeping, accounting, marketing. Also need \$10,000+ for start-up capital. Writing business plan.
2-3	2. <u>Mountain Stairs</u> - spiral staircase out of tooled lodgepole logs. Have facility, machinery in place. Three prototypes produced. Market documented. Need \$10,000 - \$15,000 in start-up capital. Business plan complete.
4	3. <u>LaVonne Bowers</u> - dried flowers/herb gardens. Has order for 20,000 lbs. of dried flowers this season. Projects that this would be 200,000 lb. within five years. Growth potential unlimited (wildcrafting by teenagers in summer). Is writing business plan. Will need \$10,000+ for drying sheds, farm equipment.
10+	4. <u>Joe Purdy</u> . Leaving for Japan April 5th. Will be looking for Japanese markets for Tobacco Valley manufactured furniture. Will need start-up/expansion capital. Is preparing to write business plan.
2-3	5. <u>Robert Bixler</u> - has developed a snow shovel for disabled people. Prototype is complete. Writing business plan. Will need start-up capital.
2	6. <u>Kit Stoken</u> - Hobby store. Will be opening soon. Needs start-up capital. Is writing business plan.
3-4	7. <u>Espinoza's Authentic Mexican Food</u> - need remodel capital. Is writing business plan.
5-10	8. <u>Lonnie Ganter</u> - Commercial Rainbow Trout Farm Business plan is complete. Doing marketing research.
up to 15	9. <u>Montana Wood Designs</u> - furniture manufacture. In start-up but looking for expansion funding of \$20,000-\$25,000. Accessing foreign-markets with rustic furniture designed to compliment log home decor
2-3	10. <u>Jim Bremmer</u> - post and pole yard, grape & tree stakes Is writing business plan.

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 8DATE 4/7/89BILL NO. HB 765

April 4, 1989

Mark Good
917 3rd Ave South
Great Falls, MT. 59405

Representative John Vincent
Montana House of Representatives
Capitol Station
Helena, Montana

Dear Representative Vincent:

I am writing to testify in support of House Bill 765, the Microbusiness Development Act. Please share this letter with members of the committee(s) considering this legislation.

As the former director of the Concerned Citizens' Coalition of Great Falls, I was especially interested in ways to improve employment opportunities for low and moderate income people. One area which we explored was microbusiness development simply because virtually all of the job growth in the 1980's has come from small businesses. Developing many small businesses, both for profit and not for profit, may not create the kind of employment splash that attracting a large corporation does, but it also doesn't carry with it the risks. That is, the capital requirements are relatively small and should be obtainable in the state. Also, small businesses serving a local market tend to be more insulated from the ups and downs of the national economy. The other advantage is that nothing needs to be wagored to coax businesses to relocate here. Special tax breaks are less likely to be needed or regulations loosened which currently protect the quality of our communities and natural environment. The experience of other microbusiness development projects indicates that it can be a no-lose proposition as long as it focuses on the right areas. If a draw-back exists, it might be that small businesses can also mean small wages, or at least not the kind of wages necessary to adequately support a family. But certainly attracting large businesses provides no guarantee of decent wages either.

While researching microbusiness development and assisting several public assistance recipients to start a business we identified several barriers to starting small businesses some of which are addressed in the legislation.

First, there is very little assistance available in most communities to help people put together comprehensive business plans. While business

Ex. #8
4/7/89

plans don't ensure success they do provide a clearer picture about the feasibility and workings of a proposed business. Moreover, they are essential to obtaining financing. In some communities, SCORE volunteers are available to provide some assistance, but it is usually limited in scope. Training is usually not available to help people with record-keeping, accounting, insurance, payroll, and management issues. In short, the kind of ongoing nurturing which is a primary component of the more successful microbusiness development organizations, like the Womens Economic Development Corporation is generally lacking in most communities. Local economic development corporations could serve a similar function as the Agriculture Extension Service, by helping small businesses to operate in a more efficient manner.

A second area where government could be supportive is financing. CCC members interviewed representatives from all of the banks in Great Falls and while the focus of the survey was different than the one conducted by the Department of Commerce, many of the responses support their conclusions. Most of the banks indicated that they rely on the SBA for small business loans. Since the SBA generally doesn't feel it is practical to service small loans, this suggests that businesses requiring small amounts of capital are probably not adequately served. Further, when asked what they thought were reasons small businesses did not succeed, almost all of the banks mentioned poor management and inadequate capital.

Providing small loans will probably fill a lending gap for some and provide a means for financing the program, but it won't help those without adequate seed capital or collateral to secure even a small loan. I recognize that the sponsors of this legislation are reluctant to seek additional funding for the project, but the committee should consider an additional loan pool for people without seed capital or collateral. Providing money for this purpose could end up saving the state money. One successful example where this has happened is the Womens Economic Development Corporation in Minneapolis which concentrated on AFDC parents. Most of the participants had little or no seed capital or collateral and as mentioned in the Department of Commerce summary of the bill, they had lower loan-loss rates than an average commercial bank.

A final concern about the legislation is the functioning of the local community development corporations. There are good and bad examples of economic development corporations so I hope the experience of others will be considered and that the public will have an opportunity to help shape their guidelines for operation.

The microbusiness development Act may not be the complete solution to solving Montana's employment problems, but developing more small businesses is clearly a piece of the solution and an important step in filling some gaps in the state economic development strategy. Considering the relatively small amount of funding requested and the potential paybacks I believe the bill is worthy of support.

Sincerely,



JAMES W. MURRY
EXECUTIVE SECRETARY

Box 1176, Helena, Montana

ZIP CODE 59624
406/442-1708

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 9

DATE 4/7/89

BILL NO. #B765

Testimony of Don Judge on House Bill 765 before the Senate Business and Industry Committee, April 7, 1989

Mr. Chairman and members of the Committee, for the record, I am Don Judge representing the Montana State AFL-CIO in support of House Bill 765 which establishes a microbusiness development corporation grant program in the State of Montana.

This legislation is a positive step forward in our state's search for new economic activity and our efforts to broaden and diversify Montana's economy. Attention to the financial needs of small businesses engaged in adding value to our state's rich array of natural resources is a sound economic tool. While many of these small businesses will probably not be unionized operations, our members involved in the mining, manufacturing, crafts and building trades will benefit from increased economic activity in Montana.

Our federation strongly supports an economic partnership involving labor, business and government working together to foster increased economic development throughout Montana. The creation of a loan program to assist microbusinesses in our state is a good example of how we see the public and private sectors cooperating in partnership for the future. The labor movement has often provided capital through investment of our pension plans in business development. We recognize the need for more sources of capital in our state to spur economic activity, and we endorse Representative Vincent's proposal in House Bill 765.

Thank you.

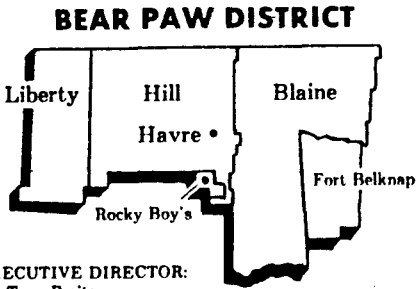
Bear Paw Development Corporation of Northern Montana

P.O. BOX 1549 HAVRE, MONTANA 59501

TELEPHONE: 406-265-9226
406-265-5602

BOARD OF DIRECTORS

- | | | |
|-----------------------------------|---------------------|--------------|
| Dan Morse, President | Richard Sangrey | Jim Coffman |
| Ordell Klindworth, Vice President | Raymond Parker, Jr. | Don Driscoll |
| Robert Moog, Secretary | Donoven Archambault | Ken Stam |
| Ray Gehlen, Treasurer | Art Rambo | Rod Becker |
| Joe Rosette | | |



EXECUTIVE DIRECTOR:
Tony Preite
DEPUTY DIRECTOR:
Dick King
ADMINISTRATIVE ASSISTANT:
Jenny Morse

March 15, 1989

Wade Nason
Office of the Speaker of House of Representatives
Capitol Station
Helena, MT 59620

RE: HB 765

Dear Mr. Nason:

The Bear Paw Development Corporation is a local non-profit development organization serving Hill, Blaine and Liberty Counties, and the Fort Belknap and Rocky Boys Indian Reservations. I am writing today to express our support for House Bill 765 which would create a Revolving Loan Program for small businesses with fewer than ten employees and less than \$500,000 gross income, referred to in the legislation as "microbusinesses."

Our organization has provided economic development services to our area since 1968. We are acutely aware of the needs of many local businesses for financing, management and marketing assistance. The intent of the proposed legislation is to fill a gap that currently exists in meeting these needs. It is our experience that if this gap is filled, microbusinesses will be able to create many new job opportunities in Montana.

We have recently established a Revolving Loan Program to provide risk capital and working capital to basic industries. We anticipate that our loans will average over \$100,000 per borrower. The proposed legislation, which would provide small loans up to \$20,000, would enable us to expand our loan program to include many very small businesses in all sectors of our economy including retail and commercial.

We encourage the Legislature to move forward and enact HB 765. All of Montana will benefit.

Sincerely,

Tony Preite
Tony Preite
Executive Director

MILES CITY AREA CHAMBER OF COMMERCE
Statement of Position
HB 765 "The Microbusiness Development Act"
Reading Date: April 7, 1989
Senate Committee: Business and Industry

EXHIBIT NO. 11DATE 4/7/89BILL NO. HB 765

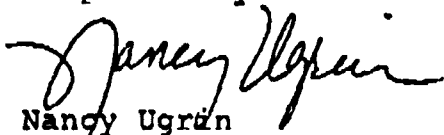
Let it be noted that the Miles City Area Chamber of Commerce Board of Directors and staff are in support of the passage of HB 765 "The Microbusiness Development Act", sponsored by Rep. Vincent of Bozeman. The justification for the Chamber's position is as follows:

The Microbusiness Development Act (HB765) provides a training and oversight feature to be provided by the sponsoring Microbusiness Development Centers, as service to the new start up businesses the MBDC's finances. This assistance can be quite beneficial to the success of new business starts as well as to the enticement of new enterprise to the State.

The appropriation made for HB765 is a one time investment which will have long term benefits. The Dept. of Commerce Business Assistance Division and SBDC's have been quite conscientious in their business development efforts in the past and will undoubtedly be quite accountable for the MBDC program. The only concern the Chamber has with the MBDC program is the consideration that it may come in direct conflict with the lending by financial institutions, but if their endorsement is received on the issue, then that concern is alleviated.

One final major consideration the Miles City Area Chamber of Commerce has in relation to supporting HB765 is the burden local Chambers and development organizations take on in most Montana communities. The burden has proven to be quite great when finances and administrative resources are quite limited, especially in smaller communities. The responsibility of economic development in Montana must be shared by local and state organizations since the fruits of the economic development labors are shared by all. Once this cooperative arrangement has been made, Montana will be one step closer toward the creation of a pro-business climate thus providing our state with the tools necessary for positive economic growth.

Respectfully submitted,



Nancy Ugrin
Executive Director
Miles City Area Chamber of Commerce

MISSOULA COUNTY

EXHIBIT NO. 12

DATE 4/7/89

BILL NO. HB 765

BOARD OF COUNTY COMMISSIONERS

• Missoula County Courthouse • Missoula, Montana 59802

(406) 721-5700

BCC-89-206

April 5, 1989

Gene Thayer, Chairman
Senate Business and Industry Committee--Room 410
Montana State Senate
Capitol Station
Helena, MT 59624

Dear Chairman Thayer and Committee Members:

We are writing in support of HB-765, which would create the microbusiness finance program. The proposed use of \$2.2 million from the In-State Investment fund to capitalize community revolving loan funds for microbusinesses makes good business sense and is consistent with the In-State Investment Act.

The microbusiness market is not currently being served by commercial banks or other loan programs such as the SBA or the Coal Tax Loan Program. The overhead costs are too high for commercial banks to make business loans under \$25,000, the SBA loan program does not look at applications under \$100,000, and the Coal Tax Loan Program does not look at applications under \$300,000. Nevertheless, the Department of Commerce estimates that a \$37 million market exists every year for loans in the microbusiness category, and the market is failing to provide these loans. There are many microbusiness owners who are good managers with sound project ideas but who cannot find needed capital under current market conditions simply because their businesses are too small.

Missoula County has provided seed money to Montana WEDGO and the Missoula Community Business Incubator to set up a local community revolving loan fund to provide small business assistance and capital. One of the advantages we have seen in supporting this community revolving loan fund is that management training and oversight are provided to small business owners along with the capital. The prudence of this approach is evident in lower loan loss rates (according to information provided by the Department of Commerce) than average loan loss rates experienced by commercial banks. Another important advantage of this revolving loan fund from our point of view is that it provides financing for cottage industries, which produce jobs and help people move from public assistance into the job market.

Ex. #12

4/7/89

HB 765

BCC-89-206
April 5, 1989
Page Two

For these important reasons, we urge your support HB-765.
Thank you for your consideration of these remarks.

Sincerely,

MISSOULA BOARD OF COUNTY COMMISSIONERS



Barbara Evans, Chairman



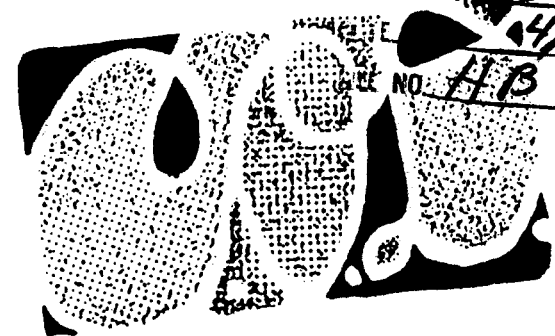
Janet L. Stevens, Commissioner



Ann Mary Dussault, Commissioner

BCC/lm

cc: Missoula Senators
Gordon Morris, Executive Director
MACo



April 4, 1989

John Vincent
 Speaker's Office
 State Capitol
 Helena, MT 59620
 ATTN: Andy Lawrence

Cindy Owings Designs
 P.O. Box 4496 • Bozeman, MT 59772
 (406) 587-9050

Dear Senate Hearing Members:

When I started Cindy Owings Designs (C.O.D.) in 1985 I had a good product, twelve years designing experience and absolutely zero access to capital. The institution I had banked with for ten years refused my loan request of \$1500 for the purchase of fabric to fill coat orders received at a New York trade show.

With access to start-up capital in our community I would not have had to:

1. Sew 2500 straps a week for a local company so that I could live and pay one other person to help me construct coats when I should have been developing my business full time.
2. Ask my former husband to co-sign on the \$1500 loan to purchase fabric to fulfill orders.
3. Turn away customers because I couldn't afford to hire people to produce coats or stock inventory fabric for reorders.
4. Make as many mistakes as were made as I would have had the capital to work with legal, accounting, and other services instead of doing these very important tasks inhouse.
5. Consider as strongly as I did moving to an area more supportive of small business. Without the quality of air and water here I would have left.

In short, House Bill #765, if it had been available to me in 1985, would have provided an avenue for access to start-up capital as well as provide a network of expertise to help insure business survival.

In 1988, our fourth year, C.O.D. produced \$550,000 in gross sales. In 1985, our gross sales were \$7500. These dollars are realized from garments shipped to finer boutiques and stores in all parts of the United States. 1989 will realize greater growth in C.O.D. as we have begun a joint venture with a Canadian firm and are now designing additional lines for subcontract construction. In addition, some of our styles will be featured in the prestigious Bonwit Teller designer catalog for Fall 89 and other styles were seen on the nationally televised Cosby Show in February of this year. Even after four years, garment industry professionals are still amazed the innovation and quality known in COD styling is designed and produced from Montana. Presently, C.O.D. employs 17 people from the Gallatin Valley.

Ex. # 13

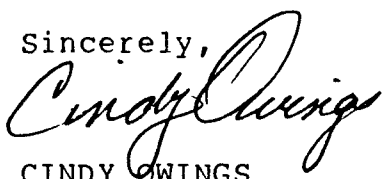
4/7/89

Yes, I'm tooting my horn, we at C.O.D. deserve to. Were doing what we were told could not be done as well as a hell of alot more. In 1985, a banker told me that I should give up my designing and apply for a job as a teller. As a result of not listening to this advice, every dollar we gross at C.O.D. is produced within the primary sector of Montana's economy and 97% of them are new dollars. Small business like C.O.D. create more jobs than do the large corporations in America. These are all reasons why small business is a big part of Montana's economic answer. And a big part of small business is financing.

The banks and venture capitalists are not the avenue needed in so many cases. They are both short term goal oriented. Montana needs to take a long term self interest in its own well being.

It is for all of these reasons I urge you to support House Bill #765, the Microbusiness Development Act.

Sincerely,



CINDY OWINGS

COST-BENEFIT ANALYSIS
House Bill 765

Assuming Proposed Administration Amendments
(3 pilot projects; \$750,000 appropriation)

With amendments as proposed by the Administration, total loan capital appropriated to the Microbusiness Finance Program is \$750,000, for three project locations only. At this scale, no general fund appropriation will be necessary, and no FTE's will be added.

Interest income on development loans made by the program to community revolving loan fund operators, at 4% per annum, is appropriated to the program for administrative costs. At \$30,000 per year, this income will be sufficient to cover temporary consulting and clerical personnel during the administrative rule-writing period, and to cover costs of training provided to loan fund operators, travel to project sites, publication of rules, advertising for the development loan competition, and other miscellaneous costs of monitoring the community funds and administering the program.

Program income and administrative costs cancel each other, and don't enter into the cost-benefit calculation.

COSTS

The general fund and instate investment fund will lose interest earnings on \$750,000, once the development loans are made (about four months after the effective date of the bill). At a composite return of 8.15% on the IIF, that amounts to \$61,125 per year. This is the only cost of the pilot program.

BENEFITS

1) Statistical studies of revolving loan funds targeted at the micro-sector (loans of less than \$25,000 to very small businesses) indicate that at least one job will be created for every \$5,000 in loans. By investing \$750,000, at least 150 jobs will be created. At a below-average income of \$13,000 - \$14,000 each, new income tax revenues will average \$471 for each job, producing a total gain of \$70,650 per year in new income tax revenue.

2) At least 30% of jobs created or retained will be filled by people who would otherwise receive unemployment or welfare benefits. 50 less welfare/UI cases, at an average cost reduction of \$3,060 each, means \$153,000 in reduced costs to state programs.

Benefits to the state outweigh costs by \$3.60 in gains for every \$1 in expenditures.

April 7, 1989

Proposed Amendments
to House Bill 765
As Transmitted to the Senate

1. Page 7, line 11
Strike: "six"
Insert: "three"

2. Page 19, line 9
Strike: "\$1,500,000"
Insert: "\$750,000"

These amendments restrict the microbusiness finance program to three pilot projects, and reduce the appropriation from the Instate Investment Fund from \$1,500,000 to \$750,000.

The purpose of these amendments is to take a prudent and circumspect approach to this use of trust funds, by testing the program at a minimum scale of operations.

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 15
DATE 4/7/89
BILL NO. HB 765

THOMAS E. TOWE
2525 Sixth Avenue North
Billings, Montana 59101
(406) 248-7337

Mr. Robert A. Heffner, Director
Small Business Development Center
Department of Commerce
Capitol Station
Helena, MT 59620

Dear Mr. Heffner:

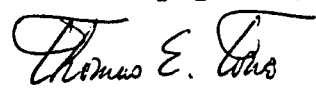
Thank you for sharing your information regarding the Micro Business Development Act with me. I have reviewed the information and do appreciate your efforts to help small businesses.

I agree completely with the focus of the Act towards small businesses in the State of Montana. I also agree completely with your concept of combining management training and oversight with small loans. The concept involved in the Act, therefore, is one that I can support and approve. You may use my endorsement for whatever purposes you wish.

I do agree that because of the low interest rate and the lack of security on the proposed loan program, a three-fourth's vote of the Legislature would be required to set aside the Micro Business Development Loan Fund. I have some concerns about the degree of interest subsidy contemplated in the bill, and I fear many Micro Business Development corporations may not have the expertise and the resources to carefully screen all loan applicants. Thus, I think we should be prepared to accept some failures. Nevertheless, I think the risk is one worth taking and, in the long run, the long-term benefits to Montana should be substantial.

Good luck!

Sincerely yours,



Thomas E. Towe

TET:mp

cc: John Vincent, Speaker of the House



EXHIBIT NO. 16

DATE 4/7/89

BILL NO. HB 765

Heffner

TO: BOB HEFFNER

FROM: ROD JORGENSEN
FINANCE OFFICER-SBDC

DATE: MARCH 3, 1989

SUBJECT: ENTREPRENEURS WHO ARE IN BUSINESS OR ARE PRESENTLY IN
PROCESS OF ESTABLISHING A BUSINESS SHOULD FUNDING BE
AVAILABLE THROUGH UTILIZATION OF MICRO BUSINESS FINANCE
CONCEPT.

GARY MARIEGARD AND MYSELF HAVE COMPILED A LIST OF PARTIES WHO
ARE INTERESTED IN THE MICRO BUSINESS FINANCE CONCEPT AND WHOM
WE FEEL WOULD QUALIFY FROM THE STANDPOINT OF INITIAL FINANCING
NEEDS BEING IN THE AMOUNT OF \$20,000 OR LESS. WE HAVE NOT
INCLUDED ANY PARTIES WHO HAVE AN INITIAL FINANCING REQUIREMENT
OF GREATER THAN \$20,000. WE ALSO INCLUDE WITHIN THIS LIST ONLY
THOSE PARTIES WHO ARE BEYOND THE INITIAL IDEA STAGES AND WITH
FINANCING AVAILABILITY WOULD BE ABLE TO ESTABLISH A GOING
CONCERN.

TOTAL VIABLE PARTIES 34

AREAS OF BUSINESS RETAIL 11 WHOLESALE 1 SERVICE 5
MANUFACTURING 17

TOTAL FINANCING NEEDS \$471,000

NUMBER OF PARTIES WHOM WE FEEL WOULD COMPLETE TRAINING PROCESS 12

I WILL DETAIL BELOW: INITIAL LOAN SIZE
LOCATION
BUSINESS TYPE
PRODUCT LINE
THIRD YEAR EMPLOYMENT FIGURES (EST.)

BUSINESS #1 \$10,000
MILES CITY
RETAIL
PIZZA AND YOGURT
1 FULL, 2 PART-TIME

BUSINESS #2 \$20,000
BOZEMAN
MANUFACTURING
FIBER OPTICS FOR EDUCATIONAL PURPOSES
6 FULL, 4 PART-TIME

BUSINESS #3 \$10,000
BOZEMAN
MANUFACTURING
HORSE HALTERS
2 FULL, 1 PART-TIME



Ex. #16 4/7/89

BUSINESS #4 \$10,000
HARDIN
MANUFACTURING
FIBERGLASS REPLICA CLOCKS AND MANTLEPIECES
2 FULL

BUSINESS #5 \$10,000
MILES CITY
RETAIL
KNICK KNACKS
2 FULL

BUSINESS #6 \$20,000
LEWISTOWN
MANUFACTURING
FIBERGLASS CONTAINERS WITHIN CANOES
2 FULL

BUSINESS #7 \$20,000
WOLF POINT
MANUFACTURING
ORIENTAL FOOD PRODUCT
4 FULL

BUSINESS #8 \$8,000
WIBAUX
RETAIL
COMPUTER SALES
1 FULL

BUSINESS #9 \$20,000
GLASGOW
MANUFACTURING
INNOVATIVE PARTS, BOTH NEW AND REPLACEMENT
FOR MINIATURE RACE CARS
5-6 FULL TIME POSITIONS

BUSINESS #10 \$10,000
MILES CITY
MANUFACTURING
MUSIC RECORDINGS
1 FULL, 1 PART-TIME

BUSINESS #11 \$12,000
BROADUS
RETAIL
DISTRIBUTION
2 FULL

BUSINESS #12 \$18,000
SIDNEY
RETAIL
SALE OF REMANUFACTURED DRILLING PARTS
1 FULL

Ex. #16
4-7-89

BUSINESS #13	\$15,000 MILES CITY WHOLESALE SALE OF PREMADE PIZZA PRODUCTS STATEWIDE 1 FULL
BUSINESS #14	\$18,000 BILLINGS MANUFACTURING REPACKAGING POPCORN AND PRODUCE SEASONING 2 FULL, 2 PART-TIME
BUSINESS #15	\$8,000 GLENDIVE RETAIL PRODUCTION OF MAGAZINE 1 FULL, 2 PART-TIME
BUSINESS #16	\$7,000 GLENDIVE SERVICE AUTO BODY REPAIR 2 FULL, 1 PART-TIME
BUSINESS #17	\$15,000 BILLINGS RETAIL AUTO PURCHASE AND RESALE 1 FULL
BUSINESS #18	\$20,000 BAKER RETAIL COMPUTER SALES AND SERVICE 2 FULL
BUSINESS #19	\$8,000 MILES CITY MANUFACTURING KNICK KNACKS 1 FULL
BUSINESS #20	\$13,000 GLENDIVE MANUFACTURING FOOD PRODUCT MADE FROM FISH 2-3 PART-TIME
BUSINESS #21	\$19,000 MILES CITY MANUFACTURING PUZZLE GAMES 1-2 FULL TIME

Ex. #16

4-7-89

BUSINESS #22	\$12,000 ✓ BOZEMAN MANUFACTURING WOOD PROCESS PRODUCTS 3 FULL TIME
BUSINESS #23	\$13,000 GREAT FALLS ✓ SERVICE TEMPORARY SERVICES 35 PART-TIME
BUSINESS #24	\$12,000 CORAM MANUFACTURING SHOOTING BENCHREST 3 FULL TIME
BUSINESS #25	\$10,000 MILES CITY MANUFACTURING EMBROIDERED COASTERS 1 FULL
BUSINESS #26	\$14,000 - BILLINGS MANUFACTURING FOOD PRODUCTS 2 FULL TIME
BUSINESS #27	\$20,000 DEER LODGE ✓ MANUFACTURING WELDING HELMETS 5 FULL, 3 PART-TIME
BUSINESS #28	\$9,000 SIDNEY SERVICE RADON TESTING 1 FULL TIME
BUSINESS #29	\$20,000 BILLINGS MANUFACTURING WOOD PRODUCTS 3 FULL TIME
BUSINESS #30	\$15,000 GLEN DIVE SERVICE AUTO REFURBISHING 5 FULL TIME
BUSINESS #31	\$12,000 GLEN DIVE RETAIL GROCERY 1 FULL TIME

Ex #16
4-7-89

BUSINESS #32	\$15,000 HARDIN RETAIL GOURMET FOODS 2 FULL TIME
BUSINESS #33	\$8,000 LEWISTOWN RETAIL BED AND BREAKFAST 1 FULL TIME
BUSINESS #34	\$19,000 SIDNEY SERVICE CIRCUIT BOARD ASSEMBLY 35 FULL TIME

Heffner

--SYNOPSIS--

THE MICROBUSINESS DEVELOPMENT ACT: House Bill 765
--AS TRANSMITTED TO THE SENATE--

The purpose of the Microbusiness Development Act is to assist in the finance and development of the small, locally-owned businesses that make up the majority of the Montana economy. The program will provide the capital for market-rate loans, administered at the community level, in amounts up to \$25,000 for firms having fewer than ten employees and gross revenues of less than \$500,000 per year.

Such businesses constitute 82.5% of all enterprises in the state, and produced virtually all job growth in Montana in the 1980's, yet currently have no institutional source of finance--whether from banks or public programs. The cost of credit investigation and servicing for small commercial loans prevents banks from being active in microbusiness lending. Average loan size for the SBA is over \$100,000; average loan size for the Coal Tax Loan Program is over \$300,000. Therefore, microbusinesses need a source of loan funds like that contained in the Microbusiness Development Act.

Management training and oversight go together with money, to make sure the loans are secure and the projects financed are successful. Clients who do not have a professional-quality business plan and finance proposal, together with proper record-keeping, accounting and other management systems, will have to complete a business training program (provided by the local corporation that administers the loans) designed to produce these critical elements for business success.

The combination of training and oversight with small and appropriate amounts of finance is a key feature of the program, which is modeled on seven years of successful experience by a community loan fund in Minneapolis, called WEDCO. The experience at WEDCO, and with some pilot projects in Montana, shows that revolving funds which combine management training with finance have lower loan-loss rates than an average commercial bank.

The legislation requests a one-time appropriation of \$1.5 million dollars from the Instate Investment Fund of the coal tax trust to create a development loan fund administered by the Department of Commerce. Development loans (interest-only loans at a rate sufficient to cover State administrative costs), in maximum amounts of \$250,000, will be made to qualified microbusiness development corporations (MBDC's) to capitalize community-based revolving loan funds.

Microbusiness development corporations are defined to be nonprofit corporations whose function is to provide management training, technical assistance and access to finance to microbusinesses, and to monitor the performance of microbusiness

4-7-89

loan recipients. Detailed qualifications, rules and guidelines for these corporations will be developed by the Department of Commerce, in conjunction with an advisory board of thirteen members representing the financial community, local development groups and microbusiness owners.

In general, MBDCs will be required to demonstrate their ability and plan to: 1) provide training and financial oversight; 2) administer a revolving loan fund; 3) investigate and qualify loan proposals; and 4) secure sufficient sources of operating income. MBDCs will also be required to demonstrate broad-based community support, and a sufficient market or client base to fully utilize the proposed revolving loan funds. In selecting among competing proposals, attention will also be given to geographic representation of and service to all areas of the state, including both rural and urban communities.

Development loan funds may be used by the MBDC's to make direct loans to microbusinesses, not to exceed \$25,000 to any one business; or funds may be deposited to guarantee loans made by financial institutions to microbusinesses, with the same dollar limitation per loan and per business. Development loan funds may not be used for any other purpose, including operating expenses of the MBDC; however, interest earned on deposits or loans from these funds may be used for operating expenses.

Matching contributions to the revolving loan funds will be required, on the ratio of one dollar from other sources to each three dollars of program funds. Upon a finding of nonperformance or noncompliance in administration of revolving loan fund, a corporation may be declared in default and required to remit the full amount of the development loan. To this end, development loans will be secured against the corporation's receivables (its entire loan portfolio).

Support for this initiative has been universal among all those with whom the idea has been discussed, and who have aided in developing the draft legislation: bankers, businesspeople, local development corporations, job training and educational organizations, and technical staff at the Business Assistance Division and Board of Investments.

Sufficient organizational experience, and financial and training expertise, exist in communities throughout the state to project that the six local microbusiness development corporations provided for as pilot projects can be qualified and capitalized within the first two years of program operation.

Bob Heffner, SBDC Director
444-4780
Bill Pedersen, Legislative Intern
444-2750

Ex. #17
4-7-89

Explanation of Amendments: Microbusiness Development Act (HB765)

Amendments incorporated in the version transmitted to the senate:

1. Adopt the Micorobusiness Development Program as a pilot project only, limited to six locations (six revolving loan funds capitalized by the program), with a sunset provision four years from the effective date of the bill.
2. Require revolving loan fund operators to set aside loan loss reserves of at least 1.5% per year of outstanding microbusiness loan balances.
3. Raise the limit on individual microbusiness loans from \$20,000 to \$25,000; and raise the limit on development loans to the revolving loan fund operators from \$200,000 to \$250,000.
4. Limit the total appropriation from the Instate Investment Fund to \$1,500,000.
5. Eliminate the need for any general fund appropriation. All state operating expenses will be paid from interest income on development loans.

JUSTIFICATION:

By starting the microbusiness finance program as a pilot project, we can take a prudent and circumspect approach to a program which draws on, and may expose to risk, trust funds that have been set aside for long-term investment in Montana. Limiting inital operations to six projects allows us to test the program design in different settings (both rural and urban, rather than committing much larrger amounts of funds on a broad scale to an untested program. Requiring loan loss reserves provides further protection against loss of principle.

Raising the cap on microbusiness loans to \$25,000 widens the market and the scope of projects which the program can address, and sets a more realistic "break point" below which commercial loans from existing institutions become very rare. The increase in the cap on development loans to revolving loan fund operators corresponds to the increase in the maximum size of individual loans, and enables more diviersification and greater security for revolving loan fund portfolios.

ADMINISTRATION SUPPORT:

After consultation among the Governor's Office, the Board of Investments, the Department of Revenue and the Office of Budget and Program Planning, the Commerce Department and the Administration support HB 765 as amended by the House and transmitted to the Senate.

Ex. #17
4-7-89

QUESTIONS AND ANSWERS--THE MICROBUSINESS DEVELOPMENT ACT, HB 765:

1. What will the program cost, and how will it benefit Montana? With amendments as proposed by the Administration, total loan capital appropriated to the Microbusiness Finance Program is \$1,500,000, for six pilot project locations only. At this scale, no general fund appropriation will be necessary, and no FTE's will be added.

Interest income on development loans made by the program to community revolving loan fund operators, at 4% per annum, is appropriated to the program for administrative costs. At \$60,000 per year, this income will be sufficient to cover temporary consulting and clerical personnel during the administrative rule-writing period, and to cover costs of training provided to loan fund operators, travel to project sites, publication of rules, advertising for the development loan competition, and other miscellaneous costs of monitoring the community funds and administering the program. Program income and administrative costs cancel each other, and don't enter into the cost-benefit calculation.

The legislation provides that any excess of interest earnings (over administrative costs) be deposited to the program's development loan account.

COSTS:

The general fund and instate investment fund will lose interest earnings on \$1,500,000, once the development loans are made (about six months after the effective date of the bill). At a composite return of 8.15% on the IIF, that amounts to \$122,230 per year. This is the only cost of the pilot program.

BENEFITS:

- 1) Statistical studies of revolving loan funds targeted at the micro-sector (loans of less than \$25,000 to very small businesses) indicate that at least one job will be created for every \$5,000 in loans. By investing \$1,500,000, at least 300 jobs will be created.
- 2) Estimating a below-average income of \$13,000 - \$14,000 each, new income tax revenues will average \$471 for each job, producing a total gain of \$141,300 per year in new income tax revenue.
- 3) At least 30% of jobs created or retained will be filled by people who would otherwise receive unemployment or welfare benefits. Estimating 100 less welfare/UI cases, at an average cost reduction of \$3,060 each, means \$306,000 in reduced costs to state programs.

Benefits to the state outweigh costs by \$3.65 in gains for every \$1 in expenditures.

Ex. #77
4-7-87

2. Is this trust-busting?

The principle author of the Instate Investment Act agrees that the use of funds contemplated here is entirely in accord with the original intent of the Act. What is being done is to free a small part of the Fund from the constraints of trust fund fiduciary regulations--constraints that now prevent the money from being used to make small loans to truly small businesses. And the appropriation from the IIF is not to be spent: it is to be invested, over and over again, in small companies at the community level. Capital is sequestered from operating expenses; is secured; and is recoverable.

3. What about security?

(a) Loss rates for combined training/finance/oversight programs are lower than regular bank loss rates, and can be covered from loan loss reserve requirements placed on the MBDC's.

(b) Capital (the development loan fund) will be strictly sequestered from operating funds at the state and local level; any repayments of principle to the state will go back into the development fund.

(c) Principle on development loans will be secured by a first lien on all microbusiness loans of each MBDC: a minimum ratio of 1.3 : 1 of collateral to investment.

(d) Principle can be recovered in two ways:

i) Through default, in case of nonperformance by an MBDC, in which case the corporation's receivables revert to the microbusiness development fund;

ii) Through non-renewal of the interest-only feature of the development loans. These loans will be made on an interest-only basis for a set term. If it is decided not to renew at the end of the term, an amortization schedule can be negotiated, to recover principle in a gradual fashion that does not disrupt the income or operations of the MBDC.

4. Where will the MBDC's get their operating income?

About one-third will come from interest earnings on microbusiness loans. If development loans to MBDC's are made at 4% (enough to cover administration at the state level), and microbusiness loans are made at the current market rate of 13%, net interest earnings will be about \$20,000 per year. The remainder of a typical \$60,000 operating budget could come from fee income for training and loan packaging, local government support, private contributions, private foundations, federal grants, or the 1/10 mill levy for economic development available to Montana counties.

Ex #17
4-7-89

5. Why not low-interest loans to the microbusinesses?
Why should they pay market rate?

The intent of this program is to finance economically sound and competitive expansion or start-up projects whose only fault is that they are too small to receive attention from existing public programs or regular commercial lenders. The economist's definition of a competitive project is one that can pay market rates. This program overcomes a market failure known as diseconomies of scale: the subsidy is in the credit investigation, management training and oversight costs, not the interest rates.

SUMMARY

Survey of Montana Banks
on
Market for Microbusiness Lending

On March 2, 1989, a questionnaire was mailed to 175 Montana banks, to help determine if there is a market for small commercial loans (under \$25,000) to small companies, accompanied by management technical assistance and oversight. Forty-two banks have returned the questionnaire.

1. One third of the respondents agreed that there is some size below which commercial loans become impractical for a private lender. Twenty-nine percent said loans of \$25,000 or less were rare or unlikely.
2. More than 83% said there was a size below which SBA guaranteed loans become impracticable--and 50% said SBA guaranteed loans below \$25,000 were rare or unlikely.
3. Asked to identify commercial financing needs not met by current private and public lenders, respondents checked the following categories:

Equity capital	45.2%
Venture capital	83.3%
Risk capital	88.1%
Debt finance of working capital	52.4%

4. Estimate of Micro-Lending Market. Twenty-six banks responded to questions on the likely market size for an institution in their market area, specializing in commercial loans under \$25,000, and providing management training and oversight. These statistics are derived from their estimates:

a. Number of loans closed per year (average):	32
b. Dollars loaned annually (average):	\$661,923
c. Sum of dollars loaned (all responses):	\$17,210,000
d. Total population served (all responses):	370,500
e. <u>Annual micro-loan market per 1,000 population:</u>	<u>\$46,451</u>
f. <u>Annual micro-loan market, Montana:</u>	<u>\$37,160,000</u>

EXHIBIT NO. 18

DATE 4/7/89

FILE NO. HB 765

NAME: MICHAEL P. VALONE V.I.

ADDRESS: 646 TAMBRACK

PHONE: 442-2070 Home 447-2008 Work

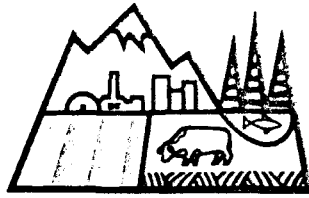
REPRESENTING WHOM? NORWEST BANKS

APPEARING ON WHICH PROPOSAL: H.B. 765

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS: I AM A VICE PRESIDENT OF NORWEST BANK HELIXA
NORWEST BANKS ARE IN FAVOR OF HB 765, THIS BILL
WILL ENABLE THE ENTREPRENEURSHIP OF SMALLER BUSINESS
PERSONS TO GET OFF THE GROUND AND HOPEFULLY BECOME A
LARGER EMPLOYER OF THE STATE AND A GOOD COMMERCIAL
BANK CUSTOMER

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.



SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 19
DATE 4/7/89
BILL NO. HB 765

MONTANA CHAMBER OF COMMERCE
P. O. BOX 1730 • HELENA, MONTANA 59624 • PHONE 442-2405

TESTIMONY BY JAMES TUTWILER
MONTANA CHAMBER OF COMMERCE
HOUSE HB 765

THE MICROBUSINESS DEVELOPMENT ACT - APRIL 7, 1989

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I AM JAMES TUTWILER OF THE MONTANA CHAMBER OF COMMERCE. BUSINESSES AROUND THE STATE MAKE UP OUR MEMBERSHIP, MORE THAN 90 PERCENT OF THESE MEMBERS ARE SMALL BUSINESSES, THAT WOULD BENEFIT FROM HB 765.

WE SUPPORT THIS BILL FOR SEVERAL REASONS. FIRST, SMALL BUSINESSES ARE OFTEN OVERLOOKED AS CONTRIBUTORS TO AN EXPANDING ECONOMY, YET A REVIEW OF THE GROWTH THAT HAS OCCURRED IN MONTANA CLEARLY SHOWS THAT SMALL BUSINESS PLAYS A VITAL ROLE IN THE STATE'S ECONOMIC HEALTH.

WE ARE ALL HOPING FOR MORE BUSINESS GROWTH AND MORE JOB OPPORTUNITIES IN MONTANA. BUT THE FACT IS MANY OPPORTUNITIES FOR SUCH GROWTH ARE LOST BECAUSE ASPIRING SMALL ENTREPRENEURS CANNOT OBTAIN CAPITAL TO START A BUSINESS. HB 765 WOULD SOLVE THAT PROBLEM. IF ENACTED, IT WILL PROVIDE NEEDED CAPITAL TO THE RIGHT PEOPLE AT THE RIGHT TIME.

WE ALSO SUPPORT THIS BILL BECAUSE IT IS NOT POORLY CONCEIVED, DESTINED TO FAILURE, OR SERVING OF ANY SPECIAL INTEREST. RATHER IT PROVIDES FOR A PILOT APPROACH, THE FUNDING

Ex #19
4-7-89
HB765

MECHANISM IS WELL THOUGHT OUT, AND IT BUILDS ON A PRECEDENT THAT HAS PRODUCED RESULTS.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, GIVEN THE POOR STATE OF MONTANA'S ECONOMY, WE OUGHT NOT OVERLOOK ANY OPPORTUNITY TO CREATIVELY ADDRESS THE PROBLEM OF PROMOTING NEW BUSINESS AND NEW JOB OPPORTUNITIES IN THIS STATE.

FOR THESE REASONS WE URGE YOUR SUPPORT OF HB 765.

WITNESS STATEMENT

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 20

DATE 4/7/89

BILL NO. HB 765

NAME: Skip Lynch DATE: _____

ADDRESS: 1709 N 1st Hamilton, MT 59840

PHONE: 363-5450

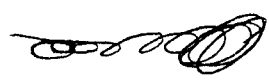
REPRESENTING WHOM? Bitter Root RCD

APPEARING ON WHICH PROPOSAL: HB # 765

DO YOU: SUPPORT? Yes AMEND? _____ OPPOSE? _____

COMMENTS: _____

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.



WITNESS STATEMENT

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 21

DATE 4/7/89

DATE 4-7 BILL NO. HB 765

NAME: RICHARD OSBORN

ADDRESS: WEST FORK ALTA, DARBY, MT 59829

PHONE: 821-3052

REPRESENTING WHOM? MYSELF

APPEARING ON WHICH PROPOSAL: HB 765

DO YOU: SUPPORT? YES AMEND? _____ OPPOSE? _____

COMMENTS: see Exhibit #22

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

"My Hopes for Making Mead in Montana"

Osborn

This is my product, Mead. (Visual display) Mead is a white wine, similar to a Rhine wine, made solely from honey-no grapes at all. I used some of Montana's finest Knapweed honey. This is the product of my nearest competitor, a small winery in Indiana. They cannot keep up with their demand. I have also been experimenting with Huckleberry Wine, and intend to investigate other locally grown fruits and berries which I know will produce fine wines. Montana is not prime grape growing country, nor do I wish to import grapes or juice. I intend to stay away from grapes entirely.

I find many people assume Honey wine is sweet. It can be, but I find the most popular varieties out of the ones I've produced are the Dry and Medium Dry. I keep the alcoholic content between 10 and 11 percent, because if it's any stronger the alcohol taste tends to dominate. Mead is very easy to drink, and can be classified as a fun wine, as opposed to a premium or a dinner wine.

It is quite evident from the Indiana winery's success, as well as other small wineries I know of that produce other than grape wines, that demand for such products is out there and growing. There is also presently an increasing trend of strong liquor drinkers cutting down on their consumption of such high proof alcohol, moving instead toward the lower proof of wine. There are a number of reasons for this including the more healthful benefits of wine versus the deleterious effects of high proof alcohol on the liver. The main reasons cited are all related to the high cost of drunken driving. The wine industry itself is beginning to take a responsible and active role in educating consumers about the health and safety aspects of drinking wine.

Initially, my enterprise will be of a small scale, but when it takes off, I expect to employ from 3 to 10 people, primarily depending upon growth and seasonal factors. The local and state economies will be enriched in a number of ways, including jobs within the business itself, jobs in marketing and distributing, tax revenue from income as well as from the wine itself, and tourism potential.

A novel, unique product like this can also help bring in more tourist dollars. Tourist's can be encouraged to visit the winery where they will receive free samples-- which can often convince them to buy a bottle or a case of "Made in Montana Huckleberry Wine," or perhaps, "Montana Mead." Everyone who has tasted of my rather limited supply has professed to like it. If I had a few more gallons and enough glasses, everyone here could indulge, but I don't, and it's still too early in the day anyway. Sorry.

Ex. #22

4-7-89

2

The top end of the wine industry has a return on equity ratio of 46%. The average return on equity ratio is 13% with a large number of wineries surpassing that figure considerably. Europeans, Pacific Rim countries and banks, high proof alcoholic beverage producers like Hiram Walker, Chevron, Nestle, and Prudential have all invested in domestic wineries. Perhaps the state of Montana can join their ranks.

This is a good, clean industry; non-polluting and natural. Federal regulations as well as all of my other research indicates that financing of the amount this program intends to offer is ideal for getting a good start in Montana's fledgling wine industry.

April 10, 1989

TESTIMONY

HB765
Microbusiness
Development Act

CITY OF HAVRE

Phone (406)265-6719
P.O. Box 231
HAVRE, MONTANA 59501

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 23
DATE 4/7/89
BILL NO. HB 765

Driscoll

I AM VERY PLEASED TO BE HERE TODAY TO DISCUSS THE GREAT NEED FOR ASSISTANCE FROM THE STATE TO LOCAL GOVERNMENT ENTITIES.

WE VIEW THE MICROBUSINESS DEVELOPMENT ACT AS PLAYING A VERY IMPORTANT ROLE IN OUR EFFORTS TO DEVELOP AND EXPAND THE LOCAL ECONOMY. THE CITY OF HAVRE ALONG WITH SEVERAL NEIGHBORING CITIES AND COUNTIES HAVE BEEN DEEPLY INVOLVED WITH THE PROSPECTS OF CREATING NEW JOB OPPORTUNITIES FOR OUR AREA RESIDENTS; THIS PLANNING AND DEVELOPMENT EFFORT HAS BEEN ONGOING FOR MORE THAN TWENTY YEARS.

WE ARE VERY PROUD OF OUR AFFILIATION WITH THE BEAR PAW DEVELOPMENT DISTRICT PROGRAM. JUST IN THE THREE YEARS THAT I HAVE BEEN MAYOR, MILLIONS OF DOLLARS OF INFRASTRUCTURE CONSTRUCTION HAS TAKEN PLACE. IN ADDITION, SEVERAL SMALL BUSINESSES HAVE CREATED OR EXPANDED, RESULTING IN A TREMENDOUS ECONOMIC BENEFIT TO OUR AREA.

I ENDORSE THE CONCEPT OF HB765 BUT STRONGLY URGE EVEN MORE FUNDING BE MADE AVAILABLE SO THAT THE ENTIRE STATE CAN BENEFIT.

THE REVOLVING LOAN PROGRAM TO BE CREATED BY LOCAL OPERATORS MUST, HOWEVER, BE CAREFULLY EVALUATED BEFORE FUNDS ARE MADE AVAILABLE. UNLESS THIS PROGRAM CAN BE INTEGRATED INTO AN ESTABLISHED ONGOING, SUCCESSFUL OPERATION, CHANCES FOR THE FULFILLMENT OF THE GOALS OF THIS PROGRAM WILL DIMINISH.

THANK YOU FOR THIS OPPORTUNITY TO COMMENT ON THIS PROPOSED LEGISLATION AND BE ASSURED THAT I WILL BE AVAILABLE FOR FURTHER DISCUSSION AT YOUR REQUEST.


Donald X. Driscoll, Mayor

Bear Paw Development Corporation of Northern Montana

P.O. BOX 1549 HAVRE, MONTANA 59501

TELEPHONE: 406-265-9226
406-265-5602

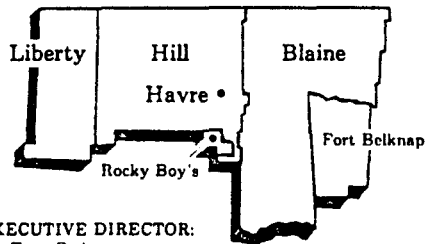
BOARD OF DIRECTORS

Dan Morse, President
Ordell Klindworth, Vice President
Robert Moog, Secretary
Ray Gehlen, Treasurer
Joe Rosette

Richard Sangrey
Raymond Parker, Jr.
Donoven Archambault
Art Rambo

Jim Coffman
Don Driscoll
Ken Stam
Rod Becker

BEAR PAW DISTRICT



EXECUTIVE DIRECTOR:
Tony Preite
DEPUTY DIRECTOR:
Dick King
ADMINISTRATIVE ASSISTANT:
Jenny Morse

April 10, 1989

TESTIMONY

HB765 Microbusiness Development Act

Thank you for the opportunity to make our views known relative to the economic development climate in rural areas of the country such as Montana and HB765 in particular.

The Microbusiness Development Act if passed would be important in providing local economic development agencies with a necessary tool in their efforts to expand rural business and create local job opportunities.

Bear Paw Development Corporation is a substate, multi-county planning and development organization serving the Counties of Hill, Blaine and Liberty and the Cities of Havre, Chinook, Harlem and Chester. In addition, services are also provided to the Towns of Box Elder, Hogland, Turner, Kremlin, Gildford, Hingham, Inverness and Joplin. The Indian Reservations of Rocky Boy and Fort Belknap are also served. We are the only District in Montana and have served continuously over the past twenty-one years.

Most often, rural America is equated with just farming. Although we acknowledge the overwhelming importance of agriculture in Montana, it must be noted that agriculture family income must be supplemented by non-direct agriculture sources. In fact, nationwide over 60% of farm family incomes come from non-agriculture sources.

Rural America including Montana has not recovered from the recession of the early 1980s. International competition, lack of a well-trained workforce, poor infrastructure and limited government programs have contributed to rural America's downward spiral. Since 1979 the nonmetropolitan employment rate has grown at only 38 percent of the metropolitan rate. Although 25 percent of the nation lives in rural areas, these areas have only 20 percent of the nation's jobs. In 1987, rural unemployment reached 7.9 percent, two percentage points above the national average.

4/7/89

A struggling economy and a poor quality of life are often inter-related, and rural residents continue to suffer. While 20 percent of the urban population lives in poverty, 34 percent of all rural people are poverty stricken. Infant mortality is up to one third higher in rural areas than the national average. The disproportionately high rural elderly population suffers through inadequate medical care. Schools struggle to provide basic educational needs to the upcoming workforce.

Much of small metropolitan and rural America's infrastructure is inadequate. Public investment in the maintenance and construction of roads, bridges and other public works has declined drastically in the last decade. Federal grant and loan programs for community and economic development have been cut by 74 percent since 1980. As Federalism has come to mean federal inaction, rural areas have come to rely more and more on diminishing local resources to survive.

Is there any hope for the resurrection and revival of a vibrant rural economy? In our opinion, only if local, state and federal agencies work closely together and in fact commit resources and funds toward rural planning and economic development. Federal sources of funds from agencies such as the Community Development Block Grant Programs (administered by the Montana DOC), the Economic Development Administration along with programs of the Farmers Home Administration and of the Small Business Administration must be understood and fully utilized in conjunction with local resources if the downward economic spiral is to be reversed.

Local communities need federal and state assistance to develop healthy local economies. During the 1980s, reductions in federal spending for community and economic development have limited the reach of many vital programs. The federal government can and should encourage the economic growth and diversification of small metropolitan and rural areas.

Strategic planning, infrastructure improvements, and small business assistance are the most important factors in the creation of private sector jobs and viable communities. Strategic planning helps a community to identify its assets and liabilities. Local officials and the private sector can then determine the best approach to development for their region. Without an adequate infrastructure, however, no community can sustain economic development. Only through modern roads, bridges, and telecommunication systems can rural communities overcome their isolation. Small business financing is also a fundamental requirement for economic development. Rural business owners need government programs such as revolving loan funds and loan guarantees to help create opportunities for growth. These three priorities -- strategic planning, infrastructure improvement, and small business assistance -- are essential for rural America to develop and compete in the global market of the 21st Century. All development is local. Local governments are the permanent institutions capable of achieving long-term improvements in their communities.

Ex. #24
4/7/89

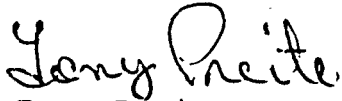
Not only do we strongly support the concept of the Microbusiness Development Act, we firmly believe that funding should be increased to provide blanket coverage state-wide which would better enable all areas of Montana to help themselves. We further believe that funds be made available only after close scrutiny of the recipient agency by the State. There must be in place professional staff capability at the local level if this program is to be successful.

Therefore, we cannot over-emphasize our opinion that the Micro-business Finance Loan Program standing alone as an isolated operation will in all probability fail to achieve its intended purpose. Only if it is included as part of an existing integral planning and development organization will success be attained.

In closing, we want to commend members of the Legislature for drafting and promoting this legislation. Please be assured that with proper implementation this program will greatly benefit local efforts to create job opportunities through small business development and expansion. Therefore, we strongly recommend the adoption of HB765.

Be advised that I will be available for further discussion at this time or in the future.

Sincerely,



Tony Preite
Executive Director

WITNESS STATEMENT

SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 25

DATE 4/7/89

DATE: April 7, 1989

NAME: R. Dianne Ayres

ADDRESS: NE Bell Lane 171, Hamilton, MT 59840

PHONE: 363-5073

REPRESENTING WHOM? Alternative Machining

APPEARING ON WHICH PROPOSAL: HB #765

DO YOU: SUPPORT? X AMEND? _____ OPPOSE? _____

COMMENTS: Much needed for Small Businesses

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

Thank you for the opportunity to testify in support of
HB 765.

My name is Dixie Swenson. I am the Client Manager of Headwaters Entrepreneur Resources, the small business incubator in Bozeman. Although Headwaters is a comparatively new program (only in its first year of operation), in this short time nearly 100 individuals have asked us for some type of assistance. A clear pattern has emerged. They need training in self-employment--in how to start a business--which we provide. But they also need access to sufficient early capital to ensure their business has every chance to succeed.

HB 765 provides access to capital for these micro-businesses which are not now well served by traditional sources in the financial community. Banks are the first to admit it is not economically advantageous for them to make commercial loans in very small amounts. But very small loans are exactly what micro-businesses need.

We know that one quarter of all Montanans are self-employed. And we know that virtually all the new jobs in Montana in recent years have been created by "home-grown" companies. It most certainly will be economically advantageous for all of us to do everything we can to assist these businesses.

We would appreciate your support of this program.

Thank you.

E: HB600 - BUSINESS REGULATORY & LICENSING CENTER

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 27
DATE 4/7/89
BILL NO. HB 600
HB 665

I DO NOT FAVOR STATE LICENSING OF BUSINESS.

GOVT LICENSING REGULATORS BY THEIR EXISTENCE CREATE OBSTACLES TO FORMING AND OPERATING A BUSINESS.

RE: HB765 - MICRO BUSINESS LOAN & GRANT PROGRAM

GOVT MONEY TENDS NOT TO RESULT IN FORMATION OF VIRILE BUSINESSES.

IT LEADS TO BUSINESS DEPENDENCY AND ADDICTION TO TAX PAYERS MONEY.

THE GOVT AGENCY AND DEPENDENT BUSINESSES CREATE THEIR OWN ADVOCACY FOR MORE GOVT MONEY AND GOVT EMPLOYEES.

THESE TWO BILLS ARE WOLVES IN SHEEP'S CLOTHING. THEY WILL NOT CREATE THE DESIRABLE BUSINESS YOU WANT. THE BEST FOR BUSINESS IS FOR GOVT TO GET OUT OF THE WAY. REDUCE TAXES. GET OUT OF ARTIFICIAL MINIMUM WAGE.

I'M A NATIVE BORN MONTANAN RETURNING HOME AFTER 10 YEARS IN CALIFORNIA BUSINESS AND INDUSTRY TO START MY OWN MANUFACTURING AND DISTRIBUTION BUSINESS. I'M NOT SO SURE I'LL STAY.

MONTANA SHOULD WANT FREE ENTERPRIZE, NOT GOVT REGULATED AND FUNDED ENTERPRIZE.

URGE YOU TO VOTE AGAINST HB600 & HB675 IN YOUR BUSINESS & INDUSTRY COMMITTEE.

SINCERLY,
L. DEPUYDT
P.O. BOX 86, SACO, MONTANA



OFFICE OF THE MAYOR

201 W. SPRUCE • MISSOULA, MT 59802-4291 • (406) 721-4700

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 28
DATE 4/7/89
BILL NO. HB 765

April 3, 1989

Gene Thayer, Chairman
Senate Business & Industry Committee
Capitol Station
Helena, Montana 59620

Subject: Support of House Bill 765


Dear Chairman Thayer:

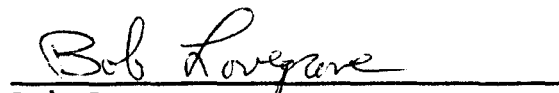
The City of Missoula officials would like to express their strong support for House Bill 765. The need for economic development in Montana continues to be an issue of state-wide concern. This is especially true for small business owners in Montana who have not been able to achieve adequate financing from established lending institutions. Historically, they have not been able to provide the amount of credit, nor collateral necessary to fund fledgling businesses or small business operations. House Bill 765 provides a mechanism to address the needs of these small businesses.

While there is strong support for the need for this type of bill, perhaps the most controversial portion of the bill is the appropriations that would come from the instate investment in the coal fund. Historically, there has been a great deal of reluctance on the part of the legislature to open the lid to this funding source. However, the primary need among small businesses in Montana is an access to small operating loans to fund these businesses.

The Missoula Community Business Incubator Program has been successful in providing the loans to small micro businesses in the Missoula area. The success rate is high, the failure rate is low. The City of Missoula has supported this program with \$250,000 of loan reserves to be used as a 2 to 1 match through local banks to meet the demand for loans for these small businesses.

Missoula City officials feel that this program is working on a local basis and will be successful on a state-wide basis. This is clearly the route that we need to take to give small businesses a chance to be successful and add to the economic strength of Montana. We urge you to support House Bill 765.


Al Sampson
City Council President


Bob Lovegrove
Mayor

Ex. #28
4-7-89

Fred Rice
Fred Rice, Councilor

Elaine Shea
Elaine Shea, Councilor

Donna Shaffer
Donna Shaffer, Councilor

Yvonne Ransavage
Yvonne Ransavage, Councilor

Marilyn Cregg
Marilyn Cregg, Councilor

Dan Kemmis
Dan Kemmis, Councilor

Doug Harrison
Doug Harrison, Councilor

Bob Hermes
Bob Hermes, Councilor

Jack Reidy
Jack Reidy, Councilor

Larry McLaughlin
Larry McLaughlin, Councilor

Bill Potts
Bill Potts, Councilor

Signed on the previous page
Al Sampson, Councilor

xc: Senate Business & Industry Committee

Letter: 89-118

Stevi Machine, Inc.

P.O. BOX 75
4050 HIGHWAY 93 SOUTH
STEVENSVILLE, MONTANA 59870
(406) 777-5401



SENATE BUSINESS & INDUSTRY

EXHIBIT NO. 29

DATE 4/7

BILL NO. HB765

April 6, 1989

To the Committee:

On behalf of Stevi Machine, Inc. of Stevensville, Montana we wish to express our support of H.B. 765. As a Company that has experienced its share of "Hard Knocks" we can assure you that the money envisioned to be spent on small business by the bill will be well invested.

Generating financial and management expertise before commitment of time, energy and money is a necessity. The Sponsors of the bill are to be commended for believing in small business.

We ask that you recommend do-pass on H.B. 765

Sincerely,

Donald R. Barker, President

M. Richard Gebhardt, Business Manager

Stevi Machine, Inc.

GENERAL AUTOMOTIVE AND GOVERNMENT CONTRACTING
IN THE BEAUTIFUL BITTERROOT VALLEY

SENATE BUSINESS & FINANCE
EXHIBIT NO. 30
DATE 4/7/89
BILL NO. HB 765

Wadsworth Mfg.
889 Dublin Gulch Rd
St. Ignatius Mt.

We at Wadsworth Mfg. have invented and patented a bloodless castrator for bulls, horses, sheep, and goats and it is also being tested as a bloodless procedure for removing horns from cattle. We have just about exhausted our means for finding start up moneys and still be able to stay in the state of Montana. We are in full support of bill # 765. We feel we have the potential of becoming a company with sales world wide. Bill #765 would be a great help to us and other small companies trying to get started.

Thank you



Scott Wadsworth
Wadsworth Mfg.

HOUSE BILL 600
SENATE BUSINESS AND INDUSTRY
FRIDAY, APRIL 7, 1989

EXHIBIT NO. 31
DATE 4/7/89
BILL NO. HB600

Chairman Thayer and member of the Committee. For the record, my name is Ralph Peck, Deputy Director of The Montana Department of Agriculture.

The goal of HB600 to simplify the licensing procedure in Montana is admirable and should be strived for. One of the best ways to adding simplicity is to reduce the number of frivolous and nuisance licenses. We would give this approach our full support. However, our understanding of the master licensing system proposed in HB600 would in fact make the licensing system more complex, confusing and expensive.

By outward appearances, a master licensing system as proposed in HB600 would seem to be a boon to business in Montana since any particular business, in theory, would need only one or two "master licenses" tacked to their walls. In practice, however; such a system might only add one or more nightmarish level of bureaucratic inefficiency.

We would like to summarize just four of the numerous implementation problems that have to be overcome.

1. Our department and others have staggered licensing years for licenses and registrations as set by statute in response to industry production periods. This staggered system would have to be resolved.
2. In the case of the Department of Agriculture Plant Industry Division's feed, fertilizer, and apiary programs, the application form becomes the official registration form when it is approved and returned to the applicant. Adding another step will in effect increase workload and inefficiency.
3. It is highly probable that every licensing data base is not compatible with the Department of Commerce computer system. In our case, if compatibility is not achieved with our micro computer system all the data will have to be reentered from one computer system to the other. We don't have the resources or budget to do this.
4. It appears that the master licensing system will be very expensive. The Department of Commerce costs do not reflect the additional costs to business as we increase the turn around time for licensing. Many times we are asked to issue a license on a weekend or within a couple hours notice.

Mr. Chairman, we hope that the master license proposal can be analyzed to be sure that we don't jump into a high cost, non-responsive licensing system.

WRP/pb/Hb600.WRp

TESTIMONY FOR HOUSE BILL 600

MONTANA SMALL BUSINESS LICENSING COORDINATION ACT

- This bill puts the cart before the horse
- The stated intent of House Bill 600 is to
 - reduce cost
 - eliminate duplication
 - eliminate unnecessary licenses
 - prevent delay

SOUNDS GREAT!!!

Until you study the legislation.

What does HB600 really do?

- HB600 creates more government.

This legislation creates a new government board, new staff, new responsibilities, and new computer equipment. It does not reduce government, it expands it.

- HB600 creates duplication.

Instead of one government agency issuing a license for a particular purpose, we are going to add another step in the process. We will include the Department of Commerce as well. This will lead to slower service for the business person this legislation is intended to help.

4-7-89

The Department of Commerce already has a "Business Licensing Center" where an individual can receive information from one source about business licensing in Montana.

THE REAL ISSUE AND THE ONE THAT NEEDS TO BE ADDRESSED IS;

- The elimination of unnecessary bureaucracy for the small business person.
- The governor has stated time and time again that he is committed to eliminating unnecessary bureaucracy. Give the governor a chance to do what the stated purpose of this bill intends which is to eliminate those "licenses and permits that no longer serve a useful purpose in regulating business activities.."

CONCLUSION

To create more government with the implied purpose of reducing government is crazy. This is what HB600 asks you to do.

4/7/89

EXHIBITS WERE MISNUMBERED. THERE IS NO EXHIBIT # 33 FOR THIS DAY.

SENATE BILL NO. _____

INTRODUCED BY _____

A BILL FOR AN ACT ENTITLED: "AN ACT AUTHORIZING THE USE OF TAX INCREMENT FINANCING TO ENCOURAGE THE ATTRACTION, GROWTH AND RETENTION OF SECONDARY VALUE-ADDING INDUSTRIES THROUGH THE CREATION BY LOCAL GOVERNMENTS OF TAX INCREMENT FINANCING INDUSTRIAL DISTRICTS TO ASSIST IN FINANCING NECESSARY INDUSTRIAL INFRASTRUCTURE; AND AMENDING SECTIONS 7-15-4282, 4283, 4284, 4285, 4286, 4288, 4290, 4292, 4293, 4301, 4302, 4304, 4321, 4322 AND 4323 ."

WHEREAS, the State of Montana wishes to encourage the attraction and retention of secondary value-adding industrial manufacturing which utilizes Montana timber, mineral, oil and gas, coal, and agricultural resources in the production of products in the State; and,

WHEREAS, secondary value-adding industries are those industries which transform raw resources into processed substances from which industrial or consumer products can be manufactured; and,

WHEREAS, secondary, value-adding industries, in order to be competitive in today's world economy, require expensive infrastructure which is beyond the means of most Montana communities; and,

Ex. #34

4-7-89

WHEREAS, Montana law currently provides certain property tax benefits to new and expanding industries, including secondary value-adding industries, but currently has little to directly encourage the development of needed industrial infrastructure to attract secondary value-adding industries; and,

WHEREAS, additional creative use of Montana's current tax laws could encourage increased investment in secondary value-adding industry in the State through the utilization of tax increment financing for infrastructure improvements in areas in which the infrastructure would be available for secondary value-adding industrialization;

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

New Section. "Section (1): Short Title. This act shall be known and may be cited as the 'Tax Increment Financing Industrial Development Law'".

New Section. "Section (2): Existence of economic infrastructure deficient areas and resulting problems--statement of policy: It is hereby found and declared:

(a) That infrastructure-deficient areas, which constitute a serious impediment to the development of infrastructure-intensive secondary value-adding economic development in Montana, exist in the cities and counties of the State;

Ex. #34
4-7-89

(b) That cities and counties lack sufficient capital to rectify the infrastructure shortage in infrastructure-deficient areas, impeding the ability of cities and counties to achieve economic growth through the development of secondary value-adding industries;

(c) That the creation of industrial infrastructure is a matter of state policy and state concern in order that the state, its counties, and cities shall not continue to suffer economic dislocation from the lack of secondary value-adding industries;

(d) That the state's tax increment financing laws should be utilized to encourage the creation of areas in which needed industrial infrastructure for secondary value-adding industries could be developed."

New Section. "Section (3): Creation of Tax Increment Financing Industrial Districts. The local governing body may, by ordinance, following a public hearing, authorize the creation of a tax increment financing industrial district for the development of industrial infrastructure if the proposed tax increment financing industrial district:

(a) Consists of a continuous area with an accurately described boundary;

(b) is zoned for light or heavy industrial use in accordance with the area master planning document;

(c) does not include any property included within an existing urban renewal district created pursuant to Title 7, Chapter 15, Part 42;

Ex. #341
4-7-89

(d) is found to be deficient in infrastructure improvements for industrial development; and

(e) has as its purpose the development of infrastructure to encourage the growth and retention of secondary value-adding industries."

New Section. "Section (4): Authorization of Tax Increment Financing Industrial District to utilize tax increment financing. Tax increment financing industrial districts created pursuant to [Section 3 of this Act] are authorized to utilize tax increment financing pursuant 7-15-4282 through 7-15-4293."

New Section. "Section (5): Authorization to Issue Bonds for Tax Increment Financing Industrial Districts. Cities and counties are authorized to issue bonds for tax increment financing industrial districts created pursuant to [Section 3 of this act]; such bonds shall be issued pursuant to 7-15-4301 through 7-15-4324."

Sections 7-15-4282, 4283, 4284, 4285, 4286, 4288, 4290, 4292 and 4293 are amended to read:

"7-15-4282. Authorization for tax increment financing. Any urban renewal plan, as defined in 7-15-4206, or tax increment financing industrial district ordinance adopted pursuant to [Section 3 of this act], may contain a provision or be amended to contain a provision for the segregation and application of tax increments as provided in 7-15-4282 through 7-15-4293.

Ex. #34
4-7-89

7-15-4283. Definitions related to tax increment financing. For purposes of 7-15-4282 through 7-15-4293, the following definitions apply unless otherwise provided or indicated by the context:

(1) "Actual taxable value" means the taxable value of taxable property at any time, as calculated from the assessment roll last equalized.

(2) "Base taxable value" means the actual taxable value of all taxable property within an urban renewal area or industrial district prior to the effective date of a tax increment financing provision. The value may be adjusted as provided in 7-15-4287 or 7-15-4293.

(3) "Incremental taxable value" means the amount, if any, by which the actual taxable value at any time exceeds the base taxable value of all property within an urban renewal area or industrial district subject to taxation.

(4) "Tax increment" means the collections realized from extending the tax levies, expressed in mills, of all taxing bodies in which the urban renewal area or industrial district or part thereof is located against the incremental taxable value.

(5) "Tax increment provision" means a provision for the segregation and application of tax increments as authorized by 7-15-4282 through 7-15-4293.

(6) "Taxes" means all taxes levied by a taxing body against property on an advalorem basis.

(7) "Taxing body" means any city, town, county, school district, or other political subdivision or governmental unit of the state, including the state, which levies taxes against property within the urban renewal area or industrial district.

(8) "Municipality" means, for the purposes of any tax increment financing industrial district created under [this act] and operating pursuant to 7-15-4282 through 7-15-4293, any incorporated city or town, county or unified city/county government.

(9) "Industrial District" means a tax increment financing industrial district created pursuant to [Section 3 of this act].

(10) "Industrial infrastructure improvement project" means a project undertaken within a tax increment financing industrial district which consists of any or all of the activities as authorized by 7-15-4288.

7-15-4284. Filing of tax increment provisions of urban renewal plan or tax increment financing industrial district ordinance.

(1) The clerk of the municipality shall file a certified copy of each urban renewal plan or tax increment financing industrial district ordinance or amendment thereto containing a tax increment provision with the state, county, or city officers responsible for assessing and determining the taxable value of taxable property within the urban renewal area or industrial district or any part thereof.

(2) A certified copy of the plan or tax increment financing industrial district ordinance or amendment shall also be filed with the clerk or other appropriate officer of each of the affected taxing bodies.

7-15-4285. Determination and report of original, actual, and incremental taxable values. The officer or officers responsible for assessing and determining the taxable value of the taxable property located within the urban renewal area or industrial district shall, immediately upon receipt of the tax increment provision and each year thereafter, calculate and report to the municipality and to any other affected taxing body the base, actual, and incremental taxable values of such property.

7-15-4286. Procedure to determine and disburse tax increment.

(1) Mill rates of taxing bodies for taxes levied after the effective date of the tax increment provision shall be calculated on the basis of the sum of the taxable value, as shown by the last equalized assessment roll, of all taxable property located outside the urban renewal area or industrial district and the base taxable value of all taxable property located within the urban renewal area or industrial district. The mill rate so determined shall be levied against the sum of the actual taxable value of all taxable property located within as well as outside the urban renewal area or industrial district.

(2) (a) The tax increment, if any, received in each year from the levy of the combined mill rates of all the affected taxing bodies against the incremental taxable value within the

urban renewal area or industrial district shall be paid into a special funds held by the treasurer of the municipality and used as provided in 7-15-4282 through 7-15-4293.

(b) The balance of the taxes collected in each year shall be paid to each of the taxing bodies as otherwise provided by law.

7-15-4288. Costs which may be paid by tax increment financing. The tax increments may be used by the municipality to pay the following costs of or incurred in connection with an urban renewal project or industrial infrastructure development project:

- (1) land acquisition;
- (2) demolition and removal of structures;
- (3) relocation of occupants

(4) the acquisition, construction, and improvement of streets, curbs, gutters, sidewalks, pedestrian malls, alleys, parking lots and offstreet parking facilities, railroad trackage, sewers, sewer lines, sewage treatment facilities, waterlines, waterways, water treatment facilities, public buildings, and other public improvements authorized by parts 41 through 45 of chapter 12, parts 42 and 43 of chapter 13, and part 47 of chapter 14 and items of personal property to be used in connection with improvement for which the foregoing costs may be incurred;

(5) costs incurred in connection with the redevelopment activities allowed under 7-15-4233;

(6) acquisition of infrastructure-deficient areas or portions thereof;

(7) administrative costs associated with the management of the tax increment financing industrial district;

(8) assemblage of land for development or redevelopment by private enterprise or public agencies (including sale, initial leasing, or retention by the local government itself) at its fair value;

(9) the compilation and analysis of pertinent information required to adequately determine the infrastructure needs of secondary value-adding industries in tax increment financing industrial districts; and

(10) the provision of direct assistance to secondary value-adding industries in order to assist in meeting their infrastructure and land needs within the tax increment financing industrial district.

7-15-4290. Use of property taxes for payment of bonds. (1) The tax increment may be pledged for payment of revenue bonds issued for urban renewal or industrial infrastructure development projects or of general obligation bonds, revenue bonds, or special assessment bonds issued to pay urban renewal or industrial infrastructure development costs described in 7-15-4288 and

7-15-4289. Any municipality issuing such bonds may, by resolution of its governing body, enter into a covenant for the security of the bondholders, detailing the calculation and adjustment of the tax increment and the taxable value on which it is based.

Ex. #34
4-7-89

(2) No property taxes, except the tax increment derived from property within the urban renewal area or industrial district and tax collections used to pay for services provided to the municipality by an urban renewal project or industrial infrastructure development project, may be applied to the payment of bonds issued pursuant to 7-15-4301 or pursuant to [Section 3 of this act], for which a tax increment has been pledged.

7-15-4292. Termination of tax increment financing. (1) The tax increment provision shall terminate upon the later of:

(a) the 10th year following its adoption or, if the tax increment provision was adopted prior to January 1, 1980, upon the 12th year following adoption; or

(b) the payment or provision for payment in full or discharge of all bonds for which the tax increment has been pledged and the interest thereon.

(2) Any amounts remaining in the special fund or any reserve fund after termination of the tax increment provision shall be distributed among the various taxing bodies in proportion to their property tax revenues from the district.

(3) After termination of the tax increment provision, all taxes shall be levied upon the actual taxable value of the taxable property in the urban renewal area or industrial district and shall be paid into the funds of the respective taxing bodies.

(4) No bonds with tax increment provisions for the repayment thereof may be issued subsequent to the 10th anniversary of tax increment provisions adopted after January 1, 1980, and the 12th anniversary of tax increment provisions adopted prior to January 1, 1980.

7-15-4293. Adjustment of base taxable value following change of law. If the base taxable value of an urban renewal area or industrial district is affected after its original determination by a statutory, administrative, or judicial change in the method of appraising property, the tax rate applied to it, the tax exemption status of property, or the taxable valuation of property if the change in taxable valuation is based on conditions existing at the time the base year was established, the governing body of the municipality may request the department of revenue or its agents to calculate the base taxable value as it would have been on the date of the original determination had the change been in effect on that date. The governing body may adjust the base taxable value to that value reported by the department of revenue, under the provisions of 7-15-4287."

Sections 7-15-4301, 4302, 4304, 4321, 4322 and 4323 are amended to read as follows:

"7-15-4301. Authorization to issue urban renewal or industrial infrastructure improvement bonds and refunding bonds. (1) A municipality shall have the power to: (a) issue bonds from time to time in its discretion, to finance the undertaking of any urban renewal or industrial infrastructure improvement project un-

Ex. #34
4-7-89

der this part and part 42 including without limiting the generality thereof, the payment of principal and interest upon any advances for surveys and plans for urban renewal and industrial infrastructure improvement projects; and

(b) issue refunding bonds for the payment or retirement of such bonds previously issued by it.

(2) Such bonds shall not pledge the general credit of the municipality and shall be made payable, as to both principal and interest, solely from the income, proceeds, revenues, and funds of the municipality derived from or held in connection with its undertaking and carrying out of urban renewal or industrial infrastructure improvement projects under this part and part 42 and including the tax increment received and pledged by the municipality pursuant to 7-15-4282 through 7-15-4292. Payment of such bonds, both as to principal and interest, may be further secured by a pledge of any loan, grant or contribution from the federal government or other source in aid of any urban renewal or industrial infrastructure improvement projects of the municipality under this part and part 42 or by a mortgage on all or part of any such projects.

(3) Bonds issued under this section shall be authorized by resolution or ordinance of the local governing body.

7-15-4302. Authorization to issue general obligation bonds. (1) For the purpose of 7-15-4267 or for the purpose of aiding in the planning, undertaking, or carrying out of an urban renewal project, or an industrial infrastructure improvement project of a

municipality, the municipality, in addition to any authority to issue bonds pursuant to 7-15-4301, may issue and sell its general obligation bonds.

(2) Any bonds issued pursuant to this section shall be issued in the manner and within the limitations prescribed by the laws of this state for the issuance and authorization of bonds by such municipality for public purposes generally.

(3) Aiding in the planning, undertaking or carrying out of an approved urban renewal or industrial infrastructure improvement project is considered a single purpose for the issuance of general obligation bonds, and the proceeds of the bonds authorized for any such project may be used to finance the exercise of any and all powers conferred upon the municipality by this part and part 42 which are necessary or proper to complete the project in accordance with the approved plan or industrial district ordinance and any modification thereof duly adopted by the local governing body.

7-15-4304. Presumption of regularity of bond issuance. In any suit, action, or proceeding involving the validity or enforceability of any bond issued under this part and part 42 or the security therefor, any such bond reciting in substance that it has been issued by the municipality in connection with an urban renewal or industrial infrastructure improvement project as herein defined shall be conclusively deemed to have been issued

Ex. #34
4-7-89

for such purpose and such project shall be conclusively deemed to have been planned, located, and carried out in accordance with the provisions of this part and part 42.

7-15-4321. Nature of urban renewal and industrial infrastructure improvement bonds. Bonds issued under 7-15-4301 shall not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction and shall be subject only to the provisions of the Uniform Commercial Code and the limitations of this part and part 42.

7-15-4322. Details relating to urban renewal and industrial infrastructure improvement bonds. (1) Bonds issued under 7-15-4301 may be issued in one or more series and shall bear such date or dates, be payable upon demand or mature at such time or times, bear interest at such rate or rates not exceeding the limitation of 17-5-102, be in such denomination or denominations, be in such form (either coupon or registered), carry such conversion or registration privileges, have such rank or priority, be executed in such manner, be payable in such medium of payment at such place or places, be subject to such terms of redemption (with or without premium), be secured in such manner, and have such other characteristics as may be provided by the resolution, ordinance, or trust indenture or mortgage authorized pursuant thereto.

(2) (a) The bonds may be sold at not less than 98% of par at public or private sale or may be exchanged for other bonds on the basis of par.

Ex. #34
4-7-89

(b) The bonds may be sold to the federal government at private sale at not less than par, and if less than all the authorized principal amount of the bonds is sold to the federal government, the balance may be sold at public or private sale at not less than 98% of par at an interest cost to the municipality of not to exceed the interest cost to the municipality of the portion of the bonds sold to the federal government.

7-15-4323. Redemption of urban renewal and industrial infrastructure improvement bonds. Every municipality shall have power to redeem such bonds as have been issued pursuant to 7-15-4301 at the redemption price established therein or to purchase such bonds at less than redemption price. All such bonds so redeemed or purchased shall be canceled."

Note to Bill Drafter: In all sections from 7-15-4282 through 7-15-4293 inclusive and in all sections from 7-15-4301 through 7-15-4324 inclusive, whenever the phrase "this part and part 42" appears, the following should appear, "this part, part 42 and [This act]. Thank you.

Amendments to House Bill No. 550
Third Reading Copy
For the Committee on Business and Industry

Prepared by Mary McCue
April 6, 1989

1. Title, lines 7 and 8.
Following: "COMMERCE" on line 7
Strike: remainder of line 7 through "UNIVERSITY" on line 7
Insert: "ACTING AS LEAD AGENCY IN CONJUNCTION WITH OTHERS"
 2. Title, line 9.
Strike: "WORLD-CLASS"
 3. Page 2, lines 13 through 15.
Following: "commerce" on line 13
Strike: remainder of line 13 through "UNIVERSITY" on line 15
 4. Page 2, lines 16 and 17.
Following: "commerce" on line 16
Strike: remainder of line 16 through "UNIVERSITY" on line 17
 5. Page 2, line 19.
Strike: "world-class"
Insert: "up-to-date, technologically complete, and architecturally appropriate"
 6. Page 2, line 21.
Following: "Montana."
Insert: "The department shall act as the lead agency in preparing the plan, in cooperation with the university system travel research program, the department of highways, the department of fish, wildlife, and parks, the Montana state university school of architecture, and other appropriate agencies."
 7. Page 3.
Following: line 13
Insert: "NEW SECTION. Section 2. Funding. (1) Funding to implement [this act] must be provided from existing appropriations as follows:
 - (a) one-third to be paid by the department of commerce from the account in the special revenue fund in 15-65-121(1)(c)(i);
 - (b) one-third by the university system from the special revenue fund in 15-65-121(1)(b); and
 - (c) one-third by the department of highways from the special revenue fund.(2) Total planning costs may not exceed \$49,000."
- Renumber: subsequent section

Amendments to House Bill No. 240
Third Reading Copy

Requested by Sen. Bob Williams
For the Committee on Business and Industry

Prepared by Mary McCue
April 6, 1989

1. Title, line 5.
Following: "ANNUAL"
Insert: "GOVERNOR'S"
2. Page 1, line 12.
Following: "annual"
Insert: "governor's"
3. Page 2, line 8.
Strike: "\$500"
Insert: "\$5,000"
4. Page 2, line 10.
Strike: "\$500"
Insert: "\$5,000"

SENATE BUSINESS & INDUSTRY
EXHIBIT NO. 57
DATE 4/7
BILL NO. HR 240

Amendments to House Bill No. 240
Third Reading Copy

Requested by Sen. Jerry Noble
For the Committee on Business and Industry

Prepared by Mary McCue
April 6, 1989

1. Page 2, line 8.

Strike: "\$500"

Insert: "\$5"

2. Page 2, line 10.

Strike: "\$500"

Insert: "\$5"

SENATE ... INDUSTRY
EXHIBIT NO. 38
DATE 4/7
BILL NO. HB 783

Amendments to House Bill No. 783
Third Reading Copy
For the Committee on Business and Industry

Prepared by Mary McCue
April 5, 1989

1. Title, line 10.
Following: "FUND;"
Insert: "GRANTING RULEMAKING AUTHORITY;"

2. Page 1.
Following: line 11
Insert: "STATEMENT OF INTENT

It is the intent of the legislature that the department of revenue adopt rules necessary to implement the Montana state-sponsored credit card program. The rules may include provisions governing the procedures for contacting financial institutions to determine if they would accept the state as a sponsoring entity for a credit card program and for negotiating the rate for the state's fee.

In participating in a credit card program, the state may contract with a number of financial institutions to establish the state as a sponsoring entity. The state may not contract to assume any liability for lost or stolen credit cards."

3. Page 2.
Following: line 13
Insert: "(3) The department may adopt rules necessary to implement the credit card program."

Renumber: subsequent subsection

DATE

4/7/89

1062

COMMITTEE ON

B & D

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Kip Lynch	Bitter Root RCD	765	X	
RICHARD OSBORN	MYSELF	765	X	
Dianne Ayres	Alternative Machining	765	X	
Trene Ayres	" "	765	X	
TONY Preite	Haure-Hill - Liberty Co. - BLTIVE -	765	X	
Mike Grove	Governors Council on Devt	765	X	
Paul Martin	Headwaters RCD & Chamber Russell County, Oregon	765	X	
U. Carlson	guest-observer			
Diane Niede	guest			
Laurie Shadon	Bozeman Chamber	765	X	
Jim Tutwiler	MT CHAMBER COMMERCE	765	✓	
Shirley Swenson	Headwaters Ext. Res. guest	765	✓	
guest	guest	765	X	
Jim Davison	Pascades Local Doulede	765	X	
Chuck Sumpgood	State Rep. Dist # 73	765	X	
Halene H Bowen	SBDC advisory Board Butte Chamber	765	X	
Ted Dalge	Headwaters RCD	765	X	
Don Spencer	Mayor - City of Haure	765	X	
Don Stecher	Self - Helena Business Consult.	765	✓	
Ann Proquest	M.A.P.P	765	✓	
Bill Pedersen	Dept. of Commerce	765	✓	
Brenda Nordlund	Montana Women's lobby	765	✓	
Judy Smith	MTWEDGO	765	X	
Jim Smith	HRDC Assoc	765	✓	
JOHN Filz	BRVDC Hamilton	765	✓	
Bill Chamraw	missoula Community BUSINESS INCUBATOR	765	X	

(Please leave prepared statement with Secretary)

