

MONTANA ECONOMIC DEVELOPERS ASSOCIATION (MEDA)

INITIAL AGENDA FOR 2005 LEGISLATIVE SESSION

June 14, 2004

The Montana Economic Developers Association (MEDA) is an organization of nearly 200 individuals and professionals engaged in economic development activities in Montana. Members come from the for-profit and non-profit sides of the private sector as well as the public sector. They work for entities at all levels -- local, state, national and international. MEDA members are committed to expanding economic opportunity in Montana by facilitating professional development and training opportunities, keeping it's members informed on issues that affect Montana's economy and developing public policy positions that support a strong business development environment. MEDA's public policy and legislative efforts are done in collaboration with other organizations in the State that share a common interest in improving Montana's economy.

The members of MEDA are in the business of creating jobs, increasing payroll and fostering private investment in Montana's economy. Membership dues and corporate and individual donations support MEDA. Membership is open to any individual or organization that supports the mission of MEDA.

This document is the culmination (so far) of the efforts of MEDA since the summer of 2003 to develop a package of legislative initiatives and support items for the 2005 session of the Legislature. The effort has involved numerous sub-committee meetings, quite a few meetings of the Legislative and Public Policy Committee and two general sessions of the full MEDA body.

BILLS MEDA WOULD LIKE THE INTERIM COMMITTEE ON ECONOMIC AFFAIRS TO INITIATE & SUPPORT

CREATION OF ECONOMIC DEVELOPMENT TRUST FUND (modified from HB 276, 2003 Session)

The economic development trust fund bill passed the House but was killed in Senate Finance Committee. This concept is a top priority for MEDA, as sustained and adequate

funding of economic development programs and efforts is an essential element to making Montana competitive in the economic development world.

We would like to see an Economic Development Trust Fund established – similar to the Treasure State Endowment (TSE) with the interest therefrom going for economic development purposes. Generally, such purposes could include matching grants to local development organizations for feasibility studies, special projects that create jobs, etc.; providing state support to local Treasure Communities in order to build better local economic development capacity; augmenting the support for Certified Regional Development Corporations (CRDCs), assisting in the funding of serious state, regional and local development projects, and possibly helping sustain the state’s economic development marketing effort (see state marketing item below).

No more than 10% of the funds should be allowed for administration and operations at the state, regional and local level. The remainder would be used to promote growth and jobs in the basic sector. Specific examples of uses of the funds could include:

- Buying down the interest rate of a commercial loan for the expansion of a local basic sector company;
- Low interest loan or grant financing for relocation expenses for a relocating basic sector company;
- Rental assistance (or lease buy-down) for a large relocation or expansion project for a basic sector company;
- Support of a Business Improvement District (BID) and Central Business District redevelopment;
- Industrial development;
- Funds to Treasure Communities for baseline community profile creation and maintainance; and
- Matching funds for federal Brownfields funds, Natural Resource Damage (Superfund) funds, or other federal funds.

For project-related distribution, the distribution method should be:

- Based upon number of jobs created or retained -- \$5000 per job could be an appropriate level;
- A minimum level of jobs for a project to be eligible;
- A requirement for a 1-1 match, public or private; and
- Two-thirds of the available funds put to use through the Department of Commerce or other state entity, one-third similarly available through Certified Regional Development Corporations for local project competition and use.

While this approach starts small (it takes several cycles to build up a corpus in the internal trust that will generate significant funding for economic development), eventually it can

provide a great deal of sustained support for economic development funding. For example, the Treasure State Endowment now, after 11 years, has aggregated about \$115 million in the fund that currently generates (even at low interest rates) approximately \$8 annually for infrastructure projects.

We see several ways to finance this important Economic Development Trust Fund.

1. Create an internal trust within the Coal Tax Trust Fund, capturing 25% of the flow into the trust for use as an internal Economic Development Trust Fund. This could generate approximately \$3.75 to 4 million per year for the corpus of the internal trust.
2. Create a 2 mill statewide economic development levy. This could generate approximately \$3.5 million per year for the Trust Fund.
3. Create a Realty Transfer Tax of 1/4% on residential properties above \$75,000. This would generate approximately \$3 million per year for the Trust Fund. (SB 475 fiscal note).
4. Use a combination of any and all of these sources.
5. It is also important to look at “jump-starting” this trust fund in order to get some funds allocated. This was done when the Treasure State Endowment (TSE) was created. Funds were borrowed from the Coal Tax Trust Fund for the jump-start of the TSE and repaid by the flow in the first several years of the TSE. Something similar could be done in this case, as well.

IMPROVING STATE’S CURRENT “NEW INDUSTRY” PROPERTY TAX INCENTIVES

There are two current forms of property tax incentive for industry growth. Neither works well. Both only apply to new industry and that new industry is narrowly defined. MEDA would like both laws to be improved to allow a property tax break for the expansion of existing industries as well as for new industry, would like to redefine the industrial definition to make it more broad, and make other changes to make the laws more useful. We believe changing both laws as described below will help with major recruitments of new industry as well as major expansions of existing industry. Finally, the change in definition will enable Montana to stimulate growth from different kinds of industry.

Section 15-6-135(3)(a) MCA, requiring both state and local government approval, can reduce property taxes for industries that:

- (i) manufacture, mill, mine, produce, process, or fabricate materials;
- (ii) do similar work in value-adding to extracted resources;
- (iii) do manufacturing.

The reductions come by changing the class of the property (both real property and business equipment) to Class 5 for 3 years, thereby placing the taxable value percentage at 3%.

When business equipment tax valuation was at 11% (prior to 1989) or 9% (between 1989 and 1994), the incentive in the statute – a reduction to 3% for 3 years – was a good tool to stimulate growth. Now that the taxable valuation on business equipment is at 3% and real estate is at 3.3%, the incentive is virtually useless. MEDA would like to make it useful by placing the incentive rate at 1% for 3 years, as well as expand the definition of eligible industries.

Section 15-24-1402 MCA allows a local government to implement a property tax reduction for a new industry. That reduction only applies to local mills. The reduction is to reduce the property tax to 50% for five years, scaled up to 100% over the next 5 years at the rate of 10% more each year. MEDA would like this to apply to expansions of existing businesses and to a broader range of industry. It requires only a re-definition of what “industry” can qualify for the tax break.

RESTRUCTURING GOVERNOR’S OFFICE OF ECONOMIC DEVELOPMENT

We believe that the current structure and location of the office makes it difficult, if not impossible, to retain skilled employees in the key positions, particularly as you approach elections and, because of that we are looking for change. Also, we believe the efforts need to be beefed up – especially in the area of marketing & recruitment. We see two different approaches to the issue.

- A. While we believe the head of the existing office, should that structure be retained where it is, should be “political” and serve at the pleasure of the Governor, we also believe that the remaining staff positions should be classified. The Governor’s Budget Office is a good model, where the employees are professional, but the Director is political. Other structures could be considered, but it is important that the office continue to have high visibility, both inside and outside of Montana.
- B. Another approach is to make a broader change in the state effort, integrating it into an organization dedicated to a more extensive marketing of Montana for business development purposes. See discussion below.

CREATING A STRONG MONTANA BUSINESS MARKETING PROGRAM

Currently the state of Montana does not even get on the playing field with other states when it comes to economic development recruitment – effectively marketing our state for business development purposes. We have done much to improve our State’s appeal to businesses, but we have, to this point, not committed ourselves to telling anyone about it. Keeping our appeal a “secret” is no way to accomplish growth. We must have a serious, well-funded program to market Montana as a business opportunity. (Tourism Promotion has been an

economic development success story for Montana. We need to emulate that by having a strong business marketing program and adequately funding it – without stealing funds from tourist promotion to do it.) The Governor’s Office of Economic Development could be integrated into a larger program that takes on marketing and recruitment in a much stronger way than we currently do (that is not required, but may be done if the Governor and Legislature wish to do so). Our initial proposal is to create a Montana Business Development Council.

The Montana Business Development Council would be a private, non-profit state entity supported partially, but substantially, by state funding. The Governor (chair), Speaker, President of the Senate and the Minority Leader of each house would be public members of the Board of Directors. Seven private business members would be appointed to the Board by the Governor with ratification by the State Senate. A broad-based advisory council would also be part of the structure. The Board would direct the staff dedicated to marketing Montana through a structure that involves the following divisions: retention/expansion of existing core companies, research/lead development, product development (improving the state for business), and marketing (state & local development targets, state image building). **(SEE SEPARATE DETAILED PROPOSAL ON THE COUNCIL, WHICH IS ATTACHED.)**

FINANCING THE BUSINESS DEVELOPMENT COUNCIL MARKETING PROGRAM AND OTHER EFFORTS

Our initial estimates are that a strong marketing/recruitment effort as described above and in the attached document will cost between \$9-12 million annually, depending upon the structure. While this seems a lot, it is still small in comparison to many states with which we must compete.

The size of the program is similar to the “bed tax” tourism promotion efforts that have proven to be so successful. MEDA is not locked into any particular revenue source for this. As a possible source, we have advanced the idea of a Progressive Gross Receipts Tax on Retail Stores (Big Box Store Tax) (similar to SB 332, 2003 Session). We are open to any and all ideas for the financing. The important thing is to find a way to put the program into effect.

INCUMBENT WORKER JOB TRAINING PROGRAM

Last session, in HB 564, the state created the first job training program utilizing state funds. We were the last state in the nation to have a state program for job training. Workforce issues (availability, productivity and training) are perhaps the number one concern of today's businesses. The state job training assistance (paid for by the taxes that come from new employees) needs to be expanded to existing Montana businesses that need to improve their company by increasing the capabilities of their employees via job training. MEDA supports a bill to make an investment in existing employees (through state job training assistance) to create better productivity and more competitive Montana companies.

The challenge will be to find a way to finance this. The approach to financing training for new jobs uses new taxes to cover the costs. Since re-training or upgrading skills of existing workers does not produce much in the way of new taxes, an alternative funding mechanism needs to be found. Perhaps alternative uses of Workforce Investment Act funds could also play a role.

EXISTING "NEW WORKER" JOB TRAINING PROGRAM

As was mentioned, last session, in HB 564, the state created the first job training program utilizing state funds. We were the last state in the nation to have a state program for job training. Currently, in terms of administration, the initial experience with the program has demonstrated some areas that could be improved.

The required demonstrated payoff for a loan from the Board of Investments for the job training funds currently needs to come from the individual company receiving the training funds. We believe that the payoff analysis should also be able to be based upon a portfolio-wide analysis once an adequate portfolio of such projects is developed.

Further, we believe that the Board of Investments should not be a second level of review and decision-making regarding such projects. When they loan the money to the Governor's Office for the training, the loan is backed by the full faith and credit of the state. A company seeking job training funding should not have to undergo two reviews – one by the advisory council and one by the Board of Investments.

We also believe that the training should be tied more closely to the Colleges of Technology.

EXEMPTING ECONOMIC DEVELOPMENT LEVIES FROM LOCAL GOVERNMENT SPENDING CAP (similar to HB 596, 2003 Session)

Currently, if a local government wishes to impose millage to support local economic development efforts, it can be done two ways: 90-5-112 MCA allows economic development millage and 7-14-1131 MCA allows Port Authority millage that can be used for economic development purposes.

In either case, the economic development mills must fit within the local government spending cap or the local government is forced to place the levy the ballot in order to institute it. MEDA on believes that economic development is so important to local areas that millage for that purpose should be exempted by the Legislature from the spending cap. We should be making it easier for localities to accomplish economic development, rather than harder. MEDA wants the statute to be amended to allow the local governing body to pass up to a maximum of 2 mills for economic development (using either statute) without a vote of the people, regardless of the local government spending cap that may be in place.

BILLS MEDA WILL SUPPORT BUT NOT INITIATE

VARIOUS VENTURE (“EQUITY”) CAPITAL POSSIBILITIES (SB 378, 385, 465 and HB 710, 2003 Session)

MEDA thinks that a good venture (equity) capital law will benefit economic growth efforts in Montana. As we have informed the interim committee before, MEDA’s position is that the state should adopt a venture (equity) capital law that would:

- Utilize contingent deferred state tax credits as an incentive to leverage private funds that would be available for in-state investment,
- Allow funds to be invested both in-state and out-of-state, with an emphasis on in-state investments,
- Make the tax credits marketable and transferable,
- Require a capital company to maintain an office and staff in Montana,
- Provide for private professional management of funds invested, and
- Provide that the return to the fund be market-driven.

We like the direction the Interim Committee on Economic Affairs is moving on this subject.

ENERGY POLICY FOR THE STATE OF MONTANA

Montana needs to have an energy policy that can help the state to properly approach energy development as a path to economic growth. We understand that another interim committee is looking at this and await the results of that effort.

ELIMINATING THE “TRIGGER” ON FURTHER BUSINESS EQUIPMENT TAX VALUATION REDUCTIONS (keeping it at 3%) (SB 12 and HB 268, 2003 Session)

Currently the taxable valuation of business equipment is at 3%. It has gone down from 11%+ in 1989 until it reached the 3% level in 2000m – a 73% reduction. According to the statutes, it can be triggered to go to ZERO by a 2.85% real growth in wages, beginning in 2004. The current rate of 3% (about 1.5% effective tax rate) makes Montana competitive and nothing of real value will be accomplished by taking it to ZERO. Further, there is no state money available to provide a reimbursement to local governments and schools for the property tax revenues lost by such a reduction. This means that should the tax go to zero, mills will have to be raised locally to offset the lost revenues, resulting in a tax shift from very large businesses to regular commercial and residential taxpayers or a reduction in local services and education.

CREATION OF A STATE-WIDE MAINSTREET PROGRAM

Many communities in the state want a Mainstreet Program in place for the state. The program is a proven and effective national program with development approaches in four areas: design, promotion, organization and economic restructuring. These communities will be approaching the legislature to get a state-level effort to assist local communities in putting this program to work to benefit the Mainstreets of Montana communities of all sizes.

ALLOWING LOCAL GOVERNMENT TO RETAIN URBAN RENEWAL REVOLVING LOAN FUNDS WHEN TAX INCREMENT CEASES (HB 690, 2003 Session)

HB 690 from last session did not pass, but would have accomplished an important objective. It would allow the local government to retain and continue to use a revolving loan fund created to assist in an urban renewal area beyond the sunset of the tax increment provision for the area. The urban renewal function continues even though the tax increment ceases. Most such loan funds involve on-going business loans. It does not cost anyone anything to allow the existing revolving loan funds to continue. As many communities now approach the sunset of their tax increment provision, we need to protect their business development efforts through these loan funds.

MONTANA BUSINESS DEVELOPMENT COUNCIL

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The Montana Business Development Council would be a non-profit statewide entity that would market the communities, regions and the state of Montana to corporations in the United States and around the world in order to encourage their locating here in Montana. Their function would be lead generation and product development, as well as retention of Montana's core primary sector companies. These efforts would be done in coordination with local economic development efforts.

The Current Situation:

Montana desperately needs to diversify its economy. Efforts of the last 20 years have been only partially successful. The limited diversification that has occurred has not been significant enough to stem the out-migration of our young population. One of the major reasons for the lack of diversification, according to national studies, is that Montana is not known as a "business" state. Those recent national studies indicate that out of 1,000 corporate executives, Montana was mentioned as a "business" state less than any other state in the nation. Aggressive marketing to corporate America of Montana as a good state for business, as well as targeted marketing to particular businesses to locate here, is what is needed. However; it must be focused and initiated on the local level.

Over the past several years we have created a number of good economic development tools and made changes that make Montana more attractive to businesses. But we have not financed a marketing effort so that the business world can know what Montana has to offer. Previous efforts have been woefully under-funded. We are not even on the playing field with other states when it comes to business recruitment.

Organizational Chart:

The creation of an economic development entity to aggressively market Montana is the goal. Attached is an organizational chart. This summary will explain each of the key components of that organizational chart.

Structure: Board of Directors

The Montana Business Development Council would be a non-profit entity that would be governed by a board of directors. The chairman of the board would be the Governor. There would be four additional public seats, the Senate President, Senate Minority Leader, House Speaker and House Minority Leader. There would also be seven-to-nine private-sector individuals who must represent national and international businesses located in Montana. Those members would be appointed by the Governor and require approval by the Montana State Senate. These 12-14 members would comprise the governing board of the non-profit entity. Since the efforts of this group would be substantially financed by public funds, the entity would contract with the State every four years to perform specific elements of the economic development activities of the state. Each biennium a progress report would be given to the Legislature. That report would consist of the progress of lead generation and marketing/recruitment for new businesses and the condition of existing major primary-sector businesses already in the state. All the aspects that pertain to the growth of those businesses and the potential hindrances would be discussed in the report, as well.

Structure: Advisory Council

Council staff would be advised by an Advisory Council that would consist of the heads or representatives of various State departments, Montana Economic Developers Association, Montana Chamber of Commerce, local economic development organizations and Certified Regional Development Corporations, labor, business and education organizations/entities and groups that represent various sectors of the Montana economy. The advisory council may have a number of sub-groups if needed.

Structure: Staff

The staffing of the organization would be highly professional. All staff members will have to be trained according to national standards for economic development and must possess certifications to demonstrate such professionalism.

Structure: Four Main Functions

Function One: Marketing Department

The Marketing Department will be divided into the following three areas:

1. **Image Building** – the State of Montana does not have a positive “business” image. An aggressive marketing campaign, run by the Marketing Department using a national advertising agency, would be undertaken to promote Montana as a good business location. The marketing effort should include a heavy emphasis on positive

Montana articles in business periodicals and newspapers, as well as more visibility on television, etc. Our aggressive approach to tourism has produced results, and we must now be even more aggressive in building the image of Montana as a pro-business state.

2. State Development Targets – through the Marketing Department the state would conduct a business & industry targeting process (and take advantage of any previous targeting) to analyze what types of industry would be the best for the state in terms of economic diversification. Upon completion of this analysis a game plan for State recruitment targets would be quickly developed and implemented.
3. Local Communities or Regions – each community and/or region would also undertake a targeting process, which would become a major part of a four or five year economic development plan for the community or region. The local or regional group would receive state financial assistance to develop their plan. The Montana Business Development Council would participate in providing training for the local community or regional organization staffs and would help in the implementation of those locally developed plans. The Council would also work to coordinate regional or community efforts should there be similarities in the plans from one area to another. The Council would annually evaluate the performance of each community to determine that community's eligibility to receive continuing assistance from the state in its marketing efforts. The Council would financially assist the local entities in their training, targeting, planning and implementation and assist them in closing deals with clients. The objective of this effort would be to understand each community's level of activity and provide them professional back up that they currently cannot afford.

Function Two: Research Department

“Information is gold!” A Research Department is a necessary ingredient for any strong economic development effort. The Council Research Department would be active in the following three major areas.

1. Web Pages – the best possible professional web page would be developed for the state and similar help would be given to all the local communities. Each community's web page would be required to link with the state web page, and *vice versa*. The web pages would have to include, for different types of business, available facilities, available sites and all support services within the cities, towns, regions and the state. The state web page could also lead to import substitution by allowing an existing business to find goods and services available in the state instead of having to go out-of-state. As a critically important marketing tool, the web sites must be professionally developed and managed. The effort would take advantage of the product of previous web-development efforts, both state and local.

2. Local Support with Plans and “Lead” Development – the Council would assist the cities, towns and regions in the implementation of their plans and would assist them in the business of “lead generation”. The Research Department would work with the local entities to generate development target leads for active recruitment.
3. “Lead” Development via “Alumni List” – that the Council will help develop leads for business development a number of ways, including reaching out to all alumni of our educational institutions to inquire about with whom they are currently affiliated through employment or a board position. The objective is to attract possible expansions here in Montana based upon a pre-conditioned affinity to Montana.
4. Training – this Department of the Council will coordinate training so that all local staff is trained at the Council’s expense. The State of Montana and the state effort cannot be successful if staff at all levels is not skillfully trained.

Function Three: Retention/Expansion Department

The staff would coordinate with all local development organizations to see that every major primary (basic)-sector business in the state is visited annually. This is a local initiative supported and coordinated by the state. The Council, working with the locals would insure that the companies were annually surveyed concerning their growth potential, what might inhibit their growth (either financially or regulatory), and all pertinent information concerning their business. That information would be maintained confidentially by the state staff and would be provided as aggregate data to the Legislature so that the Legislature can anticipate the needs of the primary (basic)-sector in the state.

Function Four: Product Development Department

After looking at the state and knowing what the state and local development/recruitment targets are, the Council would then analyze what legislative changes need be made to make Montana even more attractive to the development targets. The Council would also look at and work with the educational system to determine what curricula could be developed that would assist those targeted companies and industries in expanding and/or locating here in our state. The Council would look at the infrastructure situation to determine whether we have the telecommunication capabilities and other infrastructure needs for any type of targeted industry. This analysis could lead to legislative action or focused infrastructure development projects that met local infrastructure needs.

Funding: Amount Needed & Possible Sources

We estimate that it will take somewhere between \$9-12 million annually to adequately fund this program. While this seems a lot, the function is too important to avoid. A decent comparison is the nearly \$10 million annually spent in tourism promotion – an economic development success story.

We are not locked into any particular source, but provide the following list to demonstrate that there are places to turn for funding.

1. Create a 2 mill statewide economic development levy. This could generate approximately **\$3.5 million per year**.
2. Create a Realty Transfer Tax of 1/2% on residential properties above \$75,000. This would generate approximately **\$6 million per year**. (SB 475 fiscal note).
3. Create a progressive gross receipts tax on large retailers (similar to SB 332, 2003 session). Based upon the fiscal note for SB 332, this would **generate no less than \$60 million in annual tax collections**. Given the passage of time (the fiscal analysis of SB 332 was based upon the 1997 economic census) and the growth in large retailer sales in recent years, it is likely the collections will be even higher.
4. Use a **combination** of any and all of these sources.