

To: Economic Affairs Committee Members

From: Dave Gibson, Governor's Office of Economic Development

Re: October 24 background information

Pursuant to Sen. Taylor's request for background information on issues for discussion at the October 24 meeting, the following information is a brief synopsis of some of the issues that will be discussed. In addition, my office is providing policy analysis developed by the National Governors' Association for further background reading. I hope this is helpful.

Venture Capital

None of the three venture capital-related bills introduced in the 58th Legislature passed. Venture capital is one measure for encouraging investment in Montana businesses. The incentive can be structured in various ways. The bills introduced in the 58th Legislature took the following approaches:

- SB 378 – Certified Capital Companies (Kitzenberg) Clarifying laws governing certified capital companies; describing qualified investments; providing for tax credits for qualified investments.
- SB 385 – Capital Investment Funds (Mangan, McKenney) Providing for capital investment funds that invest in primary business sector companies in Montana; providing for tax credits; and providing for various measures regarding net return on investments.
- SB 465 – Montana Capital Formation Act (Tester, DePratu, Lindeen, Mendenhall) Creating a Montana Fund of Funds; allowing tax credits; creating a Montana Capital Investment Board.

Business Clusters

The clustering of businesses means that business components that can build upon one another are located closely together to provide sums greater than the parts. This happens either through sharing of knowledge and human resources, or sharing of infrastructure or labor markets. One example is businesses that spring up around universities, building on the academic interests of certain professors, the labor pool of trained students and others associated with similar businesses, the infrastructure that may be part of the university system as well as part of related businesses.

The state role in assisting business clusters may range from:

- maintaining the social and natural environment that attracts innovators and entrepreneurs who could choose any geographic location in which to live (p. 2 of the Montana Industry Cluster Analysis);
- balancing an appropriate regulatory environment that does not overburden industries and does not inappropriately change the environment that encourages innovators to be in Montana;
- providing infrastructure (whether an educated human resource pool, a transportation nexus, stable government and tax structures);
- providing financial incentives -- or not -- since providing financial incentives also may be similar to picking some groups over others as winners. The cluster study advises against the government dominating or being part of a cluster (p. 7 of the Montana Industry Cluster Analysis).

Six clusters represent about one-fourth of Montana's businesses and total employment. These are:

- the wood-based products cluster;
- the agri-food cluster;
- the experience (fishing/hunting, etc.) enterprise and tourism cluster;
- the creative enterprise cluster;
- the life sciences cluster (biotechnology for human, agricultural, environmental applications); and
- the information technology cluster.

Business Recruitment

Identifying Montana's strengths – and recognizing that the traditional industries of Montana have been joined by new clusters of innovation – allows more targeted business recruitment. The efforts of the Governor's Office of Economic Development and the Department of Commerce in business recruitment includes support for regional economic development corporations plus cooperation with groups that seek state backing.

Workforce Training

Workforce training is taking place at several levels:

- university system, including vocational education
- through HB 564, which provides state grants for training to businesses that agree to certain terms;
- as part of the Department of Labor and Industry efforts, including Job Service and federal programs.