



Economic Affairs Interim Committee

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58th Montana Legislature

SENATE MEMBERS

GLENN ROUSH--Vice Chair
SHERM ANDERSON
JEFF MANGAN
MIKE TAYLOR

HOUSE MEMBERS

JOE MCKENNEY--Chair
NANCY RICE FRITZ
JIM KEANE
SCOTT MENDENHALL

COMMITTEE STAFF

PATRICIA MURDO, Research Analyst
BART CAMPBELL, Staff Attorney
EDDYE MCCLURE, Staff Attorney
DAWN FIELD, Secretary

MINUTES

October 24, 2003

Room 137, State Capitol
Helena, Montana

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division.

Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of the document.

COMMITTEE MEMBERS PRESENT

REP. JOE MCKENNEY, Chair
SEN. GLENN ROUSH, Vice Chair

SEN. SHERM ANDERSON
SEN. JEFF MANGAN

REP. NANCY RICE FRITZ
REP. JIM KEANE
REP. SCOTT MENDENHALL

COMMITTEE MEMBERS ABSENT

SEN. MIKE TAYLOR

STAFF PRESENT

PATRICIA MURDO, Research Analyst
BART CAMPBELL, Staff Attorney
EDDYE MCCLURE, Staff Attorney
DAWN FIELD, Secretary

AGENDA, VISITORS' LIST, & MEETING MATERIALS

Agenda, Attachment #1.

Visitors' list, Attachment #2.

Meeting materials distributed prior to or at meeting:

Attachment 3 - An Agenda for Progress: Memo from John Mercer

Attachment 4 - Board of Regents' March 2003 Resolution: Economic Development

Attachment 5 - How Do Greater Investments....Economic Success

Attachment 6 - Montana's Economic Road Map

Attachment 7 - Dave Gibson Memo: Economic Development Issues

Attachment 8 - A Governor's Guide to Cluster-Based Economic Development

Attachment 9 - A Governor's Guide to Creating A 21st-Century Workforce

Attachment 10 - NGA issue Brief: Rural Economic Development

Attachment 11 - J. Scott Memo: Follow-up Governor's Economic Development Issues

Attachment 12 - Governor's State Issues Forum

Attachment 13 - MT Department of Livestock 2002 Annual Report

Attachment 14 - Western Montana In Business

Attachment 15 - Montana Invests: University System's Economic Impact

Attachment 16 - Outlook 2003: Montana Economic Outlook Seminar

COMMITTEE ACTION

The Committee **moved** to write a letter to the Montana Board of Regents expressing its support for a joint effort to promote economic development in Montana.

CALL TO ORDER AND ROLL CALL

Rep. McKenney called the meeting to order at 8:17 a.m. and roll call was taken. Sen. Taylor was excused; all other members were present.

Rep. McKenney noted the purpose of the meeting was to gain an understanding of economic development in Montana and the current status of economic conditions in Montana.

ECONOMIC DEVELOPMENT ISSUES IN MONTANA

Dr. Paul Polzin, Bureau of Business and Economic Development, University of Montana

Dr. Polzin gave a Power Point presentation entitled *MONTANA'S ECONOMY: Dodging Economic Bullets* that covered wage and salary changes, consumer sentiment on a state and national level, the economic outlook, the economic base, and a forecast of economic conditions for Montana (Exhibit #1).

Rep. Keane said there was a bleak forecast for agriculture in 2004 and asked Dr. Polzin how it will affect the general economic status of Montana. Dr. Polzin said it depends on how or if the farmers and ranchers spend their money and went on to say that if there is a decline in net farm income but farmers continue to spend, it will not affect the economy noticeably.

Rep. Keane said he noticed in Exhibit #1 a significant decline in Montana employment levels in October 2002 and asked if this continues to be a problem. Dr. Polzin said the data may be revised as more information comes in so he could not give Rep. Keane a definitive answer at this point in time. He said he hoped to have the data solidified by the end of the year.

Rep. Keane encouraged Dr. Polzin to include actual monetary amounts paid out by companies in his unemployment data instead of percentages. He said that gives a clearer picture of the economic conditions and is more easily understood.

Rep. Mendenhall asked if historically Montana's consumer sentiment is more optimistic than the rest of the nation. Dr. Polzin said he did not have a way to make that determination but said it was important to note that the change in Montana consumer sentiment does not follow the same pattern as the change in national consumer sentiment.

Rep. McKenney noted that according to Dr. Polzin's data, Montana has experienced a steady growth rate of 2% for 30 years, yet wages have significantly decreased. He asked Dr. Polzin to explain. Dr. Polzin said there are several influencing factors:

- The U.S. growth rate average is 3%, so Montana's growth rate remains lower than the national rate.
- Montana's economic well-being has declined because of a variety of reasons such as:
 - ▶ Urban areas tend to have above-average incomes and Montana's urban areas are quite small in comparison to the national average.
 - ▶ Montana industry pays below the national industry wage average.
 - ▶ Distance and low population density contribute to a higher-than-average consumer goods cost.

Dr. Polzin also distributed information on Outlook 2003: 28th Annual Montana Economic Outlook Seminar.

Dr. Phil Brooks, State Economist, Montana Department of Labor and Industry (DOLI)

Dr. Brooks presented a Power Point presentation entitled PROFILE OF THE MONTANA WORKER 2003 (Exhibit # 2) which provided information regarding :

- a profile of a Montana worker plus age and population data,
- what Montana workers earn,
- where Montana workers are employed,
- challenges Montana's workers must deal with, and
- definitions and program descriptions.

Rep. Mendenhall asked if the source of the unemployment data was from W-2 forms. Dr. Brooks said the foundation for nearly all of his employment information was the unemployment insurance system and a statewide survey of households done monthly by the U.S. Census Bureau for the U.S. Bureau of Labor and Statistics.

Rep. Mendenhall asked how independent contractors fit into these statistics. Dr. Brooks said they fall into the self-employed category and were not included in this data unless they had unemployment insurance coverage. Dr. Brooks said there was additional information on the self-employed available from the U.S. Bureau of Economic Analysis. He added that most people who are self-employed choose not to carry unemployment insurance.

Rep. Keane asked if a worker who reaches the 28-week unemployment limit disappears from the unemployment statistics as well. Dr. Brooks said that is a common misconception but is not true, that the majority of the people in this category are still tracked by the monthly household survey.

Sen. Anderson asked Dr. Brooks if all of his statistical data was based strictly on job numbers rather than dollars generated. Dr. Brooks said his statistics do include income data.

Rep. McKenney asked about the effect of migration patterns in Montana: who is leaving, who is coming and why. Dr. Brooks said he did not have that information available but it might be in the 2000 census migration data. He said he would check the census data and inform the Committee of his findings.

Rep. McKenney asked for public comment on the information presented by Dr. Polzin and Dr. Brooks.

Sheldon Bartel, Executive Director, Gateway Economic Development Center, Helena, commented that data on who is coming and going in Montana and why is in an article published in late 2002 by the Federal Gazette (<http://minneapolisfed.org/pubs/fedgaz/03-01>). He then asked Dr. Brooks why there was no data for people aged 69 and older on the population growth chart and what effect that had on the data. He pointed out that the average life expectancy has increased and that people are working later into their life. Dr. Brooks answered that he has considered extending the age data to see how the numbers would come out but currently it is assumed that one "dies" - at least as far as the work statistics are concerned - at age 69.

Dr. Dee M. Wellon, Private Consultant, asked Dr. Brooks if he had explored comparisons with other states or regions relative to the demographics presented at the meeting. Dr. Brooks said he had done that but not as thoroughly as he would have liked. He said he found that, with some exceptions, most of the states he examined followed the same pattern.

Sen. Roush asked if there has been a decline in the amount of money being deposited in Montana banks. Dr. Polzin said Dr. Miles Watts, Agriculture Economist, Montana State University, (406-994-3710) had a great deal of information on the wealth in Montana and how it is distributed. Dr. Brooks suggested asking the Federal Reserve System if it could provide that information.

ECONOMIC DEVELOPMENT & COMMUNITY DEVELOPMENT

Paul Tuss, Bear Paw Development Corporation, Havre, explained that Bear Paw Development Corporation (Exhibit # 3):

- is a five-county federally recognized economic development district in northern Montana,

- has a key constituency of local governments,
- uses a four-prong approach:
 - ▶ a housing and community development program,
 - ▶ a small business development center,
 - ▶ a loan department, and
 - ▶ a planning department.

Mr. Tuss said the regional model used by Bear Paw has brought very good results and he was very pleased that the legislature, through the Department of Commerce (DOC), has chosen to adopt the Certified Regional Development Corporation Model as the statewide model.

Mr. Tuss also addressed the Committee as President of the Montana Economic Developers Association (MEDA). He distributed MEDA's list of top-priority economic development issues it plans to ask the 2005 legislature to consider (Exhibit #4).

Joe McClure, Big Sky Economic Development Authority (BSEDA), Billings, discussed its programs, clientele, recent grants received for economic assistance, and the Phase I and Phase II plans for implementing public-private partnerships programs (Exhibit #5).

Mr. McClure also discussed issues the BSEDA has identified for legislative consideration:

- development of an economic development trust fund for the state of Montana,
- "incumbent" worker training issues,
- creation of a targeted venture capital fund,
- creation of a statewide marketing program that would bring an awareness of business opportunities available in Montana and promote these opportunities,
- creation of a statewide incentive to invest in economic development,
- badly needed infrastructure assistance, and
- revamping state regulations to create consistent and predictable rules for implementing and operating businesses in Montana.

John Kramer, Great Falls Development Authority (GFDA), Great Falls, noted that he represented both the Great Falls Developers Association and High Plains Financial. He discussed economic development issues in the Great Falls area:

- High Plains Financial (HPF) is a five-county finance entity that develops micro loans, gap loans, and incentive financing.
 - ▶ HPF is working on venture funding with the DOC, Governor's Office, and D.A. Davidson to create a Small Business Investment Company.
 - ▶ Montana needs equity financing and it is not available at this time.
- GFDA is a marketing entity and financed by the private sector (2/3) and the public sector (1/3).
- GFDA is working to attract out-of-state businesses, which will act as a stimulus for the wage base, which has seen little or no growth and is very stagnant.
 - ▶ GFDA has spent a year identifying and targeting these businesses.
 - ▶ GFDA devised a formula using the costs of doing business (taxes, transportation, labor, utilities, environmental regulatory requirements, and communication capabilities) as a means of attracting these businesses.
 - ▶ When the program was launched in May of 2003, there were nine clients on the target list. There are now approximately 200 clients on the list.

Mr. Kramer distributed an article written by Andrew Levine for the International Economic Development Council journal which discusses the importance of marketing strategies to attract new business (Exhibit #6).

Dick King, Missoula Area Economic Development Corporation (MAEDC), Missoula, gave an overview of the MAEDC and said the organization:

- is a member-based organization of 95 business and community members,
- has a \$400,000 annual budget of which \$120,000 is contributed by the local business community,
- has an economic development strategy consisting of business retention, expansion, refinement, and recruitment,

Mr. King said research is a growing sector of Montana's economy and a wonderful asset for the state. He noted that the corridor from Missoula through Bozeman, including Montana Tech in Butte, has research projects totaling \$165 million annually. He said research should be supported and developed to allow Montana to fully capitalize on this sector. Mr. King briefly discusses several examples of economic development projects going on in the Missoula area and statewide.

Sen. Mangan asked Rep. Lindeen to comment on two bills she sponsored in the 2003 legislative session that dealt with an economic development trust fund and incumbent workforce training. He asked her if in the 2005 session, she planned to continue her work on the trust fund bill and the incumbent work force training issues. Rep. Lindeen said she did intend to continue working on both of those issues and expressed her willingness to work with the Economic Affairs Committee as well.

Sen. Mangan said the relationships between the local development organizations and the Governor's Office of Economic Development (GOED) needs to be strengthened to encourage better coordination and cooperation. He asked the panelists to give their suggestions on how this could be accomplished.

Mr. Kramer suggested the emphasis be on coordinating leads and following through on them. He said business leads equal clients, which, in turn, equal jobs. He said he would like to have 5-10 leads per month from the GOED. He said his number one priority is to establish an aggressive marketing plan to bring clients into the state, because without clients, there is no opportunity for growth.

Mr. Tuss referred the Committee back to Exhibit #4, Item 7, which targets the GOED with suggestions for change, specifically the classification of some office positions. Mr. Tuss said this would provide organizational stability. He also suggested additional funding for the GOED.

Sen. Mangan said he thought one of the goals of this Committee should be to craft a venture capital bill for introduction in the 2005 legislature. He asked the panelists if they were willing to assist the Committee if they decide to pursue that.

Mr. King said his group would strongly support a bipartisan, statewide effort. He suggested that it not be called venture capital, but an equity fund that is privately managed with state participation and is accessible to all businesses.

Rep. Keane commented that recruiting quality clients is a key issue. He said it doesn't help Montana's economy when a business comes in and doesn't pay decent wages, doesn't provide decent benefits, and otherwise does not live up to its promises. He said the GOED could be of great assistance in making sure companies coming into Montana follow through with their business plan. He also said in order for a broad-based economy to be established in Montana, there needs to be cooperation among all communities.

Sen. Roush said economic development is difficult to promote in rural Montana but is critical for its survival. He said he would like to see an emphasis on opportunities for small towns because the "big box" stores in urban areas are devastating the Main Street businesses in these small towns.

Sen. Roush stated industrial transportation systems in Montana are lacking which has a detrimental effect on attracting business to Montana.

Mr. Kramer said in the 2003 legislative session there was bill introduced to study the railroad transportation issue. He said Montana railroad transportation rates are higher than surrounding states and the situation needs to be analyzed to see if Montana is being overcharged. Mr. Kramer commented that air service is the "interstate of the future" and that he feels Montana is competitive in this arena.

Mr. King said Montana should encourage cooperation between rural and urban businesses, allowing the rural producer to access an urban market. Mr. King used a Missoula-based business, Sustainable Systems, as an example: grain grown in eastern Montana is shipped to Sustainable Systems, where it is processed into fuels and lubricants and, finally, marketed nationally. He said niche markets are very popular and that they work well in Montana. He also commented that the air industry is changing and Montana needs to cultivate airlines the same as a business client.

Sen. Anderson commented on the renewable resource industry in Montana. He said Stone Container and Roseberg Industries are two top labor employers in Missoula and are totally dependent on wood by-products from the logging and timbering businesses in the state. He said that when the wood products infrastructure disappears, as is happening, Stone Container and Roseberg Industries will likely close their businesses here as well. He said this will have a statewide effect on all of the communities that have a renewable resource that they are not able to utilize.

Rep. Mendenhall referenced Exhibit #4 (MEDA list of priorities) and said he would like to see natural resource issues, value-added, and cluster-oriented aspects of economic development included on the list. He also asked the panelists to comment on Item 5 (a tax on big box stores) and Item 8 (state recruiting of businesses) and asked if they felt the intent of these two items conflicted with economic development issues in Montana.

Mr. Kramer said in his opinion there was no conflict because the big box stores take money and resources out of the local economy and contribute little back to the community in return.

Mr. McClure said he did not see a conflict and agreed with Mr. Kramer's assessment that big box stores do little to support the communities they do business in. He said his organization is interested in businesses that export brain power, goods, or services and import wealth back into the community.

Mr. King related a conversation he recently had with a banker in Missoula. He said the banker was complaining about the difficulty of growing new deposits in his bank and said the big box stores' deposits do not end up in the local bank to be reloaned back to local businesses. He also agreed with Mr. Kramer and Mr. McClure and said these businesses are not members of economic development organizations and they do not contribute in any way.

Mr. Tuss agreed and said there was a lot of support for this tax in the economic development community.

Rep. McKenney referenced Exhibit #4, item 2 (eliminating the trigger on the business equipment tax) and commented he was surprised to see it as a legislative agenda item. He said he pays many other taxes related to doing business, he thinks a tax on the "tools of production" is burdensome and counterproductive to economic growth, he supports the elimination of this tax, and asked for comments.

Mr. McClure said there are two reasons MEDA supports a business equipment tax:

- in looking at competition in other states and budget issues with respect to education and human services, MEDA felt a business equipment tax at 3% was competitive with other states without affecting programs and services in communities that depend on this tax as a source of funding.
- MEDA thinks allowing the property abatement tax incentive to be used on personal property taxes for businesses that are expanding or for new businesses will help the business recoup some of its' business equipment costs.

Mr. King said his organization is a member of MEDA but does not support this tax.

Mr. Tuss said his organization supported reducing the equipment tax, but not elimination of the tax. He said the loss of the business equipment tax would negatively impact local governments.

Mr. Kramer suggested that if a company is a new wealth generator, then perhaps Montana should not tax them, as an incentive to reinvest in the community.

Sen. Mangan said Montana not only needs to make the decision on whether it is going to invest in economic development, but it also needs to make tough decisions regarding tax policy. He said Montana cannot continue to decrease or eliminate taxes and maintain needed programs and services.

Rep. McKenney said his point was the business equipment tax is not the only tax businesses pay, but as a tax on the "tools of production", he finds it burdensome. He added that even if the

business equipment tax does go to zero, businesses are still paying many other taxes that will maintain the revenue base.

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT (GOED): WHERE DO WE WANT TO BE? OPTIONS

Dave Gibson, Director, explained that his office sees economic development as the creation of new wealth, through promotion and growth of businesses. He discussed four areas of particular interest, as related to economic development (Exhibit #7):

- the state's role in economic development and making sure that certain areas are not left behind;
- organization of state economic development functions making sure that agencies and organizations work together, collaboratively, and share what they learn across the state;
- target industries and promotion; and
- statutes and regulations making sure that regulation is predictable and efficient. He pointed out that the market is efficient at picking industries. The state does by focusing on fundamentals.

Mr. Gibson noted that the Committee had asked prior to the meeting where he thought his office should be located in state government hierarchy. He said that regardless of the location the office requires the governor's support. He suggested that there are benefits to being part of the governor's office. He also recommended that changes be made to classify staff positions rather than have them serve at the governor's pleasure because this would give more continuity to the office between administrations.

Mr. Gibson said the big spending item is marketing promotions and is very expensive. Mr. Gibson said it would be very helpful if the legislature would set some priorities that it wished to see addressed by the GOED.

Rep. Keane asked Mr. Gibson if the legislature has a role in the GOED beyond simply providing the funding. Mr. Gibson said regardless of whether the legislature wants the office in the Governor's Office or not, the critical aspect is the program must have the Governor's support to be effective.

Rep. Keane said the legislature might be more willing to fund the office at a higher level if there was more communication with the Governor's Office and it felt like it was getting what it wanted.

Sen. Mangan asked Mr. Gibson what his annual budget is, compared to the \$1.7 million average spent by other states. Mr. Gibson said his budget for this fiscal year was \$680,000. Mr. Gibson then clarified that the \$1.7 million referenced by Sen. Mangan was spent by other states just for marketing and business recruitment and not for their overall economic development functions. Mr. Mangan asked Mr. Gibson how much the Montana GOED spent on marketing and business recruitment. Mr. Gibson said his office spent approximately \$130,000/ a year.

Sen. Mangan asked how many staff the GOED has. Mr. Gibson said the office currently has three FTE's, but should have six. Sen. Mangan said he thought it important that the staff in the GOED stay stable and not change if Montana is truly going to be committed to economic

development. Mr. Gibson said continuity is a problem but said he also thought it was important that the Governor be able to choose the GOED Director. He said the rest of the staff could probably be permanent. He said it is difficult to hire new staff at a time such as now, because there is an outgoing governor and everyone knows taking a position at this time in the GOED would likely be just for the short-term.

Sen. Mangan asked how the GOED budget will be handled for the next biennium and if Mr. Gibson would be willing to fight for a budget and a staff that truly reflects what the GOED should be doing. Mr. Gibson said he did plan to ask for more marketing funds but that he did not anticipate asking for the money in a big lump. He said the marketing and business recruitment money should be separate and presented as a line item that is discussed by the legislature because there must be a majority agreement.

Sen. Mangan stated Mr. Gibson, as the GOED Director, needs to take a firm stand and empower the GOED to fight for the funding and whatever else necessary to make the GOED an effective tool for economic development. He said the panelists at the meeting all made it clear they would like to see more leadership and assistance from the GOED. He asked Mr. Gibson if he was willing to do those things, in order to establish the GOED as Montana's authority and main resource on economic development. Mr. Gibson said he was willing to fight for the program but he wasn't sure of the best approach to use in doing it. He said he would consult with his Budget Director and would also welcome the Committee's suggestions.

WHAT ARE THE TOOLS?

Clusters and Collaboration Concepts

Mr. Gibson briefly discussed what "economic clusters" are, why they are important in economic policy, and what Montana should be doing to support clustering in Montana (Exhibit #8). He discussed concerns about fragmented problems among businesses that complicate the job of reforming regulation. If businesses don't come up with common problems then there will be no meaningful regulation reform. Mr. Gibson said workforce developments already are happening.

Sen. Roush complimented Mr. Gibson on a very informational and well-done presentation. Sen. Roush referred to an Issue Brief from National Governor's Association Center for Best Practices (Feb. 2003, page 11) that was previously mailed to the Committee members. Sen. Roush said a program called *Enterprise Facilitation* developed in Kansas specifically for economic development in rural areas is being used in five Montana counties and on the Blackfeet Reservation. He said the program is very grassroots and is a private partnership with local governments. He said the group planned to ask the state for financial assistance and a representative of this group would appear before the Committee with more detailed information in the Public Comment portion of the meeting.

Rep. Keane said it is important that Montana not bring in out-of-state workers when developing new businesses or jobs, but that Montana workers be given the training and opportunity to fill these newly created positions.

Mr. Gibson said that was an excellent point, he would take it into consideration.

Mark Simonich, Director, Department of Commerce (DOC), made several points in regard to economic development in Montana and said:

- Montana must decide if it is going to make a commitment to economic development.
- A commitment to creating a stable and continuing source of funds for business development and dedicating those funds specifically for: business development, recruitment, funding for technical assistance, and financial assistance for creating jobs.
- A continuing source of funds could be tied into efforts to create up to 12 certified regional developmental corporations, as provided by HB 76 in the 2003 session. The development corporations will exist around the state and serve local communities.
- A continuing source of funds should be set up as a statutory appropriation so it is not bound by any particular administration.
- A Citizen's Advisory Board could be statutorily established to oversee and advise the economic development efforts in Montana.

Mr. Simonich said the Travel Montana model would be an excellent template to use for setting this type of plan into action. He gave a recount of the creation of the Travel Montana program:

- It was established in 1987 as a 4% bed tax from which the revenue was dedicated to the promotion and development of tourism in the state of Montana.
- It currently collects approximately \$12-14 million annually.
- How and where the bed tax revenue is spent is statutorily defined.

Mr. Simonich distributed a table from University of Montana's Institute for Tourism and Recreation Research depicting the visitation and expenditure trends by non-resident tourists from 1993-2002 (Exhibit #9).

Mr. Simonich said tourism revenues currently rival agricultural income and that a new industry has been created through the Travel Montana program. He added that the key to economic development success is to create a stable source of funding, as the Travel Montana program has had since its inception.

Mr. Simonich also told the Committee of Travel Montana's Special Event Grant Program. The program provides funding to assist communities that are attempting to "grow" events to become annual events. The grant funds are awarded for up to three years to help these communities establish a particular event as an annual event.

Mr. Simonich said he was very interested in assisting the Committee in its efforts to create a model for economic development funding.

Sen. Mangan asked Mr. Simonich if he would work with Mr. Gibson to develop realistic numbers for a solid economic development program budget. Mr. Simonich said he would work together with Mr. Gibson to develop several proposals using various funding levels.

Andy Poole, Department of Commerce (DOC), discussed a compendium of financial and technical assistance programs offered through the DOC (Exhibit #10):

- venture capital,
- micro business,
- small business assistance programs, and
- manufacturing extension service.

Rep. McKenney said the lack of venture capital financing is a large detriment to economic development in Montana. He asked Mr. Poole to comment on that and on the venture capital bills that failed in the 2003 legislature. He also asked Mr. Poole if he had suggestions on how to approach this issue in the future. Mr. Poole said it was his personal opinion that several of the bills were good but they failed because there was not enough lead time to educate the legislators and construct a bill that was fully understood. He said if the Committee and others interested in this issue started now, there would be time to craft a bill that would have a good chance of passage in the 2005 legislature.

University System Role in Economic Development

John Mercer, Montana Board of Regents, said he was not speaking for the Montana University System and discussed his personal thoughts by saying:

- The first step that must be taken regarding economic development is to identify the goals and set a plan to achieve them.
- The existing structure of governance in Montana contributes to the lack of economic development because there are too many factions involved and no coordinated effort to bring them all together.
- Anecdotal feelings, not scientific data, have been the basis for many decisions made regarding economic development in Montana.

Mr. Mercer said Montana needs to agree on the common goal of economic development and then put a long range plan in place. He said the Montana University System could be a catalyst for this. He said the University System:

- is very good at coordinating efforts and could bring together those working on economic development issues and keep everyone informed of what is going on;
- is good at helping to organize ideas, develop work plans, and keep all parties on task;
- offers continuity because as governors, legislators, and other public officials come and go, the University System stays fairly constant;
- possesses "economic literacy" and can provide relevant research and data on economic development issues to the business sector;
- could work effectively with state government to make fiscal notes more clear and usable to legislators;
- has an economic impact itself as a gigantic economic engine, generating over \$850 million in expenditures per year.

Mr. Mercer said higher education could likely help with other problem areas such as corrections, prevention programs, and healthcare.

Mr. Mercer said *Destination Education*, a program that promotes the Montana University System to out-of-state students, is an agenda item for the next Board of Regents meeting. Mr. Mercer said this program could easily be partnered with government and business to make it a coordinated effort to promote business opportunities and higher education in one effort.

Mr. Mercer suggested military contracts as an area for exploration. He said Montana is in a very good position to garner more military component projects and would be a natural fit in areas where economic activity is needed. Mr. Mercer said he was confident Senators Baucus and Burns and Representative Rehberg would be of assistance in helping Montana achieve this.

Mr. Mercer closed by saying if a coordinated plan with long-term goals is set, he sees many possibilities available to Montana. He offered his personal commitment and said he hoped the university system would be allowed to partner with the state efforts. He added that for any decisions made, it was important to base them on scientifically proven information and data.

Mark Semmens, Montana Board of Regents, addressed the Committee by saying:

- Montanans want rising income levels and job opportunities.
- He had recently heard a speaker at an economic development conference who aptly summed up the situation by saying, "Successful statewide economic development is a team sport. Any of you who believe you can be successful in this competitive business, without the legislative branch, the executive branch, the university system, the private sector, and local development groups coming together and pulling together in the same direction; you're kidding yourselves."
- We have reached the point in Montana where we are ready for that kind of effort.
- He appreciated the outreach of this Committee to the University System to be a part of the dialog and said the University System feels it has both an opportunity and an obligation to play a meaningful role in helping drive Montana's economy forward.

Mr. Semmens said as a background, it is important for the Committee to understand why the link exists between post-secondary education, workforce development, and economic success:

- Today's economy is a "knowledge" economy - the economic gains made in any one industry are primarily due to productivity gains made possible by research and development.
- The University System contributes to the state economy in four ways:
 - ▶ Direct returns - the direct cost of attending school such as tuition, living expenses, etc.
 - ▶ Indirect return - includes businesses and operations that are in some way touched by university research or resources that are throughout the state.
 - ▶ Entrepreneurial return - businesses that are growing and providing well-paying jobs.
 - ▶ Productivity - employers are happy to pay more if their employees are productive. Providing appropriate training and a quality education, which enhances productivity, is the goal of the University System.

Mr. Semmens had several specific suggestions for the Committee:

- Advance the development of a "human capital strategy" - this approach will appeal to businesses considering Montana as a business location because there will be an educated work force available to them.
- Within the University system itself:
 - ▶ Program development and expansion in areas of demonstrated market need.
 - ▶ Expansion of the two-year education system.
 - ▶ Technology transfer in commercialization - there is a need to improve on transferring the research and development done at university level into actual commercial applications that provide jobs.
 - ▶ Rural development to specifically focus on economies in the different regions of the state.
 - ▶ Increase amount of need-based financial aid for Montana students.

Sheila Stearns, Commissioner of Higher Education, said she found Mr. Mercers' and Mr. Semmens' energy, commitment, and enthusiasm refreshing and interesting to work with. Ms. Stearns said they had spent a day strategizing how the Board of Regents could serve the University System and be in concert with the state's efforts and interests as well. She said the Montana Board of Regents think the work should be approached as a "team sport" and said Montana can have a strong future through investing in its people.

Ms. Stearns handed out *Partners in Building a Stronger Montana Economy: Montana Invests* published by the Montana University System.

Ms. Stearns concluded her comments by saying she felt very privileged to be back in Montana and looked forward to working for and with the Committee, as well as the Board of Regents.

Sen. Mangan said he has heard discussion of work force development since 1999 and said there has never been a consensus because it has been such a partisan issue: there is the contingent that says Montana isn't investing enough in economic development and education and another contingent that says Montana spends too much. Sen. Mangan asked the panelists to give their opinion on whether it is a matter of investment or spending.

Mr. Mercer said while he feels very strongly that it is the case, it has never been proven that an investment in education will yield the economic development benefit. He said he is confident this can be proven, but until that is allowed to happen, nothing will change. Mr. Mercer said the unified effort must not wait for the 2005 legislative session but start now, by bringing all of the government, business, and University System leaders together to establish a plan that everyone can support. Mr. Mercer also commented that desperation is a component that is present now that was not present a few years ago.

Sen. Mangan agreed it is time to come together on a variety of different issues for the good of the state. He said in order for efforts to be successful, all involved would have to be very committed and "stay on board" for the legislative session and resist returning to partisan politics.

Mr. Mercer said he wants to have sound and factual numbers to support his position that there will be a return on the investment of education dollars and that work to prove this is underway.

Mr. Semmens said it was pointless to engage in a blame game and that it is time to move on. He said he thinks there is a new sense of need for collaboration for the next session and that he is hopeful for the sake of the constituents of Montana that all can work together.

Rep. McKenney said many economic development organizations have discussed this very issue and realize that it has been a very partisan issue in the past. He asked for suggestions on how to bridge the gap, allowing for actual forward movement on these issues.

Mr. Mercer said the Governor, state-elected officials, the Minority and Majority Leaders, labor leaders, business leaders, perhaps a few other groups must come together as a steering committee for developing an economic policy for Montana. Mr. Mercer suggested having a representative from each group attend a brainstorming session to collect ideas and start forming a long-range plan.

Rep. Keane asked Mr. Mercer to clarify what action he wants from the Economic Affairs Committee. Mr. Mercer said he wants two things from the Committee:

- to officially form a partnership with the Board of Regents in this effort and use the University System to solve problems and
- to help the Board of Regents educate Montanans on what an economic asset the University System is to this state and that there is potential for even more.

Ms. Stearns commented that she and Mr. Gibson have already begun to put plans together on developing an economic road map and that the Committee could anticipate hearing from them soon to join them in the process.

Mr. Semmens said if any of the Committee members had questions concerning any of the ideas discussed or needed additional background or facts, to please contact him or Mr. Mercer and they would be very happy to provide whatever information is needed.

Rep. McKenney said the timing of this meeting was perfect and now is the time to act.

PUBLIC COMMENT

Brad Bauman, Golden Triangle Enterprise Facilitation Program (GTEFP), said he was the representative from the economic development group that Sen. Roush referred to earlier in the meeting. Mr. Bauman shared details of the activities and goals of the GTEFP:

- This is an enterprise facilitation program originally developed in Kansas and used in other states such as Idaho, Minnesota and Oregon.
- The group would like an opportunity to meet with the Committee to give a broader picture of what enterprise facilitation involves.
- The GTEFP is financed through contributions from local governments, local businesses, and personal contributions. The group has not accessed state funding.
- The Kansas and Idaho projects were funded exclusively by Community Development Block Grant (CDBG) Technical Assistance funds and the Montana project is still working on structuring its application to meet the CDBG Technical Assistance requirements.
- The GTEFP approach is unique in its approach to economic development.
- The centerpiece of the program is the Facilitator, who is surrounded by a Community Board of 23 -30 local business people, county commissioners, and local government people.
- An entrepreneur presents a proposal to the Facilitator, who takes it to the Community Board. The Community Board links the entrepreneur to someone in the community, state, or region to get the proposal off the ground.
- Mr. Bauman said the program can be operated on a budget of about \$80,000 per year and said he estimated \$40,000 could be raised locally. He said the group would like the state to contribute a matching grant of \$40,000.

Greg Van Horssen, Attorney, Regional Economic Development Council (REDC), and explained that the REDC:

- is a group of venture capital groups that have independently operated for several years in many states;

- has a clean track record, operating under a wide variety of statutory and regulatory guidelines in the many states it conducts business in; and
- is interested in working with the Committee on developing venture capital legislation.

Mr. Van Horsen offered his expertise and knowledge to the Committee to assist them in their efforts in the design and structure of venture capital legislation.

Jacqueline Lenmark, American Council of Life Insurers, directed her comments to the subject of venture capital legislation and said the companies she represents have offered their resources and expertise to the Committee, if the decision is made to go forward with venture capital legislation.

COMMITTEE DISCUSSION / DIRECTIONS TO STAFF

Sen. Mangan said it was clear to him that the subject of venture capital needs to be addressed by the Committee, whether it be in full committee or subcommittee.

Rep. Mendenhall concurred, saying he sees a great need for this legislation. He said he also has an interest in exploring marketing and perhaps combining efforts with the Travel Montana program to cross-market and share resources to promote both tourism and economic development possibilities in Montana.

Rep. Keane said he would like to send a letter of support to the Board of Regents to express the Committee's intent to work with them in developing a long range plan for economic development.

Mr. Campbell commented that through a 1993 government reorganization effort by Governor Racicot, he had been allowed to take time from his position as Legal Staff to assist in the reorganization efforts. He said perhaps such an arrangement could be made again, allowing him to work with the Board of Regents as the representative of the Economic Affairs Committee.

Rep. McKenney said it would make sense to have Mr. Campbell's expertise and knowledge of Montana law and the legislative process available to the group and asked Mr. Campbell to confer with Mr. Petesch, Director of Legal Services.

Rep. McKenney said he had three items for directions to staff:

- venture capital financing,
- Governor's Office of Economic Development, and
- a letter of support to the Board of Regents.

Rep. Mendenhall **moved** to direct staff to follow up on each of the three items. The motion passed unanimously on a voice vote.

Ms. Murdo asked for confirmation that the letter to be drafted to the Board of Regents also had to go to the Governor's Office and to others involved in talks with the Regents on economic development. She also asked for direction on the venture capital issue.

Rep. McKenney said he would work out the details regarding venture capital with her at a later date and asked to move forward with the other items.

ADJOURNMENT

With no further business before it, the Committee adjourned at 4:35 p.m. The next meeting is scheduled for January 23, 2004.

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