A REVIEW OF ECONOMIC DEVELOPMENT STRATEGIES
FOR MONTANA COMMUNITIES

by

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ABSTRACT

During the 1980's, slow economic growth has prevailed throughout much of the United States, and communities like Montana in particular. This slow economic growth in Montana has been due mostly to a decline in the state's natural resource based industries, on which it relies heavily as a major source of jobs and revenue. This decline of the state's basic industries has resulted in a stagnant or declining economy with increased unemployment, poor business performance, lowered tax revenues and the decline of a skilled labor force.

This report will examine the causes of present economic conditions. It will also discuss particular economic problems Montana is faced with and present a variety of strategies used successfully in other communities, to help overcome the state's present economic woes.

Traditional, or passive development strategies, such as the use of tax incentives or relaxed regulatory standards will be discussed. Emphasis, however, will be on identifying the roles public and private sectors play in the development and execution of useful economic development strategies. Particular attention will be focused on how cooperation and partnerships between the public and private sectors can become a useful economic development tool. How this partnership approach, in combination with the use of more traditional approaches to economic development, can become the means to successful economic development for a community will be the main focus of this section.

An evaluation of the traditional and the active cooperative approach to economic development strategies reveals that a combination of the best of both approaches may be the most useful economic development tool. It is the partnership approach, that gives a community the sense of participating in its own economic future.
CHAPTER 1

INTRODUCTION

The 1980's have been years of slow economic growth in the United States. Montana, however, has experienced an even lower rate of growth. According to U.S. Department of Commerce figures, available jobs between 1979 and 1985 increased eleven percent for the nation, while Montana lagged behind with a mere three percent increase. This lack of economic development is a problem for the state of Montana, because it manifests itself in a stagnant economy, increased unemployment, poor business performance, loss of tax revenues, and the loss of a skilled labor force. While economic development has been slow throughout the United States in recent years, the problem has been more severe in communities like Montana, which rely heavily on one major resource or industry. Like most similar states, Montana has been experiencing the strains of a national recession and a decline of its basic natural resource industries, due to decreased demand, lower prices, and increased competition in the world market.

This professional paper is an attempt to suggest that Montana need not remain passive in the face of a declining market for its natural resources; that there are strategies
available to assist in diversifying its economy, so that dependence on one or a few extractive industries can be lessened, and vulnerability to world market conditions affecting a relatively narrow range of commodities can be reduced.

After a detailed discussion of Montana's economic problems, this report will outline a variety of strategies for encouraging industrial and commercial growth and economic diversification. An account of vital considerations for developing a useful economic strategy will examine the roles of government, educational institutions, quasipublic institutions, the business community, and the general public.

As the lack of economic development does not affect isolated aspects of the economy, cooperation between economic sectors, public and private, is an ingredient essential to the success of an economic development program. This cooperation between the private and public sector has become an active economic development tool used in a number of communities throughout the nation to stimulate lagging economies. These partnerships have been successful in combination with the use of more traditional approaches to economic development, such as tax incentives and more lenient regulatory standards. It is the public-private partnership approach that gives communities a sense of full participation in the economic development process.
CHAPTER 2
THE MONTANA ECONOMY PAST AND PRESENT

Economic Trends

Recent decades have dramatically altered the condition of Montana's base industry. In Montana, as in the nation as a whole, base industries are influenced and controlled by an array of exogenous financial and economic factors beyond the control of the community or state that depends on them. Factors such as world markets, money supplies, foreign competition, and import tariffs can drastically alter the state of base industries in a region's economy.

The Arab oil embargo of the 70's created a great boom in the oil and coal producing regions of the nation. In Montana, according to Montana Department of Commerce figures, employment in gas, oil and coal development almost tripled between 1970 and 1980, from 2,151 jobs in 1970 to 6,110 in 1980.¹ This boom however was short lived as the nation plunged into a recession in the early 1980's. The energy crisis was extinguished by a renewed oil supply flowing from the Arab world. In addition a strong U.S. dollar made U.S. produced agricultural products less competitive in the world market. Also, grain exports
decreased significantly as some large importing nations of U.S. grains were approaching self-sufficiency. All of these factors, in combination with unfavorable weather conditions and financial overextension, saw the nation's farmers facing a severe crisis. Montana's farmers and ranchers of course were not spared. The timber and copper industry, also important base industries, fell victim to foreign competition. A national decline in housing starts decreased demand for wood products, and world surpluses of copper, with falling prices, made further production uneconomical. The economic well-being of the 1970's gave way to the ailing economy of the 1980's, both in the nation and the state.

Population Trends

Montana has experienced a five percent overall population growth between 1980-1985. This is a low increase when compared to the preceding decades, with an average annual increase of 14 percent between 1950 and 1970.² Population trends appear to adjust to economic conditions of the state's base industries. As these industries offer increased job opportunities, population also increases and the reverse is true when these industries decline. Between 1980 and 1985 twelve Montana counties experienced a net population loss, led by Silverbow, which lost 3,800 residents. Although births in the state outnumber deaths two to one, or 6,700 more births then deaths annually, the
state's population increased by only 2,000, indicating a net adult population loss.\textsuperscript{3}

The greatest number of people leaving the state are individuals between the ages of 25 and 45, as they seek employment elsewhere. This exodus also includes a large proportion of college students and graduates. This emigration, particularly of college graduates, has been referred to as the "brain drain" of the 80's. Since Montana has been losing a great number of well paying jobs, these graduates are leaving to find employment commensurate with their training elsewhere. This loss of the young educated population has caused concern among the state's leadership, since this is the segment of the population that could be instrumental in contributing new ideas and energy to the revitalization of the states economy.

Problems Particular to Montana

According to MIT economist David L. Birch, Montana is faced with a particularly low growth economy. In terms of business success, Montana scores consistently low when compared to other states. This year's annual survey measures how a state is doing economically by comparing entrepreneurial activity and actual economic expansion over a four year period (1982-1986). A state's ranking is based on its overall success in job generation, new business creation, and young company growth. INC magazine, in its
annual ranking of states according to overall business success, ranked Montana 47th in significant business startups (significant business is defined as a business with ten or more employees), and 50th in annual percentage of growth of significant business, when compared to the rest of the United States. The same survey placed Montana 44th in the nation in the "number of new jobs created" category. States immediately surrounding Montana exhibit a similar economic picture, with North Dakota and Wyoming coming in 49th and 50th, respectively, while Idaho and South Dakota are doing only slightly better in 42nd and 45th place. The five state region shares similar economies with heavy reliance on natural resource industries and agriculture. According to Birch, key speaker at an economic conference in Butte on July 22, 1986, the five state area has experienced significant job losses due to the decline of base industries, which these states have not been able to replace in other areas of their economies.

The Montana Job Market

Since 1979 the decline of basic industries has resulted in the loss of over 12,000 jobs paying mostly above average wages. Many of these losses occurred due to plant closures; the most serious ones connected with the layoffs in the mining industry in Butte, Anaconda and Great Falls. Close to 3,000 jobs were lost through the Anaconda Company closure
alone. Although a portion of these jobs have been recovered through recent reopening of the Butte operations, these numbers still fall short of a total recovery. The displaced workers of these industries have for the most part found new employment, but usually at the cost of downgrading and at substantially lower wages. Anaconda employees, who earned an average weekly wage of $433 before the closure, are receiving an average of $298 per week in their new occupations.\(^5\)

Most new jobs for displaced mining industry workers were obtained with local governments, in temporary and seasonal positions such as road construction. As in the rest of the nation, Montana has increased its share of employment in the service industry. In the period from 1979 to 1985 jobs in this category have increased by over 5,000 in the state. The problem with service industry jobs, however, is their low rate of pay compared with pay rates in the manufacturing industry. As a consequence of job loss in the base industries many individuals, failing to secure employment in established industries, have turned to self employment as the only alternative. This is particularly prevalent among older workers, who because of their age, experience a decrease in job opportunities, and less retraining opportunities (real or perceived), and are unable or unwilling to relocate.\(^6\) Twenty-five percent, or 100,000 of all jobs in Montana, are the result of self employment.
Although growth in self employment appears to be a national phenomenon, the percentage in this state is well above the national average. One-fourth, or 23,000 of the self employment jobs are in farming and ranching. This number has not changed significantly since 1979. The growth of self employment is mostly a result of loss of jobs in declining base industries. Most self employment jobs are concentrated in the service industry, and per capita incomes for nonfarm self employment jobs are well below the average annual earnings for wage and salaried jobs. A combination of the trends described has resulted in placing the Montana per capita income figure well below, $2,000 per year less, the national average for the period of 1979-1986.

The State Economy by Region

In a recently published report by the Montana Department of Commerce, the Montana economy is examined by region for the period of 1969 to 1986, with projections made through 1988. For the purpose of economic analysis and planning the state has been divided into twelve multicounty economic regions, each region consisting of three to six counties, sharing demographic, economic, and other similarities. The regions are identified by the major city or town they surround.

The period from 1969 to 1979 is found to be one of steady economic growth in all regions of the state, not
being influenced by periods of national recession in 1970 and 1974-75. During this time period, the rate of Montana job and personal income growth exceeded that of the rest of the nation. According to information generated by the U.S. Department of Commerce, Bureau of Economic Analysis, total jobs increased by 36 percent in Montana, compared to a 25 percent national average increase. Total personal income for the same period, adjusted for inflation, increased by 57 percent in the state compared to 44 percent nationwide. With the exception of agriculture, all industries of the state experienced growth, with the service sector producing the greatest number of new jobs, followed by the goods producing sectors, such as mining, construction and manufacturing.

However, from 1979 through 1985 the nation as a whole experienced periods of slow economic growth, as well as two major recessions. Economic conditions in Montana reflected national trends, but at a lower rate of growth. In addition, the state experienced a third recession in 1985, while the national economy continued a slow growth rate. Job growth in Montana was three percent compared to an eleven percent increase nationwide, while personal income in Montana remained stagnant at a 0.5 percent increase compared to a national increase of 15 percent during 1985. This trend of slow growth has continued in the state into 1987, but is expected to improve somewhat through 1988 and 1989.
Between 1979-85, most of the regions of Montana experienced very low job growth, from a low of 0.1 percent in the Missoula region, to a high of 1.8 percent in the Bozeman region. Five regions actually lost jobs, led by Anaconda-Butte at -1.9 percent, followed by the Havre region at -1.1; Lewistown at -0.9; Great Falls at -0.8; and Glasgow-Wolf Point at -0.2 percent. As with job growth or loss, the regions followed similar patterns in change of personal nonfarm income during the same time period. The regions experiencing moderate growth in personal income were Bozeman, Helena and Billings, followed, with low increases, by Kalispell, Glasgow-Wolf Point, and Missoula, while personal income levels actually decreased in the Lewistown, Anaconda-Butte, Miles City, Havre, Glendive-Sidney, and the Great Falls region.12

In summary, it appears that regions with diversified industries have been least affected by economic downswings. The industry accounting for the greatest number of jobs lost in the state is metal mining, which accounts for the declines in the regions depending most heavily on this industry. Related industries, such as metal processing also declined, causing the second highest job loss in its region, followed by losses incurred through cutbacks in railroad jobs. Hardest hit by changes in these industries of course is Anaconda-Butte, and Great Falls, and to a lesser extent
Park County in the Bozeman region, due to railroad closures.\textsuperscript{13}

Review of developments in Montana's recent economic history, and statistics, supports the argument that the health and vigor of the state's economy has been closely tied to national and world market conditions affecting agriculture and natural resource extractive industries. Regional data, within Montana, suggest that some protection against "boom or bust" economic cycles associated with such industries may be afforded by success in diversifying the economic base.

Strategies for possible success in diversification and growth are discussed in succeeding chapters.
ENDNOTES


6Rafferty, p. 39.


8Brooks, p. 75. 9Brooks, p. 13. 10Brooks, p. 2.


13Brooks, p. 42.
CHAPTER 3

TRADITIONAL APPROACHES TO IMPROVING ECONOMIC CONDITIONS

Although important aspects of economic development are national and international market conditions, which affect the performance of local economies significantly, they are the factors over which a community has the least control. To overcome the negative impact of these factors on the local economy, the state or local community must find ways to adjust to changing world trends, and respond to them by finding alternatives to declining industries, mainly by attracting and supporting new industries.

Traditionally we assume that the sole factors determining business decisions to expand or relocate, include the location's general business climate, tax structure, available transportation, cost and skill of the available labor force, and overall cost of doing business. Unlike the previously mentioned national and international market conditions affecting present resource based industries, over which the state has no or very limited control, factors considered by businesses can be altered and manipulated by the state or local community. It is up to the state's leadership, both public and private, to decide what and how much incentive to offer a prospective business for
the mutual benefit of business and the general public. Until recently the primary concern of state officials has been to improve the "business climate" image of Montana, largely by reducing disincentives to the attraction of new business and industry.

Montana's Business Climate

Recognizing the need to adapt Montana policy to changing economic conditions, state and local governments have combined efforts to improve the state's perceived antibusiness image, through the creation of an economic development policy, and by sponsoring cooperative private and government efforts to facilitate a probusiness image. Much of the efforts of the Montana Department of Commerce, (DOC), through its various economic development programs have been an attempt at dispelling the state's image as being anti-business, and to promote and foster a good business climate.

"Business climate" is a term that defies concrete definition. Depending on one's perspective and position in life, it takes on different meanings. For the purpose of this report "business climate" will be defined, from the perspective of a potential business client, as an "...index which is used as a means of rating or ranking of relative attractiveness of states as a location for economic activity." Variables included in the index are: property,
personal and business tax rates, general economic indicators, and quality of life indicators. Based on these business climate indicators, Montana has not fared well as a location attractive to business.

Although Montana's per capita tax burden is about average among states, ranking 23rd in fiscal 1984, its income tax bracket for high wage earners is one of the highest; ninth in the nation.\(^2\)

The same is unfortunately true where business and corporate taxes are concerned. Recent cutbacks in the resource based industries have at least partially been blamed on Montana's heavy reliance on business and corporate taxes and business licenses as a source of revenue.

The Governor introduced a major tax reform bill during the 1987 Legislative session. That addressed many of the concerns expressed by the Governor's Council on Economic Development as being detrimental to stimulating new and expanded business activity in the state. However, the legislature did not act on many of the proposed changes, although a reduction of the coal severance tax rate has recently been passed.\(^3\) How much impact this measure will have in increasing coal production and sales remains to be seen.

It is obvious that Montana, at least at the state level, is attempting to improve its image of being unfriendly to business, and is backing up this improved
image by offering some concrete incentives to new and established business in the state. Whether or not these incentives will have the desired effects remains uncertain. Based on the general economic indicators, Montana is one of the least desirable among the states. The state is remote and not known as a haven for enterprise. Like most states in the region, Montana has had a difficult time adjusting to the decline of its basic industries. Although some gains have been made in diversifying its economic base, most gains have resulted in lower paying service oriented industries.

In contrast, the quality of life is one of Montana's greatest assets. Its wide open spaces, natural and pristine beauty can be considered a desirable asset, but unfortunately will probably not result in attracting great numbers of the "High Tech," clean and well paying industries sought by those involved in promoting economic development in the state. A realistic assessment of the state's assets and liabilities is the most useful tool in planning for economic development. As the state continues to struggle with efforts to overcome its perceived antibusiness reputation, it has attempted to draw on all of its resources to affect such a change. Government officials, at the state and local level, business leaders, and university officials have begun a dialogue aimed at exchanging ideas and building a positive foundation on which the state can build its overall economic development efforts.
Montana's Antibusines Image

During a recent conference entitled: "Montana - An Economy in Transition," cosponsored by the Governor's Office, the Montana Power Company, Montana Ambassadors, Montana International Trade Commission, and the Montana Department of Commerce, Governor Schwinden praised the gathering as an example of public-private cooperation, and expressed his hopes of continued and increasing public-private efforts to find solutions to Montana's economic woes. He stated that:

Together...we are on the road to demonstrating that Montana can be an attractive place for business. We are replacing hostility with hospitality. We are replacing confrontation with consensus. And we're doing it without sacrificing the values we hold dear as Montanans."

"Hostility" and "confrontation" among different interest groups are exactly the forces responsible for Montana's image as a business "unfriendly" state, according to David L. Birch, MIT economist and guest speaker at the conference. He cites infighting about business development as a major cause of slow economic growth, and compares the situation to a case of internal Civil War. In economic terms, according to Birch, Montana resembles a Third World nation, being exploited by outside forces. As a case in point, he cites the extraction and export of raw materials without the opportunity of making a profit on these materials through their add-on processing values as a major
means of exploitation. There are currently only two processing facilities in the entire state. Additional processing facilities could be an important source of both profit and well paying jobs.

It is concern with this lack of consensus within the state that prompted the Governors' Council on Economic Development (CED), established in 1983, to call for the establishment of a 10-year development strategy for Montana's natural resource based industries. The council reports that it perceives Montanans to be fearful of resource development "...because of our history of natural resource exploitation." The report blames the lack of maximum economic development of the natural resource industry on lack of consensus, which tends to inhibit the formation of public-private sector initiatives. The lack of consensus is blamed, at least in part, on the absence of "objective, common information about natural resource development and its impacts." Not having objective information available to all concerned parties prevents constructive consensus building dialogue between the general public, special interests, and the industry. The formulation of CED's ten year strategy plan is intended to provide this vital information to all interested parties and decision makers by giving objective information on further resource development and its expected impact on the state.
The plan is to specifically analyze and provide information on the following issues:

Identifying existing and potential national and international markets for Montana products; application of state-of-the-art production and processing techniques; production and transportation costs; impact of state and national regulatory and tax policy; impact of industry ownership patterns on development; social, environmental, community and economic impacts. 

The council has expressed its hope that the plan will provide adequate information to public and private decision makers, and to aid them in making informed choices for the economic future of the state. As the basic industries continue to provide the mainstay of Montana's economy it is imperative that this economic base be expanded and diversified, without the fear of unknown impacts or consequences.

**Summary**

While Montana has attempted to offset its poor "business climate" rating by stressing "quality of life" factors, and has tried to remedy its antibusiness image by allaying the concerns of Montanans fearful of the impact of economic growth, these are essentially passive strategies meant to reduce subjective barriers to business investment. Only very recently have Montana leaders recognized that success in attracting new investment requires an active campaign to literally "sell" Montana. For some time, other
states, and cities, have taken a much more active role in marketing their communities to potential investors.
ENDNOTES


3Montana Department of Commerce. Carol Daly, Legislative Up-date: Memo to Montana Ambassadors, April 22, 1987.


6Ibid., p. 34. 7Ibid., p. 36.
CHAPTER 4

NEW APPROACHES TO ECONOMIC DEVELOPMENT STRATEGIES

Changing economic conditions require changing strategies, to help make and keep communities financially viable. In today's competitive climate for business and the jobs they provide it has become obvious that communities cannot remain passive, waiting for economic development to happen. Communities must take the initiative to attract business rather than merely upgrading their image.

Marketing Strategies

The primary industry on almost every community's list are high tech firms. A number of communities that experienced an economic slump in the 1970's have been able to recover economic viability through the attraction and expansion of high tech companies in their vicinity. One such community is Colorado Springs, now a mecca of high tech, was successful in attracting firms such as Ampax, IBM, and Data General. An economically declining area in the 1970's, largely dependent on tourism and government defense contracts, launched what it called a "flying business circus" campaign to attract new and growing industries. The "circus" was launched as a systematic campaign of traveling
slide shows about the community's assets which were presented to potential business prospects. The campaign was initiated and sponsored by a cooperative effort of city officials, the Chamber of Commerce, and local business leaders. James Devine, director of economic development of the Colorado Springs Chamber of Commerce, is quoted as saying "Colorado is writing the book on economic development."¹

Another success story in terms of attracting high tech into its midst is Camas, Washington. The town was able to have RCA/Sharp Microelectronics build a semiconductor plant, providing the town with much needed employment opportunities. Mike Parker, an assistant city engineer at Camas, states that "The reason we were so successful in bringing RCA/Sharp Microelectronics to Camas stems from a concerted team effort on the part of city and state officials, and the Columbia River Economic Development Council."²

In their quest for economic development and increasingly fierce competition for jobs in their communities, some localities have gone a step further in utilizing aggressive marketing campaigns. The media, particularly TV, play an important role in such advertising campaigns, and so does the use of consultants. Economic development has as a result created its own whole new industry. This type of marketing is built on the initial
momentum of a community's perceived need for economic development. To affect such a campaign the leadership required to do the job needs to be particularly enthusiastic and skilled as a "sales" person, even though marketing and selling are not necessarily the same. As the public sector becomes involved in the marketing process the concept of "public sector marketing" has evolved in recent years. Public sector marketing has been defined as: the selling of the community to attract tourism, improve the image, stimulate economic development, and to increase the use of revenue producing public services. Marketing by itself has been defined as: "The analysis, implementation and control of carefully formulated programs designed to influence the level, timing and character of demand in selected, targeted markets for the purpose of achieving an organization's objective."³

Marketing is the strategy used to increase sales. Public sector marketing is different from private marketing in its emphasis on services and social behavior rather than goods, with emphasis on nonfinancial objectives and a need to devote market resources to attract donations or tax revenues. An example would be the improved infrastructure of a community to attract a new business.

The goals of public sector marketing have been described to:
1. Provide participants with tools to analyze and develop marketing strategies to individual problems;

2. Provide the opportunity for local officials to share experiences and problems with other communities and the private sector;

3. Examine completed or existing marketing campaigns and to assess their success or potential;

4. Direct research programs on topics of local government marketing;

5. Assist all participants;

6. Develop a user guide such as a case study to share with other communities.4

Important features of any successful marketing scheme are research and data collection, good communication between all parties involved, and a continuing process of evaluation.

Although aggressive marketing campaigns have been portrayed as an overall success, especially by the communities utilizing them, no objective analysis of cost effectiveness has been advanced. In a large portion of the descriptive literature about public-private partnership (PPP) ventures for the improvement of economic conditions, much of the success attributed to the partnership has been based on the activities involved, such as positive image building and cooperation within the community. Little has been done to back up these success stories with objective indicators such as the number of jobs gained or additions to the community tax base. It is not even clear if such objective measures are needed, as long as the participants
perceive the venture to have been a success. The most destructive obstacle to local economic development is probably apathy within the general community and its public and private sector. Even if PPP's do not bring about any direct results, at least to some extent the community will come away with a sense of positive involvement, and this may ultimately reinvigorate the community.

The major problem with economic development through enticing companies to relocate, is the fact that in most instances it turns out to be what has been called a "zero-sum" game. As one community gains jobs and employment opportunities, another community loses them. This fact has been the basis of most of the criticism directed at government involvement in economic development, and its active involvement in the competition for jobs. When local governments take the lead in the promotion or marketing of a community to a prospective company, a certain credibility is added to the process. This form of government intervention may be viewed as an opportunity by a business, as it changes the perspective in which a business is viewed. Getting business to locate in the community, and offering incentives to the business to do so, may seem to be in the public interest, benefiting many, and improving long term economic conditions. However, due to the nature of business, the community succeeding in attracting the business through the offering of various incentives, is likely to lose this
business to another community willing to make even more concessions, and therefore lowering the cost of doing business to the firm involved even more. Most companies do not hesitate to relocate, since much of the cost of moving will ultimately serve as a tax write-off anyway.5

While much discussion centers on who the party deriving the greatest benefit from the PPP approach to economic development is, it becomes apparent that a definitive answer is not possible, due to the "Catch-22" nature of the relationship. While some communities have gone overboard in their willingness to make concessions and to incur major expenses to attract business, most communities have maintained a balance in the cost/benefit ratio of attracting and retaining business. In general, the joint venture project results in a more equal relationship between involved entities, as the public shares in the risk of a business venture, as well as its profit.

The Public-Private Partnership Approach

"...great cities - whether large or small - reflect the vision and aspirations of the local leaders who guide and govern them."6

Public-private partnership has in recent years developed into a popular phrase used by officials in state and local governments as well as by business and civic leaders. It has been described as the "long arm" of
government meeting the "invisible hand" of the free market system. Each dependent on the other, therefore "...creating the conditions for a new political ethic of public-private partnership to emerge."7

The Kennedy School of Government, at Harvard, found in a three year study (not yet published) that the number of public-private partnerships for the purpose of economic development in the U.S. is estimated to be in excess of 10,000.8 Public-private partnerships (PPP) are not restricted geographically, nor do they depend on size of communities. PPP's have been used successfully in other nations as well. West Germany has employed PPP programs to train its youth in apprenticeship programs for employers seeking a work force trained in specific job skills. Japan has been referred to as Japan Inc., because of its extensive reliance on PPP's. Although PPP's are viewed as a new phenomenon, the basic concept has existed for years in this country. The building of the railroad, linking one end of the continent with the other in order to access all parts of the country is an early example of PPP's. So are the two Morrill Acts, which resulted in the partnership of agribusiness and education. During the post World War II era PPP's united agribusiness and government in the reconversion process of changing the war industry of the day to a peacetime economy. A more recent example of a well
publicized PPP was the government bailout of Chrysler Motors.

Although the federal government does have a role in PPP's, it appears that most PPP's for the benefit of economic development work best at the local level, providing those involved in the partnership process with a sense of equality. PPP's appeal to communities has been described as an appeal to "...patriotism, strong consensus building emotion that shames the union, corporation or politician who does not heed its call."\(^9\)

To be successful, PPP's require strong leadership by local government entities. The importance of strong leadership of local government in the PPP process is cited in a report about the success of a neighborhood renewal project in Pittsburgh,

The strength of the Pittsburgh model of neighborhood renewal is the leadership provided by its city officials in the development of most of the significant partnerships. Although some of the partnerships may have developed without city involvement, the city provides the continuity for maintaining the partnership on an ongoing basis.\(^10\)

The author further contends that there is potential for expanded partnerships, as government entities are relegating more of their functions to private sector counterparts. PPP's at the local level are successful mainly because the involvement of private partners assures more area specific solutions to problems, since the private partners are
usually more aware of what transpires in the "old neighborhood."

As PPP's are getting increased media attention, especially at the local level, communities are stepping forward to share the stories of their success. The common theme all PPP's discussed is the improvement of economic conditions in each particular community, either by attracting new business to the locality or by expanding existing business. One such community is Suffolk City, Va., a community of 50,000 residents, which embarked on an economic development campaign headed by the town's mayor and the city council. The government body provided the base of the campaign, making staff and city employees part of the effort, and letting them see how they fit into the economic development effort by providing their ideas and services to the campaign. The campaign was very upbeat and involved all city department heads, actively soliciting ideas and recommendations. After the initial planning stages, the mayor formed a five member staff team to serve as an advertising review committee, joined by local business representatives. The committee then hired an advertising agency with economic development experience to design an extensive community promotion. Funds for the campaign were raised jointly. The campaign was a major success and received an international award and recognition. As a result of the promotion, economic activities in the town increased
so dramatically, that the local government was able to reduce property taxes, some license fees, and utility and business taxes. The key features which made the campaign successful were; positive and upbeat campaign themes, dynamic leadership, a pro-business city council, a positive city staff helpful in development efforts, local media support and exposure of the campaign beyond the community's boundary.

Another successful example of a city revitalized by collaboration between the public and private sector is the case of Lowell, Massachusetts. Here again, the positive attitude of the program's leadership was seen as an important key issue, as this attitude is perceived to "rub-off" on the general population. It is the element of positive leadership which provides a common thread through the PPP fabric. In Lowell the goal of the local development corporation was to promote the city's good image. "The Lowell Plan," a nonprofit development corporation, recognized that in order for the community to project a good image to outsiders, it had to first convince the local community of the town's good image. This was accomplished by promoting the community's assets while down playing its liabilities through a multi media advertising campaign. As a result of its efforts the corporation succeeded in raising one million dollars to support local artists, aware that the "Arts" play a vital role in the image of the community. The
effort ultimately succeeded in drawing expanded audiences and revenues to the community.\textsuperscript{11}

While in the preceding examples the initiative for the economic development campaign was taken by city officials, it is more common to have an economic development organization, made up of local business and civic leaders, take the initiative. But regardless of how and by whom a campaign is started, close cooperation and a common goal are necessary for the program to be successful.

The question arises: why is there a need for PPP to achieve economic development. Obviously, a healthy economy benefits everyone. The citizens of a town need jobs to survive and local governments need the taxes paid by these citizens to provide services. As employment opportunities have changed and businesses come and go, the expansion and retention of the job market becomes the lifeblood of the community.

The public sector's role in economic development is important, since state and local governments are endowed with legal powers not delegated to the private sector. It can coordinate programs and devote a variety of resources to affect economic development. It can aid in project financing through the use of tax incentives, the sale of revenue bonds, and by providing an improved infrastructure to prospective business. Local government can further apply for, and receive, federal and state assistance and grants to aid in
project financing. Through the use of these powers, local government can provide incentives and act as a catalyst to encourage private investment.

The private sector role in economic development is to provide investment and growth in the community. Business and financial institutions exist to make a profit and to protect their investment. Private partnership with the public sector takes some of the risk out of doing business, by shifting part of the financial burden and responsibility of doing business to the public sector. Business exists to make a profit by providing goods and services, and by accomplishing this at the lowest possible cost to itself. By working with local government the private sector may be able to take advantage of low interest loans, technical assistance, lowered tax rates or in-kind incentives, such as public facilities provided at no extra cost to the business.

Criticism of PPP

PPP's for the purpose of economic development is not without its critics. Although a community and its residents clearly benefit from having businesses that are doing well and provide jobs to the local population, it is the citizens who are often footing the bill through their tax dollars and by providing cheap labor.

Attracting and retaining business in a community has in recent years become an extremely competitive undertaking,
with local governments and the general population of a town competing with one another by offering incentives and making concessions to business. This phenomenon has become known as "smokestack" chasing. Just as industries and technologies have changed, so have the environments in which those industries operate. As industries become established in certain regions, populations place more demands on these industries, such as worker benefits and higher wages, or demands for cleaner environments. As these demands increase the costs of doing business in that area also increase. When these costs increase businesses tend to look for alternatives. Offers of more hospitable environments are abundant because of regional competition for business relocation. Industries, for the most part, do not display any loyalty to a particular location; rather, their loyalty is to the bottom line of their balance sheets. Goodman asserts that considerations for relocation of a business are exclusively based on finding the cheapest place to do business in. He says that such as climate, quality of life, etc., are secondary in deciding where to locate a particular business. Prime consideration is given to local labor conditions, the extent of unionization, and the ability and willingness of state and local governments to make those conditions attractive to industry. In recent years most of the industries relocating their operations have moved to areas of the country which are not unionized. Major shifts
from the northeast of the U.S. to the South or the Sunbelt region have not been random relocations to a warmer climate. The states with the greatest job gain have been states with the lowest labor costs, such as South Carolina and Arizona. According to "Corporate Financing," a trade journal for corporate executives: "Except to expand into new markets or to exploit newly available sources of materials, industry locates (or relocates) plants primarily to obtain the most favorable labor environment." When making location or relocation decisions businesses look for communities with "...a lack of organized strength, long distances to jobs, and a lack of work opportunities."^12

Although a business's primary concern is with its profit margin, companies that will look beyond the bottom line do exist. As long as a state or community can develop an attractive offer to industry, which gives careful consideration and balance to all aspects involved in the proposed economic expansion, the possibility of attracting an industry or business to the community does exist. In its overall strategy to improve the economy, each community must decide its own priorities, as these priorities will determine the economic future and well being of its residents.

Experience in other states suggests that Montana should make a concerted effort to mobilize both public and private resources in order to market the state as a desirable place
to do business, rather than just reducing apparent disincentives to new investment. Currently, the state has a number of such resources available to aid in development.
ENDNOTES

1 Richard Erickson, "Trends for economic development; municipal governments are joining economic growth management with marketing expertise to ensure urban development", American City and County, October 1985, p. 50-55.

2 Erickson, p. 53.

3 Quentin R. Lawson and John Pennullo, "Using marketing strategies to address local issues", Public Management, June 1986, p. 3. Citing Philip Kolter, Kellogg School of Management, Northwestern University.


6 Erickson, p. 50-55.


8 Brandt Ayers. 9 Brandt Ayers.


12 Robert Goodman, The last entrepreneurs - America's regional wars for jobs and dollars, (South End Press, 1979), p. 34.
CHAPTER 5

ECONOMIC DEVELOPMENT RESOURCES IN MONTANA

As Montana's economy began to change for the worse in the early 80's, due to its basic industry decline, state and local officials looked for and explored options to stimulate and improve economic conditions. As a result, state leadership has been active in utilizing all available public and public/private resources to provide an attractive "package" to business, in hopes of stimulating new investment.

DOC Structure and Programs

The state's lead agency for overall development and administration of economic development programs is the Montana Department of Commerce (DOC). The department gathers, analyzes, and publishes statistical information concerned with the state's economic conditions, and offers a variety of programs to improve these conditions through its various offices.

The director of DOC, Keith L. Colbo, is responsible for the overall administration and management of DOC and its various offices. In addition, the DOC director chairs the state banking board according to statutory requirements, and
serves as Secretary to the Ambassadors program. DOC also
provides the staff for the Governor's Council on Economic
Development. DOC divisions, whose primary focus is the
state's economic development, are the Business Assistance
Division, Montana Economic Development Board, Montana
Promotion Division, Office of Economic Analysis, Local
Government Assistance Division, and Montana Science and
Technology Alliance.

The Business Assistance Division provides comprehensive
programs and services, as well as technical assistance to
other programs. The business location program is responsible
for the promotion and recruitment of potential businesses to
the state. The agency initiates and develops relations with
business sectors and individual firms. It provides and
disseminates location data to business prospects. The agency
also maintains close contact with local development
organizations and assists them in their efforts to attract
business.

The division also staffs the Montana Ambassador program
and works in cooperation with Ambassadors to provide
technical assistance to local development organizations and
in administering the Certified Cities program. Division
staff is available to provide small business and trade
associations with technical assistance in marketing efforts
of their products through its Montana products promotion
program. Emphasis of the program is on marketing Montana
made products beyond the state boundaries, by providing exposure of the products at national and international trade shows. An extension of this effort is the Montana Product Promotion Program. The "Made in Montana" logo has been promoted in a state-wide public awareness campaign, utilizing extensive media advertising. To assist in marketability of Montana made products in foreign markets, the division, in cooperation with the Montana International Trade Commission, a privately funded and administered organization, provides export information and assistance to Montana manufacturers.

The Montana Ambassador Program

Montana Ambassadors, a private sector organization whose aim is to promote economic development in the state through personal contacts of its members with prospective business leaders within and outside of the state, was created in 1984 as a part of the "Build Montana" program. Modeled after the Nebraska "Diplomats" program, the organization has been cited as an example of public-private partnership, and an integral part of the "Build Montana" program. The organization is financed entirely by membership dues, and is staffed by the Montana Department of Commerce (DOC). Its membership in 1986 consisted of 177 individuals, business and civic leaders, from throughout the state. The Ambassador's organizational structure consists of a Board of
Directors and a number of committees involved in different aspects of the program.

The organization's stated goals are:

To represent the Office of the Governor and the Department of Commerce in business-related contacts in and out of state;

To assist the Department of Commerce with its business, trade and tourism development program;

To sponsor projects that encourage and support economic improvements throughout the state;

To support, whenever practical, efforts by other groups to contribute to the economic vitality of Montana;

And, as official Ambassadors of the State of Montana, to put the best interests of the state before personal interests and to give freely of time, energy and personal finances.

The business recruitment committee, in cooperation with DOC, conducted an advertising campaign. They produced an 8-page advertising supplement which appeared in 12 trade journals, offering invitations to U.S. and Canadian corporate executives to receive free copies of "Montana Magazine," and to establish initial contact with potential business prospects. Out of 1200 inquiries, 200 contacts were identified as businesses with potential to relocate in Montana. As a follow-up, Ambassadors met with these business prospects during their own travels. The approach is intended to be low key and soft sell, focusing on such issues as the quality of life in the state. How many businesses have actually relocated as a result of these efforts, and how it has affected the states overall economic condition is not
clear at this time, since business relocation is a lengthy process, and business decisions such as relocation are not determined by goodwill gestures alone. It is, however, safe to assume that the efforts of the Ambassador program are presenting the state as an attractive alternative to businesses looking for environments such as those Montana has to offer.

A current project the business recruitment committee is involved with is to establish contact with MSU alumni to persuade these alumni, who have become successful elsewhere, to consider returning to Montana bringing their business and talent back with them. In addition, the committee is involved with DOC in conducting a trade study concerned with the identification of Canadian firms who may consider the location of a subsidiary in Montana.

The community development committee is co-sponsor, along with DOC, of The Certified Cities program. The committee assisted with designing the program by evaluating programs in other locations and coming up with a program deemed most suited for Montana communities. Committee members also participate in training sessions for the Certified Cities applicants.

The Ambassadors marketing committee has also been instrumental in promoting the state's "Made in Montana" marketing strategy. In cooperation with DOC and the Montana
Retail Association, Ambassadors have conducted seminars and trade shows of Montana made products throughout the state.

The organization's protocol committee has been active in welcoming and hosting dignitaries and business executives visiting the state in Helena. In September of 1985 the committee sponsored a "Catch and Release" fly fishing tour for eight corporate executives at the Mountain Sky Guest Ranch in Paradise Valley. The executives were selected by the business recruitment committee based on their potential for relocating to Montana. Whether or not any of the companies will actually relocate as a result of this experience is unknown, but at the very least, a favorable impression of the event may prompt these executives to return to the area as tourists in the future.

While it is difficult to measure the success of the Ambassador program in concrete terms as to its effect on economic development, it has served a useful function by demonstrating that public-private cooperation is possible and desirable. The program has taken over some of the functions and costs a government agency may not otherwise be able to provide in the promotion of the state's resources and goodwill.

The Certified Cities Program

The Montana Certified Cities program was established in 1985, and is sponsored and administered by the Montana Department of Commerce and the Montana Ambassadors as part
of the states "Build Montana" program. The main objective of the program is to help Montana communities develop the ability to set and achieve their individual economic goals. While in most communities these goals will involve the attraction of new business to the area for the expansion of new job opportunities, the emphasis of the program is placed on development expansion from within by promoting new and existing local business. The Certified Cities program is described as a skills building program. It does not provide funding to communities, rather communities are responsible for raising funds to finance the requirements of the certification process. The program requires communities to go through a process of self-assessment and evaluation. It "...requires that communities address specific aspects of economic development in their strategies and action plans, but priority activities are determined solely by the community."²

The Certified Cities program is another attempt at the public-private partnership approach, in which a government agency provides the technical assistance, guidance and encouragement to local community development agencies in order for them to plan and eventually carry out their own economic development strategies. The intent of involving communities in the certification process is to make local leaders (public or private) aware of the communities resources, and also its liabilities with emphasis on
developing strategies for overcoming these liabilities by using its resources to the communities best advantage.

The certification process requires communities to establish a local economic development organization, which will bear main responsibility in completing the certification process. The organization's first task involves the establishment of a community data center, providing physical data which is later used in the formulation of the development plan. The organization is also required to form committees for the purpose of addressing the issues of business retention and expansion, as well new business development.

The culmination of the certification process is the completion of a community's strategic plan for economic development. The completion of this plan, however, is not to be viewed as the end of the local economic development process, but rather is to be used as a planning tool to achieve both short and long term objectives. It is at this point where momentum gained within a community through cooperative efforts of all involved needs to be maintained. Enthusiastic leadership appears to be an especially important element maintaining this momentum, as the lengthy process of attaining certification may have the tendency to cause "burn-out" in some of the participants. Highly visible and enthusiastic key figures need to emerge to keep the community interested and involved in the local development
process.

Once certified, a community is required to show continuing progress towards its stated objectives and goals to be eligible for recertification by DOC after three years. In 1986 DOC awarded twenty-two communities with its Certified Cities designation. An additional twenty-two communities are participating in the 1986/87 certification process. As an ongoing activity DOC offers annual awards for outstanding achievements in economic development program areas such as retention and expansion of existing business, downtown development, new business development, tourism and community development. How effective the Certified Cities program is in helping communities accomplish their own development goals remains to be seen. It does however provide a community with a point of reference in its own development strategy.

The Science and Technology Alliance

In response to depressed and shifting economies, most states have formulated and implemented programs for innovative technology research as part of their strategy for economic development. These programs are thought of as providing increased employment opportunities, improved job quality, and higher personal income. State and local programs are usually designed to promote existing technology based business, or to attract it from other areas. However,
the development of high or innovative technology as a vehicle of economic development appears to have been overrated in some instances as a cure-all for a state's economic woes. It has been found that high tech business tends to gravitate to states where it has been firmly established for some time, since those are the areas where facilities and a skilled workforce are already in existence.3

Another factor influential in location or relocation of high tech business firms seems to be past federal defense contract spending. Here again, an established work force and the infrastructure conducive to high tech development already exist.4 In addition, areas with already established high tech firms tend to attract other firms to locate in their proximity; obvious examples being California's Silicon Valley, Massachusetts's Route 128, and the Research Triangle Park in North Carolina.

Major components of the strategies for promotion of high tech business development consist of technical assistance, innovation and incubator centers, and research consortia. These efforts represent cooperative partnerships of the public and private sectors that involve available university systems and their resources.

Technical assistance programs provide short term technical assistance to industry through academia, while innovation centers promote cooperation of industry,
universities and government to enhance product development. They provide research and development for inventions, making them adaptable to production processes and turning them into salable products. Incubator centers take the marketable products developed in the innovation centers and assist new or prospective business in marketing them. Research consortia, on the other hand, sponsor basic research "...for the purpose of gaining proprietary rights to advanced technological developments before companies or governments in other countries do." These consortia receive major federal funding, and include key individuals of industry, academia and government.5

Most of these programs are state sponsored, and program participants, in return for their efforts and assistance, receive either a percentage of profit of the final salable product or have the option of owning stock in the developed company. In Pennsylvania, for example, the "Ben Franklin Partnership Center", a consortium of industry, government and the university, owns stock in companies it provided assistance to or receives royalties from product sales.6

On a somewhat more limited scale Montana provides assistance in these activities through its recently created Science and Technology Alliance. The Alliance was established in 1985 by the Montana legislature, and represents a partnership of business, government and Montana universities. Its aim is to "...help strengthen and
diversify the state's economy through the development and application of innovative science and technology."^7

The Alliance's fifteen member board of directors, appointed by the Governor, is supported by a staff provided by the Department of Commerce. The main purpose of the Alliance is to provide state funded investment capital and financial support to projects of applied research and development, to promote technology transfer, and to provide seed capital for their commercial applications. Funds are awarded on a competitive basis to technology entrepreneurs, business and industry, researchers and educators. Priority is given to projects in targeted technology areas and to new and innovative technologies with good commercialization potential. The projects must also demonstrate their potential of creating new jobs and/or retaining existing business. In addition, projects demonstrating PPP and university involvement are given preference, and matching funds are also required.

The Alliance administers four basic investment programs:

1. Research Capability Development: Investments are used to help create new and strengthen existing in-state private sector/university cooperative research and development efforts. Preference is to be given to projects of greatest utility to the private sector.
2. **Applied Technology Research:** Funds are provided for research projects with potential for commercialization and providing new employment opportunities to Montanans.

3. **Technical Assistance and Technology Transfer:** Investment is made for the purpose of adapting laboratory technology to marketplace application. It also provides funds for business development assistance for new technology entrepreneurial companies.

4. **Seed Capital Investment:** Financing is provided for innovative technology business start-ups.

All applicants for Alliance funding must submit proposals which are reviewed for technical and financial soundness to insure a reasonable rate of success of the funded projects.

Since its inception in 1985, the Alliance has invested two million dollars of state funds, appropriated by the state legislature from the Alternative Energy account of the coal severance tax. The rationale of the investment program is to provide funding to projects which are considered somewhat high risk ventures, and for which conventional financing may not be available. Because of the high risk nature of the projects the Alliance requires a higher rate of return on its investment than other conventional sources would require, at roughly twice the rate of the current
would require, at roughly twice the rate of the current prime interest rate, plus additional points for risk. Typically, the Alliance receives between 15 to 22 percent interest on it's investment.

The repayment schedule is determined by the project's success, as the Alliance receives its return on investment as a percentage of gross sales of the commercialized product of the project. If the project fails, the applicant is not obligated to repay the Alliance. To date, the Alliance has funded eighteen formal proposals of which ten involved university participation. Of the eighteen funded projects, six are located in Bozeman, four in Missoula, three in Helena, two in Billings, and one each in Butte, Corvallis and Great Falls.

Recognizing a severe shortage of private investment capital for innovative technology industries, the Alliance is currently involved in providing assistance in the establishment of a Montana venture capital network project by the Development Corporation of Montana. The objective of the project is to seek out and create a network of in state venture capital investors interested in investing in start up technology based business. The completed project is to provide potential match up of investors with young businesses seeking financing. The Development Corporation serves as a third party liaison to any potential agreement.

As technologies and employment opportunities change
throughout the nation and in Montana, the Science and Technology Alliance is bound to be an important vehicle in assisting the state in adapting. Whether or not the state will ever be known as a mecca for high tech firms is questionable, but a continued awareness and expansion of high tech university sponsored research and technology development is essential to the state's success in entering the mainstream of changing industrial development. In a recent interview on "Face the State," William Merwin, President of Northern Montana College, pointed out that the university system plays an important role in preparing and training a work force capable of handling changing work requirements. He contends that training and retraining of this work force will have to be an ongoing process if the state is to become competitive in attracting or maintaining high tech based business.

Recent legislative policy enacted to help promote research and development on new technologies in the state consists of increased funding, tax incentives, and expansion of availability of venture capital.

House Bill (HB) 700 gives the Montana Science and Technology Alliance authority to issue up to $16 million in seed capital bonds for the development of science and technology. The bonds are backed by the permanent coal trust fund, but are expected to generate enough return through principal and interest payments on the loans made, to be
self-supporting. Investments made under the program are expected to "accelerate development and application of advanced and innovative technology in the state's economy by encouraging and facilitating the development of new products, processes, or technologies that make the state's economy more productive and profitable and have commercial application in existing and new business."^9

HB 449: Gives authority to the state board of investments to invest up to 3% of the state's retirement funds in venture capital companies. The bill specifies that "whenever possible, preference should be given to investments in those venture capital companies which demonstrate an interest in making investments in Montana."^10

Senate Bill (SB) 64: To further promote high-tech development in the state, the bill provides a five year tax exempt status on net income earned from research and development by any new business engaged in research and development activity.

SB 22: To encourage increased availability of venture capital in the state the bill provides an increase in the total amount of tax credits a Montana capital company can receive from $375,000 to $1.5 million. Investors in capital companies may now receive up to 50% tax credit per investment. This increase is up from the current 25%, or $25,000 maximum, tax credit per investor.

In an attempt to compete for the super collider
research facility, which has been proposed by the U.S. Department of Energy, the state legislature passed HB 867, to provide funding for the establishment of a state task force in an attempt to secure the facility for the state of Montana. The bill, which appropriates $300,000 for the project, was sponsored by the Montana Ambassadors program, and requires 1:3 private matching funds. Commitment of those funds has been secured by the Ambassadors from various private donors. Whether or not Montana is successful in securing the facility remains to be seen, since stakes are high and competition for the $4.4 billion facility will be intense. According to Keith Colbo, DOC Director, Montana has a good chance to succeed in the competition because of its seismic stability, available land area, and low energy costs, which are all prerequisites for obtaining the contract.

Financial Assistance and Incentives

Montana, as most other states in the U.S., offers industrial development bonds for the purpose of economic development. The Montana Economic Development Board has authority to issue tax exempt industrial development bonds (IDB) to fund loans for manufacturing projects.

The Pooled Industrial Bond Program provides loans from a pool of small borrowers who would not otherwise have access to the tax exempt bond market by combining a number
of IDB projects and selling bonds to finance the loans. Loans under this program range from $100,000 to $3 million. All loans are serviced by Board approved financial institutions. The bank providing the loan is required to provide a 35% letter of credit to the project, and the borrower must contribute a minimum of 10% equity to qualify. The Board is required by federal law to conduct a public hearing for each project to determine if financing is in the public interest. The Board is also responsible for underwriting the bonds and funding the loans. Interest rates are determined at each bond offering.

The second state offered bonding program consists of Stand-Alone Industrial Development Bonds. The program is designed primarily to assist well established businesses that are able to assume responsibility for funding their own projects. The Board in this program is only responsible for issuance of the bonds. The borrower under the Stand-Alone programs may choose to get financing for its proposed project through recognition of its financial strength by the bond market, a bank letter of credit which the bond market accepts, or a direct tax exempt loan through a certified lenders.

Recent changes in federal tax law requirements for non-manufacturing businesses, will require the Board to make changes in the issuance of bonds. The new restriction on bonds being issued only for manufacturing projects, as a
result of federal tax laws, was implemented in December of 1986, and remains effective through December of 1989. All loans must meet federal eligibility requirements, and they will provide primarily long term, fixed rate financing.

Industrial development revenue bonds have been a popular method of financing local economic development. They are inexpensive to local governments, since the state is only liable for the administration of the program. The federal government carries the burden of cost through loss of tax revenue. Although widely used as an economic development tool, IDRB programs are not without critics. As a major fault, cited in an article by Thomas A. Pascarella in the "Urban Affairs Quarterly," these bonds are often misdirected. Originally intended to benefit economically depressed areas, and to help alleviate unemployment, the bonds, by the nature of their tax exempt status, represent a burden on the taxpayers in general while providing benefits to narrow business interests. Whatever the liabilities of IDRB's, they appear to provide incentive for business development and expansion throughout the United States.

Strategy for Statewide and/or Local Economic Development

State economic development programs are the most frequently used financial source for economic development within a jurisdiction. The overall goal of most programs is to promote public-private cooperation in achieving economic
development by formulating public policy that helps the private sector minimize the cost of production and maximize profit.

"State and local economic development strategies typically evolve incrementally, without an underlying economic theory except that more jobs are good and less jobs are bad."¹² These increments usually consist of an array of economic incentives, such as tax abatement and low interest loans, to help localities attract and retain business. State programs aim to establish a state's reputation of being pro-business and having a good business climate. As competition for business increases among states, so does the range of incentives offered to business, as one state attempts to surpass the others.

State economic development programs usually involve an aggressive marketing strategy to "sell" the community to prospective businesses, backing up activities that help those companies market their products and helping them reduce their costs of doing business. An assessment of the success of such strategies is difficult to make because of businesses tendency not to establish loyalties to specific communities. As the margins of a state's advantages over others narrows, it has to come up with new ideas to keep economic development going. Current popular strategies are special export promotions, technical assistance to new and small business programs, and offering incentives to the
movie and other narrowly targeted industries.

Many communities that have access to local universities are developing high tech centers, which involve PPP to promote new technologies applicable to business expansion. These high tech centers also aim at turning out a skilled workforce for these industries. In addition, special tax concessions are the norm in most communities.

Critics of these incentive programs for the purpose of economic development consider them to be undeserved subsidies to business. Proponents of the incentives consider them essential not only to the economic survival of communities, but to that of nation as a whole. By reducing the costs of doing business, such programs make these businesses more competitive in the world economy. It is difficult to assess which one of these views to give more credibility to, but each one has its own merit. Whether or not a business in a given location succeeds is not always an indication of a state's successful economic development strategy, since much of a business's survival is based on factors beyond the control of the state or local community. Such factors as national fiscal, monetary, trade, and regulatory policies, will greatly influence a businesses ability to survive and prosper. It is for this reason, that state and local officials need the cooperation and commitment of federal efforts to aid states in their economic development objectives, either in form of grants or
in form of an effectively managed national economy.

The Economic Development Administration

At the federal level, Economic Development Administration (EDA), a branch of the U.S. Department of Commerce, is responsible for the overall administration of national economic development programs. Its legislative mandate is to generate new jobs, help protect existing jobs in economically distressed areas, and to promote the capacity of states and localities to plan and conduct economic development programs.

The agency was established to administer the Public Works and Economic Development Act of 1965 and its further enabling legislation provided by the passage of the National Public Works and Economic Development Act of 1979. In its effort to aid economic development in economically distressed areas, the EDA provides funds to public works programs. In 1983, 79% of its program funds were used to provide public facilities needed to attract private investment and to increase permanent private-sector jobs through industrial or commercial development in economically distressed areas. The remaining 21% of the 1983 program funds were used to finance the Public Works Impact Program (PWIP), which provides short-term jobs in areas of high unemployment through the authority of the Emergency Jobs Act. Funds are directed at communities that have experienced
"Sudden and Severe" economic dislocation to facilitate economic adjustment in the area.\textsuperscript{13}

In addition to providing mostly emergency or catastrophic assistance the EDA offers various programs aimed at assisting states in developing their own economic development strategy. One such effort is the Technical Assistance program. Its emphasis is on export development, productivity enhancement, and technology transfer. The EDA, in 1983, awarded 7.6 million dollars for technical assistance projects, of which about 20% went to export development, with the balance of the funds being awarded for productivity enhancement and technology transfer. The projects helped cities form cooperative relations with federal laboratories and university research centers, to enhance local economies and technical development strategies.\textsuperscript{14}

Through congressional mandate, three million dollars were awarded to fund university research centers. These centers use students and faculty resources to assist local economies in solving management and technical problems. This use of university resources has enjoyed increased popularity, as universities become involved and serve as a valuable link in the PPP economic development process of a community. The EDA further provided two million dollars in funding to universities in the form of research grants. To qualify, the proposed research must be for increasing the
industrial competitiveness and production feasibility of selected U.S. industries and technologies.

The largest portion of EDA funding dollars, however, are applied to programs concerned with economic development planning for states, cities, counties, multi-county development districts, and Indian tribes. The EDA awarded $25 million to such programs in 1983. The main objectives are to help jurisdictions with long range planning in stimulating private enterprise, and to create increased job opportunities.¹⁵

Present economic development programs and funding sources are based on the Urban Renewal programs of the 60's and 70's. As budgeting priorities shifted in focus under the Reagan administration, a great portion of Urban Renewal funds were eliminated or redirected, shifting the burden of financing and administering such programs to the state and local level.

In response to President Reagan's attempt to cut and/or consolidate ninety categorical programs into four block grants, under the proposed Program for Economic Recovery, Congress in 1981 passed the Omnibus Budget Reconciliation Act. This Act consolidates fifty categorical programs into nine block grants. Long-term goals of the consolidation being state oriented federalism, providing the state with administrative control. Of these nine block grants one provides funding for community development. A portion is
reserved for small cities. Eligibility for the grants under this program provides new guidelines to communities with fewer restrictions, and greater latitude in administering available funds. The law's basic purpose is to give top priority to meeting two basic objectives of the 1974 Community Development Act; benefiting low and moderate income families, and preventing urban blight.\^{16}

Whereas in the past, the emphasis of targeting grants has been on assisting large urban centers, recent years have seen a considerable increase of small community participation in the competition for funds. Between 1981 and 1982 small city grant applications increased 75\%, while the overall grant application went up by 63\% for the same time period. The average size of grants decreased from $485,000 to $219,000, and program emphasis shifted from housing needs to providing public facilities and supporting economic development projects.\^{17}

Urban Development Action Grants, created in 1977 to stimulate private investment in economically distressed cities and counties, and designed to help alleviate physical and economic deterioration, are awarded on a competitive basis in separate funding rounds for large and small cities. Major evaluation criteria require private sector commitment to a project with matching funds. Some matched funds required $2.50 of private investment for each dollar awarded, while average commitment requires a 1:6 ratio. It
is estimated that $440 million of funding will create 50,000 private sector jobs, with 25% of the jobs created under the program going to previously unemployed, while generating $40 million in additional local tax revenue.\(^\text{18}\)

While federal funding for economic development is still available, continued budget cuts under the Reagan administration and deficit reduction efforts have put community dependence on such funding on shaky grounds. In 1986 alone, Community Development Block Grants (CDBG) funds were cut by 16\%. Further, deferrals of such funds have put communities reliant on such funding under a severe strain when trying to balance their budgets. As a result, community development organizations have had to look for other funding sources, scale back programs, or, as in some instances, to abolish entire programs. The manner in which these funds were cut or deferred has also been blamed for having a disruptive effect on local planning efforts, especially since cuts or deferrals hit many communities at the end of their budget planning process. Reagan administration deferrals of funds have been challenged, and his authority to defer funds appropriated by Congress has been questioned. However, a presidential deferral can only be legally overturned by an appropriations bill by the House and Senate and signed by the President. Even though the deferral is only effective during the fiscal year, the message to
communities appears to be for them to look for alternatives in funding economic development programs.\textsuperscript{19}

\textbf{Summary}

From the foregoing discussion it is clear that there is an impressive array of resources that can be used to attract new business and industry that will diversify Montana's economy. The next chapter presents a case study to illustrate how some of these resources have been mobilized in a major effort to attract new industry to Montana.
ENDNOTES


^Montana Department of Commerce. Montana Certified Communities Program, Xerox.


^Watkins, p. 17.


^Hayden, p. 385.


^Daley.


^Ibid.  ^Ibid. p. 4.

ENDNOTES (continued)

17 Morgan, p. 480.


CHAPTER 6

U.S. WEST: A CASE STUDY

An example of PPP in action in an attempt to attract new business, is the present effort by the state of Montana to compete with thirteen other western states for a proposed U.S. West Corporation fifty million dollar research facility. The planned facility will employ about 1,500 technicians and scientists, and offer approximately 400 new jobs to local residents.

U.S. West, a Denver based telecommunications company, which owns Mountain Bell, Pacific Northwest Bell and Northwestern Bell, requested proposals for citing the facility from each of 14 western states, through the states' respective Governor's offices. Each state was limited to submitting one proposal, and none would be accepted from individual cities. Not only did this limitation cut down on the number of proposals the firm had to review, but it required each state to reach consensus in deciding on which site to select for its proposal. The states had to reach consensus on one specific site, and had to do so quickly, since proposals had to be submitted just two months after U.S. West submitted its request for proposals to the Governor's offices.¹
The states Montana is competing with for the facility are Idaho, Wyoming, Utah, Colorado, New Mexico, Arizona, Nebraska, North and South Dakota, Iowa, Minnesota, Washington and Oregon. According to the Governor, the selection criteria for the proposed facility emphasize "enduring factors", such as the state's education system, business climate, cultural environment and quality of life. Other important elements considered in the selection process are a state's tax structure, regulatory environment, and access to transportation.²

With site selection within the state being the most immediate concern, the Governor appointed a special committee to make recommendations on potential sites. The eight member task force was announced by the Governor's office on May 22, 1987. Members of the committee include Al Bell, president of MetCo Kenworth of Great Falls; John Cote, General Manager of New York Life Ins. Co. in Butte; James Hughes, Government Relations Director of Mountain Bell in Helena; Jase Norsworthy, President of Terratel Systems Inc. in Billings; Sara Parker, State Librarian; and Dan Regan, Vice President for marketing at Montana Power in Butte. Cochairmen named by Governor Schwinden are John Jutila, Vice President for Research at MSU, and Keith Colbo, Director of the Montana Department of Commerce.³

Even before the formation of the official task force, Bozeman emerged as a front runner in the selection process,
as it was recommended by several business groups, the Montana Ambassadors, the Montana Mountain Bell Advisory Group, and MSU and University of Montana officials. The only other Montana city officially competing for the tentative selection was Billings, as Butch Ott, Executive Director of the Forward Billings Economic Development Council, announced the city's plans to file an application to the Governor's office on behalf of Billings. Billings Chamber of Commerce members stated that they would only support Bozeman as the proposed site if their application was rejected by the Governor's office. Ott charged that the selection process had not been made clear to communities, and he felt that other cities in the state had been slighted by not having been given a fair chance at competing for the U.S. West facility. Billings officials felt that their town had advantages to offer the company over Bozeman: As the state's largest city, it would be able to offer superior transportation and housing, and other advantages which the company could only find in larger cities, presumably cultural and entertainment diversity.  

As the selection process continued, support for Bozeman grew and on June 18th, the Governor's task force announced Bozeman as its choice to compete with the other states for the research facility. James Kack, a business promoter, charged by MSU president Tietz to coordinate the Bozeman proposal, announced the task force's 6-2 decision in favor...
of Bozeman over Billings to the media and local Bozeman leaders. According to Kack, the deciding factor in selecting Bozeman was the proximity of MSU and its potential research capability. The two votes cast for Billings were by Norsworthy of Billings, and Al Bell of Great Falls, both contending that Billings more closely meets all of U.S. West's evaluation criteria.

Having won statewide endorsement Bozeman is now tentatively competing for the facility with Portland, Oregon; Phoenix or Tucson, Arizona; Laramie, Wyoming; Albuquerque, New Mexico; and Colorado Springs, Colorado. Selected sites of the other states competing are not yet known. As the deadline for submission for proposals to U.S. West draws near, state and local officials have been meeting to work out a package of incentives to offer to the Company in its bid for the facility. Although the Company has announced that it is not looking for "handouts," and is actually concerned about states offering too much and reducing their revenue base to the point of not being able to sustain quality amenities, certain incentives are seen as necessary by those concerned with the presentation of its proposed site, to ensure an edge for Montana over the other states.

Incentives now being considered are a proposal by the MSU foundation to give land adjacent to the Advanced Technology Park, now under construction, to U.S. West for
the location of their site, and several tax advantages now being enacted on the state and local level.

At the state level, SB 64, enacted this year, gives the state authority to reduce taxation of personal property of research and development firms from 11 percent to 3 percent, in addition to granting a five year tax break on corporate taxes. Also, the recently enacted tax abatement resolution, based on HB 709, allows local governments to give a five year, fifty percent tax break to any business deemed in the public interest. The combined state and local tax revisions will result in a 1.2 percent effective property tax rate for research and development firms, according to the Montana Department of Revenue. Whether or not to offer this kind of tax advantage to U.S. West, or other potential firms, is a decision each community has to decide for itself. 6

In preparation for the submission of the Montana proposal, Bozeman elected officials had to vote on whether or not to adopt the resolution. On June 29 at the Bozeman City Commission meeting, the commission approved giving the tax break to U.S. West, to help persuade the company into locating their facility in Bozeman. The commission approved 5-0 a resolution which allows the city to give U.S. West a five year fifty percent property tax break on its buildings and improvements. While this measure is specifically aimed at attracting U.S. West, it may be used in the future to benefit other desirable businesses meeting city criteria.
Although the measure may serve to make the Bozeman proposal more attractive to U.S. West, it is not viewed to be the necessary deciding factor in the company's decision making process. The measure did win unanimous support from the commission, and the spectators, which included state legislators, county officials, members of the school board and local business leaders. Only one voice of dissentation was heard. Darrell Behrent, a Bozeman school board member, warned that "Every time we give a tax break, we give the rest of us a tax increase." Since U.S. West's locating in Bozeman, or anywhere else in the fourteen western states, does not appear to be determined by a search for tax breaks, Behrent cautioned that "The existing taxpayers pick up the tax that U.S. West doesn't."  

It has been estimated that U.S. West, should it decide to locate in Bozeman, will bring 2.1 million dollars in additional revenue to the area in the form of property taxes. Most of this tax revenue, or about $1.5 million, will be needed for increased costs incurred by the Bozeman school system to accommodate an estimated 400 additional students.

All other factors being equal, the proposed tax incentives offered to U.S. West by the state of Montana and Bozeman, are deemed to make Montana competitive with the other state's proposals. Whether or not Bozeman will be
successful in securing the research facility remains to be seen, as the competition draws to a close.

The case of U.S. West demonstrates the use of resources made available by the state and local communities for the purpose of economic development. To decide on the community best suited for the proposed research facility, members of the task force were able to draw on information generated by the Certified Cities process. Further, the selection process was aided by cooperation and shared information between state and local government officials, and leaders in the business and university community. Because the proposed facility is part of a high tech firm, the recently established Alliance of Technology was able to provide input in recommending the community most capable of providing both a trained labor force and supportive services to U.S. West.

In terms of incentives, the state as well as the local community of Bozeman demonstrated willingness and flexibility to accommodate the company by offering a generous tax package along with a suitable site to the company at no cost.

Whatever the outcome, it may be concluded from following the selection process, that the state in general demonstrated an exemplary level of cooperation at the public and private level, taking advantage of all its available resources. Through the state's leadership, its organized business groups and the active involvement of academia, it
was able to respond positively to a chance of enhancing and diversifying its economy.
ENDNOTES


2Sacks.

3Terry Sacks, "Governor picks task force to propose U.S. West site in state". *Bozeman Daily Chronicle*, May 22, 1987, p. 3.


Recent years of slow economic growth and its negative effects on all aspects of the economy have resulted in an increased awareness that state and local economies need to be stimulated through the use of various tools. Since many communities, Montana included, have depended on limited or area specific resources for economic growth, ways must be found to diversify their economies in order to lessen the effects of boom and bust in such narrow markets.

As the economy of any locality is tied to national and international market conditions, at least to an extent, it has become the role of government leadership to use its resources and influence to alter negative economic trends. It may accomplish this by removing barriers to successful economic development, with little active participation in the development process. However, as has been pointed out in this report, economic development is responsive to state and local manipulation. At the local level, assets and liabilities to development can best be identified, as local economic development efforts stress the generation of objective information useful to planning an overall economic development strategy.
A clear understanding of present conditions, and clear goals identifying desired conditions, are essential prerequisites to formulating development strategies. Once this information has been generated, it can be used by public and private leadership in planning its own development strategy. Having identified factors contributing to unsatisfactory business development, such as a negative business climate or an image problem, local leaders can then turn to finding and implementing available development tools.

As has been discussed, these tools range from the traditional passive approach, such as offering tax incentives to business, to finding new and creative ways of actively promoting and marketing a community to attract and persuade business to invest in one community over another.

As in the case of U.S. West, it becomes apparent, that a combination of traditional and more innovative economic development options are the most effective way in bringing about desired changes to a community's economic viability. The combined efforts of state officials, business leaders, and active university support, in presenting Bozeman as Montana's candidate for the U.S. West site, serve as an example of the public-private partnership approach. This partnership, combined with the promotion of Bozeman by the state's leadership, extensive media attention, and promotion efforts at the local level, serve as an example of an active
marketing approach to economic development. Incorporating tax incentives into the final promotion package presented to U.S. West makes use of all the elements useful to economic development discussed in this report.

Contrary to evidence suggested in the literature, amenities such as quality of life indicators, are an important aspect in the site selection process of U.S. West and High Tech firms in general. This fact has been perceived by leaders in the promotion process as giving Montana an edge over communities the state is competing with.

Although the case of U.S. West has been a success in terms of bringing together a variety of interests in a cooperative effort, the hostility to economic development, and the remaining ambivalence about growth in the state, referred to in Chapter 3, has not yet been adequately dealt with. Continued efforts to generate objective information, useful in making rational decisions by concerned segments and special interest groups in the state, are necessary elements in promoting consensus building dialogue. The preparation and completion of the state's ten year plan by the Governor's Council on Economic Development may serve as a useful tool to clear up any remaining concerns and objections about the state's economic development strategies. The reduction of ambivalence within the general population and generally accepted agreement on local
priorities, are barriers many Montana communities still need to resolve.

Since economic development affects the economy as a whole, whether on a national or local level, cooperation between economic sectors becomes essential to the development's success. It is apparent that the unifying aspect in either the traditional or the more active marketing approach to economic development is close cooperation between all parties involved in the process. This cooperation, through PPP, may then result in generating the broadest possible input, identifying local or area wide problems, and, at the same time, utilizing the widest possible range of available resources to effect solutions to development problems. As this cooperation is developed and nurtured, the locality's sense of "community" is enhanced. Aspects of a positive PPP process have resulted in improved perceptions of communities by both the residents and outsiders. Whether or not the PPP approach results in improved economic conditions is not as important as is the fact that positive aspects of cooperation tend to carry over into succeeding development efforts. As has been pointed out by several case studies presented in this paper, positive and enthusiastic leadership is an essential ingredient to success in the PPP approach to economic development. Only by sustaining such enthusiasm will a passive attitude to let things take care of themselves, a community's basic tendency
towards negative assessment of its economic woes, and its resignation to these conditions, be overcome.
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