

MAIN STREET MONTANA PROJECT

A BUSINESS PLAN *For Montana by Montanans*

April 13th, 2017 Financial Services KIN Meeting Minutes
9:30 a.m. – 3:00 p.m.
301 S. Park – Department of Commerce – Room 308
Helena MT 59601

Attendees:

Bill Johnstone, D.A. Davidson Companies
Mick Ringsak, Consultant
Kay Clevidence, Farmers State Bank
Julie Foster, Ravalli Economic Development Authority

Participating by phone:

John O'Donnell, AGC Capital
Craig Wilkins, ViZn Energy

Guests on the phone

Liz Marchi, Frontier Angel Fund

Staff/public:

Lt. Governor Mike Cooney
Mary Craigle, Department of Labor
Kevin Fichtler, Governor's Office of Economic Development
Amanda Casey, Governor's Office
Dan Lloyd, Governor's Office of Economic Development
Tom Kaiserski, Department of Commerce
Karyl Tobel, Department of Commerce
Pam Haxby Cote, Department of Commerce
Siri Smillie, Governor's Office
Melanie Hall, Department of Administration - Division of Banking & Financial Institutions

9:30 Introduction

Mary Craigle provided Main Street Background and information on the upcoming Innovate Symposium, which will be held in Billings on July 12-13, 2017.

Presentations related to KIN Action Plan Items Group A and D

Group A Topic: Work with the Broadband and Telecommunications KIN to improve broadband internet service throughout Montana

Dan Lloyd provided the following update:

- House Joint Resolution 42 an interim study bill of statewide broadband was introduced but failed to pass.

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- Regarding the Broadband KIN [recommendations](#)
 - Broadband Mapping: the MT Department of Administration is taking the lead on developing an updated map of broadband assets and capacity based on this recommendation.
 - Broadband Pilot Project Funding: the recommendation for a \$25 million state matching fund for broadband was not taken up this legislative session. This session, HB390 appropriates funding of \$1 million is appropriated to commerce to provide matching funds for special construction under the federal e-rate broadband program to help schools improve their connectivity. Last session, \$15 million was proposed but that bill failed.
 - Remove Barriers to Deployment: the MT Department Transportation is reviewing the processes for accessing state highway rights-of-way for streamlining and encourage dig once policies. Other state agencies are reviewing their processes as they relate to broadband deployment.
 - Creation of a Broadband Advisory Task Force: While no task force has been established, the Governor's Office continues to refine this proposal and may establish a task force in the future.

Liz Marchi asked why no good broadband map exists and Ken replied because private broadband companies do not want to disclose that info. Mary noted that Ron Baldwin's shop at ITSD in the Department of Administration is working on developing a map that will be acceptable to private companies while showing broadband coverage areas that will be useful especially for economic development purposes. Bill Johnstone asked KIN members why broadband is important to the KIN and if there in fact a deficiency in broadband affecting the financial services sector. Kay and others responded that connectivity is a problem especially in rural areas since lack of reliable internet availability hampers transacting business electronically, which adversely affects the financial sector.

Group A Topic: On-line predatory lending is becoming a problem

Tom Kaiserski, Dan Lloyd, and Bank Commissioner Melanie Hall provided this update.

Tom talked about the discussion on predatory lending he had with Dave Glaser of MCDC following the June 2016 KIN meeting. Dave said that for several years MCDC has seen an increase in on-line lenders such as Cabbage and Lendio doing business in his service territory; more so in Idaho due to higher populations but growing into Montana. These are not depository lenders, they have high interest rates (Dan Lloyd mentioned upwards of 30%), will lend up to \$100,000 overnight, and are completely unregulated. Dave indicated that the ease of getting money is what attracts customers but the high cost creates a drain on the borrowing businesses. Melanie Hall indicated Montana banking regulations pertain to consumer loans not commercial loans. There are no statutory licensing requirements and no examiners for on-line commercial lenders. Montana does have an anti-usury law pertaining to any loan (consumer and commercial) with interest charges more than 15%. However, this law is more difficult to enforce as lenders can structure loans with terms that can circumvent the law (e.g. charging fees instead of interest, etc.).

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Note: Recent story about illegal on-line lending in Montana [Online Payday Lenders Selling Illegal Loans in Montana](#)

Group A Topic: Work with Natural Resources and Energy KINs to create a sustainable partnership of natural resource development to keep industries thriving

Tom Kaiserski and Dan Lloyd provided this update.

Dan and Tom reported on the Energy KIN's recommendation (later adopted as a recommendation by the Natural Resources KIN) to create a Montana Energy Infrastructure Authority (MEIA). The idea is patterned off similar entities in North Dakota and Wyoming. The Energy KIN drafted a memo framing the recommendation [MEIA Memo](#). The Wyoming Infrastructure Authority operates on an annual \$800,000 budget and it has bonding authority. The vision for MEIA is the authority's board would develop a statewide plan for developing and marketing MT energy. The goal would be to enhance the state's energy business climate and the larger MT economy. Mick Ringsak noted the importance of energy to the 27 large industrial Montana companies dependent on low priced electricity from Colstrip (under \$25 per megawatt hour). The group discussed the issue of keeping this low-cost power in light of the impending closure of the Colstrip power plants. Tom reported that the Governor's office would work with the Energy and Natural Resource KINs after the current legislative session to develop the infrastructure authority idea more fully.

Group D Topic: Increase Angel / Venture fund access/investment:

Ken Fichtler led this discussion.

Ken said that the GOED office is focused on expanding access to venture and angel funding noting that Montana is way behind other western states in this regard. Liz Marchi ([Frontier Angel Fund](#)) agreed that Montana is grossly undercapitalized compared to other states. She mentioned that in the last three years there has been better collaboration among Montana venture funds improving the situation. Liz urged the Financial Services KIN to work with these in-state funds. Ken has developed a two-prong approach to the issue:

- Education – Let venture funders know Montana has many companies worth investing in
- Marketing –Promoting our venture funding success stories

Bill Johnstone asked how success in attracting more funding would be measured. Ken responded the metric is the increased in amount of deployable capital available in Montana. Strong local venture funds are the key to attracting larger investment from out-of-state funds who need a local partner to encourage investment.

John O'Donnell (AGC Capital) cited successes in Idaho with its Boise Angel Alliance / VentureCapital.org and efforts made at Boise State University by the Wayne Brown Institute – Zion Bank / the Trailhead Conference. Liz noted that the capital world is geographically agnostic and it will invest where the best opportunities exist. Currently, in-state funds have a very hard time investing their capital in Montana due to lack of sufficiently profitable deals.

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John O'Donnell mentioned that the Tech Ranch received \$15 million from the Montana Board of Investments and even MBOI did not want it to have a Montana economic development investment target – they wanted it invested in an opportunity that provided the best return.

Mick Ringsak asked the status of the SBIC ([SBA's Small Business Investment Company program](#)). Liz Marchi said the SBIC has no presence because of too many regulations. John O'Donnell noted that the SBA would love to get an SBIC in Montana; but he agrees the paper work is too onerous especially given the limited amount of investment capital available in Montana. The group discussed that other states like Michigan and Utah have been successful with SBIC's. For example, Salt Lake City has five large and successful SBICs. It was suggested that perhaps the KIN should form a group to look more closely at Salt Lake City's SBICs to see if Montana could model their success. Liz noted she would be talking soon with Advantage Capital. Advantage Capital uses tax credits to raise capital from insurance companies doing venture debt and is interested in working in Montana.

Both Liz and John indicated that Montana is missing opportunities to attract more institutional capital. Their recommendation is a focus on creating more profitable deals – that the critical mass to create deal flows that will attract more private capital is lacking. Craig Wilkins interjected that his company located in Columbia Falls ([ViZn Energy Systems](#)) has been successful in attracting \$50 million from high net worth individuals but he feels that that state could do more to attract private capital. Craig cited his experience in Arizona and other states where efforts were made to attract more private capital. John cited Sun Mountain Capital (a state of New Mexico initiative) that uses a fund-the-fund model. The Sun Mountain effort was not successful and unpopular in New Mexico.

The KIN members brainstormed ways to create a better entrepreneurial ecosystem in the state. John O'Donnell feels collaboration is not a problem but that the trick is in making the proper introductions. Liz feels like the present CRDC system creates competition rather than collaboration. Julie Foster said that local Economic Development (ED) organizations do collaborate well, there just needs to be a good reason to do so articulated. Karyl Tobel discussed efforts like that of Prospera in Bozeman which is providing training to MSU business school seniors – in effect showing them in-state business opportunities to keep them in Montana after graduation. Melanie Hall agreed noting that her experience participating at the UM Career Fair shows that Montana students are desperate for people to talk to them about Montana business opportunities. Bill Johnstone stated that early in the development of MSMP there was significant interest expressed by stakeholders in the state coordinating ED efforts. Ken responded by noting that GOED is stepping up collaboration efforts such as the weekly calls held with MEDA and increasing efforts to highlight ED successes. Liz suggested a statewide ED events calendar be put up on the GOED website.

The KIN members next discussed business succession planning. With baby boomers retiring, many viable businesses are closing and liquidating. Mick Ringsak commented many small rural communities are losing commercial viability. This is due to changing economics largely driven by competition from on-line businesses. Mick feels that the state needs to identify those rural commercial centers / communities that can be saved through a succession planning effort.

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Ken Fichtler noted two areas of focus by the state in succession planning:

1. Apprenticeships and other training opportunities for workers so they can take over the business - one example is a portion of State Small Business Credit Initiative (SSBCI) repayments has been provided for apprenticeship development to the State Tribal Economic Development (STED) Commission
2. Business sales training – to keep owners from simply closing the doors when they retire. Currently, only two companies in Montana specialize in business sales

Kay Clevidence noted that her bank did conduct succession planning but cautioned there will be a risk of losing good employees not chosen for leadership in the succession plan. Mick Ringsak noted that Dodd-Frank banking rules are making it harder to succession plan. Julie Foster noted that there is a basic lack of understanding in many communities of who constitutes their key businesses. Pam Haxby-Cote noted that local revolving loan funds (RLFs) need to be used and targeted for succession planning especially in Indian country. Karyl Tobel noted that the Native American Development Corporation (NADC) was recently certified; and, 20% of SSBCI repayments are being used for the Indian Equity Fund. Commerce's Small Business Development Center (SBDC) has been doing some succession planning training. Pam said she would chat with Chad Moore to see if the training can be expanded. A 2004 study from North Dakota was referenced as a potential model for state-sponsored business succession services.

Group B Topic: Train and Educate Tomorrow's Workforce Today

Siri Smillie, the Governor's Education Advisor presented information on efforts to implement PK – 20 personal finance training. She distributed information on EverFi which is a program being distributed across the state. EverFi offers free digital courses (currently in 100 schools) to teachers on a number of topics including financial literacy. These courses help teachers bring critical skills to their classrooms supplementing their core curriculum. The KIN requested a list of the schools using EverFi. Bill Johnstone asked if EverFi has financial literacy testing standards. Siri said it takes about a year to implement a course with OPI and she is willing to work with the KIN to assure that financial literacy gets into the EverFi curriculum. Mary mentioned that community based organizations could help get the word out about EverFi to home schooled kids.

Other financial literacy efforts within the state include the Finance Academy at Hellgate High School in Missoula <http://www.mcpsmt.org/domain/2752>. The Hellgate program has been going for two years and is modeled after a similar program for Healthcare in

Lunch and Comments by LG Mike Cooney

The Lt. Governor (LG) thanked the KIN for its MSMP efforts noting that most KINs when reporting to the Governor have said they would like to see the good conversations that these KINs have conducted to continue in some way.

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Pam Haxby-Cote asked if we will see an infrastructure bill passed and the LG said it's still uncertain, what does come forth is likely to be incorporated into Rep Cuff's bill and that whatever happens will be part of the end game of the session. Mick commented that with money as cheap as it is we should bond as much as possible.

Group B Topic on workforce continued

Mary presented on workforce commenting that workforce accomplishments have been among MSMP's biggest successes. Workforce successes have included:

- Dr. Kirk Lacey's position as a coordinator between business and higher education is the only one of its kind in the country. The position has been jointly funded by the Department of Labor & Industry and the MT University System and has been instrumental in breaking down silos between the state and education.
- The State Workforce Innovation Board (SWIB) recently revised its structure so it could oversee the implementation of all MSMP workforce related KIN recommendations.
- Over \$50 million in workforce grants have been brought in in the last four years focused on the health care, energy and manufacturing sectors
- There has been a dramatic expansion in apprenticeships and other work based learning – totaling more than 1,600 individuals in all apprenticeships statewide. There are now forty health care apprenticeships – prior to MSMP there were none. Melanie Hall noted that banking and financing is being looked at for possible apprenticeship opportunities.
- There has also been significant progress in providing credentials and college credit for past work and military experience
- A new work-based learning website is being developed on the DLI Montana Works site <https://montanaworks.mt.gov/>

Group C Topic: Attract, Retain, Grow Business and Nurture Emerging Business

Karyl Tobel provide information on Commerce funding programs noting specifically that her Finance Assistance Bureau has worked hard to streamline the Big Sky Trust Fund (BSTF) process and time frames. Julie Foster noted that comments she made at the June 2016 KIN meeting related to making funding program requirements less burdensome and shortening timeframes were not directed at BSTF but at other programs. Pam Haxby-Cote mentioned that, as the new Commerce Director, she would continue to work to streamline programs wherever she can.

The KIN members discussed pre-gap funding which is a small investment into a company prior to the release of a product or service. Liz noted that Washington has a \$100,000 fund used strictly for product development. These types of funds must be locally managed, there must be a recognition that these are investments in businesses with a high failure rate, and it is most appropriate for the public sector provide these higher risk funds. The funds are not a loan; however, the company may pay it back if the venture is successful.

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Pam Haxby-Cote mentioned the Butte Local Development Corporation (BLDC) has funds of this type that is raised locally and used for small purchases - plane fares, trade shows, etc.

Tom mentioned that the Commerce's Office of Trade and International Relations has a federally funded program to cover trade show expenses for eligible exporters. The KIN members then discussed a seed capital fund that was tried in New York that was not successful. Mick mentioned that SSBCI repayments could potentially be utilized for this type of purpose.

Group E Topic: Public Finance Options for Attracting, Retaining, and Growing Business

Ken Fichtler led a discussion on Tax Increment Financing (TIF) and Targeted Economic Development Districts (TEDD) noting that the current legislative session has been resistant to expanding the scope and use of financing tools. There have been 12 proposed bills to date scaling back or eliminate current TIF / TEDD options. GOED successfully opposed all twelve bills. One remaining study bill (HJ18) on TIF's and TEDD's is still alive which has the intent of addressing the issues that have spawned the attacks during this session on these important economic development finance tools.

Prioritization and next steps

The KIN identified the following draft recommendations:

- A) The Governor, with partners from the financial sector, should spearhead changes to statutes, rules, programs to improve the climate for the financial sector including:
 - Provide protections against commercial predatory lending (particularly on-line lending)
 - Eliminate barriers that hamper investment
 - Develop mechanism that incentivize investing (tax credit, state match for investments, fund-the-fund, seed capital, etc.)
- B) The Governor's office should lead conversations and events to spur innovation in the financial arena: Possible actions / topics include:
 - Holding a legislative summit cosponsored by LSD and GOED to educate legislators on the issues. Reviewing the effectiveness of agency in supporting the Financial Services sector specifically tax increment finance and how the economic development finance programs mesh to fund projects.
 - Efforts to promote the benefits of championing lenders incorporated in Montana.

Partners in these efforts could include legislators, agencies, local government, and education. A possible forum could be regular on-line meetups.

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- C) Convene regular public-private interaction with venture community to build entrepreneurship and investment opportunities/eco-system focusing on:
- Support for entrepreneurial growth and sustainability, particularly in rural areas
 - Programs that reach MT youth

Look to Idaho and MT Women's Foundation Powerhouse program as models

- D) Enhance succession-planning efforts including roadshows, events, and classes. Promote the funding government has to facilitate business transfers and provide information on population trends to inform succession planning choices
- E) Work with the Interconnectivity & Telecommunications and other KINs on broadband enhancements