HCR

37

SENATE RESOURCES COMMITTEE
LEGISLATION CHECKLIST

IDENTIFICATION:

BILL NUMBER: HCR 37 am

BILL NAME: Relating to an economic development policy.

SPONSOR(S): Hayes, et al

RELATED BILLS PENDING:

DATE INTRODUCED: 5-27-83

REFERRALS: Resources
Finance

INITIAL RESEARCH:

BILL SUMMARY COMPLETED:

SUMMARY BY LEGAL DIVISION:

SPONSOR CONTACTED FOR BACKUP MATERIALS:

DEPT. OF LAW SUMMARY:

FISCAL NOTE:

AGENCY RESPONSE:

OTHER INTERESTED SENATORS OR REPS. NOTIFIED:

BACKGROUND RESEARCH:

SIMILAR BILLS INTRODUCED IN PREVIOUS LEGISLATURES:

RESPONSES FROM INTERESTED PERSONS/GROUPS:

OTHER STATE OR FEDERAL PRECEDENTS, REGULATIONS, LAWS:

HEARING PREPARATION:

CHAIRMAN BRIEFED:

DATE AND PLACE SET:

STAFF MEMO TO COMMITTEE:

TELECONFERENCE:

BACKGROUND MATERIAL DISTRIBUTED:

PSA/PRESS RELEASE:

LIST OF WITNESSES:

SUGGESTED AMENDMENTS/COMMITTEE SUBSTITUTES DRAFTED:

✓ Hayes, sponsor
✓ Dave Gray, Resource Development Council

Response

Resource Development Council for Alaska, Inc.

444 West 7th Avenue. Anchorage. Alaska 99501
Box 100516. Anchorage. Alaska 99510 — 907/278-9615

Personal

Dear Senator Fahrenkamp:

One of the major goals of the Resource Development Council's 1983 Action Plan is to improve Alaska's reputation as a good place to invest and do business.

As you know, Alaska is at or near the bottom of every national compilation of state statistics dealing with business climates, and we need to change that.

Only the legislature can help remedy the two areas that desperately require attention: (1) The need for a stated economic development policy, and (2) the need for regulatory reform.

The attached resolution, HCR 37, has undergone extremely broad review in the private sector. A similar version of the measure was subject to many hearings in prior sessions but somehow languished without action. Adoption of the measure would give Alaska needed points in the annual survey conducted by Inc. Magazine. Please let's get it passed this year!

The whole issue of regulatory reform has been deliberated for this and three past sessions. Obviously there will never be agreement between those who want efficient permit processing and those who feel that environmental concerns can only be addressed if the process remains in its present unwieldy state.

Our letter to Governor Sheffield of April 3 clearly spells out our concerns and recommendations as does the enclosed policy statement. You have done an immense amount of work to see that these concerns are addressed. We urge you now to take the courageous step of enacting a sound regulatory reform bill.

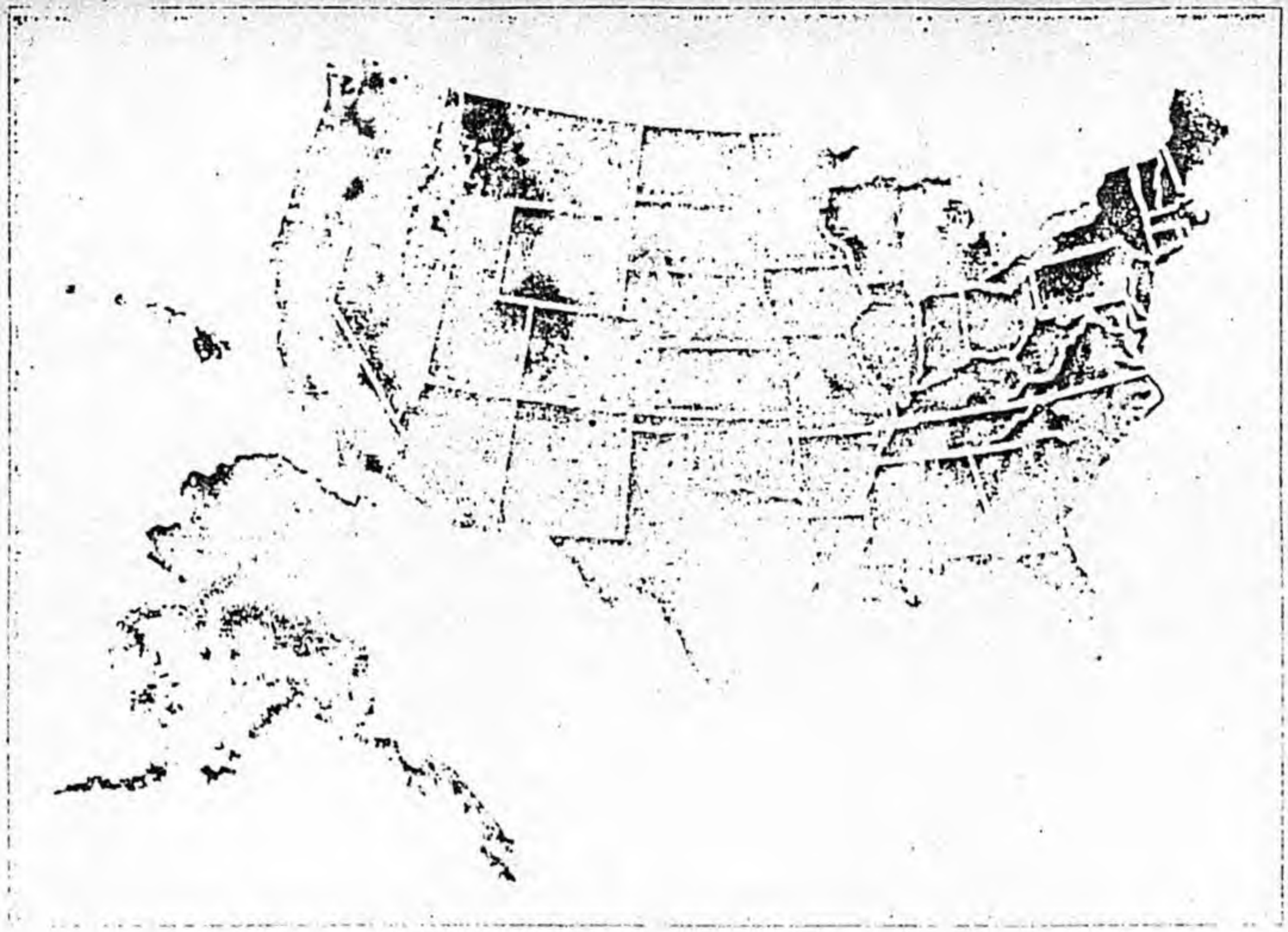
I must emphasize the tremendous impact enactment of this legislation will have on people now operating or planning to begin or expand business ventures in our state. To make valid business decisions, they simply must be able to change "unknowns" into "knowns" in forecasting operating costs. Only you can give them this certainty. You may feel the bill is not perfect, but we believe the best approach is to get legislation this session and address any problems that ensue at a later time.

Your hard work and support of issues important to our state are always appreciated.

Sincerely,

Paula Easley

Paula P. Easley



A REPORT ON THE STATES

INC.'s second annual study rates 50 small business climates.

By Bruce G. Posner

If your company's history is anything like that of most small companies, where it is located—be it Palo Alto, Calif., or Portland, Maine—has nothing to do with any carefully drawn corporate plan. Instead, you put the business where you were raised, attended school, or simply wanted to live. Presumably, the area had much of what you wanted of the myriad things that influence "quality of life." Perhaps there was good skiing, music, or a major university within easy reach. Or you may have wanted to be near people in similar vocations, which may be why so many high technology companies grew or are expanding in California's Silicon Valley and along Boston's Route 128.

Although state officials everywhere wish they could do more to spawn and keep growth-oriented companies, all too often they find that it is hard enough to define the amenities that attract small businesspeople without trying to influence a decision to set up business. But apart from the intangibles in appraising a business climate, there are factors that are both more concrete and, to some extent, within a state's control.

As companies grow, for example, they may need long-term debt and equity, in addition to working capital. They may also need to hire employees who have specialized skills. A company's inability to find such fundamental resources when they are needed can greatly influence its success, and it can also dampen the growth of the economy within the state.

The purpose of INC.'s second report on the states is to compare some of the major, quantifiable aspects of the climate for small business, to help businesspeople and state officials understand better how to make improvements. In selecting the criteria for measuring the 50 states as homes for smaller companies, INC. interviewed economists, state development officials, venture capitalists, and small business executives. INC. also talked with special liaison people appointed by governors to gather information on small business support programs in every state.

The analysis focused on areas of broad concern to all small companies, rather than such factors as transportation and energy, important as these may be to some businesses. Since all small business operators have capital and labor needs and are affected by taxes, we looked at the impact of those three factors on small companies. Growth opportunities in a particular environment are also influenced—sometimes heavily—by external economic and business factors. These factors, therefore, are reflected through a number of criteria under the heading of business activity.

Finally, we examined each state for small business support programs initiated at the executive or legislative level. The mere existence of official support does not

RATING THE STATES BASED ON FIVE MAJOR FACTORS

Rank/state	CAPITAL RESOURCES				LABOR				TAXES
	Bank loans % assets	Comm./ind loans per capita	SBIC finan. per 1,000 pop.	State programs[1]	Avg. wkly. wage	% union	% H.S. grads.	Value added per worker (thou./yr.)	Per $1,000 personal income
Median	53.5%	$ 927	$0.8	–	$317	23%	68%	$43.6	$112
1. Texas	54.8%	$2,527	[illegible]	DL	$328	11%	65%	$55.1	$ 98
2. California	54.7	1,468	3.2	[illegible]	[illegible]	27	74	48.0	122
3. Colorado	57.9	1,262	3.1	–	326	18	78	45.7	113
4. Florida	49.5	598	1.2	[illegible]	265	12	65	37.0	97
5. New Hampshire	63.2	588	1.8	LG	256	16	70	31.2	92
6. Kansas	48.4	1,082	1.4	–	325	15	73	44.0	100
7. Arizona	62.6	888	0.6	–	317	16	73	47.7	133
8. Oregon	58.8	1,112	1.8	DL	352	26	76	39.0	114
9. Oklahoma	52.8	1,921	1.2	DL	329	15	66	42.2	102
10. Washington	58.9	1,382	0.9	–	405	34	76	49.5	109
11. New Mexico	52.7	1,043	2.3	–	259	19	66	36.0	122
12. New York	54.4	4,164	2.2	DL,LG,BG	309	39	66	47.2	163
13. Kentucky	49.2	773	1.0	DL,BG	309	24	53	45.6	104
14. North Dakota	50.1	1,245	–	BG	271	17	68	52.6	102
15. Connecticut	59.7	857	5.1	DL,LG,VC	319	23	70	42.8	105
16. Virginia	60.0	718	0.9	–	270	15	64	36.0	102
17. Nevada	59.5	738	0.3	LG	325	24	76	51.0	105
18. Massachusetts	50.0	1,213	2.1	DL,BG,VC	280	25	72	40.0	139
19. Minnesota	54.5	1,430	2.7	DL	331	25	73	45.5	127
20. New Jersey	53.1	765	0.9	DL,LG,BG	322	26	66	47.4	117
21. Utah	56.5	838	0.1	–	308	18	80	40.4	125
22. Arkansas	52.1	946	0.2	BG	247	16	56	30.4	99
23. Georgia	52.8	683	1.0	–	255	15	59	33.3	108
24. Tennessee	51.9	908	0.5	–	268	19	55	33.7	94
25. Wyoming	53.4	1,541	2.6	–	314	19	76	61.4	148
26. Mississippi	50.6	639	0.8	LG	235	16	52	31.6	109
27. Montana	55.1	1,176	1.2	–	370	29	73	47.9	130
28. Maryland	57.1	555	0.3	DL,LG,BG	335	23*	69	43.7	120
29. Missouri	47.4	1,112	0.1	BG	318	28	64	43.6	93
30. Ohio	50.4	757	0.6	DL,LG	390	31	68	46.6	94
31. Rhode Island	55.0	1,426	0.4	DL,LG,BG	240	28	62	28.4	119
32. Idaho	55.8	944	3.5	–	311	18	72	36.0	104
33. Illinois	58.7	2,841	0.7	DL	356	30	66	47.0	112
34. North Carolina	51.4	804	0.5	–	232	10	55	30.6	106
35. Wisconsin	55.8	853	0.6	DL	353	29	70	43.6	125
36. Michigan	54.3	909	0.7	DL	426	37	69	47.6	115
37. Pennsylvania	53.5	1,365	0.5	DL	325	35	65	38.5	116
38. Vermont	66.3	712	1.3	DL,LG	272	18	70	36.6	127
39. Hawaii	60.6	992	0.1	DL	290	28	73	45.1	148
40. Iowa	48.6	854	0.1	DL	379	22	72	51.0	111
41. South Dakota	67.5	1,039	1.5	–	296	15	69	36.6	106
42. Indiana	51.4	726	0.5	DL,LG,VC	376	30	67	43.5	88
43. Nebraska	50.6	965	0.2	–	324	18	74	46.7	111
44. Louisiana	52.2	1,231	1.6	DL,LG	362	16	58	64.9	116
45. Alaska	45.0	978	0.2	DL,BG,VC	457	34	80	54.2	368
46. Alabama	48.7	664	0.7	–	280	22	56	30.8	96
47. South Carolina	48.2	361	0.6	–	250	8	57	27.3	107
48. Maine	54.1	502	0.5	DL,LG	296	24	68	27.8	125
49. Delaware	46.3	551	–	–	333	25	70	49.4	116
50. West Virginia	49.8	499	0.1	DL,LG	347	34	53	43.5	112

1 DL-direct loans, LG-loan guarantees, BG-bond guarantees, VC-venture capital
2 AO-advisory o[illegible] OM-ombudsman, AC-advisory council, LC-legislative committee, SC-statewi[illegible] [illegible]rence, PS-procurement set-asides
* Includes union [illegible]bership in District of Columbia

STATE SUPPORT	BUSINESS ACTIVITY				
Small bus. assistance (1971-80)	Pop. % change (1971-80)	Employmt. % gain (1971-80)	Pers. inc. % change (1971-80)	Business units per 1,000 pop.	INC.100 companies (1979-82)
–	11.5%	27.7%	45.4%	46	2
AO,OM,AC,LC,SC	27.1	67.8	77.4	47	27
AO,OM,AC,LC,SC	18.5	41.6	48.7	46	49
AO,OM,AC,SC	30.7	61.0	74.2	50	13
AO,OM,LC,SC,PS	43.4	65.9	77.1	55	10
AO,LC,SC,PS	24.6	47.9	56.7	46	2
AO,AC,LC,SC,PS	5.3	63.2	43.5	46	1
AO,OM,AC,SC,PS	53.3	79.7	88.7	49	3
AO,OM,AC,SC	26.5	46.5	64.3	51	4
AO,SC,PS	17.2	46.6	65.6	49	6
AO,LC,SC,PS	21.0	25.1	60.4	47	4
AO,OM,SC,PS	24.7	58.0	67.6	50	2
AO,OM,AC,LC,SC,PS	-3.3	0.6	9.1	46	31
AO,OM,AC,LC,SC,PS	13.7	41.8	44.4	40	1
AO,AC,LC,SC	5.6	50.5	45.5	54	–
AO,OM,PS	2.5	17.0	26.7	43	6
AO,OM,SC	11.8	39.6	50.3	39	5
AO,LC,SC	63.8	96.8	92.0	50	1
AO,OM,LC,SC	0.8	17.1	21.3	40	12
AO,OM,LC,SC	6.9	34.6	37.9	41	18
AO,OM,AC,LC,SC	2.7	17.2	22.2	44	16
AO,OM,AC,SC	37.9	32.6	70.3	48	1
AO,AC,SC,PS	18.5	38.9	60.3	45	0
AO,OM,AC,LC	17.8	37.8	49.7	45	6
AO,OM,AC,SC,PS	13.0	13.3	50.0	42	4
–	41.1	88.6	123.1	57	4
AO,OM,AC,LC,SC	12.9	34.4	50.0	44	1
AO,AC,SC,PS	13.3	42.4	42.3	56	–
AO,AC,LC,SC,PS	7.5	25.6	34.2	35	5
AO,OM,LC,SC,PS	5.1	18.5	31.9	44	1
AO,OM,AC,LC,SC	1.0	13.3	24.9	40	3
AO,AC,LC,SC,PS	-0.4	15.8	25.0	47	–
–	32.3	58.7	61.5	50	–
AO,OM,AC,LC,SC,PS	1.2	14.5	23.9	41	–
AO,AC,LC,SC	15.5	33.8	45.2	41	1
AO,OM,AC,LC,SC	6.5	27.1	36.5	40	3
AO,OM,AC,SC,PS	4.2	15.0	32.6	37	2
AO,OM,AC,SC,PS	0.2	8.6	24.9	42	6
AO,SC	15.0	35.1	29.4	54	–
AC,LC,SC	25.3	37.5	41.0	52	2
OM,AC,LC,PS	3.1	24.7	31.9	47	1
AC	3.8	36.0	30.4	50	–
OM,SC,PS	5.7	17.4	31.0	39	6
AO,OM,SC	5.3	30.7	34.4	49	–
AO	15.3	51.8	65.8	46	1
OM,SC	32.5	84.3	93.3	49	1
OM,SC,PS	12.9	34.4	50.9	41	2
AO,SC,PS	10.8	41.0	53.0	42	3
AO,OM,AC	13.2	26.3	38.9	49	–
AO,OM,AC,LC,PS	8.6	21.3	29.6	44	–
AO,OM,LC,SC,PS	11.8	25.1	49.1	43	–

Sources (by column, left to right): Federal Deposit Insurance Corp. (1,2); U.S. Small Business Administration (3); State development agencies (4); U.S. Department of Labor, Bureau of Labor Statistics (5,6); U.S. Department of Education (7); Bureau of Census, Census of Manufactures (8); Tax Foundation (9); INC. survey of 50 states (10); Bureau of the Census (11); Bureau of Labor Statistics (12); U.S. Department of Commerce, Bureau of Economic Analysis (13); Bureau of the Census, County Business Patterns (14); INC. (15)

guarantee that significant numbers of small companies are being helped. However, support for innovative programs and a strong commitment to small business at high levels can be enormously useful. Through special programs, a state can leverage its existing capital and labor resources to the benefit of small businesses. State support can also soften the effects of a declining economy.

INC. ranked the 50 states in five categories. Each category—capital, labor, taxes, business activity, and state support—was weighted to reflect its relative importance to small companies. The scoring system was based on a scale of 100 points. Because most of the experts we spoke with considered capital resources and state support the two most critical factors, each was given 25 points. Taxes, while always an area of real concern, received only 10 points, the lowest weighting, since taxes rarely play more than a minor role in the investment decisions of small companies. Labor and business activity were each weighted at 20 points to reflect their broad significance to smaller companies. Calculated by this method, the overall scores range from 82 for Texas to 33 for West Virginia.

Texas achieved the top overall ranking with an unbeatable combination of strong capital resources, an effective labor force, and a low tax burden. But it was further aided by a high level of business activity within the state and official support for small business. California and Colorado, with higher tax rates than Texas, placed second and third, respectively, largely because of their strength in capital and labor. Each also received a very helpful boost from a robust economy.

Fourth-ranking Florida scored very favorably in labor, taxes, business activity, and small business support, but appeared in the bottom 10 for capital resources. For the other states scoring low in capital, such as West Virginia and Delaware, the impact on the overall ranking was often devastating. They did not compensate as well as Florida did with strengths in other areas.

West Virginia, for example, ranked 50th overall and scored weakly on labor and business activity and only average in taxes and small business support. Its ranking of 49th in capital resources—low lending activity compared with bank assets—compounds its weakness in other areas. Delaware, although somewhat stronger than West Virginia in labor and business activity, also suffers from its poor showing in capital. It ranks last in the capital category and 49th overall. In fact, four of the five lowest-ranking states on the summary table (West Virginia, Delaware, South Carolina, and Alabama) are the weakest four states for capital resources. The fifth state, Maine, ranks 48th overall and also suffers in terms of capital.

The influence of other categories, while important, proved less decisive in a state's ranking. Although 7 of the top 10 states had very favorable climates for labor—only Oregon, Oklahoma and Washington did not—poor performers in labor (reflecting such factors as high levels of wages, low level of education and the strong presence of organized labor) did not automatically suffer in the overall rankings. In fact, only three states scoring low in labor—Indiana, West Virginia, and Alabama—appeared in the bottom 10 overall. Other high wage and highly unionized states, such as Ohio, Illinois, Michigan and Pennsylvania, ranked higher because of stronger showings in other areas.

At first glance, Indiana's rank of 42 seems surprisingly weak in relation to such midwestern neighbors as Illinois and Michigan. While none of these states ranks very favorably in terms of labor or business activity—measures by which Illinois ranks at the very bottom—Indiana distinguishes itself by having the lowest taxes (per $1,000 of personal income) in the nation, while Illinois and Michigan fall in the middle.

Nevertheless, Indiana parts company from Illinois and Michigan in small business support activities. Unlike Michigan, for example, Indiana has neither a small business assistance office nor a governor's advisory council on small business. It also lacks a legislative committee devoted to small business matters, as Illinois and 11 other states have had and as 9 states have now added. To Indiana's credit, though, its officials have recently shown an interest in bolstering small business capital resources through the state's new Corporation for Innovation Development (see page 100).

A careful examination of the accompanying table shows that even states that appear quite similar can differ dramatically. But the most useful discovery may be that each of the 50 states has its own set of strengths. The Midwest and the New England states, for instance, are clearly not seeing the same heady growth as Texas and California. But both regions can be come vibrant areas for small companies.

Increasingly, states concerned about the future are [illegible] their support programs as the most obvious way of upgrading their climate for small business. Delaware, for example, made notable strides in the past year when it created four support vehicles—an advisory council, a legislative committee, an assistance office, and a program requiring the state to purchase goods and services from small companies.

THE BEST OF SHOW

Capital: Activity at the money centers

1. California
2. Connecticut
3. New York
4. Texas
5. Massachusetts
6. Minnesota
7. Colorado
8. Illinois
9. Oklahoma
10. Wyoming

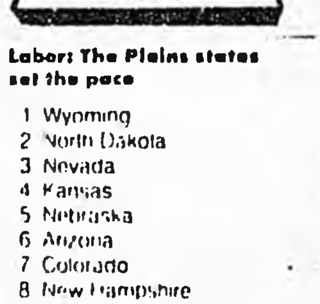
High interest rates, as the past couple of years have painfully shown, can be catastrophic for small companies, wherever they are. Generally, states can do very little to mitigate borrowing costs for small companies. Apart from the cost of funds, though, capital resources vary widely from state to state. What is more, the types of resources in place in the state and how they are being used can be critical if, like most companies, yours cannot meet all its capital needs. Therefore, capital resources, along with state support programs, receive our heaviest overall consideration in ranking the states' climate for small business.

To see how the states stack up in terms of capital resources for small business, INC. looked first at two sets of banking industry figures—total state commercial bank loans as a percentage of total assets, and commercial and industrial bank loans on a per capita basis. While these measures don't tell what types of businesses are getting the loans—or even whether all the funds are being lent within the state—they usually reflect the degree to which banks are using their asset bases for aggressive lending to meet the working capital needs of business.

INC. also analyzed the states for special capital programs, such as direct loans, loan guarantees, bond guarantees, and state-sponsored venture capital investing, in the belief that these can help bring capital other than working capital to small companies. Because most experts believe that even small issue industrial revenue bonds tend to benefit large companies and their subsidiaries with solid credit histories, we didn't consider IRBs. Finally, INC. looked at small business investment company (SBIC) investments in the states on a per capita basis, as an indicator of the relative availability of venture capital.

California, with its aggressive banks and active SBICs, emerges as the state with the most extensive capital resources for small business, a distinction it certainly would have earned more easily had all sources of private venture capital been included. Next come Connecticut and New York, whose ranks reflect their active banks, SBICs, and the targeted capital programs in place. Oklahoma and Wyoming aren't usually thought of as states with substantial capital resources, but both benefit from high levels of SBIC investments and per capita commercial and industrial bank loans.

South Carolina, West Virginia, and Delaware emerge as the states where a lack of capital resources—or an unwillingness on the part of commercial banks to lend—poses hurdles for growing small businesses. For instance, commercial and industrial lending in these three states is anemic compared to that in the rest of the states. Low levels of banking activity within a state can, of course, stem from depressed loan demand in a slow economy, but conservative bankers seem to be at least as great a factor.



Labor: The Plains states set the pace

1. Wyoming
2. North Dakota
3. Nevada
4. Kansas
5. Nebraska
6. Arizona
7. Colorado
8. New Hampshire
9. Utah
10. South Dakota

When it comes to labor, the needs of different types of small businesses vary substantially. Most companies, of course, are interested in keeping labor costs down as much as possible. But few can afford to ignore requirements involving skill and concerns over productivity.

In examining labor markets within each state, INC. looked at comparative wage levels for manufacturing and at comparative levels of unionization, which can be a factor in high wages. But in addition to factors affecting the price of labor, INC. also compared the states by levels of productivity and by levels of education among workers.

For productivity, the question was how much each worker added to the value of manufactured goods. In education, the percentage of state residents over the age of 18 who have completed high school was considered, although companies needing highly skilled employees might consider the number of engineering graduates.

At the top of the chart for labor are Wyoming, North Dakota, Nevada, Kansas, and Nebraska. Among these high scorers, however, Kansas is the only state with low union activity. None of the 5 states ranks among the top 10 in terms of low wages. In all but North Dakota, however, 73% or more of their residents over the age of 18 hold high school degrees.

Poorest performers in the labor category are West Virginia, Illinois, Indiana, and Pennsylvania. They have work forces in which only 53% to 67% of the workers hold high school de-

Such programs can be extremely valuable for bringing awareness and help to small companies. But for states facing difficult economic times and declining industries, the future may require more specialized programs in the areas of capital resources, job training, and technical assistance—all aimed at broadening opportunities for small businesses.

In the past, several states targeted most of their initiatives at existing companies, through efforts such as technical assistance programs in conjunction with universities. But increasingly, some states—Pennsylvania, Georgia, and New York, for example—appear to be highlighting new companies as the important thrust in their economic development efforts. Each of these states is directing money into supporting technology-based start-ups, with technical universities playing key roles (see page 100). Notes Roger Vaughan, a consultant at the Council of State Planning Agencies in Washington, D.C., and former deputy planning director of New York: "States interested in distinguishing themselves will have to do a lot more in helping new businesses come about."

Just as important to the small business climates of many states, though, may be how well the capital and labor needs of growing companies can be met. A growing number of states are considering such measures as the revamping of investment guidelines on public employee pension funds and increasing the outlays for technical education. Through its new Technology Park Corp., for instance, Massachusetts is putting up $20 million, or a center co-funded by industry in order to train engineers and other technical specialists in microelectronics.

Some experts are convinced that every state will need to help reshape its work force to accommodate businesses. During the next decade companies are going to need a great many technically competent workers for seemingly nontechnical jobs, according to a number of authorities on small business.

It may not be easy for public officials to think about helping small business in such ways, especially in the Midwest and the South, where the emphasis has long been on big companies and large manufacturing plants. "Politicians don't have to learn how to wave 1,000 jobs around," says Alexander Dingee, president of Venture Founders Corp., a Waltham, Mass., company specializing in assistance to start-up companies. "But it's a lot harder for them to make election-year claims about how they've helped small companies." ■

Bruce G. Posner is an associate editor at INC.

---

grees, and all are heavily unionized in their major industries. In addition, wages for Illinois and Indiana workers average among the highest for manufacturing in the nation.

State support: Kentucky leads the bandwagon

1. Kentucky
2. New York
3. Illinois
4. California
5. Wisconsin
6. Ohio
7. Delaware
8. New Jersey
9. Mississippi
10. Kansas

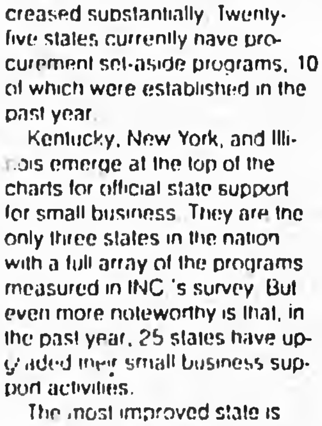
Official state recognition for small business won't make or break small companies very often, but it can give them a boost from time to time and help create a positive business climate. Programs that provide reliable information or technical assistance, for example, can save business operators both time and money.

INC. surveyed the 50 states to identify those that address the concerns of small companies through small business assistance offices, ombudsmen, statewide small business conferences, standing legislative committees, and governors' advisory councils. Nine states have created new legislative committees in the past year, bringing the number of legislatures with small business committees to 21. What is more, 13 governors have recently formed new advisory councils, bringing to 29 the number of states with that form of small business support.

The number of states committed to purchasing a specified portion of their goods and services from small businesses—usually 5% to 15%—has also increased substantially. Twenty-five states currently have procurement set-aside programs, 10 of which were established in the past year.

Kentucky, New York, and Illinois emerge at the top of the charts for official state support for small business. They are the only three states in the nation with a full array of the programs measured in INC.'s survey. But even more noteworthy is that, in the past year, 25 states have upgraded their small business support activities.

The most improved state is



Delaware, which installed four new components to its small business support: an assistance office, an advisory council, a legislative committee, and a procurement program. Almost as impressive is New Hampshire, which added three programs but still lacks an advisory council.

Among the other states demonstrating increased support are Mississippi, Kansas, Rhode Island, Maryland, and Missouri.

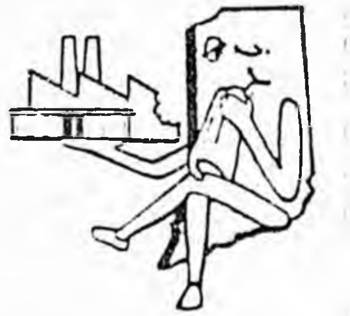
Taxes: Indiana takes the smallest bite

1. Indiana
2. New Hampshire
3. Missouri
4. Ohio
5. Tennessee
6. Alabama
7. Florida
8. Texas
9. Arkansas
10. Kansas

As unpleasant as taxes are to many small companies, their importance to a state's overall business climate is seldom on a par with such factors as capital and local resources. Nevertheless, the level of state and local taxes that businesses and individuals must pay tells something about whether it is possible to operate and grow in that state.

Since states tax businesses so differently—by income, payroll, or inventory, for example—and vary greatly in terms of tax credits allowed, state officials and tax experts agree that any direct comparisons are nearly impossible. Instead, INC. focused on the overall level of state and local taxes as related to each $1,000 of personal income—a measure that can be examined on a state-by-state basis. By this measure, Indiana's tax rate of $88 per $1,000 was the nation's lowest, followed by New Hampshire ($92), Missouri ($93), and Ohio and Tennessee (both with rates of $94).

The state with the highest tax was Alaska at $368, although in reality nearly all of the state's revenue is drawn from big energy companies. (In fact, most



Alaskans pay no state or local taxes.) New York, where individuals pay $163 per $1,000, was No. 2, although it has just enacted new rules for start-ups (see page 101). Following New York are Hawaii and Wyoming (both $148) and Massachusetts ($139).

Such tax burdens are comparatively stiff. But tax specialists and economists point out that high state taxes rarely influence a business decision about whether to start up or expand in a particular location—except in the unlikely event that other variables are equal. For one thing, higher taxes can mean better services and schools. "If you can sell 10 times as many widgets in New York as you can in Mississippi or Alabama, you don't mind paying those high taxes," says a national tax partner for a Big Eight accounting firm. "Taxes are usually just the tail," he says, "not the dog."

Bradford W. Ketchum Jr., a senior editor at INC., assisted in the preparation of this section. Anita Harris, a freelance writer, and Carol Holliday Blew, a business analyst, both based in Boston, assisted in research and data analysis.

BOOSTING SMALL BUSINESS

Overcoming an antibusiness bias

The idea of states cutting red tape for development permits and business licenses is nothing new, but Oregon has added some creative wrinkles to overcome a nagging antibusiness reputation.

Antigrowth sentiment was so strong in Oregon during the 1970s that then-governor Thomas McCall once quipped, "Come visit us, but for God's sake, don't stay!" That line was apparently

delivered in jest, but Oregon, reeling from the construction industry slump, which has shut down most of its lumber mills, is still working overtime to convince business that the state wants diversified growth and jobs.

Companies interested in doing business in Oregon were concerned about the need to obtain environmental and other permits, so the state decided to copy neighboring Washington and institute a "one-stop" center, where information on all requirements for permits could be obtained. "Oregon became the second state in the country to apply the one-stop concept," says Paul Haugland, manager of Oregon's Office of State Regulation Assistance. Haugland headed Washington's pioneer program and was hired away by Oregon, where he has carried the idea much further.

Last year, legislation was passed that, in effect, gives businesses a regulatory guarantee. "We'll look at your project and tell you every permit and license you're going to need," explains Haugland. "If it turns out that we slipped up and forgot one, it's on us. You don't have to get it."

So far, the office hasn't missed a permit, so the legal question of what would happen if someone sued to block a project because of a forgiven license has never been resolved. But no one questions the merits of allowing a business to find out about all its permits at once.

Any company planning to set up shop in Oregon now fills out just one 4½-page application. In 30 days, according to Haugland, his office will provide the guaranteed list of permits needed for the project. The office then acts as an advocate for the company in resolving any difficulties with state agencies.

Pension fund steps in

Late last year, Grayden Webb, president of G. D. Ritzy's Inc., wanted to expand his fledgling fast-food restaurant business, headquartered in Columbus, Ohio. Webb, a former vice-president for franchise sales at Wendy's International Inc., the highly successful hamburger chain, was eager to grow beyond his two outlets in the Columbus area, but doing it with a lot of debt would not be easy. Fortunately for Webb, he didn't have to. His company received a $2 million equity investment--and from a very unlikely source: the Public Employees Retirement System of Ohio (PERS).

In exchange for 40% of its stock, G. D. Ritzy's became the $6.5 billion PERS's first small company investment since the Ohio legislature liberalized investment guidelines earlier in 1981. PERS, like most of the nation's public employee funds, had previously been governed by statutes limiting investments to larger, publicly traded companies. Thus, most of its investments were in highly rated debt of big companies, some of which were based outside the state.

Under the new guidelines, the Ohio fund is now authorized to put 5% of its assets—or up to $325 million—into any partnership, proprietorship, or corpora-

tion that is either based in the state or has half of its assets or employees there. "Pension funds," says Robert McLaughlin, a PERS investment officer, "can step in to fill the financing gap to the benefit of the local economy and the performance of the fund." While it may take a while for PERS to find appropriate investments, in time it could put money into dozens of Ohio businesses and generate jobs there.

Other states seem to be following Ohio's lead in an effort to direct new capital into emerging companies. Neighboring Michigan, for example, badly scarred from the prolonged slump in the auto industry, recently adopted legislation permitting state pension funds to put up to 5% of its $6.7 billion State Employees' Fund in Michigan small companies and venture capital firms.

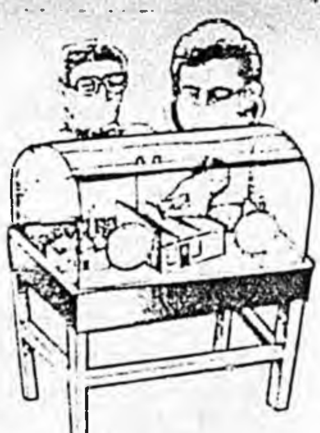
From ivory tower to marketplace

Pennsylvania was a pioneer in acknowledging the importance of technology transfer when it created the Pennsylvania Technical Assistance Program (PennTAP) in 1965. The program linked the state's small business community to existing academic resources. Now the state has begun to carry its role as business problem-solver one step further.

Later this year, a new state-supported program called the Ben Franklin Partnership will get under way with $1 million of state funds, to be matched by an equal amount of private money. Pennsylvania's idea is to further leverage university resources, which are already bringing technical assistance to small businesses, to assist entrepreneurs in product commercialization and applied research.

PennTAP, based at Pennsylvania State University, at University Park, has already earned its spurs with many smaller companies, in which lack of research facilities and personnel can make even a small technical problem loom very large. J. N. Rendall Harper Jr., president of American Micrographics Co. in Pittsburgh, for example, knew he was wasting lots of silver from the film plates he uses in his business but didn't know if it would be economical to recover it. PennTAP introduced him to Penn State researchers, who showed him how to reclaim the silver while complying with federal environmental rules.

Pennsylvania is not the only state with this type of incubator program. Georgia and Tennessee are among the others that



have built small business programs around their universities. The result, says Reuben Harris, director of the Center for Industrial Services at the University of Tennessee, is that "businesses can get the help they need, and ivory tower professors get real-world experience."

Pennsylvania's Ben Franklin Partnership will operate from regional centers around the state. But instead of dealing only with technical problems, as PennTAP does, it will develop ways to move new ideas from the laboratory to the marketplace. The state hopes the new program will help create growth in advanced technologies, such as robotics, biotechnology, and magnetics, as a means of offsetting declines in Pennsylvania's older industrial base.

A fresh approach to capital

No matter where an enterprise is based, finding equity capital for growth is often one of the toughest problems an entrepreneur faces. Private venture capitalists put money in few deals, and few states are willing to expose public funds to high risks. But even in the fiscally conservative Midwest, Indiana seems to have found a way to bring a new source of venture capital to the state's small companies.

Indiana's new Corporation for Innovation Development (CID), authorized last year by the legislature, will be capitalized by private investors, who get a credit—30% of their investment—against their state taxes. While granting tax credits means that Indiana will give up some revenue initially, Lieutenant Gov. John Mutz points out that the approach allows the state to "leverage additional private investment while leaving venture capital investment decisions to the private sector." If the enterprises are successful, they will pay taxes.

Indiana expects CID to draw at least $8 million of private funds, primarily from the state's commercial banks, insurance companies, utilities, and manufacturers. The corporation, which will eventually pay investors Indiana state tax-exempt dividends, could make its first investments by the end of the year. And while it is too soon to say where the money will actually go, Marion C. Dietrich, CID's president and chief executive officer of Cummins Engine Co. in Columbus, Ind., says CID is particularly interested in funding enterprises that are devising productivity improvement technologies to assist manufacturing industries, such as auto and steel.

By law, CID must put its money into Indiana start-ups and new federally licensed small business investment companies. Dietrich reports that the corporation also plans to participate in leveraged buy outs.

In creating CID, Indiana joins Connecticut and Massachusetts, among a few other states, in developing programs to make more venture capital available. Since its establishment in 1972, the Connecticut Product Development Corp. (CPDC) has committed about $5.3 million to finance product development by 39 companies within the state. When these businesses bring products to market, CPDC claims a royalty, which in 1981 amounted to $219,000. Since 1979, meanwhile, the Massachusetts Technology Development Corp. (MTDC) has invested about $3.7 million in 16 businesses, helping it says, to make available an additional $14 million in capital for the companies from private sources.

"Private venture capitalists aren't geared to high-risk investments," says Fred Schmid, president of Crystal Systems Inc., a Salem, Mass., company that recently struck out in its efforts to attract private equity investors. Crystal Systems produces industrial synthetic sapphire crystals, but it needed new capital to develop a silicon product for commercial photovoltaic applications. Although private venture capitalists kept saying no, MTDC agreed to lend Crystal Systems $250,000 for seven years, in the belief that a market will eventually develop for the product.

What is more, MTDC's loan enabled Crystal Systems to get a larger credit line from its bank and another $500,000 in long-term debt from another lender. "MTDC's investment showed confidence in the business at a critical time," Schmid says.

The enterprising states

While the Reagan Administration's controversial proposal to create urban enterprise zones in depressed areas is still being considered by Congress, a few states are taking matters into their own hands. Regardless of what finally happens in Washington, Connecticut has passed enabling legislation for its own brand of enterprise zones. This fall it will decide which of the state's economically depressed communities will be the new enterprise zones.

Other states, including Virginia and Kentucky, have their own enabling legislation, and still more are looking at enterprise zones to stimulate business and employment. Connecticut's programs, for example, will offer companies state and local property tax relief, as well as $1,000 grants for each job created. What seems to distinguish Connecticut's plan from those being developed elsewhere is its focus on small businesses.

Such an orientation wasn't accidental. "We're interested in overall development of the zones," says John J. Carson, Connecticut's commissioner of economic development, "so we're targeting small and medium-sized businesses."

Many have criticized the federal enterprise zone plan because it would primarily benefit large corporations that can use tax write-offs. Instead of stimulating new business, this might merely lead to shifts of corporate assets from one side of town to another. Such concern has led small business advocates to suggest that any tax credits be made refundable, to ensure that they are useful to new and small businesses needing cash flow more than tax benefits.

While Connecticut didn't opt for refundable credits, it did establish a new $1 million loan fund for small companies operating within the zones. The fund will lend a company up to 25% of its fixed or working capital, up to a maximum of $100,000 for manufacturing concerns and $50,000 for retailers. It will lend the money for seven years at one percentage point higher than the rate of the state's most recent general obligation bond offering.

Connecticut's enterprise zone legislation will also assist small companies with a unique job-voucher system designed to reduce the cost of finding qualified workers. The state labor department will determine which workers qualify for job credits either as zone residents or under the guidelines of the federal Comprehensive Employment Training Act (CETA). "Those who do qualify turn vouchers over to the zone employer who hires them," says Carson, thus saving small companies the sometimes hefty cost of screening employees.

Going for growth in job training

Job-training programs may be coming of age with a new program in Arizona that targets funds for employment in such high-growth industries as electronics and aerospace. Arizona is taking an approach that is different from such states as North and South Carolina, Georgia, and Alabama, where job-training programs have been offered to almost any company willing to set up shop in the state—even when the jobs are in such declining domestic industries as textiles and furniture making. To minimize unemployment problems down the road, Arizona's Office of Economic Planning and Development tries to help only those employers that are apt to generate growth.

The state conducted a major study titled "Opportunities in Arizona for Suppliers of High Technology Manufacturers," which amounted to a series of market studies for a number of industries. Now Arizona can offer job-training subsidies of up to 50% of wages for six months to industries in the state showing the greatest growth potential.

"We're trying to avoid training people for dead-end jobs," says Alton Washington, the state's manpower program manager. He reports that in the program's first year of operation, 8,000 people have been or are being trained by new programs.

Early indications point to satisfaction on the part of the employers. Comtec Economation Inc., for instance, a maker of electronic quartz crystals, is using the program to train 200 employees in Flagstaff. "It took the state only eight weeks to accept our application for training assistance," says Dave Convery, general manager.

A shift in tax incentives

While most state legislatures seek ways to stimulate business through an array of tax incentives, New York has a sharper focus. Eager to spur development of new—particularly high-technology—companies, New York this year began exempting investors in new businesses from capital gains tax payments as long as their money is held in a company for at least six years.

The state has also granted its 6% investment tax credit and its new 10% research and development investment tax credit to new concerns. These measures are meant to provide willing investors and greater cash flow in the early years of a business.

Whether the policy will have its intended impact won't be apparent for some time. The first investment tax credit refunds won't come until next year, and the capital gains exemption won't come into play for four years, when a portion of it becomes available. But an intense lobbying effort by the National Federation of Independent Business to have both measures apply to all small companies suggests that at least some people believe these measures could be significant spurs to investment.

In September 1981, California dropped the capital gains tax on long-term investments in all small independent businesses—except those dealing in tangible assets, such as gems and collectibles. No concrete results are yet evident, but Michael Kieschnick,

director of California's Office of Economic Policy, says, "I've gotten hundreds of calls from lawyers and accountants." Kieschnick plans to conduct a survey this fall to see how the California exemption of capital gains for new small businesses has affected investment decisions.

David Lindorff, a New York City-based freelance writer, assisted in the preparation of this section. Counsel for Community Development Inc., a Cambridge, Mass., consulting firm, contributed material.

HCR 37am
RELATING TO AN ECONOMIC DEVELOPMENT POLICY.
SPONSOR: HAYES, ET AL

Resolves that the Legislature encourage investments and developments in Alaska by:

assisting investors in evaluating project feasibility

identifying constraints to economic development and working to solve problems created by those constraints

provide a stable tax and regulatory climate

encourage "value-added" processing

offer economic development incentives

continue and expand marketing and promotional programs

evaluating long term costs and benefits of projects to the state

Requests an annual report by the Governor indicating progress being made in implementing these policies and suggesting legislation that might accomplish the goals of this resolution.

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ROBERT H. ZIEGLER, SR., Vice Chairman
DICK ELIASON
PAUL FISCHER
VIC FISCHER
BOB MULCAHY
ARLISS STURGULEWSKI

POUCH V
STATE CAPITAL
JUNEAU, ALASKA 99811
(907) 465-3834
(907) 465-3835

Senate

Committee on Resources

MINUTES

June 10, 1983
3:10 p.m.

Beltz Room
Room 211, Capitol

MEMBERS PRESENT

Senator Fahrenkamp, Chair
Senator Ziegler, Vice Chair
Senator P. Fischer
Senator Mulcahy
Senator Sturgulewski

CALENDAR

HCR 31	Relating to protection and preservation of the Kenai River.
SB 43	An Act granting homesteads to Alaska citizens; and providing for an effective date.
SB 102	An Act relating to homesteads; and providing for an effective date.
HB 130	An Act relating to homesteads; and providing for an effective date.
HCR 37	Relating to an economic development policy.
HCR 27	Requesting the state to collect and use information on trapping for land use planning and land disposal.

HCR 31

Representative Fritz, sponsor of HCR 31, explained why the resolution is needed and urged its passage.

Senator Gilman supported the bill, and pointed out that the resolution will not solve the problems of the Kenai River, but will more succinctly identify them.

There was discussion of fiscal notes, the need for a Senate letter of intent, and regulatory power.

Jay Hogan, director of the Office of Management and Budget Governmental Coordination, said the Administration supports the resolution and stated that necessary work could be done between departments with existing funds.

Randy Bayliss, Department of Environmental Conservation, supported the intent of the resolution.

Senator Fahrenkamp said the bill would be held until Monday, 6/13.

HB 130, SB 43, and SB 130

Sharon Barton, Department of Natural Resources, explained how a homestead program would fit in with current land disposal programs offered by the State. She addressed the provisions of the proposed committee substitute for HB 130, and recommended a lottery be used to limit the number of stakers in some areas.

Doug Woodby, Alaska Environmental Lobby, encouraged study of whether a homestead program is necessary and urged a restriction on conveyance to limit speculation.

HCR 37

Dave Gray, Resource Development Council, supported the resolution.

Senator Sturgulewski moved to report HCR 37 out of committee with individual recommendations. The motion passed without objection.

HCR 27

Senator Fahrenkamp said HCR 27 would be held over until Monday.

The meeting was adjourned at 4:00 p.m.