Background Paper 83-9

OVERVIEW OF ECONOMIC DEVELOPMENT AND DIVERSIFICATION

Overview of Economic Development
and Diversification

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OVERVIEW OF ECONOMIC DEVELOPMENT AND DIVERSIFICATION

The subject of economic development and diversification is extremely broad. This background paper is designed to provide an overview of the most significant aspects of the topic. Additional insight and details may be obtained by reviewing the materials listed in the "Suggested Readings" or discussing the subject in greater depth with the research staff.

Although the topic of economic development is broad, the aspects which appear to be most significant to the legislature can be described within five categories. These areas, which constitute the major headings in the paper, are as follows:

1. The Nevada Economy;

2. Structure of State Economic Development Activities;

3. Expenditures for Economic Development;

4. Incentives and Hindrances to Economic Development; and

5. Financial Factors Associated with Economic Development.

I

THE NEVADA ECONOMY

The Nevada economy has grown very rapidly over the past two decades. Statewide employment has risen from 103,400 workers in 1960 to a total of 405,600 employees in 1982. This represents one of the fastest growth rates in the Nation. However, the national recession has also affected Nevada's economy. Total jobs declined in the 1981-1982 period, and high rates of unemployment set records throughout the state.

In the past, Nevada's gaming industry has been considered by many people to be "recession proof." The statistics for 1981-1982 would indicate otherwise. A 1.6 percent increase in the hotel-gaming-recreation sector is considerably below the 8 to 10 percent growth which has come to be expected. An increase of 3.8 percent in gross gaming revenues was also below expectations.

Although it has grown rapidly over the past 20 years, economists do not consider the Nevada economy to be complex. The major characteristics associated with the state's economy may be summarized as follows:

1. Eighty-two percent of the state's population resides in the urban areas of Clark and Washoe counties.

2. The state's per capita income, adjusted for cost-of-living, is among the highest in the Nation, and the educational level is generally high. However, the work force is untrained in technical skills.

3. The Nevada economy is heavily dependent upon the gaming industry.

4. Although it is not evident from statewide statistics, the mining industry is important in many rural portions of the state.

5. Nevada is predominantly a small business state with 84 percent of its businesses having less than 20 employees.

II

STRUCTURE OF STATE ECONOMIC DEVELOPMENT ACTIVITIES

The emphasis of this section is placed upon activities at the state level because the paper is intended primarily for use by state legislators. Historical background and proposals for Nevada are supplemented by brief reviews of programs in three other states. Local and regional programs in Nevada are summarized in appendix A.

History of Nevada Department of Economic Development

In 1955, the Nevada department of economic development was established principally "to advertise, publicize, promote and aid in the development of the commercial, industrial, agricultural, mining, tourist and other vital economic interests of the State of Nevada." It originally consisted of a board of economic development, a director, and his employees. The board was an advisory body composed of one member from each of the state's 17 counties.

The 1969 legislature made substantial changes in the structure of the department of economic development. A division of travel and tourism and a division of industrial development were established. The board of economic development was replaced by two seven-member advisory councils. Traditionally, one advisory council has emphasized travel and tourism, and the other has functioned in the area of industrial development.

The primary duties of the department have remained consistent since its creation. However, in 1975 the department received the added responsibility of publishing the Nevada Magazine.

Recommendation--Governor's Commission on Economic Diversification

In 1982, Governor Robert List established a commission on economic diversification to investigate activities associated with economic development in the state. In August, the commission presented its final recommendations. The commission's major recommendation dealt with the structure of state economic development activities, and it specifically addressed the industrial development functions.

The commission called for creation by statute of NEVADA, INC., as a public economic development corporation. This new organization would perform all of the functions currently being undertaken by the industrial development division of the state department of economic development. In addition, it would serve as an umbrella organization to coordinate and augment the activities of the local and regional development organizations and political subdivisions throughout the state. Most importantly, the commission felt that NEVADA, INC. would "bring together the public and private sectors in the establishment and pursuit of economic development goals and objectives."

It was recommended that NEVADA, INC. be governed by a seven-member commission appointed by the governor. In order to function as much like a private corporation as possible, the commission would choose a president to manage NEVADA, INC. Furthermore, the commission would be given authority to employ the president and the staff of the corporation without the constraints of the state personnel system. Finally, the governor would appoint a 25- to 40-member advisory board from public and private organizations in order to gain broad participation. A significant budgetary increase was also recommended.

This type of structure has precedent in government generally and in Nevada specifically. Many states have quasi-public corporations which perform duties in the area of industrial development.

There are several examples in Nevada government of structures within which the governor appoints a commission that is authorized to hire administrative directors and staff. There are also some portions of Nevada state government that are exempt from the procedures of the state personnel system to one degree or another. These include the legislative and judicial branches, the gaming control board (NRS 463.080), the real estate division (NRS §§ 119.116 and 645.130), the Nevada racing commission (NRS 466.060), and the employment security department (NRS 612.230).

Boards or directors which are authorized to fix the salaries of some of their employees include: the gaming control board (NRS 463.080), the executive director of the employment security department (NRS 612.230), the board of directors of the state industrial insurance system (NRS §§ 616.1717 and 616.1723), and the public employees' retirement board with the approval of the interim retirement committee of the legislature (NRS 286.160). However, the degree to which these boards or directors can actually set the salaries of their employees is directly affected by the budgetary activities of the senate committee on finance and the assembly committee on ways and means.

Recommendation--Governor Richard H. Bryan

Shortly after taking office, Governor Richard H. Bryan outlined his recommendation for the future structure and functions of the state department of economic development. Although his proposal retains the department of economic development as a state agency, several changes in its structure are recommended. The department would be organized in five divisions as follows:

1. Division of Tourism;

2. Division of Industrial Development;

3. Division of Publications (to include the Nevada Magazine and the publication of all state-produced promotional materials);

4. Division of Film Production (located in Las Vegas); and

5. Division of Administrative Services (to include the executive director's office).

The department would be governed by an 11-member commission appointed by the governor. The commission would be part-time but meet frequently to set policy and approve programs. An executive director would be appointed by the governor from a list of three names provided by the commission. It is anticipated that this structure would maximize private sector participation and commitment while retaining state government control.

There would continue to be separate, seven-member industrial development and tourism advisory councils that would meet quarterly. The industrial development advisory council would include two members with experience in film production, and it would also serve as the advisory council for the division of film production. Within the executive branch, an interagency coordinating committee on economic development would be established. This body would be chaired by the governor, staffed by the department of economic development, and include the heads of several agencies as members.

Under the governor's proposal, all professional employees of the department would be unclassified. The objective would be to insure merit principles without having to deal with the cumbersome procedures and lengthy delays which may sometimes be associated with the state personnel system. Separate budgets would also be established for each division within the department as is the case with most state departments. A substantial increase in budget is proposed with most of it being financed through an increase in the room tax.

Other States

Economic development activities are performed by many different entities in the various states. However, some aspects are relatively common. Virtually every state has a state-level organization which is involved in economic development. Almost all states have local organizations and governments which promote their local areas. Furthermore, every state expresses a desire to foster a cooperative effort between the public and private sectors.

A complete survey of economic development structures in other states has not been performed. However, the following examples provide an overview of several basic concepts.

1. New Mexico

The New Mexico economic development division consists of three bureaus. They are the motion picture industry bureau, the industrial development bureau and the community development bureau. The 24-person staff is active with the local development agencies, especially in rural areas. Although there are no legal linkages between the state and local agencies, all belong to the Industrial Development Executive Association.

The industrial development and motion picture industry bureaus perform traditional functions. The community development bureau studies the economic conditions in the local areas and provides advice about actions which the locals could take in order to attract more industry. This bureau also administers an $85,000 matching grant program which helps to finance local promotional activities.

2. Arizona

Within the governmental structure, Arizona has the office of economic planning and development and the economic planning and development advisory board. The state also has two major private organizations that function in the field of economic development--the Arizona Economic Development Council and the Arizona Association for Industrial Development.

The Arizona office of economic planning and development is a major agency with a staff of over 100 and a budget of over $2.5 million for fiscal year 1982-83. The 24-member economic planning and development advisory board meets about six times per year, and typically the governor is present for at least a portion of each meeting.

The Arizona Economic Development Council is a 15-member organization. Participants are primarily nonexecutive personnel who work in the economic development programs of banks, utilities, railroads, and the state office of economic planning and development. Their activities are primarily informational and educational. They meet monthly to discuss activities and problems around the state, and they hold a 2-day working retreat annually at which time the members present papers and information on assigned topics.

The Arizona Association for Industrial Development is a private, nonprofit corporation consisting of approximately 350 members who are active in the area of industrial/economic development. The association holds two conferences per year for the professional education and development of the members, and their education committee is preparing a college curriculum in economic development.

Annually, the association sponsors an out-of-state "prospecting trip" in an effort to bring industry to the state. Last year, 50 members paid their own expenses to the East Coast and helped finance production of a slide presentation on the positive aspects of doing business in Arizona. The governor also participates in these trips.

3. Kentucky

Like Arizona and several other states, Kentucky has a joint economic development approach with efforts from the private and the public sectors. The state's department of economic development consists of two branches, or offices. The office of business development includes the industrial development division which has a budget of approximately $5 million, the small business section, and a research group. The office of community development has a tourism section and a block grants section. The agency has an advertising budget of approximately $1 million.

With the support of the state's governor, the private sector has established the Kentucky Economic Development Corporation. This private, nonprofit corporation is directly involved in economic development activities on a day-to-day basis. They engage in high-level promotion of industrial development, perform special studies and analyses, and serve as the governor's policy advisory group from outside of the governmental structure.

III

EXPENDITURES FOR ECONOMIC DEVELOPMENT

It is difficult to assess or compare expenditures for economic development. The available statistics are only somewhat reliable. However, acknowledging that there are limitations, it is still valuable to observe comparative state expenditures generally.

Comparative State Expenditures--Overall

In 1982, the National Association of State Development Agencies (NASDA) compiled statistics about economic development programs in 41 states. The results of its survey are included as appendix B of this background paper. The chart outlines expenditures in several categories and gives a total number of employees for each state.

The total agency expenditures range from a high of $30.8 million in New York to a low of $511,400 in North Dakota. Nevada's $814,300 expenditure ranks 37th out of the 41 states. The four states having less total expenditures for economic development than Nevada are Montana ($725,000), Utah ($724,800), West Virginia ($661,000), and North Dakota ($511,400). The state with the median expenditure (the same number of states above and below it) is Michigan with a total expenditure of $2,800,000.

At the time of the survey, Nevada had 12 employees working directly in economic development. Maine showed 11 employees and was the only state which indicated that it had fewer employees than Nevada.

For fiscal year 1983-1984, Governor Bryan has recommended that the budget of the department of economic development be $3,973,017. However, if one subtracts the income generated by the *Nevada Magazine* and sale of the industrial directory, a net budget of $3,297,217 is proposed. The governor has further recommended that all of this net budget be funded through an increase in the room tax. This net budget of $3,297,217 would place Nevada 20th among the 41 states in the NASDA survey.

Comparative State Expenditures--Tourism

Thirty-two states reported expenditures in the categories of tourism and/or tourism advertising in the NASDA survey. Total expenditures range from a high of over $13 million for Florida to a low of $229,400 for Nevada. Only five states reported expenditures of under $500,000. They are Delaware ($471,800), Iowa ($424,700), Maine ($350,000), New Mexico ($277,200), and Nevada ($229,400). Eighteen states either did not report statistics on the survey or did not break their figures down into categories.

Governor Bryan's budget proposal for the tourism division includes $1,805,597 for fiscal year 1983-1984. If this figure were adopted, Nevada's total expenditures for tourism and tourism advertising would rank 16th among the 32 states in the NASDA survey.

Comparative State Expenditures--Industrial Development

The NASDA survey reported 33 states with expenditures in the categories of industrial development and industrial development advertising.

Among these states, Nevada's expenditure of $227,000 ranks 31st. It is followed by Wyoming ($126,200) and Oregon ($86,800). New York shows the highest expenditure at $9,548,500.

Governor Bryan's recommendation for the 1983 budget of the state division of industrial development is $900,617. This basic expenditure would rank Nevada 15th among the 33 states in the NASDA survey.

History of Nevada Expenditures

There are two perspectives from which to view the budget of the Nevada department of economic development over the past 10 years. These perspectives depend on whether the 1982 grant program to local entities is viewed as part of the agency's budget. This grant program finances economic development activities in the state, but it is not associated with the statewide functions of the state agency itself.

If the $250,000 grant program is included, the department's 1982 budget totaled $814,294. This figure represents a 73 percent increase over the 1972 budget of $471,018. If one does not include the grant program, the state department's budget for 1982 was $564,294. This is a 20 percent increase over the 1972 budget. In either case, it should be noted that the Consumer Price Index (CPI) between 1970 and 1980 went up by 112 percent, and the actual effect of the increased budget is questionable.

Comparisons can also be made between increases in the budget of the economic development department and increases in the state's overall executive expenditures. While the department exhibited a 73 percent increase in budget between 1972 and 1982 (including the local grant program), the state's general fund appropriations experienced an overall increase of 213 percent.

Clearly, the budget for the state department of economic development over the past 10 years has not kept pace with inflation or with increases in general state government expenditures.

IV

INCENTIVES AND HINDRANCES TO ECONOMIC DEVELOPMENT

In recent years, most states have attempted to provide incentives to businesses which are considering relocation into the state. These incentives have most often been associated with tax relief and industrial revenue bonds. A few states have also established programs to upgrade their science and technology schools as incentives to technically oriented businesses.

Testimony before the assembly committee on economic development, tourism and mining has indicated that Nevada is competitive with the other western states in the area of business incentives. Charts, which list tax and financing incentives in the 50 states, have been compiled and are available through the legislative counsel bureau's research library. The governor's commission on economic diversification also discussed several conclusions and made recommendations relative to this subject.

The report of the governor's commission indicated that:

> Nevada is one of only nine states with no franchise tax, one of only twelve states with no corporate income tax, one of only eight states with no personal income tax, the only state with no inheritance tax, a state with one of the lowest property tax rates in the nation, and of the forty-four states that impose a sales tax, Nevada's sales tax burden is ranked twenty-second lowest.
>
> Nevada's very positive tax structure, coupled with its freeport and right-to-work laws, and its Industrial Revenue Bond Program, already makes it one of the most desirable states in the country in which to locate a business. In fact, of the ten incentives which were found to be most important in a survey of professional corporate facility planners and area development executives, Nevada already has five, and will have an additional one, when the inventory tax is completely phased out on July 1, 1983.

However, it was the conclusion of the committee that, in order to be even more competitive with other Western States, Nevada should provide the following additional incentives:

1. Tax exemption or moratorium on land and capital improvements (presently exists in 29 states).

2. Sales/use tax exemption or reduction on new equipment (presently exists in 36 states).

3. Accelerated depreciation on new equipment and facilities (presently exists in 28 states).

4. Continued tax exemption on manufacturers' inventories (presently exists in 43 states).

In discussing other types of incentives, the commission expressed support for a one-stop clearinghouse for permits, a higher priority for new or expanding industry in utilization of land, water and utilities, and expanded investment policies by the public employees' retirement system.

When looking at hindrances to economic development, the commission added a couple of recommendations to those previously listed. They recommended that legislation and regulations be established to set criteria and guidelines for local governments to use in determining the amounts of business licenses and fees. They also recommended opposition to A.J.R. 27 from the 1981 legislative session which would allow assessment of homes at a different rate than other property. This measure is viewed by the business community as being "anti-business."

Education is another area which can be an incentive or hindrance to economic development. The commission expressed recommendations basically as follows:

1. Improve the public-private sector communication network in an effort to:

    (a) Develop data bases and analytical techniques to project supply and demand opportunities in technology and energy-related fields;

    (b) Design and review curriculum in light of overall industry needs and program quality;

    (c) Provide new sources of funding from the business community, with the justification for this funding being based on investment rather than philanthropy;

(d) Develop public-private partnerships through which funding support mechanisms can be established, and facilities, equipment, and personnel can be contributed; and

(e) Develop and implement an ongoing career guidance system beginning at the junior high school level and extending through college.

2. Place emphasis on the "quality" of education rather than the "number" of students being put through the educational system.

3. Provide more flexibility in the area of educational staff by considering issues associated with tenure restrictions, noncompetitive salaries in the technological fields, necessity of retraining staff, and impact of telecommunications on instructional capabilities.

4. The university should emphasize quality versus quantity; the community colleges should be directed toward technological support programs; and high schools should orient more programs toward entry-level positions in which high technology training is required.

V

FINANCIAL FACTORS ASSOCIATED WITH ECONOMIC DEVELOPMENT

The availability of capital is a significant issue in the field of economic development and diversification. Financial problems are especially associated with small businesses and new enterprises. The financial situation in Nevada and activities in several other states are discussed in the following sections.

Business Finance in Nevada

In October 1981, the Four Corners Regional Commission printed the results of a study entitled "Development Finance in the Four Corners Region." Three volumes relate specifically to Nevada. Much of the following information about the financial situation in the state is derived from this study.

The authors identified four characteristics of the financial markets in Nevada (although the executives within some of the state's financial institutions do not necessarily agree):

1. The banking industry is highly concentrated--the state has the highest five-bank asset concentration in the Nation, and there is a lack of competition in most areas of the state.

2. Although the state has one of the highest incomes per capita in the Nation, it remains capital poor--assets per capita are low and deposits are growing slower than the population.

3. Nevada banks do not appear to be active lenders--the state has a loan-to-deposit ratio below the national average.

4. The state lacks large pools of capital that serve as sources of both long-term debt and equity.

With 84 percent of all businesses in Nevada being classified as small businesses, the study concluded that the continued strength of this small business sector is critical to the economic diversification of the state. The authors also emphasized that financing necessary to foster "home-grown" small businesses is as important as financing to attract new industries into the state.

Recommendations from "Development Finance in the Four Corners Region"

The recommendations contained in the report entitled "Development Finance in the Four Corners Region" are directed primarily toward enhancement of Nevada's small business sector. The authors contend that recent legislative sessions approving the establishment of development corporations, a Municipal Bond Bank, and statewide industrial revenue bond (IRB) sales demonstrate the willingness of Nevadans to consider active solutions to the problem of lack of capital. Within this context, they suggest solutions in the areas of improving long-term, tax-exempt financing (the use of IRB's); expanding available taxable commercial and industrial mortgages; developing other small business programs in the state; using the past MX legislation and program capability as a model for developing a "special projects" office; and improving the operation of the Municipal Bond Bank.

To increase the availability of long-term debt for small businesses, they propose:

1. Pooling small issue industrial revenue bonds and having state-sponsored but privately financed credit insurance to create wider secondary markets for the bonds.

2. Targeting IRB's to those enterprises which meet the state's development goals.

3. Pooling and insuring similar commercial and industrial mortgages for increased secondary market salability.

4. Encouraging Nevada's institutional investors to invest in-state either directly or through the secondary market.

Other recommendations for developing small businesses in the state include:

1. Emphasizing local business development rather than trying to attract out-of-state concerns.

2. An in-depth analysis of the local banking industry to encourage small business lending.

3. Encouraging the gaming industry to establish a high-risk venture capital pool for Nevada investments.

4. Creation and effective use of development corporations.

5. State sponsorship of a credit insurance program.

6. Undertaking a capacity-building effort for small businesses and financial institutions.

7. Establishing a special economic development committee at a cabinet level to work with a statewide task force on problem identification and program implementation.

To provide infrastructure development and mitigation of adverse impacts in rapidly developing communities:

1. Create a "special projects" office, modeled on the recently passed (1981) MX legislation, to monitor large projects and provide impact mitigation assistance.

2. Amend the Municipal Bond Bank legislation to include revenue bonds in addition to general obligation bonds and to back the reserve fund with the moral obligation of the state.

Venture Capital

Venture capital is money loaned usually to small businesses which have dramatic growth potential. The field is highly risky, but the potential returns are great. Venture capital is usually associated with investments which are considered too risky for the traditional financial institutions. In the past few years, very large companies have begun placing small portions of their earnings into venture capital, either on their own or in partnership with venture capital investment experts.

Most of the examples of venture capital investment appear to be in companies which are on the "cutting edge" of activities within their respective fields. High technology companies and advanced research and development firms attract venture capital most readily. However, it is clear from several articles that venture capitalists are often more interested in the capabilities of the manager/entrepreneur than in the idea being proposed. For example, the man who founded and developed the Atari electronic games corporation with venture capital loans later received venture capital to support his Pizza Time Theater, Inc. (Chuck E. Cheese).

It would appear that the "atmosphere" which will attract venture capital consists first of people--bright, dynamic people with technical and management capabilities. An educated population, which is generally interested in new and innovative ideas, is also a part of this "atmosphere." A core of at least a few businesses that are on the "cutting edge" of activities within their fields is also needed. Venture capital is a high-risk undertaking, and venture capitalists are interested in financing operations which could grow to multimillion-dollar levels. They are not interested in putting money into small businesses with little real growth potential.

Development Organizations in Other States

Several states have established mechanisms whereby state funds and private enterprise may jointly participate in small business finance and venture capital investment programs. A complete survey of the 50 states has not been completed.

However, activities in a few states have been summarized in order to provide an overview of these types of programs.

1. Connecticut

   Connecticut Product Development Corporation (Sections 32-32 through 32-47 of the Connecticut General Statutes)

   In 1972, the Connecticut legislature created the Connecticut Product Development Corporation as a quasi-public body. The governor appoints the board of directors which runs the corporation.

   Issuance of $6 million in state bonds provided the initial capital for the corporation. The corporation finances new product ventures within the state through contractual arrangements whereby it receives an equity interest in the business or product. The corporation repays the state bonds in accordance with direction from the state bond commission.

2. New York

   New York Business Development Corporation (Sections 210 through 220 of Article V-A of the Banking Law)

   The New York Business Development Corporation was established by statute in 1955. The "members" of the corporation are such banking organizations, insurance and surety companies as choose to participate. Each member is required to lend funds to the corporation in the amount and at the time directed by the corporation, except limitations on the maximum amount of loans are specified for each type of institution. The corporation is a stock corporation in which at least a majority of the capital stock must at all times be held by residents of the state or by persons, firms or corporations doing business in the state.

   The corporation has a broad range of powers in the areas of borrowing money, owning property and stock, and making loans. However, the corporation is restricted from competition with established banking organizations.

   The board of directors of the New York Business Development Corporation consists of one director elected by the "members" from each of 12 regions in the state, two directors elected by the stockholders, and the state commissioner of commerce. Loan committees in each of the 12 regions review and make recommendations on applications for loans coming from within their regions.

3. Kansas

Kansas Development Credit Corporation (Sections 17-2328 through 17-2335 of the Kansas statutes)

The Kansas statutes provide enabling legislation for establishment of development credit corporations. The Kansas Development Credit Corporation is incorporated under this law. Its general structure and functions are very similar to those of the New York Business Development Corporation.

Two additional programs exist within the "parent" corporation. They are named "Kansas Funds" and Kansas Venture Capital, Inc.

Kansas Funds

The "Kansas Funds" program is a cooperative effort among Kansas banks, the Kansas Development Credit Corporation, the Kansas Public Employees Retirement System and the U.S. Small Business Administration (SBA). It primarily functions in the secondary money market. Under this arrangement, the Kansas Development Credit Corporation purchases the SBA-guaranteed portions of loans from Kansas banks. These guaranteed portions are resold to pension funds, banks and other Kansas investors.

Kansas Venture Capital, Inc.

Kansas Venture Capital, Inc. is a "small business investment company" which is licensed and regulated by the SBA. It is owned by the Kansas Development Credit Corporation (51 percent) and Kansas banks (49 percent). By virtue of its licensing/regulation, it can borrow Federal Government funds for lending purposes.

Kansas Venture Capital is attempting to provide financing to small, established companies when growth cannot be continued within their existing debt/capital structure and when profitable opportunities call for financing that cannot be obtained from conventional lenders.

4. Minnesota

Minnesota Small Business Finance Agency (Sections 362.50 through 362.53 of the Minnesota statutes)

The Minnesota Small Business Finance Agency is a state agency which has established a loan program to assist small businesses in the state. The agency can make business loans and pollution control loans alone or in participation with financial institutions in the state. It has the ability to pool or combine loans to be funded from one or more issues of bonds. However, at the present time, the agency does not have a large enough reserve fund to be able to pool bonds and sell them on the open market.

The agency is currently initiating a 1-year pilot project that will provide as much as $30 million in long-term, low-interest-rate money for the state's small businesses. Under the "Minnesota Plan," the agency will sell long-term, fixed-note, taxable bonds in lots of $5 to $10 million in the bond market. It will begin building a fund for the loans, acting as their trustee, and using the proceeds to invest only in the guaranteed portions of SBA loans.

5. Massachusetts

Massachusetts Community Development Finance Corporation (Sections 40F:1 through 40F:5 of the Annotated Laws of Massachusetts)

The Massachusetts Community Development Finance Corporation was created in 1975 by an act of the Massachusetts State Legislature which then capitalized this new corporation with $10 million from the state treasury in payment for all of the corporate stock. The interest earned on funds not invested in portfolio companies supports the costs of doing business. The corporation is governed by a nine-member board of directors which is appointed by the governor and responsible for policy and final investment decisionmaking. Six directors are from the private sector, and three are members of the executive branch of government.

The Massachusetts Community Development Finance Corporation invests funds in conjunction with locally based community development corporations which act in partnership with small businesses. To be eligible, a local community development corporation must broadly represent its respective community and have the capacity to handle the needs of its business partner. It must also insure that the state's public purpose goals are met.

The Massachusetts statute also authorizes the Community Development Finance Corporation to establish a "small business investment corporation" as a subsidiary which would be licensed by the SBA.

Massachusetts Technology Development Corporation
(Chapter 40G of the Annotated Laws of Massachusetts)

The Massachusetts Technology Development Corporation is similar to the Community Development Finance Corporation. However, the Technology Development Corporation is financed through "state appropriations and other moneys." It is not funded by stock. Its funds can be invested and reinvested in the purchase of qualified securities issued by enterprises for the purpose of raising seed capital or in the purchase of securities that are lawful investments for fiduciaries in the state. The Technology Development Corporation is primarily designed to assist new, innovative businesses in starting and operating their programs.

The Technology Development Corporation is specifically authorized to act as, or to establish as a subsidiary, a "small business investment corporation" and a "corporation for innovation development" under the rules and regulations of the United States Department of Commerce.

Community Economic Development Assistance Corporation
(Chapter 40H of the Annotated Laws of Massachusetts)

The Community Economic Development Assistance Corporation is authorized to provide technical assistance to community development corporations in the state, to the Massachusetts Community Development Finance Corporation, and to eligible projects.

Technical assistance includes such services as "assistance with respect to organizational development, economic development planning, financial planning or packaging, the development of grant or other applications, market research, business plan development or review, management training, and such accounting and legal services as may be necessary to enhance or render effective any of the foregoing." The assistance may be provided by the corporation directly by staff or other agents of the corporation or through contract with a third party. Technical assistance may not include cash grants directly or indirectly to eligible organizations.

The Bay State Skills Corporation Act (Chapter 40I of the Annotated Laws of Massachusetts)

The Bay State Skills Corporation is another quasi-public corporation. It primarily administers a grant program which provides financial assistance to educational institutions for programs which are consistent with the objectives of the act. No single grant may exceed $200,000.

Massachusetts Capital Resource Company (Chapter 11 of the Annotated Laws of Massachusetts)

The Massachusetts statutes provide for creation of the Capital Resource Company as a limited partnership formed by two or more domestic life insurance companies. It is funded and managed by the insurance companies. The primary goal of the statute is to expand the financing available to in-state companies. The Capital Resource Company must meet year-by-year quotas for jobs created and amount of money invested, or state taxes on the life insurance companies automatically rise to punitive levels. Guidelines are provided in the law relative to types of investments, organization of the company and annual statements.

Development Organizations in Nevada

Chapter 670 of NRS is enabling legislation for creation of private development corporations in the state. They are stock corporations which must have a minimum of $500,000 in capital before incorporation. The articles of incorporation must be approved by the superintendent of banking, who also licenses and periodically examines the corporations. No state funds are associated with these private organizations.

The development corporations have virtually all of the powers previously discussed in the areas of issuing bonds and debentures, taking security in all forms, making loans, and managing all types of securities. They are authorized to borrow money and negotiate guarantees from federal agencies, and specifically to participate in the programs of the SBA and the U.S. Department of Commerce.

The development corporations are managed by a board of directors which consists of not less than nine nor more than 15 members as determined initially by the incorporators and then annually by the stockholders. Initially, the incorporators elect the board of directors. Annually after incorporation, the stockholders elect the board of directors.

The Nevada Financial Development Corporation was incorporated under chapter 670 of Nevada Revised Statutes with capital totaling $675,000. David Buckman, president of the corporation, indicates that they are attempting to provide medium-term credit to supplement conventional lending sources. He says that banks typically lend for a 1- to 5-year period, while insurance companies loan on a greater-than-25-year basis. His corporation is attempting to loan in the 5- to 15-year bracket.

The corporation's basic capital is still in the $675,000 range. Through the secondary market for federal paper, Mr. Buckman indicates that the corporation's finances can be leveraged up to approximately $6 million. Federally guaranteed programs through the SBA and the Farmers Home Administration (FHA) are used when it is possible, and the corporation has in-state and out-of-state investors. They try to make loans on a statewide basis. It is generally understood that the corporation is interested in providing loans that would more nearly be classified as venture capital.

VI

CONCLUSIONS

The Nevada economy has grown rapidly over the past two decades. However, it is still undiversified with an obvious dominance by the gaming industry. In attempting to strengthen and diversify the state's economy, most authorities recommend placing emphasis on the small business sector which includes 84 percent of Nevada's businesses.

The state government's role in economic development has also received increasing attention in recent years. Proposals have been oriented toward establishing a cooperative effort between private enterprise and the public sector. Specific recommendations have been made by the 1982 governor's commission on economic diversification and by recently elected Governor Bryan. Both proposals call for substantial increases in the amount of money to be invested in economic development activities.

Nevada appears to be competitive with the other western states in the area of business incentives. However, small business financing is severely restricted in the state. The authors of a recent study entitled "Development Finance in the Four Corners Region" make several recommendations designed to assist in the field of financing for small businesses. Also in the area of financing, several states have attempted to establish mechanisms whereby state funds and private enterprise may jointly provide money for small business. Examples include Massachusetts, Connecticut, Kansas, Minnesota and New York. Elements from programs in these states might also be applicable in Nevada.

The interest in economic development in Nevada has become obvious. Efforts in the areas of state government programs, incentives for development, and availability of financing should be positive steps toward strengthening and diversifying the state's economy.

VII

SUGGESTED READINGS

Because the following list of suggested readings is lengthy, it is categorized by subject heading. Referenced materials are available through the legislative counsel bureau's research library.

I. Nevada Specifically

Counsel for Community Development, Inc., "Development Finance in the Four Corners Region," three volumes for Nevada, October 1981.

Governor Richard H. Bryan, "Economic Development Program," January 12, 1983.

Governor's Commission on Economic Diversification, "Report," August 1982.

II. Examples of Programs in Other States

Hotard, Kenneth N., "Economic Development: Lessons from Massachusetts," State Legislatures, July/August 1982, pp. 22-26.

Knepper, Karen, "The Minnesota Plan - An Innovative Approach to Lending to Small Businesses," Commercial West, August 28, 1982, pp. 16-17, 33.

"Laws and Specifics about States' Economic Development Programs - Development Finance," memorandum and enclosures from Fred W. Welden, principal research analyst, to Assemblyman Robert E. Price, February 3, 1983.

Pilcher, Dan, "Michigan: The Road to Recovery," State Legislatures, January 1983, pp. 17-21.

III. General Information

"Attracting the Film Industry," memorandum by Fred W. Welden, dated December 23, 1982, including Nevada statistics and "On Location: States Star in Films" from State Government News, September 1981.

Beard, Sam, "Twenty-one States Selected for Small Business Economic Revitalization Program," Developments, Vol. III, No. III, pp. 1-3.

"High Priority Programs - Economic Development," State Policy Reports, February 9, 1983, pp. 4-8.

Knapp, Elaine S., "Selling the States," State Government News, August 1981, pp. 3-8.

National Association of State Development Agencies (NASDA), "NASDA 1982 State Development Agency Expenditure and Salary Survey," September 1982.

Steinbach, Carol, "Economic Development in the States: There's a New Look Coming," March 1979, pp. 6-11.

Triplett, Thomas J., "Investing State Moneys: Making Every Dollar Work," State Government, Autumn 1980, pp. 181-184.

IV. Incentives for Industrial Development

"Annual Report: The Fifty Legislative Climates," Industrial Development, March/April 1981, pp. 4-11.

"City and County Business Investment Incentives," Site Selection Handbook, 1981, pp. 398-408.

Hotard, Kenneth N., "Tax Incentives for Business: The Myths and Realities," State Legislatures, September 1982, pp. 14-15.

"Industrial Revenue Bond Financing 1979 and 1980," Site Selection Handbook, 1981, pp. 395-396.

V. Venture Capital

Anderson, Harry, "The Venture-Capital Boom," Newsweek, September 7, 1981, p. 66.

Baldwin, William, "City Hall Discovers Venture Capital," Forbes, February 16, 1981, p. 90.

Murphy, Thomas P., "The Odd Couple - Venture Capital," Forbes, April 26, 1982, p. 190.

Taylor, Alexander L., "Boom Time in Venture Capital," Time, August 10, 1981, pp. 46-48.

"The Pension Funds Stoop to Conquer," Business Week, March 15, 1982, pp. 138-139.

"Venture Capitalists Raid Silicon Valley," Business Week, August 24, 1981, p. 112.

VIII

APPENDICES

APPENDIX A

ACTIVITIES OF NEVADA'S LOCAL AND REGIONAL ENTITIES

As is the case in most states, Nevada's local and regional organizations have promoted economic development in their areas. Traditionally, Chambers of Commerce have played significant roles in these efforts. Specialized development organizations have been formed in some localities, and joint regional activities are also sometimes undertaken.

Promotion of tourism as the state's primary industry has been accomplished at the local level, mostly through convention bureaus and private enterprise. Local activities in the field of industrial development in Nevada have usually been undertaken by Chambers of Commerce or local and regional development authorities.

Among the development organizations, the Nevada Development Authority (NDA) in Clark County has been the most active. Nevada Development Authority was incorporated in 1972. It has a current budget of approximately $430,000 per year and employs five professionals, an administrative assistant and two clerical staff. Finances for NDA are provided through member dues, local government contributions, state grants, and donations. In addition to typical economic development functions, such as information compilation and "client" promotion, NDA is taking the lead in establishing a Foreign Trade Zone in southern Nevada.

The Northern Nevada Development Authority was established in 1981 to serve Carson City, Douglas County, Dayton and Lyon County. This organization has an estimated annual budget of $90,000 and is run by an executive director. With financing from member dues, donations, and state and federal grants, the organization participates in the usual economic development activities.

Two additional development entities have been formed in the past year. The Economic Development Authority of Western Nevada, which has a budget of $175,000, serves the Reno, Sparks and Truckee Meadows area. The Central Nevada Development Authority covers the large area of Nye, Mineral, White Pine and Lincoln counties and has a budget of $30,000 per year. These two newer development authorities have basically the same sources of funds and participate in the same types of activities as the older organizations previously discussed.

Appendix B

NASDA 1982 EXPENDITURE SURVEY OF STATE DEVELOPMENT AGENCIES

STATE	AGENCY TOTAL	INDUSTRIAL DEVELOPMENT	INTER-NATIONAL	RESEARCH	TOURISM	MANPOWER	LOCAL DEVELOPMENT	EMPLOYEES	IND.DEV. ADVERTISING	TOURISM ADVERTISING	STAFF TRAVEL	PERIOD COVERED	OTHER FUNDS
ALABAMA	$ 2,509,000	$ 2,509,000	$ 300,000	$ 75,000	$ 1,650,000[a]	$ 1,300,000[a]	$ 75,000	39	$ 538,000	a	160,000	10/1/81-9/30/82	$ 50,000
ALASKA	4,366,800	374,700	477,300		11,254,100[a]	268,000		26			136,500	7/1/81-6/30/82	0
ARIZONA	1,086,100	327,600	198,700	200,700[a]	a	b		29	36,300		75,400	7/1/81-6/30/82	573,800
ARKANSAS	1,923,900	162,900	347,100	185,600	632,500[a]	a	47,500	44	155,000	$ 410,000[a]	209,300	7/1/81-6/30/82	177,000
CALIFORNIA	7,999,000	424,000	331,000	346,000	515,000		613,000	70	0	0	189,000	7/1/81-6/30/82	996,000
DELAWARE	1,370,100				471,800			54				7/1/81-6/30/82	460,000
FLORIDA	6,120,000	847,100	1,253,000	1,038,900	8,425,400[a]		655,200	166	732,000	4,346,000	564,000	7/1/81-6/30/82	451,200
HAWAII	7,376,200	1,056,900	1,276,000	393,100	3,836,100	a		87	30,000	1,550,000[c]	41,800	7/1/81-6/30/82	90,000
ILLINOIS	26,154,100	2,757,800	1,587,400	522,500	2,686,000	2,118,400	11,589,800	450				10/1/81-9/30/82	152,771,700
INDIANA	7,017,500	357,100	568,400	217,800	384,900	500,000	143,100	141	105,900	201,500	177,200	7/1/81-6/30/82	5,091,700
IOWA	2,331,600	492,300	369,800	184,700	356,700		137,000	63	86,600	68,000	182,300	7/1/81-6/70/82	115,000
KANSAS	2,066,800	467,100	50,200	237,100	395,000	75,000	584,100	42	75,000	143,500	133,900	7/1/82-6/30/83	1,437,600
KENTUCKY	7,413,200	1,820,900	748,100	384,900	2,263,000		223,300	138	900,000	1,100,000	286,700	7/1/81-6/30/82	620,900
LOUISIANA	3,966,700	373,700	307,600			1,090,900	219,200	37	a	a	271,800	7/1/81-6/30/82	0
MAINE	1,012,598				350,000			11	100,000		27,000	7/1/81-6/30/82	77,400
MARYLAND	11,166,900	2,776,500	735,400[e]	403,600	1,679,700		3,025,500	430	1,500,000	500,000	362,600[d]	7/1/81-6/30/82	7,972,100
MICHIGAN	2,800,000				5,374,900[a]			55				10/1/81-9/30/82	0
MINNESOTA	11,565,900				1,293,800			273		284,000	109,300	7/1/81-6/30/82	8,067,100
MISSISSIPPI	4,071,000	1,388,000			990,900			63	250,000	350,000	299,000	7/1/81-6/30/82	90,000
MONTANA	725,000							39				7/1/81-6/30/82	442,000
NEBRASKA	3,328,800	577,000	185,000	335,100	1,234,100		286,700	71	150,000	325,000	149,600	7/1/81-6/30/82	327,000
NEVADA	814,300	173,600			181,000			12	53,400	48,400	31,000	7/1/81-6/30/82	29,500
NEW JERSEY	5,787,600							106				7/1/81-6/30/83	0
NEW MEXICO	1,136,400							25	141,200	277,200	133,600	7/1/81-6/30/82	0

NASDA 1982 EXPENDITURE SURVEY OF
STATE DEVELOPMENT AGENCIES

STATE	AGENCY TOTAL	INDUSTRIAL DEVELOPMENT	INTER-NATIONAL	RESEARCH	TOURISM	MANPOWER	LOCAL DEVELOPMENT	EMPLOYEES	IND.DEV. ADVERTISING	TOURISM ADVERTISING	STAFF TRAVEL	PERIOD COVERED	OTHER FUNDS
NEW YORK	30,812,100	2,598,500	1,860,400	2,212,300	1,069,100			388	6,950,000	9,785,000	515,900	4/1/82-3/31/83	3,928,100
NORTH CAROLINA	4,327,000[f]	1,747,000	827,000[f]		4,055,000[a]	2,475,000[a]	228,800	103	255,000	1,500,000	324,000	7/1/81-6/30/82	672,000
NORTH DAKOTA	511,400[g]	451,900	90,000	50,000	622,600			17	30,000	275,000	57,000	7/1/81-6/30/82	678,600
OKLAHOMA	1,895,700	810,000	380,000	290,000			a	34	582,000		125,000	7/1/81-6/30/82	60,000
OREGON	1,507,400[g]	86,800	150,500	138,800	a		285,300	37			96,700	7/1/18-6/30/82	1,552,400
PUERTO RICO	16,965,500	11,912,400						461	3,624,300			7/1/81-6/30/82	13,000,000
RHODE ISLAND	2,098,400	902,300		196,100	650,500	11,868,500[b]		45	225,000	100,000	35,500	7/1/81-6/30/82	11,686,500
SOUTH CAROLINA	3,187,000	2,026,400	375,600	285,000	2,014,400[a]	2,370,500[a]		66	450,000		182,000	7/1/81-6/30/82	84,800
TENNESSEE	5,715,000	538,000	340,000	242,000	1,056,800[a]	1,189,000	1,396,000	121	250,000	730,800		7/1/81-6/30/82	669,000
TEXAS	1,538,500	596,800	229,000	281,000	1,719,700[a]	a	94,500	51	86,000	1,163,700	135,800	9/1/81-8/31/82	264,400
UTAH	724,800	553,100	54,000[d]	89,000	1,923,300[a]	250,000[a]		15	150,000	916,000	55,000	7/1/81-6/30/82	123,100
VERMONT	2,419,400	1,055,100		78,000	1,364,600	594,000	210,000	31	40,000	673,600	33,200	7/1/81-6/30/82	0
VIRGINIA	2,579,000	539,800	676,900	269,500	3,511,700[a]	1,515,500[a]	160,800	52	544,000	1,377,800	250,000	7/1/81-6/30/82	0
WASHINGTON	3,397,100	595,600	280,600		2,210,800			47	33,000	1,596,400	114,400	7/1/81-6/30/82	625,800
WEST VIRGINIA	661,000	661,000						23			40,200	7/1/81-6/30/82	0
WISCONSIN	5,427,900	386,700	96,100	120,200	939,700			140	82,000	598,000	65,000	7/1/81-6/30/82	1,766,900
WYOMING	1,250,200	114,200				a		24	12,000	0	62,700	7/1/81-6/30/82	202,700
AVERAGES:	4,733,300	1,330,600	541,600	355,700	2,100,422	1,959,369	1,106,900	101	586,100	1,086,600	165,000		5,247,700

FOOTNOTES

[a]Activity conducted within a separate agency. If a figure is indicated, it is not included within the AGENCY TOTAL for the state.

[b]Entirely federally funded.

[c]Of the tourism advertising, $1,000,000 was a non-recurring expenditure.

[d]Includes only the Industrial Development Division travel expenditure.

[e]Includes the foreign office expenditure.

[f]Includes $140,000 for North Carolina University Japan Cultural Center.

[g]State operates on a biennium and changes were made to accommodate the the survey.