

Governor's Office of Economic Development

Report on Activities

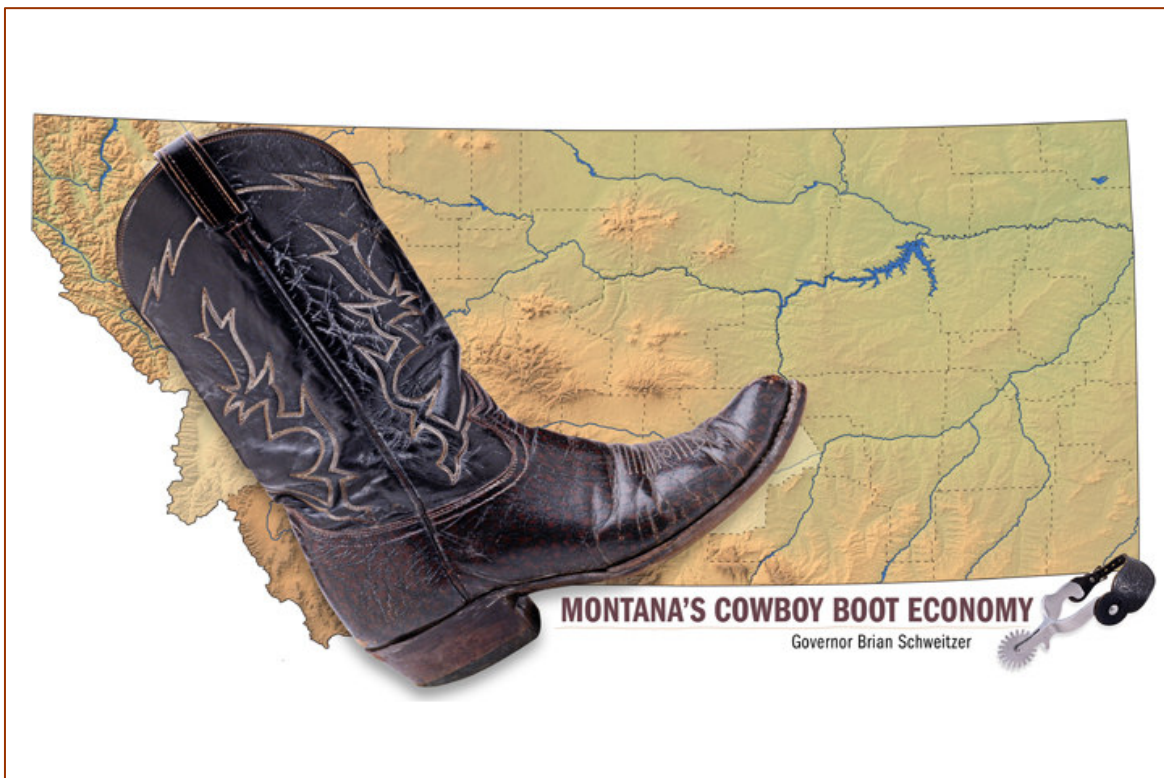
2005 - 2006

to

Governor Brian Schweitzer

and the

60th Legislative Assembly



January 2007



GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

State Capitol ★ P.O. Box 200801 ★ Helena, MT 59620-0801 ★ Toll Free: 866 44 BIZMT

January 5, 2007

Governor Brian Schweitzer
State Capitol
Helena, Montana 59620

Dear Governor Schweitzer:

Please accept this Report on Activities 2005-2007 as an indication of the work the Governor's Office of Economic Development has been doing for you and the State of Montana since you entered office.

It is clear that our collective effort, working with the various state departments, local and regional development organizations, local government and the private sector have produced results that benefit the economy of Montana.

Montana's job base has grown by over 23,000 during the past two years and our rate of salary growth was the 3rd fastest in the nation. Our unemployment is at a record low and we have a record number of total jobs. These statistics are indicative of the results of the hard work of everyone involved in economic development in Montana under your leadership.

On behalf of the Governor's Office of Economic Development staff, I want to thank you for your personal commitment and effort to help bring positive growth to Montana in a way that preserves our unique quality of life. We appreciate your willingness to meet with and talk to targeted companies to help close deals. We further appreciate your vision for Montana's economy, the creativity and energy you bring to our collective efforts and your willingness to walk the extra mile to make sure that Montana's economy improves.

After you have taken a look at the report, please feel free to contact us if you have any questions.

Best personal regards ... and tap 'er light!

EVAN BARRETT
Chief Business Officer

Governor's Office of Economic Development

Activity Report

Table of Contents

Transmittal Letter

Table of Contents

Executive Summary

Activity Report

Governor's Office of Economic Development Authorization, Structure and Mission

Primary Activity Areas

Workforce Development

State Workforce Investment Board (SWIB)

WIRED (Workforce Investment for Regional Economic Development)

Workforce Training Funds

Workforce Coordination with K through 12

Governor and First Lady's Science and Math Initiative

Workforce Coordination with Higher Education

Workforce Coordination among State Agencies

Early Education Summit

Montana Healthcare Workforce Efforts

Regional Energy Workforce Effort

Technology Development

SBIR Grants and STTR Awards

Bioscience

Information Technology

Fiber Optic Backbone

Supercomputer

New Wireless Technology Advancement Demonstration

Governor's Office of Economic Development Web Portal

Recruitment of Advanced Technology Companies

Marketing and Recruitment (retention and marketing)

Trade Show Activity

Website Activity

Trade Mission Activity

Montana Ambassadors Activity

Targeted Advertising

Printed Marketing Material

Infrastructure Improvement

Energy Infrastructure Analysis

Transmission Lines

Liquid Product Pipe Lines

Fiber Optic Backbone

Supercomputer

Railroad

TIFID Infrastructure Development

Large Project Community Impact Legislation

- Incentives for Clean Energy Infrastructure Development
- Permitting and Regulatory Processes
- Private Company Facilitation
- Mercury Rules
- Permitting Efficiency

Essential Support Activities

- Economic Policy Development
- Coordination and Cooperation
 - Agency Coordination & Cooperation
 - Tribal Coordination & Cooperation
 - Indian Country Economic Development Program
 - Local & Regional Development Organization Coord. & Cooperation
 - Montana Means Business Web Portal
 - Business Expansion and Retention Program (BEAR)
- Councils and Boards
- Economic Development Finance and Tools
 - Equity Investment
 - Union Pension
 - Venture Capital
 - Debt Finance
- Information Tools
- Sector Development
 - Energy
 - Energy Symposium
 - Oil & Gas
 - Canadian Visitation
 - Refinery study
 - Wind
 - Biofuels
 - Coal
 - Coal Mining
 - Coal-to-Liquid
 - Coal to Electricity
 - Energy Transportation
 - Transmission Lines
 - Pipelines
 - Agricultural – Value Added
 - Hard Rock Mining
- Cluster Support
 - The Montana BioScience Cluster
 - Arts and Artisans Cluster
 - Information Technology Cluster
 - Manufacturing Technology Cluster
 - Environmental Engineering Cluster
 - Rail Service Competition Council
 - Horse Racing
 - Film

Attachments

Cover Memos to legislative Interim Finance Committee and Legislative Interim Economic Affairs Committee

September 30, 2006

November 16, 2006

Market Montana Business Recruitment Budget Activity Report – September 2006

GOED Project Summary Report – September 2006

General Marketing Publications

State of Prosperity

You should be Here

Copy of Advertisements

Energy Marketing Materials

Montana's Coal Country

Coal Sites Booklet

Energy Sites/Infrastructure Maps

Montana's Wind Country

Montana's Biofuels Country

Governor's Energy Policy

Economic Growth Through Energy Development Presentation

Map - Economic Growth Through Energy Development Presentations

Funding History for Marketing and Recruitment

Governor's Office of Economic Development Staff Biographies

Executive Summary

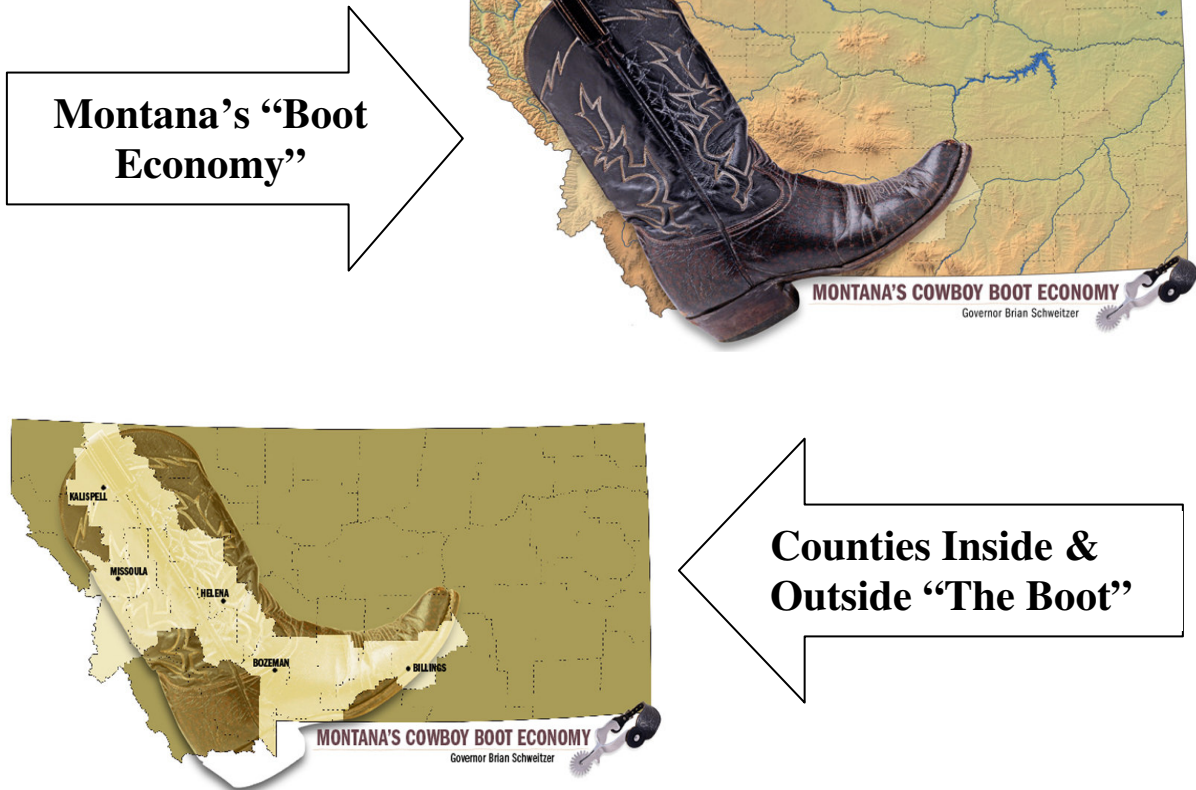
The good news about Montana today ...

Montana had the 3rd highest growth rate in the nation in wages in 2005 (the last year with available statistics) and was the 8th fastest growing in wages in the country over the last 5 years. We also had 8th fastest growing economy in U.S. over the last 5 years as measured by gross state product. Our unemployment rate in 2005 -- 4.0% -- was the lowest ever calculated in our history. We had a record number of jobs in 2005 -- 483,000.

Montana is considered the 4th least costly state in which to do business by the Milliken Institute and the Tax Foundation says we have the 12th lowest state & local tax burden in the U.S. and the 9th best tax structure for business in the U.S.

But, we still have challenges ...

Montana's economy is strong in some places and weak in many others. Governor Schweitzer refers to the "Boot Economy" as the hottest growing areas of the state, while much of the state is "outside the boot" and suffering economic dislocation.



One of the biggest challenges facing Montana from an economic development perspective is to create real growth and more quality jobs in the areas outside the boot.

In doing so, we must recognize that Montana has a “quality job gap.” The Montana average salary of \$29,139 is currently ranked 49th in the nation. We were 50th in the nation last year, so we are beginning to show progress. But, thirty years ago we were as high as 33rd in the nation. Clearly, we need to continue to work on developing higher salaried jobs in the state.

The same job quality gap is apparent when we look at *per capita* income. The Montana *per capita* income of \$28,906 is currently 41st in the nation. That is an improvement from our position as 47th in 1995, but a long way from 9th position back in 1948. We have work to do!

Job quality is not just an issue of salaries. Good benefits, especially health care insurance, are also important to workers and their families, as well as important to the medical support sector of each community. In Montana, 19% of people are currently without health care insurance, as compared to the national rate of 17.7 % of non-elderly Americans. We have more work to do!

The number and quality of our jobs also is reflected in our poverty rate, which in Montana is 13.6%, as compared to the national rate of 12.7%. We have even more work to do!

So, the work continues ...

Governor Schweitzer’s broad vision for economic development for Montana is to:

- Strengthen and diversify state’s economy in the
 - resource sector,
 - manufacturing sector
 - technology sector,
 - research and development sector,
 - high-end service sector and
 - tourism.
- Increase number and quality of jobs available, with
 - higher salaries, and
 - better benefits, including health insurance.
- Geographically disperse jobs
 - inside “the Boot,”
 - outside “the “Boot,” and
 - in Indian County.

The Governor’s Office of Economic Development, working with State Departments, local and regional economic development organizations and the private sector has helped create or retain over 2,500 jobs over the last 2 years.

Governor’s Office of Economic Development Focus

To accomplish the Governor’s vision, the Governor’s Office of Economic Development is focused on five areas, as outlined by the legislature:

- Workforce Development,
- Technology Development,

- Marketing and Recruitment (retention and marketing),
- Infrastructure Improvement, and
- Permitting and Regulatory Processes.

Essential Support Activities

To back up those focus areas, the Governor’s Office of Economic Development and the Chief Business Development Officer provide to the Governor and the state:

- Economic Policy Development,
- Coordination and Cooperation,
- Economic Development Finance and Tools,
- Information Tools, and
- Sector Development Activity.

Energy Development

The most visible of Governor Schweitzer’s economic development efforts has been in the area of energy development. Following an energy symposium, the Governor developed an energy policy for the State and extended significant effort in marketing Montana as a place for alternative and renewable energy development for export. Whether it be coal-to-liquid, electricity from clean coal processes, wind power, or biofuels, the Governor has put Montana on the national and world map as far as finding creative ways in which we can help America solve its energy independence challenge.

Energy created for export requires movement of that energy to markets. The Governor’s Office of Economic Development has lead the way in Montana toward transmission line and pipeline development to move clean & green product to market.

**Since January, 2005,
Montana jobs have
increased by 23,182.**

DKRW and Bull Mountain Coal have announced their intention to site a coal-to-liquid plant 37 miles north of Billings in Musselshell County. MSU Billings projections are that the plant will require 6,800 in the construction workforce and will have a permanent workforce of 1,762 which will support 2,500 additional secondary jobs for a total job impact of 4,200. Permitting discussions with the Department of Environmental Quality are underway.

The Montana Alberta Tie Line is in permit review with the Department of Environmental Quality for a 230Kv (600MW) transmission line to move Montana generated wind power to Canada and the Pacific Northwest. The Northern Lights high voltage direct current transmission line from Montana to Southern California, Southern Nevada and Arizona was announced. This \$1.8 billion project (approximately \$600 million in Montana) has begun pre-permitting review with the Department of Environmental Quality.

The Governor’s Office of Economic Development worked extensively with industry and the Department of Environmental Quality to bring about the adoption of mercury rules so that human health could be protected, while, at the same time, coal/energy development could advance in Montana.

Cluster/Sector Support

The Governor's Office of Economic Development, through contracted services activity, has advanced the development of the following economic sectors: Montana BioScience Alliance, the Arts and Artisans cluster, the Montana Information Technology Association, the Virtual Manufacturing Technology group, the Environmental Engineering Consortium, and the Montana Aerospace Development Association. In addition, the Governor's Office of Economic Development provided strong support to the Rail Service Competition Council as a way to assist Montana producers and rail shippers. We also provided financing to a special Horse Racing Advisory Council which is seeking ways to maintain that economic activity in Montana. And the Governor's Office of Economic Development also assisted in the advancement of film marketing following the adoption of the new film credits during the last legislative session.

Workforce Development

The \$4.6 million allocated to workforce training by the last legislature was fully subscribed by the close of FY-2006. The Governor's Office of Economic Development worked with local development, the Department of Commerce and private companies to utilize workforce training funds in a manner that resulted in the creation and retention of approximately 2,100 jobs.

The Governor's Office of Economic Development led the effort, through the State Workforce Investment Board, to change the service delivery mechanisms for Workforce Investment Act funds in a manner that converted over \$1 million of "administrative" funds into money that could provide direct services to workers requiring training.

Meeting the Governor's Economic Development Vision

In order to meet the Governor's economic development vision, the Governor's Office of Economic Development has worked to *strengthen and diversify* state's economy, increase the number and quality of jobs and spread them across the state.

Strengthening and Diversifying the Economy

Below is a partial listing of private development activities stimulated in the Governor's targeted areas of growth:

- *Resource sector:* Basin Creek Electric, Montana Tunnels, Montanore Mine, Bull Mountain Energy, Northern Lights Transmission, and Montana Alberta Tie Line.
- *Manufacturing sector:* International Truck Body, New Market Media, Sea Cast, and Sustainable Systems.
- *Technology sector:* Direct TV and Integrated solutions at Fort Peck.
- *Research and Development Sector:* The Defense Advanced Research Projects Agency aerospace engine testing facility, fifty-two Small Business Innovative Research Grants and Small Business Technology Transfer awards were won totaling \$16,762,909
- *High-end Service:* Sikorksy, Sanjel Oil Company, and Avmax.
- *Tourism Sector:* Plum Summer

Increase Number of Jobs Available

Montana jobs have increased in the last two years by 23,182 from 461,195 to 484,377, an increase of 5%.

Increase Quality of Jobs

The average salary in Montana, \$29,139 for 2005 was an increase of 5% over the previous year (the third fastest growing salary rate in the nation.

Geographically Disperse Jobs

Of the 23,182 new jobs since January 2005, 17,153 occurred in counties inside the “boot,” while 6,029 occurred in the counties outside of the “boot.” Indian Country job growth is estimated at 424 over the same period.

Activity Report

Governor's Office of Economic Development Authorization, Structure and Mission

The Governor's Office of Economic Development, previously called Governor's Office of Economic Opportunity, was created in 2001 (Section 2-15-218). The office is located in the Governor's Office itself and is authorized to have seven exempt employees. The staff consists of the Chief Business Development Officer (Section 2-15-219), who is appointed by the Governor and heads the office, four Senior Economic Development Specialists, one Economic Development Specialist and an Office Manager/Assistant. Brief biographies of the specific staff members are attached.

The Governor's Office of Economic Development coordinates the economic development activities of the state government as well as with the local areas of the state. In doing so, the Governor's Office of Economic Development works with and through many state departments, but especially the Departments of Commerce, Agriculture, Labor and Industry, Natural Resources and Conservation, and Environmental Quality, as well as with education at all levels. At the local level, the Governor's Office of Economic Development works with local and regional economic development organizations, and local governments.

According to Section 2-15-218, the Office of Economic Development is responsible for the following policy and program specialties:

- (a) business retention and recruitment;
- (b) workforce development;
- (c) technology development;
- (d) infrastructure improvement; and
- (e) permitting and regulatory processes.

The statute further establishes that it is the economic development policy of this state to:

- (1) strengthen the foundations of the state's business environment and diversify and expand existing economic endeavors to achieve long-term economic stability;
- (2) cooperate with business enterprises, local governments, other public organizations, and the federal government and use all practical means and measures, including financial and technical assistance, to:
 - (a) establish an economic climate in which the state's natural resources and agricultural operations remain constant contributors to the state's economic welfare;
 - (b) articulate a coherent economic development vision for the future; and
 - (c) take a proactive role to ensure that Montana has the flexibility and resources to be an effective competitor in the changing global marketplace.

The statute (Section 2-15-219) empowers the Chief Business Development Officer to:

- (1) advise the governor on policy issues related to economic development;
- (2) lead the state's business recruitment, retention, and expansion efforts;
- (3) coordinate the development and distribution of a statewide coordinated strategic economic development plan;
- (4) coordinate the individual functions and programs within the office; and
- (5) serve as the state's primary liaison between federal, state, and local agencies, Montana tribal governments, private, nonprofit economic development organizations, and the private sector.

The functions and activities of the Governor's Office of Economic Development over the 2007 biennium to this date are detailed below.

Primary Activity Areas

Workforce Development

In advancing workforce development the Governor's Office of Economic Development is active in a number of areas including the State Workforce Investment Board, the WIRED project, workforce training, and coordination with education at all levels – K through 12 and higher education. In some specialized cases, the Governor's Office of Economic Development also works with other states in the region on workforce issues.

State Workforce Investment Board (SWIB)

The Chief Business Development Officer serves on the Board and the Executive Committee of the SWIB. During the 2007 biennium the Governor's Office of Economic Development contracted for an analysis of the service delivery structure of the SWIB. That report was acted upon by the SWIB in a restructuring of the service delivery mechanisms. That restructuring resulted in more than \$1 million per year being shifted from administrative costs to providing services to clientele.

The SWIB create the Healthcare Workforce Shortage Taskforce to examine the status of current and looming shortages in Montana's healthcare workforce. The Governor's Office of Economic Development contributed staff assistance to this taskforce which met from May 2006 through November 2006. In November 2006, the taskforce issued a report to the full SWIB. This report outlined several occupations that are in need of attention and noted several steps to be taken in order to remedy some of these projected shortages.

WIRED (Workforce Investment for Regional Economic Development)

The Governor's Office of Economic Development successfully coordinated an application to US Department of Labor for a three-year \$15 million (\$5 million per year) grant designed to develop the workforce in a 32 county area of Eastern Montana in a manner that supports the development in sustaining a biofuels economy in the region. Through our committed partnerships (Montana's citizens, state agencies, private businesses, investors, academic institutions, entrepreneurs,

philanthropists, and Tribal leaders) this project will develop new directions for the future of rural Montana, incorporate best practices, and transform our rural Ag-economy including, but not limited to: (1) Systems level curriculum roadmap with supporting course materials using the cluster as context; (2) Delivery models that provide blended e-learning and instructor delivery; (3) Manufacturing Career Cluster model that provides students and incumbent workers the educational information to create a career pathway; (4) Models for increasing collaboration with industry partners to develop a competency-based modular training program; (5) Optimization of bio-lubricant production in existing industry; (6) Expansion of existing establishment of oilseed processing and refining facilities and (7) Evaluation of new oil crops suitable for production in the arid climate of central and eastern Montana.

The WIRED project is a means to reverse the economic erosion central and eastern Montana communities have faced in recent decades. While a startling number of rural, geographically isolated Montanans live in poverty, with less than 300 miles of Interstate highway, sporadic infrastructure, and only a handful of paved airports; they are also sitting on nearly 89,000 square miles of some of the greatest energy reserves in the nation, be it the wind blowing across the prairies, the crops growing from the ground, or the coal underneath the ground. With advances in biofuels and renewables, the region is well positioned to revitalize the economy with energy development.

WIRED funding is channeled primarily through the Department of Commerce for workforce training related to business development projects and through the Montana University System for curriculum development and educational training delivery. The Department of Agriculture is involved in outreach efforts of the program and the Department of Labor and Industry is responsible for coordinating with the Federal Government.

Workforce Training Funds

Until 2003 Montana had not allocated any state funds for direct workforce training. In fact, Montana was the last state in the nation to commit state funding for this important purpose. In 2003, the Legislature created a mechanism for workforce training funds which involved borrowing money for worker training through the State Intercap program and repaying that money over time from income tax receipts for the workers who were trained. Prior to the 2005 session the legislative auditor determined that this was an inappropriate utilization of the Intercap program. The Governor's Office of Economic Development and the Schweitzer administration budget office decided to fund workforce training with direct general fund cash and the Legislature agreed.

In addition, the 2003 workforce training legislation placed the operations of the workforce training program in the Governor's Office of Economic Development. A legislative audit in late 2004 recommended removing the function and placing it in a line department. Governor Schweitzer agreed with the recommendation and legislation was prepared, introduced, and passed during the 2005 session to transfer the operation of the program to the Department of Commerce. The Governor's Office of Economic Development works closely with the Department of Commerce in utilizing the workforce training funds for business recruitment purposes.

In response to these efforts, the 2005 legislature provided \$2 million in workforce training funds to cover the training costs of projects already in the ‘pipeline’ and added an additional \$2.6 million to cover workforce training funding needs for the 2005-2007 biennium. These workforce training funds are for new employees and have proven to be a most effective business recruitment tool for the state. As the result of that, the \$2.6 million allocation for the biennium was fully subscribed within the first year of the biennium. Based upon that experience, the Governor’s Office of Economic Development working with the Department of Commerce and the Budget Office has recommended an allocation of \$8 million (\$4 million per year) for workforce training for the coming biennium.

As reported to the Interim Finance Committee, over the last two years, workforce training funds have assisted in the creation of 2,100 new jobs in the state, including:

- 755 new jobs at Direct TV in Missoula
- 40 new jobs created to expand Summit Aeronautics in Helena
- 98 employees to be hired and trained at AvMax Group, Inc. in Great Falls
- 25 new employees added and trained at PrintingForLess.com in Livingston
- 120 new manufacturing jobs at Masters Group International Inc. in Butte
- Over \$138.8 Million in leveraged funds in 2006
- Over \$84.9 Million in leveraged funds in 2005

Workforce Coordination with K through 12

Governor and First Lady’s Science and Math Initiative

The Governor’s Office of Economic Development participates in the Governor and First Lady’s Math and Science Initiative, which invites Montana’s youth to discover the many opportunities to learn about science and math in K-12 schools and higher education, find out about careers in science and explore Montana’s splendid surroundings. In particular, as Montana’s energy sector continues to grow, increased connections must be made between industry and K-12 schools and higher education to ensure that our future workers get the early education and training they need in math and science to enable them to go on to high paying, high quality jobs in the energy sector. The Governor’s Office of Economic Development continues to work with industry to facilitate better communication of their workforce needs.

Workforce Coordination with Higher Education

The Governor’s Office of Economic Development coordinates workforce development efforts with all elements of higher education, including the colleges of technology, Community Colleges, Tribal Colleges, and the four-year units of the Montana University System. The Office regularly works with the Board of Regents and the Office of the Commissioner of Higher Education to continually improve coordination of the University System with the workforce needs of the state. The Governor’s Office of Economic Development brings knowledge of and relationships with local economic development entities and private business. In 2006, the Department of Labor and Industry and the Office of the Commissioner of Higher Education signed an important memorandum of understanding that facilitates the exchange of important data between the two agencies which will give the state and policy makers a more accurate

understanding of the flow of Montana's students between higher education and Montana's workforce

Workforce Coordination among State Agencies

The Governor's Office of Economic Development is a participating member of the State Agency Management Team on Workforce, a group of workforce program administrators from across state government who have been assigned by their directors to meet quarterly and ensure coordination among state agencies on workforce issues. This group serves to ensure the services are not duplicated and that each state program uses their resources to serve Montanans as efficiently and collaboratively as possible.

Early Education Summit

The Governor's Office of Economic Development coordinated with the Governor's education policy advisor, the Washington Foundation and the National Governor's Association to conduct a Business Leaders Summit of School Readiness in Missoula in October of 2006. Business leaders, philanthropists, government leadership and community members were invited and attended a half day event featuring Mr. Art Rolnick, Senior Vice President and Director of Research from the Minneapolis Federal Reserve Bank, Governor Brian Schweitzer and Anna Lovejoy, Senior Policy Analyst from the NGA Center for Best Practices. Each speaker addressed the importance of the early years, what research has proven and what Montana needs to pay attention to as we prepare our children to enter the global economy and the challenges of modern society. The Governor's Economic Development Office coordinated a panel presentation from four members of Montana's business community who shared what their business do to support a ready workforce.

Montana Healthcare Workforce Efforts

The Governor's Office of Economic Development provided staff for the SWIB Healthcare Workforce Shortage Taskforce, which met during the summer and fall of 2006. The taskforce produced a report for the full SWIB that contained a variety of recommendations for addressing some of Montana's pressing healthcare workforce issues.

At the March 2006 meeting of the Board of Regents, the Regents requested the creation a group to assist the Regents in evaluating University System proposals and make recommendations on the most cost-effective options to train, recruit, and retain healthcare workers. Emily Lipp Sirota, Economic Development Specialist in the Governor's Office of Economic Development, serves as a liaison to the MHWAC, comprised of representatives from healthcare providers, health professions education, healthcare associations, and state agencies.

Regional Energy Workforce Effort - The Rockies Energy Workforce Collaborative (REWC)

The Governor's Office of Economic Development, Montana Department of Labor & Industry, and the SWIB are engaged in a regional workforce training effort, organized by industry representatives, that is focused on preparing a labor force to meet the anticipated high

demand for the rapidly developing energy economy in the region. The initial scope is oil and gas, with possible expansion to other energy segments. The Collaboration provides a forum for industry, education, public workforce system and economic development to dialogue, develop strategy and solution-based workforce actions to leverage staff resources, public and private investments.

Other states involved in the effort, which includes significant private sector involvement from energy companies, are North Dakota, South Dakota, Wyoming, Colorado, and Utah. The Collaborative strives to connect industry, education, public workforce, and economic development to address the critical workforce issues affecting the region.

The Collaborative has three working committees that represent industry, education, and workforce development. Most states in the group are in the process of conducting a Needs Assessment Study, and results should be available soon. Montana is planning to utilize the results of the North Dakota Needs Assessment due to the fact that 13 of Montana's top 25 Oil Operators are in ND's top 25. We have 2 of ND's top 25 Gas producers, so additional information may need to be gathered by our state relative to job needs in the natural gas sector.

The Collaborative meets quarterly, with the next meeting on February 8 in Denver, Colorado.

Technology Development

The Governor's Office of Economic Development, in conjunction with state departments, local efforts and the private sector, has been very active in technology development efforts across the state, some of which are discussed below.

SBIR Grants & STTR Awards

During 2005 and 2006, fifty two Small Business Innovative Research Grants and Small Business Technology Transfer awards were won totaling \$16,762,909. In 2005 technical assistance was provided to 29% of those award winners through the Department of Commerce. Companies receiving assistance in 2005 included:

- Arbuckle Ranch -- Alzada MT
- General Intelligence Corp. -- Bozeman
- Great Northern Growers -- Sunburst
- Promilliad Biopharma -- Missoula
- SensoPath Technologies -- Bozeman
- Z dye Company -- Bozeman

In 2006 technical assistance was provided to some of the same companies above who went on to win Phase II awards. Services impacted 23% of the grantees. Companies receiving assistance in 2006 (this assistance was helping mainly with Phase II proposal development).

- Arbuckle Ranch -- Alzada MT
- Amazing Grains -- Ronan
- Great Northern Growers -- Sunburst
- Nagy Consulting -- Bozeman

- Promilliad Biopharma – Missoula
- General Intelligence – Bozeman
- Purity Systems -- Missoula

In 2005, Montana firms participating in the SBIR and STTR programs brought nearly \$10 into the state for every Montana citizen. When compared to other states in the region this figure ranks Montana second only to New Mexico's \$13.39 per citizen where not one, but two major national research labs spin out technology companies that fare well in technology R & D competitions.

The Governor's Office of Economic Development has been very active in technology development efforts across the state.

Bioscience

Several technology-related business clusters have been supported by funding from Governor's Office of Economic Development. The main goal of each of the "clusters" is to create high-quality jobs and economic opportunity in Montana. The office has provided ongoing funding to build the bioscience sector of the Montana economy by providing financial support to the Montana BioScience Alliance. The Alliance is an organization that serves as a hub for Montana's biotechnology companies, entrepreneurs, laboratories, hospitals, clinics and universities to commercialize, grow and sustain globally competitive bioscience companies. Because of the support from the Governor's Office of Economic Development, the Bioscience Alliance has been able to accomplish the following:

- Develop a membership of 50 dues paying individuals and organizations.
- Became the state affiliate for the BIOTECHNOLOGY Industry Organization.
- Received \$50,000 grant from U.S. Economic Development Organization
- Planned and executed a series of regional networking meetings across the state with researchers, scientists and private sector companies, regarding commercialization and collaboration opportunities. Several partnerships were formed and awareness levels of the research being conducted in Montana were significantly increased.
- Conducted a statewide conference in Bozeman in June, 2006 with 60 people in attendance.
- CoSponsored "Ideas Montana Medicine" conference in Billings with National experts in BioScience in 2005 and 2006.
- Cosponsored the Billings Clinic Science Expo in Billings
- Created and published a quarterly newsletter which is currently subscribed to by more than 250 individuals and organizations.
- Created the Montana BioScience Alliance website. www.montanabio.org. Soon the site will contain a listing of clinical trials in the state.
- Created a directory of Montana BioScience companies and organizations. These directories were distributed at Invest Northwest in Seattle, BioWest in Denver and at the Council of State BioScience Associations in San Juan, Puerto Rico – raising national awareness of the work being done in Montana.

Information Technology

During the past year, one of the pleasant discoveries that the Governor's Office of Economic Development made about the Montana economy is the emergence of small/mid-sized companies in the technology industry – including the life sciences, advanced manufacturing, information technology, agriculture and the environment. The Governor's Office of Economic Development has contracted with a firm to begin forming an IT cluster, so that we can begin to promote Montana not just as a great place to visit, but as a location where entrepreneurs can build new companies and contribute to the quality of life in our state. It is our intention to include each of the IT companies in a new Montana Directory of Technology Companies that will be developed. More information about the IT cluster can be seen later in this report in the "Sector Development" section.

Fiber Optic Backbone

Technology infrastructure is an important target for Governor's Office of Economic Development activity. The office has worked with the Chief Information Office and ITSD, along with the University System, to advance the strengthening of the fiber optic backbone to insure that most of Montana has a strong enough communications capability to allow government, education, research, and private sector companies to be competitive in the global market. The resulting recommendations have been brought to the legislature in the Schweitzer Administration budget in the form of \$7,823,000 for lighting dark fiber and upgrading connections to state offices and county courthouses to strengthen internet connectivity.

Supercomputer

Governor's Office of Economic Development discovered not only that Montana does not have supercomputing capability but there was very little activity available in the entire region. Supercomputer capability is an essential element to be competitive not only in research but in handling complex challenges in the business sector such as finding improved methods for extracting oil, gas and other natural resources of the state.

The Governor's Office of Economic Development, working with IBM, Montana Tech, the University System, ITSD, and the private sector has advanced a proposal to the legislature for the funding of a supercomputing capability for the state of Montana. The Budget requests a \$2.8 million Challenge Grant for supercomputing hardware, software, and peripherals as well as another \$1 million for operating costs for the biennium. In order for the Challenge Grant funds to be expended, matching funding and/or services & equipment from the private sector, led by IBM, will be required.

New Wireless Technology Advancement Demonstration

Governor's Office of Economic Development, working with Intel and Dell, helped organize a national demonstration of a new advanced wireless technology. Working in coordination with the University of Montana, Dell and Intel organized a long range WIMAX wireless connection to be beamed from the University of Montana to a ridge line approximately 12 miles away. With the main connection established, a hot spot was then created on the ridge line so that multiple

users could access the demonstration. The demonstration of the technology's power was a live presentation from a professor in the Eastern United States. The ridge was accessed by horseback. The demonstration of the technology was very impressive and it was the first time that Dell and Intel had demonstrated it to anyone in the nation. The context of the previous day's workshop was bringing technology into the classroom at a low cost so that the digital divide created by a lack of funding and the cost of the technology could be bridged by industry and government.

Governor's Office of Economic Development Web Portal

The Governor's Office of Economic Development is developing the Montana Means Business (MMB) Web Portal. The Web Portal will provide for the entire State of Montana the nation's first, comprehensive economic development toolkit. Leveraging state-of-the-art demographic, marketing, and geospatial business intelligence data, MMB provides the economic development community in Montana the tools and data they require to assist in business transactions, successful recruitment of internal and external business prospectors, and a mechanism to critical reports necessary to stimulate business opportunities across Montana.

Montana Means Business Web Portal has been developed as a custom designed application to meet the specific requirements and business processes of Montana economic developers. Using geospatial Web services, MMB is a cost-effective solution, leveraging a transaction-based model for business intelligence for the State of Montana. Given the tremendous need for these types of reports, skillfully crafted with easy-to-use tools for the Internet, MMB provides a consistent, one-stop-shop for valuable information necessary to drive economic development opportunities across the entire state.

As economic development emphases grow and change to reflect the strategic goals of the State of Montana, MMB is designed to be flexible by adding new tools, data reports, and sector-specific information. As Montana grows, the Web Portal can grow to meet the increasing, real-time business intelligence demands of an increasingly sophisticated economic development community and those parties interested in conducting business in Montana.

MMB is scheduled to be fully operational and functional early in the 1st Quarter of 2007, and is under-going final testing with the State of Montana Department of Administration, ITSD, which will host and maintain the core application software and services.

Recruitment of Advanced Technology Companies

Technology companies remain a target for recruitment and expansion efforts. Governor's Office of Economic Development has coordinated such recruitment efforts with local economic development entities and the Department of Commerce.

The most successful such recruitment was the creation of a \$21 million center in Missoula for Direct TV which anticipates the creation of 950 jobs, 700 of which are currently hired.

Additional expansions or recruitments in the advanced technology sector include: Printing for Less, Direct TV, Neptune Aviation – largest FAA repair station in the state, Sikorsky Design Center, Summit Aeronautics, Integrated Solutions, Seacast, and Aquila Vision, to mention a few.

Marketing and Recruitment (retention and marketing)

Governor's Office of Economic Development coordinates marketing recruitment with local and regional economic development entities. The marketing and recruitment program was provided a statutory appropriation in both the 1999 regular and 2000 special session of the legislature in the amount of \$350,000 per year or \$700,000 per biennium – allocated to the Department of Commerce. (See History of Marketing Montana and Business Recruitment memo in appendices). During the 2001 Session, the Governor's Office of Economic Development was created and the \$700,000 biennial appropriation was transferred to the Governor's Office of Economic Development. The August 2002 Special Session then decreased the \$700,000 to \$350,000. Then during the 2003 regular session the remaining \$350,000 was removed.

Governor Schweitzer, supported by the full range of economic development entities across the state, requested that the 2005 Session allocate \$1 million over the biennium for Marketing Montana and Business Recruitment. The legislature reduced that request to \$600,000 for the biennium, and requested ongoing reports on the utilization of the funds by Governor's Office of Economic Development. Copies of the transmittal memos for those reports are attached. See also appendices for latest Budget Activity Report.

Governor's Office of Economic Development coordinates the State's marketing efforts with local and regional economic development organizations through visitations, specific project coordination, and contact via organizations such as the Montana Economic Developers Association (MEDA). When the Governor's Office of Economic Development attends economic development and special sector trade shows on behalf of the State of Montana partnering with local development entities we pay for the cost of booth rental space, provide the booth itself, along with state level marketing material and allow local development entities to bring along their own material and operate out of the State's booth.

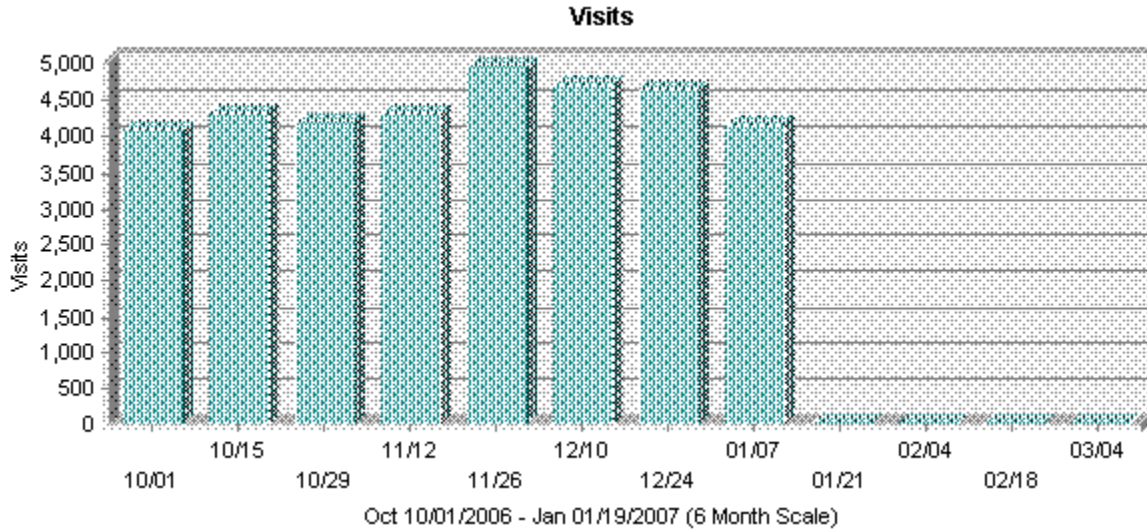
Trade Show Activity

The Governor's Office of Economic Development coordinated Montana's presence in 2005 and 2006 at CoreNet Corporate and Industrial Site Selectors Trade Show, the largest site selector trade show in the nation. Kalispell, Great Falls, and Butte-Silver Bow took advantage of Montana's sponsorship and attended the conferences. BNSF and CTA Architects also attended. Total individuals spoken with at both conferences totaled over 1000. The Governor's Office of Economic Development Tradeshow booth has been updated and was taken to both shows, as well as to other conferences around the State.

Website Activity

The Governor's Office of Economic Development website has been redesigned by our staff. To see the website please go to: <http://business.mt.gov>. From October 1, 2006 through January 19,

2007 the Governor’s Office of Economic Development website has received 35,392 visits to our website. Inquiries weekly come from individuals around Montana and the world to the email address on the new site for information ranging from obtaining business licenses, tax questions, project solicitations, general inquiry into Montana’s business climate, and other types of business assistance, part of our full service marketing effort.



General Statistics – Business.mt.gov – October 1, 2006 – January 19, 2007		
Hits	Entire Site (Successful)	297,968
	Average per Day	2,684
	Home Page	8,560
Page Views	Page Views	73,668
	Average per Day	663
	Average per Unique Visitor	6
	Document Views	72,033
Visits	Visits	35,392
	Average per Day	318
	Average Visit Length	00:05:14
	Median Visit Length	00:00:54
	International Visits	0.00%
	Visits of Unknown Origin	100.00%
	Visits from United States	0.00%
	Visits Referred by Search Engines	1,377
	Visits from Spiders	9,503
	Visitors	Unique Visitors
Visitors Who Visited Once		8,736
Visitors Who Visited More Than Once		3,535

Trade Mission Activity

The Governor’s Office of Economic Development attended a trip to Denmark to establish relationship with Danish Crown Pork Producers for a potential Montana Pork Production project in Shelby. Governor’s Office of Economic Development met with major private sector companies as well the actual pork producers themselves. This mission was not designed to be

government-to-government, but to deal directly with prospective activity related to involvement in pork producing in Montana. Project development is ongoing.

The Governor's Office of Economic Development also participated in several Canada marketing opportunities which have include traveling to Regina, Saskatchewan in May of 2006 where we met with provincial economic development officials. A particular area of interest discussed at this meeting was the ongoing Weyburn enhanced oil recovery carbon sequestration project and a separate trip back to Regina's Petroleum Research Institute to discuss the Weyburn project in greater detail is planned for the spring of 2007. A follow-up visit from Saskatchewan officials to Montana is scheduled for February 2007 that the Governor's Office of Economic Development will participate.

In addition, Governor's Office of Economic Development staff traveled again to Canada in July of 2006 taking part in the Pacific Northwest Economic Region (PNWER) annual conference held in Edmonton, Alberta. The conference agenda included economic development topics and of particular interest a transmission session hosted by TransCanada related to HVDC technology that relates to the proposed Northern Lights transmission project that will initiate in Montana. In addition, Governor's Office of Economic Development also had the opportunity on the PNWER trip to observe the Fort McMurray tar sands operation to see first hand the huge energy development that has important implications for refinery development in Montana.

Governor's Office of Economic Development also participated in a Montana World Trade Center trade mission to Calgary in December 2006 accompanying a 15 member delegation of Montana small companies seeking business opportunities. The trip went well and we were able to make important contacts with the US Consul General's office.

On January 2, 2007, Governor's Office of Economic Development staff met with Chairman Murray Edwards of Canadian Natural Resources, one of Canada's largest energy companies, to discuss synergies between Alberta and Montana energy development opportunities. Also, officials with Canadian oil and coal interests visited Montana in September 2006 and a follow up visit of Montana officials to Canada is being planned for the spring of this year.

The Governor's Office of Economic Development attended a trade mission along with several businesses to Seoul, South Korea and Tianjin, China in August. Representative Rehberg also attended. Meetings included one with Chinese business groups interested in a possible \$100 million investment in Montana. Meetings were held with South Korean and China agricultural trade officials regarding Montana's agricultural opportunities. One business member of the mission signed a distribution agreement resulting in projected sales of more than \$3.5 million in the next two years. Other businesses on the mission also closed deals and developed stronger relationships in key markets. Governor's Office of Economic Development staff also presented Montana's economic development opportunities at meeting of over 150 CEOs in Tianjin.

The Governor's Office of Economic Development will be attending a trade mission to Brescia Italy in February. There is opportunity in Italy for Montana's wheat and other agricultural products, and well as tourism and manufacturing potentials.

Montana Ambassadors Activity

The Montana Ambassadors, created in 1984 is a volunteer, not-for-profit organization of leaders in business, education, the professions and government with a common dedication to living and doing business in Montana and furthering the best interests of the state, whose members serve at the pleasure of the Governor. Members act as official Ambassadors of the State of Montana with the following mission:

- Supporting economic and business development projects of the Governor that will lead to economic growth and job creation throughout the state, both inside and outside "the boot" and in Indian Country, while maintaining the Montana quality of life.
- Acting as ambassadors for the Governor and his/her administration by reflecting his/her policies and objectives to business, industry and economic entities both in and outside of Montana.
- Assisting the Governor's Office of Economic Development in its marketing and business recruitment efforts.
- Organizing into local chapters that can be a link between the business, economic development and education entities in their area and a vehicle for the Governor to reach those entities.
- Assisting the Governor in developing out-of-state Montana Ambassadors who can serve as a voice for Montana in other states.
- Assisting, upon request, the Governor and the various state government entities on matters of business and trade development.
- Developing relationships with educational institutions, agencies and systems that foster the Governor's vision of economic vitality of Montana's work force and quality of life for its citizens.
- Supporting, whenever practical, efforts by other groups to contribute to the Governor's vision of economic vitality for Montana.
- Supporting the economic development agenda of the Governor in the state Legislature.

The Governor's Office of Economic Development is expanding existing and creating new out-of-state Montana Ambassador Remote Area Networks and individual Montana Ambassadors, modeled on the existing Montana Ambassadors program. The out-of-state Ambassadors network promotes Montana to outside business interests and assists the State in its business recruiting efforts. Activities have begun in Seattle, Denver, and San Francisco to create the out-of-state Montana Ambassadors Networks and increase the number of individual Montana Ambassadors. There are planned efforts to establish Chapters in Austin, Texas and Chicago as well as others in areas around the United States where expatriate Montanans can be found. The establishment of out-of-state Ambassador Chapters is consistent with the Governor's targeted economic development objectives to strengthen and diversify the economy in the resource, manufacturing, technology, research and development, high end services and tourism sectors of Montana's economy.

Targeted Advertising

The Governor's Office of Economic Development has advertised in selective business recruitment and business facilities magazines such as *Business Facilities Magazine*, *Global*

Corporate Expansion and Business Expansion Journal. A copy of some of the ads can be found in the appendix.

Printed Marketing Material

Governor's Office of Economic Development initial marketing material was an adaptation of marketing of marketing material developed during the previous administration. The brochure "a State of Prosperity" was updated, new graphics were added and the new slogan "Montana Means Business" was utilized as part of the brochure. This brochure was used until the "You Should be Here" brochure was completed. Now both are used.

As part of our marketing effort related to the Bioscience Alliance cluster, Governor's Office of Economic Development published a Montana BioScience Directory (a copy of which is enclosed) as a way to market this sector of the economy beyond the state.

7000 copies of "You Should Be Here" brochures were printed by the Governor's Office of Economic Development. The brochure features five Montana businesses as a means of advertising major advantages for locating in Montana. Attached is a copy of the brochure, or you can find it on our website.



Governor's Office of Economic Development also prepared marketing material specific to energy development, including a message from the Governor, coal-to-liquids booklet, a "coal country" booklet, a biofuels booklet, wind energy booklet, a biofuels booklet, wind energy booklet, Governor Schweitzer's Energy Policy, and a detailed map of our energy resources juxtaposed with the states railroads, highways, transmission lines and pipelines, and an energy portfolio for holding above material. The cover photographs of several of these publications are shown below.

MONTANA MEANS BUSINESS

MONTANA IS COAL COUNTRY

SELECTED SITES FOR ADVANCED COAL DEVELOPMENT

MONTANA MEANS BUSINESS

ALTERNATIVE ENERGY FROM MONTANA COAL

Montana's Clean and Abundant Alternative to Conventional Power and Liquid Fuels

MONTANA MEANS BUSINESS

MONTANA IS WIND COUNTRY

ROPIING THE WIND FOR TODAY'S POWER AND TOMORROW'S ENERGY SOLUTION

MONTANA MEANS BUSINESS

MONTANA IS BIOFUELS COUNTRY

DEVELOPING BIOMASS FUELS FOR TOMORROW'S ENERGY

TAPPING MONTANA'S POWER POTENTIAL

The Schweitzer Energy Policy

Background and Premises

In October 2005, Governor Schweitzer called the Montana Energy Symposium in Bozeman to highlight serious concerns about energy policy and to hear ideas from energy experts and Montana citizens. The symposium brought together over 700 people from across the state and country to discuss Montana and the nation's energy future. Attendees offered a broad range of concerns and opinions. Governor Schweitzer, Lt. Governor Bohlinger and representatives of their administration have continued to listen to Montana's citizens and business people following the Energy Symposium. The ideas that emerged from those opinions and meetings provide the context for the Schweitzer Energy Policy.

The Schweitzer energy policy is built upon these important premises:

- Montana has more potential for energy development from existing and untapped diversified sources than any state in the nation.
- Because of our existing energy development and our energy development potential, Montana can play a major role in reducing our nation's addiction to foreign oil.
- When done properly, energy development, including value adding, can create the high-

quality, good-paying jobs essential for a strong economy.

The locations of much of the energy development will stimulate economic growth in areas of Montana that have long suffered economic hardship.

Montana citizens want energy development that primarily focuses on renewable energy sources and clean energy technologies that are compatible with our quality of life.

New market demands for clean energy and newly developed technologies make possible energy development compatible with our quality of life and consistent with our Constitutional right to a "clean and healthful environment."

While energy development must include development for export to external markets, Montana citizens want it done in a manner that provides for sustainable, affordable energy for Montana's businesses, industries and families.

Through state and local tax revenues, proper energy development can help provide for education and other important governmental services, in addition to jobs and growth.

While state government and its elected officials cannot dictate private market investment in Montana, they can play a central catalytic role in attracting needed energy development capital.

In addition, the Governor's Office of Economic Development is producing the first semi-annual Montana Technology magazine to promote the technology sector, which should be completed by early spring 2007.

Infrastructure Improvement

The Governor's Office of Economic Development puts extensive efforts into improving the economic development infrastructure of Montana. We work on projects ranging from heavy industrial infrastructure support such as transmission lines and pipelines, to technology infrastructure advancements such as fiber optic cable strengthening and high technology capacity and communication. We also focus on developing plans for infrastructure to support targeted economic growth and policy and legislation that provides support for state level and community level economic development infrastructure.

Energy Infrastructure Analysis

The Governor's Office of Economic Development contracted with a specialty firm to provide an analysis of the laws, organization structure, personnel, management and focus of infrastructure authorities in ten surrounding states. The results of that report contribute to the policy determinations made by the Administration related to transmission line and pipeline planning and financing.

Transmission Lines

The Governor's Office of Economic Development has worked specifically on the development of the Montana Alberta Tie Line (MATL), which is designed to move wind power from Great Falls to Lethbridge Alberta; Northern Lights project (from TransCanada), which is a proposed direct current (DC) line beginning permitting which is designed to move clean and green energy from Montana to emerging markets in California, Nevada and Arizona; Frontier Line, which is a multi-state proposed line to also bring power from northern coal fields to California consumers; upgrades to the Bonneville Power Administration structure to facilitate movement of power directly west to either Seattle or Portland; Northwestern Energy Path 98 project, to remove a significant bottleneck on power movement from Butte to Pocatello, freeing up 1,000 MW of power movement; and preferred corridor analysis with the Bureau of Land Management which is the lead federal agency for private and public power corridor designations.

Liquid Product Pipelines

The Governor's Office of Economic Development works on pipeline improvements that can serve to move product in a manner that facilitates economic growth opportunities. The Governor's Office of Economic Development along with others in the Governor's office, the Montana Oil and Gas Commission, Public Service Commission, industry and other states, are working on eliminating the bottlenecks that exist to the movement of crude oil from northeast Montana. In addition, we are working with possible plant operations and product customers related to placement of pipelines to move coal-to-liquid fuel products, as well as moving captured carbon dioxide to points for sequestration. The Governor's Office of Economic

Development commissioned a study related to the possibility of oil refineries along the north and eastern borders of Montana which would be significantly impacted by the location of current crude oil pipelines from Canada and the right-of-way associated with those pipelines. The analysis, in addition, looks at product pipeline possibilities as a means of moving product to market, should refineries be developed in Montana.

Fiber Optic Backbone

Technology infrastructure is an important target for its Governor's Office of Economic Development. The office has worked with the Chief Information Office and ITSD to advance the strengthening of the fiber optic backbone to insure that most of Montana has a strong enough communications capability to allow government, education, research, and private sector companies to be competitive in the global market. The resulting recommendations have been brought to the legislature in the Schweitzer Administration budget in the form of \$7,823,000 for lighting dark fiber and upgrading connections to state offices and county courthouses to strengthen internet connectivity.

Supercomputer

Governor's Office of Economic Development discovered that not only does Montana not have supercomputing capability but there was very little activity available in the entire region. Supercomputer capability is an essential element to be competitive not only in research but in handling complex challenges in the business sector such as finding improved methods for extracting oil, gas and other natural resources of the state.

The Governor's Office of Economic Development, working with IBM, Montana Tech, the University System, ITSD, and the private sector has advanced a proposal to the legislature for the funding of a supercomputing capability for the state of Montana. The Budget requests a \$2.8 million Challenge Grant for supercomputing hardware, software, and peripherals as well as another \$1 million for operating costs for the biennium. In order for the Challenge Grant funds to be expended, matching funds and/or equipment/services from the private sector, led by IBM, will be required.

Railroad

The Governor's Office of Economic Development has worked directly with and through the Rail Service Competition Council, with mainline operators as well as branch line operators to secure current rail infrastructure and plan for needed infrastructural improvements that will increase competition for the benefit of Montana producers and shippers.

TIFID Infrastructure Development

Tax increment districts represent an effective tool for the development of infrastructure to support economic growth in Montana. The Governor's Office of Economic Development works actively in this field, including sponsoring and operating a tax increment conference in spring 2006 and in contracting for an analysis of the operations, management, personnel, funding and impacts of tax increment districts across the state. That analysis and additional work through

specialized committees was designed to bring forth legislation to improve the tax increment infrastructure development tool.

In August of 2006, The Montana Governor's Office of Economic Development embarked on an effort to survey the state's TIF districts, both those that are currently in place in the state and those that have "sunsetting". The purpose of the survey was to:

- Document the affect TIF has had on local economies with respect to taxable value, job creation, infrastructure improvement and the ability to leverage other public and private dollars.
- Identify concerns or issues that local communities face with respect to TIF.

Tax increment financing is dependent on new investment. Local officials typically time the location and creation of districts to coincide with proposed development. In doing so, they are able to provide the necessary infrastructure to facilitate development. In turn, the public investment in the district provides an incentive to draw additional private investment. In those cases where no new development is on the immediate horizon, local governments can use TIF districts to generate interest. It is the investment of new property tax revenue in the district that draws investment of the private developers who pay those taxes.

In very few cases however, communities have attempted to capture TIF dollars from projects that are not dependent on a local investment in public infrastructure. In effect, there is no public-private partnership between the private development and the local government. For example, in Fallon County the local government created a very large increment district to coincide with the building of facilities associated with pipelines. The creation of this district has drawn some criticism from other local governments and state officials. Changes in the Montana Statute governing Tax Increment Financing that address these issues are being prepared for the 2007 Legislature under the auspices of the Governor's Office of Economic Development.

Success of tax increment programs in Montana can be measured in terms of the resulting increase in the market value of properties located within a tax increment district. The data collected indicates that since 1977 over \$31 million of increased taxable value has occurred because of tax increment districts. In addition, over \$144 million of bonds were issued for new infrastructure improvements and job creation.

Large Project Community Impact Legislation

The Governor's Office of Economic Development has also worked with MACO, oil, gas, and coal counties, specific counties, and industry to develop the best legislation for dealing with community infrastructure needs that will result from large project development in Montana (similar to the impact assistance available through the Coal Board and the Hard Rock Mining Board).

Incentives for Clean Energy Infrastructure Development

The Governor's Office of Economic Development has also worked with the Governor to develop incentives for the development of infrastructure to carry different forms of clean and green energy to market.

Permitting and Regulatory Processes

The Governor's Office of Economic Development focuses on ways in which to make the permitting and regulatory efforts of various state departments efficient and effective. For large projects, time is money. Not only does the passage of time have a financial cost, but experience has shown that time is seldom a friend to a project, and inordinate delays often result in the demise of a project.

Private Company Facilitation

We work with private companies to facilitate permitting related to their projects. Most such facilitation is focuses on permits that come from the Department of Environmental Quality, although it is not uncommon to be involved with licensing and permits from other departments.

Mercury Rules

Very specifically, the Governor's Office of Economic Development spent extensive time working with industry to insure that mercury rules could be adopted which would both protect public health and safety and at the same time allow for future use of coal in energy projects. The resulting mercury rules accomplished the required balancing act so that we can advance coal development in Montana while protecting human health and the environment.

Permitting Efficiency

The Governor's Office of Economic Development works with prospective developments and state departments to insure, as much as possible, that the permitting process is handled in the most expeditious manner by the state agency. As the result of these ongoing activities, the Governor's Office of Economic Development has spearheaded the development of several pieces of legislation that are currently being drafted to improve the speed and efficiency of permitting without lowering standards.

Essential Support Activities

Based upon the requirements of the earlier mentioned statutes, the Governor's Office of Economic Development conducts a number of activities which support the goals for the office as outlined by the Legislature. Included are policy development, development of legislation, and the facilitation of cooperation and coordination with entities at all levels. In addition, the Governor's Office of Economic Development has developed significant tools for utilization by economic development practitioners at all levels. Finance tools, information tools, and cluster (sector) development are at the heart of Governor's Office of Economic Development efforts.

Special activities of the Governor's Office of Economic Development related to economic growth through energy development are the product of economic opportunity and the Governor's

commitment to creating this kind of development in the area of the State that is “outside the boot”.

Economic Policy Development

The Chief Business Officer, on behalf of the Governor’s Office of Economic Development, provides economic development policy advice to the Governor. The breadth of economic development policy pursuits of the Governor are reflected in the actions of the Governor’s Office of Economic Development, but, likewise, the Governor’s broad-ranging economic development targets are assisted by the information brought to the table by the Governor’s Office of Economic Development.

Much of the economic development policy activity is implemented on a day-to-day basis by the Governor’s Office of Economic Development and the Governor based upon the directions given in the current statute. In addition, legislation has been developed to create, modify, or improve Montana’s economic development tools and incentives.

Legislation developed with Governor’s Office of Economic Development involvement includes modifications of Workforce Training Programs (discussed above), establishing new programs for Indian economic development including Indian Country Economic Development (ICED) funding, improvements and continuity for the State Tribal Economic Development (STED) Commission, operating capital for “Fund of Funds” venture capital effort, tax increment financing improvements, major project impact aid mechanism, clean energy infrastructure incentives, appropriations for lighting the fiber optic backbone, and creating a supercomputer program for Montana.

Coordination and Cooperation

The Chief Business Development Officer and the Governor’s Office of Economic Development are responsible for coordinating the State’s economic development efforts among state, federal and local government agencies and with Montana’s Tribal Nations, local and regional development entities, and the private sector.

Agency Coordination & Cooperation

The Governor’s Office of Economic Development coordinates the economic development activities of significant number of state departments, including Commerce, Agriculture, Labor, DNRC, DEQ, DPHHS, FWP, as well as with other elected state government officials, and OCHE and the university system. In addition, Governor’s Office of Economic Development coordinates the State’s efforts with members of the Montana Congressional Delegation, US EDA, USDA Rural Development, and SBA. Governor’s Office of Economic Development’s coordination efforts with local government and local development organizations are extensive including networking through common interest organizations and making visitations to and maintaining active communication with local and regional development organizations. The product of these efforts is a coordinated effort in economic development targeting including a coordinated economic development legislative agenda.

Tribal Coordination & Cooperation

Our efforts with the Tribes include working with each Tribe through the STED Commission, coordinating with the Department of Commerce and STED for the utilization of Indian Country Economic Development (ICED) funding, coordinating with the Department of Labor in the development of Tribal Workforce Reports, creation of memoranda of understanding with all Tribes on the State Workforce Investment Board, as well as regular visitations and consultations including the establishment of specific relationships around the utilization of WIRED funding for biofuels development.

Reservations have the highest unemployment rates in Montana. The State is working with Tribal governments to reverse this trend and inject capital, expertise, and opportunity into reservation economies. These initiatives are directed at (1) workforce training and innovation, (2) business development, (3) gaming, (4) tribal infrastructure development, and (5) tribal tourism development. The State-Tribal Economic Development Commission, working with the Governor's Office of Economic Development and the Office of Indian Affairs, coordinates these efforts.

Indian Country Economic Development Program

Indian Country Economic Development funds from the Montana Department of Commerce have been available to tribal governments since 2005. These funds are available to support tribal business development projects, workforce training projects, entrepreneurial training, feasibility studies, and other types of economic development projects. In 2006, the Montana Department of Commerce, in consultation with the State-Tribal Economic Development Commission (STEDC), awarded nearly \$500,000 in development grants to Montana's Tribal Nations.

The Confederated Salish and Kootenai Tribes were awarded \$55,000 to support an equipment purchase at the tribally-owned Flathead Stickers and Lath Plant. The equipment opens a new source of raw product for Flathead Stickers and enables better use of forest slash piles and designated thinning blocks, reducing fire potential, salvaging otherwise unsalvageable raw product, and offering tribal members more diversified job training opportunities.

The Little Shell Chippewa Tribe, headquartered in Great Falls, was awarded \$55,000. The grant will support the leverage of further funds, as well as a feasibility study and the creation of a business plan for a tribal capital and visitor center. This project is part of the tribe's overall mission to represent, develop, protect, and advance the well being of its tribal members.

The Chippewa Cree Tribe was awarded \$55,000 in 2006 and \$50,000 for fiscal year 2007. The 2006 funds were awarded to complete a marketing study for an ethanol and ethanol by-products plant. The study assessed, among other things, environmental reviews, permitting, land development, and engineering. After completion of the marketing plan, the information gleaned will be shared with the National Tribal Development Association (NTDA) to raise the estimated \$84.7 million in capital needed to construct the facility. The project has the potential to create approximately 43 full-time jobs, as well as several hundred additional positions during construction. The 2007 funds will assist with a portion of the preliminary design/build contract.

The Fort Belknap Indian Tribes were awarded \$55,000 to support the tribally-owned Little Rockies Meat Packing, Inc. The grant will fund a portion of the general manager's salary, the purchase of a patty making machine, a walk-in freezer, inventory, labels, and packaging for products.

The Fort Peck Tribes' Mitakuye Corporation was awarded \$55,000 for development of a tribally-owned manufacturing and information technology services network holding company. Several manufacturing businesses are partners in this collaborative: A&S Tribal Industries, A&S Diversified, Fort Peck Tech, Inc., West Electronics and Integrated Solutions. For each company, the tribe drafted a business plan, will work on implementation and will train key decision-makers. The tribe will also complete a marketing strategy leveraging tribal businesses, Fort Peck Community College, local/state partners and private sector resources.

The Apsaalooke Nation was awarded \$55,000 for the establishment of a revolving loan fund (RLF) for enrolled tribal members. This revolving loan fund targets start-up businesses on the reservation. Loans will be used as down payments, and financing will be 4% of the total amount, not to exceed \$5,000. Loan payments will be made to the RLF to support the fund in perpetuity.

The Northern Cheyenne Tribe was awarded \$55,000 to complete a telecommunications study identifying potential tribal ownership opportunities and service improvements on the Northern Cheyenne Reservation. The grant supported community technical assessment, outlining federal and tribal governance procedures, identifying and determining spectrum, infrastructure inventory and engineering assessment, radio frequency propagation for 1900 MHz, wireless network design, five year financials for the proposed company, and the identification of potential private and public sector support. The Northern Cheyenne Tribe continues to pursue the development of a wireless telecommunication company with a fiscal year 2007 award of \$50,000.

The Blackfeet Indian Nation was awarded \$55,000 for its Tribal Manpower Program. Historically, the program trained tribal members in firefighting. This project provides staff support and services to expand firefighter training to include FEMA disaster training. The project is part of the tribe's overall mission to help train and employ tribal members, especially welfare recipients. In 2007 the Blackfeet Indian Nation will be awarded \$50,000 to support the start-up of a tribally-owned communications utility with SIYEH Corporation, which is wholly-owned by the Blackfeet Tribe. The utility will provide internet and wireless communication service to the Blackfeet Indian reservation. Eventually, the utility will also provide digital microwave communication services for the 911 system on the reservation. The project will provide employment opportunities for tribal members in sales, marketing, installation, maintenance, and radio support.

Governor's Office of Economic Development assisted in the Montana Indian Business Alliance (MIBA), which was formed in 2006 to encourage and support Indian business development. The Alliance is comprised of tribal organizations and governments, state government, non-profit organizations, tribal colleges, Indian owned businesses, lending institutions, consulting firms, consumer credit advocacy agencies, community development agencies, and federal agencies. The Governor's Office of Economic Development's Indian Economic Development Specialist is on MIBA's executive team and on several working groups.

The Montana Indian Business Alliance is an outcome of the first-ever Montana Indian Business Conference, which was held in February of 2006 with Governor's Office of Economic Development as a major sponsor. To jumpstart Indian business development, the Alliance has begun assessing tribal financial and human resources, as well as tribal commercial codes and other information to centralize data and identify areas for strategic focus.

Local & Regional Development Organization Coordination & Cooperation

The Governor's Office of Economic Development's work with local development and regional development organizations and local governments include the creation of the Montana Means Business Web Portal and the Business Expansion and Retention (BEAR) program.

Montana Means Business Web Portal

The Governor's Office of Economic Development is developing the Montana Means Business (MMB) Web Portal. The Web Portal will provide the nation's first, comprehensive economic development toolkit for the entire State of Montana. Leveraging state-of-the-art demographic, marketing, and geospatial business intelligence data, MMB provides the economic development community in Montana the tools and data they require to assist in business transactions, successful recruitment of internal and external business prospectors, and a mechanism to critical reports necessary to stimulate business opportunities across Montana.

Montana Means Business Web Portal has been developed as a custom designed application to meet the specific requirements and business processes of Montana economic developers. Using geospatial Web services, MMB is a cost-effective solution, leveraging a transaction-based model for business intelligence for the State of Montana. Given the tremendous need for these types of reports, skillfully crafted with easy-to-use tools for the Internet, MMB provides a consistent, one-stop-shop for valuable information necessary to drive economic development opportunities across the entire state.

As economic development emphases grow and change to reflect the strategic goals of the State of Montana, MMB is designed to be flexible by adding new tools, data reports, and sector-specific information. As Montana grows, the Web Portal can grow to meet the increasing, real-time business intelligence demands of an increasingly sophisticated economic development community and those parties interested in conducting business in Montana.

MMB is scheduled to be fully operational and functional early in the 1st Quarter of 2007, and is under-going final testing with the State of Montana Department of Administration, ITSD, which will host and maintain the core application software and services.

Business Expansion and Retention Program (BEAR)

The Governor's Office of Economic Development recently purchased access to the Business Expansion and Retention (BEAR) software for the entire state. There is no doubt that it is far less expensive and far more successful to build on existing businesses than to recruit new businesses. Business expansion and retention does not tie into economic development, it is the core of economic development. BEAR assists businesses to flourish and thrive. It is the Governor's Office of Economic Development's vision to build a dynamic business retention plan. By combining knowledge of economic development strategies and business retention

techniques, we can develop effective results-oriented economic, community and workforce development strategies for Montana.

The Governor's Office of Economic Development has contracted with the Montana Economic Developers Association (MEDA) administrative staff to administer and coordinating the program. To date, BEAR programs are thriving in Billings, Kalispell and Great Falls. Butte's program is younger and off to a good start. Missoula and Bozeman are in the early organizational stage. Several small rural communities are also getting on board. BEAR Working Group has been formed whose purpose is to guide the implementation of the statewide BEAR program. A BEAR Listserve to communicate program information, training and news to interested groups has been formed. A link to the BEAR program has been placed on the Governor's Office of Economic Development's Website. The Governor's Office of Economic Development is producing a BEAR program brochure for statewide distribution.

There is no doubt that it is far less expensive and far more successful to build on existing businesses than to recruit new businesses. Business expansion and retention does not tie into economic development, it is the core of economic development. BEAR assists businesses to flourish and thrive.

Councils and Boards

Governor's Office of Economic Development participates in a wide range of coordinating activities with the following boards, commissions, and programs:

- Workforce Investment Regional Economic Development (WIRED)
- State Workforce Investment Board (SWIB)
- Montana Economic Development Advisory Council
- Montana Economic Developers Association (MEDA) Board
- Business Expansion and Retention (BEAR) Advisory Committee
- Montana Ambassadors Board
- Montana Bioscience Alliance Board
- Workers Compensation Policy Committee
- Montana World Trade Center Board
- Insure Montana Board
- University of Montana Business School Advisory Council
- Montana Aerospace Development Association (MADA) Board
- Montana Information Technology Association (MITA) Board
- Rail Service Competition Council (RSCC)
- Montana Film Advisory Council (while in existence)
- State Technology Partnership Committee
- Clean and Diversified Energy Advisory Committee
- Governor's Conversation on Philanthropy (?)
- Governor's Food and Agriculture Steering Committee
- State Tribal Economic Development (STED) Commission
- Governor's American Indian Nations (GAIN) Council
- Montana Indian Business Alliance (MIBA)

Economic Development Finance and Tools

The Governor's Office of Economic Development focuses on economic development finance as a major component of assisting in economic development across the state.

Equity Investment

Our focus on equity investment includes working with an angel capital network, venture capital companies, union pension fund investment opportunities, attraction of reverse investment from overseas trade partners, and Canadian energy investment possibilities.

Union Pension

Governor's Office of Economic Development is also preparing marketing materials including brochures, print advertisement, and CD presentations, to attract union pension investment activity in Montana as a new source of investment capital. The material will emphasize return on investment fulfilling the fiduciary responsibility of pension trusts with the collateral benefit of good quality union construction jobs and high quality operations jobs in plants funded with union pension funds.

Venture Capital

Governor's Office of Economic Development worked with the Montana Board of Investments to attract private venture capital providers to Montana. One such effort did not bear fruit; however, the more recent effort has resulted in increased venture fund opportunity in the State.

Governor's Office of Economic Development also has worked to secure an appropriation request for resolution of legal issues related to the "Fund of Funds" venture capital approach past in the last Session in SB 133, which did not include an appropriation for management.

Debt Finance

In terms of debt financing, Governor's Office of Economic Development works extensively in providing education on the utilization of State and federal financing programs. This includes the publication of finance materials and the utilization of website information to provide program access for clientele.

Governor's Office of Economic Development actively promotes all state debt vehicles including those offered by the Board of Investments, the Department of Commerce and others. In addition, Governor's Office of Economic Development coordinates financing efforts through partners such as USDA Rural Development, EDA, SBA, etc.

The Governor's Office of Economic Development has worked actively to improve the understanding and performance of Tax Increment Financing among economic development professionals. We sponsored and led a tax increment financing conference, created a task force to review shortcomings in the existing statutes, contracted for a report on the impacts of tax

increment financing on economic development, and have coordinated an effort to produce legislation that will standardize tax increment financing practices.

Information Tools

The Governor's Office of Economic Development's extensive efforts in creating or improving information tools includes a complete update of the States economic development web sites, printing and publication of a wide range of general marketing material and energy development marketing material, sponsoring and participating in numerous conferences for the advancement of economic development (including the Energy Symposium, Canadian/Montana Oil and Gas Summit, Ideas Montana Medicine Symposium, the Energy Open, MONDAK, University of Monona Business Plan competition, annual meetings of the Montana Ambassadors, semi-annual meetings of MEDA, and many more), site visitations with all local and regional economic development entities (87 such visits), and public information presentations regarding general and specific economic development objectives (over 100 such presentations).

Sector Development

The Governor's Office of Economic Development remains committed to sector development activities which began during a previous administration. At that time, the sector development was referred to as "cluster development".

Energy

Energy Symposium

In October 2005, Governor Schweitzer called the Montana Energy Symposium in Bozeman to highlight serious concerns about energy policy and to hear ideas from energy experts and Montana citizens. The symposium brought together over 700 people from across the state and country to discuss Montana and the nation's energy future. Attendees offered a broad range of concerns and opinions. Governor Schweitzer, Lt. Governor Bohlinger and representatives of their administration have continued to listen to Montana's citizens and business people following the Energy Symposium. The ideas that emerged from those opinions and meetings provide the context for the Schweitzer Energy Policy.

Because of the Schweitzer Energy Policy, Bull Mountain Land Company and DKRW Advanced Fuels will build one of the nation's first coal-to-liquids facilities located on the site of the Bull Mountain Coal mine outside of Roundup, MT. The plant would employ state-of-the-art technology to gasify, rather than ignite the coal. It would convert a portion of the synthetic gas into up to 22,000 barrels per day of diesel fuel, using the rest of the syn-gas to produce "clean" electricity. The plant could produce up to 300 megawatts of electricity using IGCC (Integrated Gas Combined Cycle) technology, the cleanest and most advanced form of electric power production from coal, and be outfitted with technology to capture carbon dioxide so it can be stored underground, a process promoted by scientists as a way of dealing with global warming emissions from fossil fuel plants. Project plans are to sequester the carbon dioxide in certain Montana oil fields. Furthermore, the gasifier at the facility could remove virtually all mercury, sulfur and particulate matter from the coal.

High quality coal will come from the Bull Mountain Mine to produce Fischer Tropsch liquids such as ultra low sulphur diesel. DKRW Advanced Fuels will take the primary role as the developer of the Bull Mountain CTL plant. Houston-based DKRW Advanced Fuels is owned by Arch Coal and DKRW Energy LLC. The company is engaged in developing, managing, and owning projects that utilize coal gasification technology, utilizing coal-to-liquids, methanation, and integrated coal gasification combined cycle (IGCC) technologies.

Oil and Gas

North America's current practice of importing oil from often hostile nations is one of grave concern for our citizens, and Montana is positioned to be a leader in breaking that addition. Montana can provide a good share of the energy resources we need in a manner that respects the wild places, clean air and water that define our nations' quality of life.

We have seen a 32.9% growth in Montana oil production since 2000. Richland and Fallon counties constitute 78% of the 32,829,373 barrels of oil produced in 2005.

Governor's Office of Economic Development studies mentioned earlier are analyzing the potential of locating oil refineries in Montana based upon the following information.

- 4,000,000 new barrels/day of heavy Canadian crude anticipated
- 500,000 barrels per day that could be refined in Montana
- 12.5% percent of new crude
- 7 Potential numbers of refineries for Canadian Crude
- 71,000 barrels/day per refinery
- 60,000 current largest Montana refinery (Conoco) in bbls/day
- 250 Employees at Conoco refinery
- 272 Estimated employees at each new prospective refinery

Canadian Visitation

The GOED partnered with the Canadian Consulate Office in Denver to bring 15 significant oil and gas company executives to a summit in Billings in September of 2006, the purpose of which was to inform them of Montana's business opportunities as well as make them aware of our regulatory and tax policy and any other information that these companies would need to know to begin operations in Montana. The Governor and the Canadians then visited Sidney/Richland County and Baker/Fallon County to view firsthand the existing oil and gas operations in those active areas and meet with local elected officials and economic development organizations.

Refinery Study

The Governor's Office of Economic Development commissioned a study to assist in the preparation of a plan of action for developing and strategically locating several refineries in the State of Montana to handle Montana's increased oil production and, to review means of participating in the expected increases in crude oil production and in refining of the petroleum products produced in Canada's heavy oil and oil sands areas. The states' northern tier and eastern regions connected along a line extending from the Shelby/Cutbank region through Havre, Glasgow, Wolf Point, Sidney and Glendive are in general deemed to be the most prospective for future refinery, heavy oil upgrading and petrochemical industry development.

Montana is strategically located to act as a port of entry for a large portion of the additional 2-3 million barrels of oil expected to be placed on stream over the next 10 - 15 years in the Province of Alberta, Canada, located directly to the north of Montana. Sources of supply for the United States, which imports approximately 50% of its crude oil requirements, are becoming more unreliable as tensions in the oil producing regions of the Middle East, Africa and even South America increase. Competition for oil from countries emerging as major industrial regions in this millennium, especially China and India, will put additional strain on securing reliable and affordable sources of oil to maintain and improve the US standard of living in future.

The study, commissioned by the Governor's Office of Economic Development, seeks to set the general guidelines for possible participation by Montana companies in an integrated government energy resource development plan, which will include the export /import and refining and heavy oil upgrading infrastructure expansions, which will inevitably be needed and built, in part in Montana or elsewhere, to maintain a secure and economically viable energy industry in North America.

Wind

Montana leads the nation in wind energy power potential and the state is at the center of North America's wind heartland. Wind energy is clean and renewable and provides the "green" complement to Montana's world class reserves of coal as well as oil and natural gas. Montana's wind represents a great investment opportunity.

The Schweitzer Administration and the Governor's Office of Economic Development are actively supporting all types of wind development from large scale wind farms to distributed generation serving individual farms, businesses, and homes. Objectives of the Schweitzer Administration are to combine clean renewable wind with conventional and advanced fossil power sources into a "green" energy package; to create a domestic energy production economy in America's heartland working toward the national goal of energy independence; and to advance the construction of electric transmission lines connecting wind resources in Montana to load centers in the western and eastern electric grid interconnections.

Two wind projects that have gone on line since 2005 -- the Horseshoe Bend project (9 mw in Cascade County) and the Judith Gap Project (135 mw in Wheatland County) -- moved Montana from a ranking of 50th to 15th in the nation in wind energy output. Numerous small distributed wind energy projects are dispersed across the State. Other wind projects in development are:

- Valley County – 500 mw
- Glacier County – 175 mw
- Jefferson County -- 35 mw
- Toole County – 120 MW
- Stillwater County – 400-450 mw
- Meagher/Wheatland Counties – 50 – 100 mw

The Governor's Office of Economic Development is working with Phoenix Engineering of Calgary to prepare a wind electric transmission system integration study of Montana. The purpose of the study is to help assist with the development of wind resources in Montana by

providing information to enable wind power, which is intermittent in nature, to be integrated into the electric system in the most cost effective manner

Biofuels

Biofuels production is an important component of Governor Schweitzer's energy policy. Biofuels production will create new markets for agricultural products, reduce our state and nation's dependence on imported oil, attract investment and create jobs in economically distressed rural Montana.

The Schweitzer Administration's biofuels objectives are to develop a biofuels industry to diversify energy sources available in Montana; to use the \$15 million US Department of Labor WIRED grant to create a biofuels energy production economy in the region comprised of 32 eastern Montana counties that will boost one of the nation's most economically distressed regions; and to advance the utilization of grain and oil seed crops that can be made into transportation fuels and bio-lubricants. The Governor's Office of Economic Development coordinated the application for the \$15 million federal grant.

The Governor's Office of Economic Development is working with local communities, tribes, coops and private sector entrepreneurs and companies on the location of approximately twelve prospective ethanol plants and ten prospective biodiesel plants.

Coal

The Schweitzer Administration intends to take advantage of its status as holder of the nation's greatest coal reserves to break America's addiction to foreign oil and move to energy independence; utilize coal gasification to produce clean-burning transportation fuels and low-emissions power, create a domestic energy production economy in America's heartland; advance CO2 sequestration technology; and produce sulfur-free and particulate-free liquid fuels while reducing environmental contaminants.

Governor Schweitzer and the Governor's Office of Economic Development are taking on a catalytic role to bring together developers, industry representatives and the federal government, while providing permitting facilitation and coal feedstock for technology development, financing, engineering, infrastructure, and product off take.

Coal Mining

Montana is coal country. Governor Schweitzer is aggressively encouraging the clean economic development of coal in Montana. The Schweitzer Administration wants to develop its massive coal reserves utilizing new advanced coal technology. The Governor's Office of Economic Development is promoting coal-derived synthetic fuels production that uses coal to liquids and gasification technology that hold promise of achieving near zero emissions.

Coal-to-Liquid

The Governor's Office of Economic Development has supported Governor Schweitzer's efforts for utilizing new clean coal technology to advance the economy in many rural areas of Montana. The Governor is recognized as being one of the leading national proponents of CTL technology. We have extended extensive efforts to make everyone aware that Montana has over one-fourth of America's coal reserves, totaling 120 billion tons of estimated demonstrated reserve base.

Every major company that owns technology for coal-to-gas and coal-to-liquid, as well as companies that provide financing and support services, have been extensive discussions and negotiations through the Governor's Office of Economic Development. The Governor's Office of Economic Development acts as a catalyst for increasing private sector business transactions needed to bring about coal uses in conjunction with new advanced coal technology.

Coal to Electricity

A major part of Governor's Office of Economic Development's efforts involve producing electricity from coal utilizing improved and newer technologies. The Governor's Office of Economic Development has provided support to the SME circulating fluidized bed power plant near Great Falls, as well as the prospective CFB near Circle to be owned by Great Northern Properties. The Great Northern Properties project is also reviewing the possibilities of becoming an IGCC project (integrated gasification combined cycle).

Additional IGCC site locations include locations near the aforementioned Bull Mountain coal-to-liquid site.

The Governor's Office of Economic Development has worked with private developers, Great Northern Properties, the Northern Cheyenne Tribe and State agencies to advance the day in which the Otter Creek coal tracts are brought to development.

Energy Transportation

Transmission Lines

The Governor's Office of Economic Development has worked diligently on the Northern Lights project, a \$2 billion high voltage direct current transmission line from Montana to southern Nevada, southern California and Arizona. Approximately \$600 million is expected to be expended in Montana for the project. This project could move approximately 3500 MW of power to the clean & green markets to the south. That capacity could allow for the construction of over \$5 billion of energy production facilities as estimated below.

- 7 Judith Gap sized projects at \$1 billion
- 5 – 500 MW IGCC Plants at \$4+ billion

Other potential electric transmission projects for Montana include the Montana Alberta Tie Line, Path 18 between Butte and Pocatello, upgrades to the BPA transmission line as well as various tie lines needed to connect projects to the grid. The Governor's Office of Economic Development expends extensive time on these transmission projects and has requested additional resources from the legislature for the Department of Environmental Quality to assist in advancing these projects.

Pipe Lines

The Governor's Office of Economic Development efforts on pipeline development include outlining opportunities for pipelines devoted to sequestering carbon dioxide as well as moving coal-to-liquid product to end users. In addition, the Governor's Office of Economic Development is monitoring the efforts to remove the crude oil bottleneck in northeast Montana and is analyzing prospective refinery development related to crude oil pipeline locations from Canada.

Agricultural-Value Added

The Governor's Office of Economic Development is working actively with the Department of Agriculture and the Department of Commerce to assist Montana producers to "capture" more of the consumer dollar. Direct marketing, vertical integration, producer alliances and cooperative efforts are some of the areas in which the Governor's Office of Economic Development is assisting clients. Montana agricultural products were marketed to South Korea and China during a recent trade mission. One objective of the Governor's Office of Economic Development is to help producers create something that has value by identifying new products, enhanced product characteristics, services, brand names or unique customer experiences that may create additional value for farm products. Examples of activities that the Governor's Office of Economic Development is working on are value-added pork processing facilities, natural beef production and processing, egg processing facilities, and buffalo meat production.

Hard Rock Mining

The Governor's Office of Economic Development is actively involved in major hard rock mining projects across the State, including the proposed new Montanore Mine on east side of the Cabinet Wilderness, and the Revette Minerals, on the west side of the Cabinets, Montana Tunnels south of Helena, Montana Resources in Butte, Golden Sunlight near Cardwell, and the Stillwater Mine in the Columbus-Big Timber area. The Governor's Office of Economic Development has also assisted OT mining in major exploration activity as it is affected by State action. The Governor's Office of Economic Development has provided assistance through permitting facilitation and financing.

Cluster Support

Several technology-related business clusters have been supported by funding from Governor's Office of Economic Development. The main goal of each of the "clusters" is to create high-quality jobs and economic opportunity in Montana. The Governor's Office of Economic Development is providing ongoing funding to build the bioscience, arts, IT, manufacturing, and the high-end service sectors of the Montana economy.

The Montana BioScience Cluster

Montana Bioscience Alliance is an organization that serves as a hub for Montana's biotechnology companies, entrepreneurs, laboratories, hospitals, clinics and universities to commercialize, grow and sustain globally competitive bioscience companies. Because of the support from the Governor's Office of Economic Development, the Bioscience Alliance has been able to grow its membership to over 50 dues-paying individuals and organizations; receive a \$50,000 planning grant from US Economic Development Agency; plan and executed a series of regional networking meetings across the state with researchers, scientists and private sector companies, regarding commercialization and collaboration opportunities; conduct its first statewide conference in Bozeman in June, 2006 with over 60 organizations attendance; co-sponsored Ideas Montana Medicine conference in Billings with National experts in Bioscience in 2005 and 2006; cosponsored the Billings Clinic Science Expo in Billings; created and published a quarterly newsletter which is currently subscribed to by more than 250 individuals and

organizations; created the Montana Bioscience Alliance website www.montanabio.org, which will contain a listing of clinical trials taking place in the state; and published a directory of Montana BioScience companies and organizations which were distributed at Invest Northwest in Seattle, BioWest in Denver, the Council of State BioScience Associations in San Juan, Puerto Rico, CoreNet Site Selectors Trade Show in October, and the trade missions to South Korea and China.

Arts and Artisans Cluster

The Governor's Office of Economic Development contracted with the Montana Arts Council to implement a pilot program to purchase Montana Indian-made arts and crafts pieces to be sold in Montana State Park gift shops. The proceeds from original sales were used to replenish a sustainable revolving purchasing program for new art purchases. In addition, the Arts Council began negotiations with Glacier Park and Yellowstone Park for additional venues.

Information Technology Cluster

With nearly 800 technology-intensive firms, Montana has a wide-ranging technology base, which includes computer-related as well as technical fields (such as surveying and engineering) and testing and research facilities. While Montana's cluster is relatively small, it is growing faster than the national average.

Overall, Montana's IT firms tend to have fewer than 50 employees and often have less than 10. The top 10 firms in terms of size all have over 100 employees, with the largest having 530; these employers tend to offer IT-related services, as opposed to a product.

To date, MITA has formed a strong core group and has 30 dues-paying members. Key accomplishments include:

- Working with the State of Montana to:
 - Draft legislation to help promote IT businesses in Montana
 - Organize the vendor portion of the annual state government IT conference
 - Streamline the process of private IT companies doing business with the State
 - Publicize IT-related RFPs to the cluster, primarily through posting on the MITA website
- Providing monthly IT-related training opportunities and events
- Developing a members' purchasing cooperative for insurance
- Bringing the national Council of Regional IT Associations organization to Montana for a conference
- Organizing peer-to-peer networking opportunities

The Governor's Office of Economic Development is providing assistance to MITA to expand its membership base and develop services that respond to this information technology cluster's most pressing competitiveness and business development needs. A preliminary scan of IT-related companies to determine their industry niche and location has been performed. Several companies have been surveyed about their needs, and a larger survey is planned for this year.

Manufacturing Technology Cluster

The Governor's Office of Economic Development is also funding the formation of an industry council to develop key computer-based manufacturing skills for high school students in selected high schools around the state for careers in the high tech world of modern manufacturing. The Council will identify key manufacturing skills for high school curriculum development to develop precision fabrication programs in high schools across the state in support of Montana businesses.

Environmental Engineering Cluster

The Governor's Office of Economic Development has contracted with the Montana World Trade Center to organize a Montana Environmental/Engineering Consortium via a "virtual company" that can effectively respond to global needs by recruiting, organizing and representing Montana companies with world class capabilities who are interested in working globally. The Montana World Trade Center at The University of Montana has compiled a comprehensive list of firms and organizations within the state interested in joining the consortium; the Consortium has had three meetings, is in the process of adopting bylaws and finalizing their strategic plan. They are researching trade shows that the Consortium and the Governor's Office of Economic Development would find beneficial to attend, as well as preparing marketing materials for the Consortium. A website is in the process of being constructed, and information regarding the consortium was recently presented to trade missions in Canada and Ireland.

Rail Service Competition Council

Rail service competition in the state that results in reliable and adequate service at reasonable rates is very important to Governor Schweitzer and the Governor's Office of Economic Development. Therefore, the Governor's Office of Economic Development has administered the activities of the Rail Service Competition Council which included contracting with Whiteside and Associates to serve as a transportation consultant to help develop a comprehensive and coordinated plan to increase rail service competition in the state of Montana; to reevaluate the state's railroad taxation practices to ensure reasonable competition while minimizing any transfer of tax burden; to develop various means to assist Montanans impacted by high rates and poor rail service; to analyze the feasibility of developing legal structures to facilitate growth of producer transportation investment cooperatives and rural transportation infrastructure authorities; to provide advice and recommendations to the department of transportation for the department's rail planning activities; to coordinate efforts and develop cooperative partnerships with other states and federal agencies to promote rail service competition; and to act as the state's liaison in working with Class I railroads to promote rail service competition.

Working with farm groups, producers and MTDOT, the contractor is conducting a Farm Producer Survey to see what issues are impacting them, such as changes in shipping patterns and long distance hauling, problems with delivery and transfer of grain and other issues regarding availability of grain loading facilities and mode of hauling to facility.

The RSCC is also in the process of developing parameters for competition criteria and a strategy to achieve more competitive results. The contractor is also providing technical assistance to the RSCC regarding STB issues and other complicated rail issues. In addition, the contractor is providing technical assistance to the transportation and taxation subcommittees of the RSCC. The contractor is also making presentation on various federal legislation and litigation efforts by

shippers that may affect or impact Montana rail customers and users to appropriate committees and people in Washington DC.

Horse Racing

The Governor's Office of Economic Development also administers Montana's Horse Racing Task Force, appointed by the Governor. The Task Force has met a number of times in 2006 in various cities at the sites of local race facilities. They have completed an economic study to address the economic impact to Montana of horse racing and have produced recommendations for improving the industry including some of which are being presented to the Legislature.

Film

The Governor's Office of Economic Development worked with the Department of Commerce and the Montana Film Commission (while it existed) to implement procedures for marketing Montana to the film industry within the context of the incentives passed during the last Legislative session.