MINUTES OF THE JOINT MEETING OF
ASSEMBLY COMMITTEE ON WAYS AND MEANS
AND
SENATE COMMITTEE ON FINANCE

Sixty-seventh Session
April 22, 1993

The joint meeting of the Assembly Committee on Ways and Means and the Senate Committee on Finance was called to order by Chairman Morse Arberry Jr., at 8:00 a.m., on Thursday, April 22, 1993, in Room 119 of the Legislative Building, Carson City, Nevada. Exhibit A is the Meeting Agenda.

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Mr. Morse Arberry, Jr., Chairman
Mr. Larry L. Spitler, Vice Chairman
Mrs. Vonne Chowning
Mr. Joseph E. Dini, Jr.
Mrs. Jan Evans
Ms. Christina R. Giunchigliani
Mr. Dean A. Heller
Mr. David E. Humke
Mr. John W. Marvel
Mr. Richard Perkins
Mr. Robert E. Price
Ms. Sandra Tiffany
Mrs. Myrna T. Williams

SENATE COMMITTEE MEMBERS PRESENT:

Senator William J. Raggio, Chairman
Senator Raymond D. Rawson, Vice Chairman
Senator Lawrence E. Jacobson
Senator Bob Coffin
Senator Diana M Glomb
Senator William R. O'Donnell
Senator Matthew Q. Callister

ASSEMBLY COMMITTEE MEMBERS ABSENT:

None

SENATE COMMITTEE MEMBERS ABSENT:

None

STAFF MEMBERS PRESENT:

Mark Stevens, Fiscal Analyst
Dan Miles, Fiscal Analyst
Gary Ghiggeri, Deputy Fiscal Analyst
Bob Guernsey, Deputy Fiscal Analyst

Larry Struve, Director Department of Commerce, reported on the implementation of AB 286 of the 66th session. Mr. Struve referred to Exhibit B and explained the chronology of events which led to AB 286 of the 66th session. In 1991 the Department of Commerce was authorized to issue low cost revenue bonds for constructing manufacturing plants within the state. During the 1989 legislative session NRS Chapter 670A, which allowed for the economic revitalization and diversification corporations, was added to the Nevada Revised Statutes. In 1985 the Department of Commerce was authorized to issue revenue bonds for export loan guarantees, in 1987 to issue revenue bonds for a venture capital fund and in 1989 to finance water projects in Nevada. Unfortunately none of these measures were fully utilized. Finally, AB 286 of the 66th session appropriated $50,000 to the Department of Commerce which required matching funds from private industry for the development of a plan for a program which used public and private money as capital for investment in new enterprises. A provision within AB 286 of the 66th session required the Director of Commerce to provide a full report to the 67th session of the legislature. A copy of Mr. Stuve's report is available at the Legislative Counsel Bureau.

Mr. Struve said largely through the efforts of Assemblyman Jan Evans and Lieutenant Governor Sue Wagner a steering committee was established with cochairs Austin Stedham, Chairman President & CEO Sierra Pacific Resources and James V. Bradham, President, American Bank of Commerce (Exhibit B). Mr. Struve reported the steering committee had raised matching funds totaling $66,300 for AB 286 of the 66th session. Contributors are listed in Exhibit B.

Mr. Struve explained Belden Daniels, President, Economic Innovation International, was selected to perform the study. Economic Innovation International had developed over $50 billion dollars of development capital in North America, Europe and the Pacific Rim. The firm had been selected to perform various economic impact studies for the state including the MX missile system and diversification projects. Mr. Daniels is a lawyer, international banker, and professor at the Harvard School for senior executives of state and local governments.

Austin Stedham, President and CEO, Sierra Pacific Resources, acknowledged all members of the Development Capital Fund Steering Committee (Exhibit B). He explained steering committee members were instrumental in raising the capital funds. Matching funds for engagement of the consultant were attained in little over one week. Mr. Stedham voiced support for the concept behind AB 286 of the 66th session. The capital investment fund would be available to firms which were not able to attain financing through normal banking measures. Mr. Stedham asserted great support from the private sector was available for capital investment projects, however, it was not the ultimate answer to economic development. Mr. Stedham requested the committee sponsor a ballot question which would enable the state to participate in industrial revenue bonds. He also requested continued partnership between the private sector, Commission on Economic Development and Department of Commerce.

James V. Bradham, President and CEO, American Bank of Commerce, explained matching funds were reached with speed and enthusiasm. Several other companies were willing to participate in this type of program.

Berlyn Miller, President and CEO, Acme Electric, explained he was a member of the Nevada Development Authority, State Commission on Economic Development and Board of Director's for First Interstate Bank. Mr. Miller advocated the capital investment fund. Mr. Miller commented heightened interstate competition facilitated the need for a capital investment program.

Senator Raggio acknowledged the accomplishments of the steering committee. He expressed interest in continuing a public/private partnership and thanked Mrs. Evans and Mr. Struve for their efforts.

Belden Daniels, President, Economic Innovation International, recognized the remarkable support for AB 286 of the 66th session from the private and public sectors. He stated although a detailed report on the Development Capital Fund was available, the presentation would highlight the studies findings (Exhibit C).

Mr. Daniels noted the impact of fierce global competition on the private/public sector. Mr. Daniels commented the decline in California's economy and downsizing of IBM illustrated the impacts of global competition. He asserted collaboration was essential to the success of the state. He substantiated his remarks by relating a story about the rise of industry in Japan over the last 34 years. He asserted Nevada could fall prey to global competition if diversification and make economic investment did not take place.

Mr. Daniels referred to a detailed market analysis for the Nevada Development Capital

Fund (Exhibit C). He stated every firm in Nevada was evaluated according to size, sector, stage of development, and location. Economic Innovation International met with firms and leaders from Elko, Ely, Carlin, Wells, Winnemucca, Eureka, Wendover, Lund, Battle Mountain, Dayton, Fernley, Fallon, Hawthorne, Smith Valley, Virginia City, Minden, Gardnerville, Yerington, Carson City, Sparks, Reno, Las Vegas, Henderson, Boulder City, and North Las Vegas. Additionally, a mail survey was performed of all manufacturing firms in the state. Targeted industry studies from the private sector and data collection from the public sector were also utilized.

Mr. Daniels explained market conditions in Nevada. The state should finance profitable growing firms which would create real wealth and value for the state's economy. The risk capital, that capital necessary for a profitable, growing firm which cannot reasonably be borrowed from a bank, was the principal focus of the study. Mr. Daniels commented Nevada had an opportunity in the 1990's to outperform the North American economy. The 1992 Development Report Card, CFED rated Nevada as #1 in overall economic performance. Nevada was constantly at the top of Grant Thornton Manufacturing Climate, Rand McNally Livability, and Inc. Magazine Entrepreneurial Climate Surveys. He explained the state could no longer rely on the gaming/tourism industry because of the proliferation of gaming in other states. Nevada must expand and diversify its manufacturing base.

Mr. Daniels noted California's faltering economy. More than 25 percent of California's 30,000 manufacturing firms planned to either relocate of expand manufacturing operations in the next three years outside of California, because of a deteriorating work environment and a very high cost structure. By California's own estimate 25 percent of all manufacturing firms plan to relocate over the next 10 years. Since 1980, 25.6 percent of California's firms relocated to Mexico, 9.4 percent to Texas and 9.2 percent to Nevada. Although Texas and Nevada were attracting the same number of firms those relocating to Texas were higher quality technology related firms. The goal of the state should be to attract high quality, high growth, high value added firms. Nevada development authorities received a substantial increase in the number of inquiries from firms wishing to relocate to Nevada. Mr. Daniels explained Nevada was below the national average in productivity, capital investment per employee and 39th in average value added per worker. To be consistent with national levels, Nevada's firms would have to invest $56 million.

Senator O'Donnell asked if the productivity analysis included gaming and service industries. Mr. Daniels noted the state was fairly efficient in the service industry. However, statistics presented in the report were based on manufacturing productivity.

Mrs. Williams asked how relocating firms were evaluated. Mr. Daniels replied labor and overall factor productivity were two ways to measure productivity. He indicated the study was based on labor productivity which was easily measured. Overall factor productivity was the best measure, but statistical information was difficult to gather.

Ms. Giunchigliani asked for an explanation of overall factor productivity. Mr. Daniels replied all factors of production were included; labor, equity and debt capital, technology, land, plant and equipment. Ms. Giunchigliani asked how overall productivity measured education and training. Mr. Daniels explained people were the single most important factor of production. Adequate education was a national problem which existed at all levels of the education system.

Ms. Tiffany asked why manufacturing was chosen rather than information services as the target industry for economic diversification in Nevada. Mr. Daniels indicated policy decisions would have direct impact on the types of firms attracted to the state. He commented in order to attract high quality, high growth, value added firms, the state must make investments in three areas: (1) risk capital; (2) technology; and (3) training and support.

Ms. Tiffany asked if the labor pool in Nevada could attract high technology industry. Mr. Daniels replied the state did not have an adequate high technology labor pool at this time. However, high technology labor could be attracted from California.

Senator Coffin commented hazardous waste was an additional impact of attracting high technology firms. He asked how hazardous waste and other associated byproducts of high technology industry had been managed in other states. Mr. Daniels explained the scope of the project did not include study of hazardous waste disposal. Instead the study focused on market support for a privately capitalized development capital fund. The study presumed environmental issues would be decided by policymakers. He commented hazardous waste should be managed, not prohibited. Mr. Daniels explained investments in risk capital, technology and training could allow the state to preclude low value added firms from relocating to Nevada.

Mr. Daniels stated venture, mezzanine and subordinated secured debt capital was demanded for profitable growing firms in the state. However, demand did not support a capital investment fund for a specific type of capital. Firms not eligible for bank financing could utilize a 5 year unsecured note at one point above prime with a warrant attached offered by the proposed capital investment program. Mr. Daniels noted with the help of the capital investment program a high technology firm in Minden with 40 employee could double in size very quickly.

Mr. Daniels asserted Nevada had the most aggressive 504 certified development companies in the United States. However the development companies needed a partner to control unsecured financing. He advocated the permanent extension of the Industrial Development Bond or private activity bonds in the tax bill by September of 1993. The capital fund could enhance the Industrial Development Bond market by providing credit enhancement and offering 15 year fixed rate loan in partnership with a bank. The responsibilities of the banks would include deposits, short term maturities, loan origination fee and a fee for service. These loans could be made at 70 percent of the prime rate and in the taxable market at approximately 90 percent of the prime rate.

Mr. Daniels explained the market for export financing. He said the U.S. Export-Import Bank was the main source of exporting financing, although due to extensive paper work and often high collateralization requirements, its services still remain inaccessible to small firms without the help of a partner. Two of the three 504 CDCs were representatives for the Export-Import Bank for the following programs: working capital loan guarantees, medium- and long-term financing for foreign purchasers of U.S. goods and services, and FCIA insurance for foreign accounts receivable. However, export financing was virtually non existent in Nevada. No working capital guarantee had been secured by Nevada firms in the past five years. He stated in cooperation with the U.S. Export-Import Bank the capital investment fund could strengthen and improve the capacity to obtain export-import funds for Nevada small businesses.

Mr. Daniels reiterated demand existed in every area of financial activity; venture capital, mezzanine capital, subordinated secured debt, long term debt and export finance. The challenge was to package the capital investment program in such a way that members of the private sector would be assured the program was a good investment. The proposed capital investment fund attempted to translate market analysis into a deal flow large enough to capitalize a fund large enough to attract high quality firms and to provide management capable of generating a rate of return sufficient to attract substantial investors.

Mr. Daniels stated the business plan for the capital investment program would be completed by June 30, 1993. An example of the business plan was provided on page 20 of Exhibit C. The grey areas signify where the Nevada Development Capital Fund would bridge the gap between banks and owners of small manufacturing firms. When fully capitalized the fund was planned to be $20 - $30 million. Mr. Daniels explained a federally charted small business investment corporation could provide a large portion of the capital fund. Approximately $3 million of private sector capital investment would be needed in the first year with a total investment of $10 million over the life of the capital investment fund. Nevada Development Capital Fund would be a partner with Nevada banks by investing risk capital and lending long-term debt to growing customers. The fund would also aid certified development companies, venture capitalists, development authorities and investors. Mr. Daniels stated he was confident the capital fund would be successful.

Mr. Daniels advocated the passage of AB 208 which would provided $40,000 to the Rural Nevada Development Corporation (RNDC). The RNDC obtained $1 million in low interest funds from the Federal Farmers Home but needed additional money for the management of the account. Mr. Daniels stated by funding operation expenses over two years, $40,000, the private sector could subsequently manage the fund through the Nevada Capital Investment Fund. Mr. Daniels asserted the RNDC program was very important to rural communities.

Senator O'Donnell asked how the fund would create jobs in Nevada. Mr. Daniels explained economic based firms generated wealth and imported jobs to the state. The purpose of the Capital Investment Fund was to create and diversify Nevada's economic base. Two or three additional service related positions, waste disposal, paper, machinery, laundry and food, would result from one job created by the fund.

Mr. Perkins asked if the labor pool in Texas could be attributed to its success in attracting California businesses. Mr. Daniels believed the national educational system was falling behind the rest of the world. Mr. Daniels stated because of Nevada's proximity to California's labor pool it could attract high quality employees. However, Nevada was being rivaled by Texas because it lacked investment in technology and risk capital.

Mr. Price commented Texas had a unique advantage over most states because of its congressional and presidential influence.

Senator Callister asked the source of funding for capital investment fund totaling $18 - $20 million. Mr. Daniels replied the private sector would provide all funding for the capital investment fund. However, public investments were needed in technology, training and industrial development bonds.

Senator Callister asked if the public investments were crucial to the success of the fund. Mr. Bradham explained traditionally banks and utilities funded 50 - 75 percent of similar capital investment funds. He said the private sector was absolutely convinced funds could be successfully invested at a risk related yield which would make the fund viable. Public sector investments would enable the fund to grow at a faster rate. Senator Callister concluded the capital investment fund was a private sector pool of high risk capital without the benefit of a public guarantee. Mr. Bradham agreed.

Senator Callister assumed the gaming industry would not receive capital investment funds. Mr. Beldon explained with the exception of firms such as International Game Technology; gaming, real estate, and financial services would not be funded. Instead firms which served to diversify Nevada's economy would be targeted for funding.

Senator Callister asked if firms declined to relocate to Nevada because of an inadequate supply of capital and if businesses would relocate if the capital investment fund was created. Mr. Daniels indicated EII had conducted interviews of firms which had relocated or were considering relocating to Nevada. He asserted the capital investment fund would be an additional incentive to businesses considering relocating to Nevada. Senator Callister asked if a summary of the interviews could be provided to the committee. Mr. Stedham interjected information from a small economic development arm within Sierra Pacific Resources indicated companies declined Nevada because it lacked a economic development fund. Senator Callister stated the loss of potential industry due to a lack of a capital investment plan was distressing to him.

Mrs. Williams commented Utah no longer needed to offer incentives to relocating businesses. She commented a recent report indicated a favorable tax climate was relatively unimportant to relocating businesses. However, tax climate was the best incentive Nevada offered at this time. Mrs. Williams asked for an evaluation of Utah's effective policy and program. Mr. Daniels explained Utah created an aggressive partnership between the public and private sector over the last decade. The partnership was extremely entrepreneurial and ensured risk capital and technology were available to relocating businesses.

Ms. Giunchigliani noted the University of Nevada, Reno studied the components of a favorable business climate. Skilled labor and technology were foremost on the list. She commented if education and training were not improved, Nevada could preclude itself from diversifying its economy. She advocated a mentor program for educators and students in a public/private partnership as a means of better training Nevada's work force. Mr. Stedham agreed and stated the basic education system currently in place should be utilized for training. However, the ability to finance relocating businesses should be the state's primary objective.

Senator Glomb asked what the capital investment fund required from the public sector. Mr. Stedham indicated capital investments from the public sector were not needed. He requested an extension of the private/public contract which would enable the Economic Development Commission and the Department of Commerce and Industry to continue to attract quality industries. He explained the final business plan for the fund would be received in approximately 30 days at which time the steering committee would make its final decision. The private sector anticipated procuring $3 million over the next 18 to 24 months.

Mr. Stedham stated the private sector would offer assistance in reconsidering an amendment to Nevada's constitution. He asserted the work of the steering committee was not complete until the capital fund was created. Senator Raggio said the committees would consider Mr. Stedham's request after the presentation was complete.

Senator Glomb requested an explanation required Constitutional amendment. Mr. Daniels replied Article 8, Section 9 of the Nevada constitution specifically prohibited public investment in private firms. He advocated modification of the prohibition in a careful, prudent and positive manner. The prohibition did not need to be modified for the capital investment fund. However, areas of technology beyond the fund did need modification of the prohibition. Mr. Daniels stated other states had overwhelmingly supported this type of constitutional amendment. Mr. Stedham asserted if a resolution could be developed by the legislature the private sector would support its passage.

Mr. Daniels summarized the public sector contribution in five points: (1) continue the public/private partnership; (2) amend Article 8, Section 9 of the Nevada constitution; (3) reinstate Industrial Revenue Bonds under Department of Commerce management; (4) fund AB 208; and (5) create the Office of Science and Technology in order to receive federal funds.

Senator Raggio appointed Senator O'Donnell and Senator Callister to a subcommittee to review the proposal. Chairman Arberry appointed Mrs. Evans and Mr. Marvel to a similar subcommittee.

Mr. Heller asked if Nevada's population precluded larger firms from relocating to the state. Mr. Daniels remarked the state's growth rate and proximity to California compensated for its small size. He commented the Carson City industrial center was an exciting example of what could happen in Nevada.

Mr. Heller asked if EII had interviewed insolvent equity funds to ensure the capital investment fund did not encounter similar problems. Mr. Daniels confirmed interviews had been conducted to safeguard the fund.

Senator Coffin supported an amendment to Article 8, Section 9 of the constitution. He asked if a statutory bridge could be utilized during the interim period to begin financing the capital investment fund. Mr. Daniels stated it was possible.

Mrs. Evans thanked members of the steering committee, state agencies and Lieutenant Governor Sue Wagner for their efforts with AB 286 of the 66th session.

Chairman Arberry commented an extensive review of the proposal was required. However, sentiment about the capital investment program was favorable. Chairman Arberry adjourned the hearing at 10:00 a.m.

RESPECTFULLY SUBMITTED:

Courtnay A. Berg
Committee Secretary

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