

MAINE STATE LEGISLATURE

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1 FIRST REGULAR SESSION
2

3 ONE HUNDRED AND TWELFTH LEGISLATURE
4

5 Legislative Document

No. 410

7 S.P. 143

In Senate, February 5, 1985

8 Reference to the Committee on Appropriations and Financial Affairs
9 suggested and ordered printed.

10 JOY J. O'BRIEN, Secretary of the Senate

Presented by Senator Kany of Kennebec.

11 Cosponsored by Representative Dillenback of Cumberland,
Representative Gwadosky of Fairfield and Senator Andrews of Cumberland.

12 STATE OF MAINE
13

14 IN THE YEAR OF OUR LORD
15 NINETEEN HUNDRED AND EIGHTY-FIVE
16

17 AN ACT to Encourage Industrial Product
18 Development in the State.
19

20 Be it enacted by the People of the State of Maine as
21 follows:

22 Sec. 1. 10 MRSA c. 110, sub-c. VIII is enacted
23 to read:

24 SUBCHAPTER VIII

25 PRODUCT DEVELOPMENT

26 §1100-R. Purpose

27 There exists in the State a number of areas that
28 are dependent upon a single enterprise or industry
29 for employment of the labor force. In some cases,
30 the limited number of sources of employment are sea-
31 sonal. In other cases, the major employers have ex-
32 perienced significant employment fluctuations as a

1 result of national economic instability or as a re-
2 sult of industrial problems. This dependence upon a
3 very limited number of firms or industries for em-
4 ployment places these regions and the State in a very
5 vulnerable position. It is necessary to invest in
6 development of new products and technology that main-
7 tains employment and tax revenues in the event of
8 prime defense contract cutbacks or cutbacks in tradi-
9 tional business orders.

10 In order to reduce the dependence of various ar-
11 eas of the State on a limited number of employees and
12 to reduce the state's vulnerability to national eco-
13 nomic and individual industrial problems, it is nec-
14 essary to encourage the development and growth of new
15 products, innovation and invention for industry and
16 diversification of the local and regional economics.
17 New product development, innovation and invention re-
18 quire high risk investment capital that is in very
19 limited supply in the State. As a result, firms ex-
20 perience economic fluctuations and potential
21 entrepreneurs find it very difficult to obtain capi-
22 tal for new product development and innovation in
23 production.

24 §1100-S. Authorization

25 The Finance Authority of Maine shall administer
26 this subchapter to make investment capital available
27 to eligible applicants for the production of new
28 products and the development of innovative procedures
29 and techniques to be produced in this State. In ad-
30 dition to all other powers and duties held by the Fi-
31 nance Authority of Maine, the authority under this
32 subchapter is empowered to:

33 1. Enter venture agreements. Enter into venture
34 agreements with persons doing business in the State
35 upon terms and conditions consistent with the purpose
36 of this subchapter;

37 2. Hold patents. Hold patents, copyrights,
38 trademarks or any other evidence of protection or
39 exclusivity issued under the laws of the United
40 States, any state or any nation as to any products
41 that are financed in any degree under the provisions
42 of this subchapter; and

1 3. To impose fees and accept or collect reve-
2 nues. Impose fees and accept or collect revenues in
3 return for providing investment capital to a client
4 as provided under this subchapter.

5 §1100-T. Maine Venture Capital Fund

6 There is established the Maine Venture Capital
7 Fund to finance new product development in the State.

8 1. Use of money. Money from this fund may be
9 extended to existing businesses to:

10 A. Finance the production of new products in the
11 State;

12 B. Finance innovations and inventions leading to
13 the production of new products in the State; and

14 C. Finance the development of significantly new
15 processes of production that will substantially
16 reduce the costs of production and enable the ap-
17 plicant to significantly increase the business's
18 share of the market for the product.

19 2. Venture capital assistance deemed not a loan
20 or an equity investment. Venture capital provided
21 under this subchapter does not constitute a loan or
22 an equity investment by the authority or the State.

23 3. Restriction on use of funds. Any money pro-
24 vided to an applicant shall not exceed 60% of total
25 product development costs. Money shall not be ex-
26 tended to any applicant who does not have commitments
27 for facilities for production, distribution and stor-
28 age of output.

29 4. Payback. The authority shall collect a roy-
30 alty not to exceed 5% of sales annually of the
31 product resulting from investment of money from the
32 Maine Venture Capital Fund. The authority shall
33 adopt rules in accordance with the Maine Administra-
34 tive Procedure Act, Title 5, chapter 375, that deter-
35 mines the royalty percentage rates and period of
36 times over which the royalties shall be paid by vari-
37 ous types of applicants with differing financial con-
38 ditions to the finance authority. The finance au-

1 thority shall extend venture capital money with the
2 intent to obtain complete repayment of money extended
3 to a firm. Repayment shall not extend beyond a
4 10-year period unless there is sufficient evidence to
5 indicate that an extension of the repayment period
6 beyond 10 years is required and will enable the fi-
7 nance authority to collect, in full, the money owed
8 to the authority.

9 5. Rights and entitlements to product and pat-
10 ents. The Finance Authority of Maine shall hold all
11 rights, entitlements, patents, copyrights, trademarks
12 or any other evidence of protection or exclusivity to
13 any products production processing or inventions for
14 which the Maine Venture Capital Fund money has been
15 used to finance these products, processes or inven-
16 tions until the authority receives repayment, in
17 full, or the balance due is forgiven by the authori-
18 ty.

19 6. Separate account and investment of
20 funds. The Maine Venture Capital Fund shall be kept
21 separate for accounting purposes. Money in this fund
22 may be invested in obligations issued or guaranteed
23 by the Federal Government or by the State Government
24 and in other obligations which are legal investments
25 for savings banks in this State.

26 §1100-U. Investigation of applicants

27 The finance authority shall investigate each ap-
28 plicant in order to evaluate the advisability of ap-
29 proving financial aid for the applicant and with re-
30 gard to any other factors deemed relevant by the au-
31 thority.

32 1. Investigation and report. The investigation
33 and report shall, at a minimum, include facts and in-
34 formation about:

35 A. The history of the company and the applicant;

36 B. Wage standards of the firm and projected wage
37 standards;

38 C. Job opportunities reasonably expected from
39 assistance provided under this subchapter;

- 1 D. Employment stability prior to any assistance
2 provided under this subchapter and the effect of
3 assistance with respect to employment stability;
- 4 E. Past and present financial condition and
5 structure;
- 6 F. The extent of the applicant's dependence on
7 defense contracts or on a limited number of cus-
8 tomers;
- 9 G. Present and future market prospects;
- 10 H. Managerial ability and performance;
- 11 I. The feasibility of the proposed product and
12 invention to be financed; and
- 13 J. The intention of the applicant to remain in
14 the State and retain major production of the new
15 product within the State.

16 §1100-V. Priority of applicants

17 1. Approval and denial of applicants. Following
18 evaluation of all the materials and information re-
19 garding each applicant and proposed project, the au-
20 thority shall approve or deny the applicant for as-
21 sistance. The applicant shall be promptly notified
22 of the authority's decision. In making a decision,
23 the authority shall give priority to the following in
24 the order given:

25 A. Businesses dependent upon defense customers
26 or contracts and whose proposed product or inven-
27 tion is to be used to convert all or a portion of
28 the business to nondefense related projects:

29 (1) For the purposes of this subchapter, a
30 "business dependent upon defense customers
31 or contracts" is any business that derives
32 over 50% of its gross income generated from
33 operations within the State from prime de-
34 fense contracts or from subcontracts entered
35 into in connection with prime defense con-
36 tracts, a significant portion of whose fa-
37 cilities and equipment are designed specifi-

1 cally for defense production and cannot be
2 converted to nondefense uses without sub-
3 stantial investment; and

4 B. Businesses which, as determined by the au-
5 thority, are the predominant employer in a munic-
6 ipality or region and which have a very signifi-
7 cant impact on the local or regional economy.

8 §1100-W. Annual report

9 The finance authority shall issue an annual re-
10 port which describes the activity and operation of
11 the program in this subchapter.

12 Sec. 2. Appropriation. The following funds are
13 appropriated from the General Fund to carry out the
14 purposes of this Act.

15 1985-86

16 FINANCE AUTHORITY OF MAINE

17 All Other \$500,000

18 The money appropri-
19 ated under this section
20 shall constitute the
21 Maine Venture Capital
22 Fund as used in accord-
23 ance with the Revised
24 Statutes, Title 10, chap-
25 ter 110, subchapter VIII.
26 In the event that any
27 federal money becomes
28 available for purposes
29 authorized in this Act,
30 the federal money shall
31 replace the state money
32 in the Maine Venture Cap-
33 ital Fund and the state
34 money shall be returned
35 to the General Fund.

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STATEMENT OF FACT

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The purpose of this bill is to maintain and promote economic activity and development in areas of the State that are dependent upon a predominant employer or upon businesses primarily dependent upon defense contracts.

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The purpose of this bill is to maintain and promote economic activity and development in areas of the State that are dependent upon a single business or a very limited number of businesses. In a number of cases, these businesses are subject to considerable economic fluctuation which can create substantial impact on these areas of the State.

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This bill creates the Maine Venture Capital Fund to be administered by the Finance Authority of Maine. Money from the fund would be primarily used to finance the production of new products and technology for businesses that are highly dependent upon defense contracts.

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The fund is established with a one-time \$500,000 appropriation from the General Fund. If federal money become available for the purpose established in the bill, federal money will replace the state money in the fund.

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The fund will be replenished by a 5% maximum royalty on sales of the products and technology financed from the fund. It is anticipated that the fund will eventually be self-financing and if successful, the fund may be able to repay the General Fund appropriation.

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The finance authority will hold the patents, copyrights, trademarks and any other evidence of exclusivity to the products and technology until the venture capital money has been repaid.

The bill establishes a 60% maximum level of funding new products and technology costs of a firm. In addition, a 10-year payback period is established as a maximum repayment period.

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