EXHIBIT 3
DATE 4.12.05
SB 133

Senate Bill 133 – Montana Equity Capital Investment Act
Hearing, House Business and Labor Committee, April 12, 2005

Testimony by Jon Marchi representing:
Big Sky Airlines, Chairman of the Board
Glacier Venture Fund, Chairman
Montana Ambassadors, Chairman of the Legislative Committee

BACKGROUND:

SB 133 is the updated and improved version of SB 465 – Montana Capital Formation Act, 2003 Legislative Session. Bill passed out of the Senate Taxation Committee then failed on the third reading in the Senate 25-25.
The primary concerns were as follows:

1. The bill did not provide enough emphasis on investing in Montana businesses.
2. If the legislation resulted in a successful effort to build an equity capital infrastructure in Montana then some of those profits should go to the General Fund.

On January 6, 2004 Chairman Joe McKenney of the Economic Affairs Interim Committee appointed an ad hoc committee to study how to improve the availability of equity capital for growing Montana businesses. Committee members included Dave Gibson, Karen Powell, John O'Donnell, Tom McMakin, Gary Morehouse, Tony Preite, Liz Harris, Dick King, Tony Rudback, Pat Murdo, several others and myself. After many meetings over the next nine months and on going input from the Interim Committee, SB 133 was drafted.

At the May 5, 2004 Interim Committee meeting four major "fund of funds" (these funds invest only in other venture capital funds) managers representing billions of dollars under management provided testimony to the committee. Credit Suisse First Boston later did a comprehensive study of the deal flow and equity capital needs for Montana businesses and concluded that today the state needs somewhere between $50 million to $252 million in venture capital. According to the annual survey that Price Waterhouse publishes Montana averages about $2.4 million per year in venture capital investing which is about 1/100 of 1% of the U.S. total. Montana now has 2020 companies with annual sales between $500,000 to $25,000,000, the ideal size for equity capital investing.

As result of the CSFB report the Montana Board of Investments approved a commitment of $25,000,000 to a regional fund of funds that would make investments in venture capital firms that would then make equity investments in companies in Montana, Idaho, Utah, South Dakota, North Dakota, Nevada, Wyoming, eastern Oregon and eastern Washington. Investment considerations must be based upon return and not on location or economic development. The fund must be capitalized at a minimum of $40,000,000 and a maximum of $75,000,000. CSFB is responsible for raising the remaining funds. In my discussions with CSFB they are optimistic that the money can be raised to meet the minimum requirement. The Board of Investments is to be commended for this effort. The Board has a long history of investing in venture capital "fund of funds" initially through Brinson Partners and then with Adams Street in Chicago. Bart Holaday of Adams Street testified at an Economic Affairs Interim Committee meeting and said that the Montana board now has about $259,000,000 in current value invested in venture capital investments with about another $180,000,000 committed. The return on these investments to the state has generally exceeded 16% annually.

It is important to note that the Board of Investments $25,000,000 commitment to a nine state regional fund of funds is complimentary to SB 133's purpose and effort. These two initiatives are not competitive with each other and instead will help accelerate the building of a venture capital infrastructure in Montana.

MONTANA HIGHLIGHTS OF SB 133:

During the meetings last year concerning this bill substantial input was received from fund of funds managers and venture capitalists. In addition, the committee carefully reviewed what best practices other states have followed to increase the availability of equity capital to their companies through this type of legislation. Oklahoma has the longest track record. Over the past 11 years they have invested $57,000,000 in 14 separate venture capital funds that have raised a total of $886,000,000. Through June 30, 2004 Oklahoma businesses and entrepreneurs have received $95,000,000 in equity capital as a result of this program. This works out to about $1.67 being invested in Oklahoma companies for every $1.00 the state invested in their fund of funds. The committee felt that Oklahoma was a state somewhat similar to Montana. Both states are "flyover" states, rural with primarily cattle and grain production, oil and gas production and refining is a major industry, and both states have an excellent state university system with heavy emphasis on research and development.

Oklahoma's equity capital investment program has done well. After 11 years of operation the program has never had to use any of their contingent deferred tax credits. There has been no cost to the Oklahoma taxpayer for a program that has invested almost $100 million in equity capital in their companies.

SB133 requires that the following language must be a part of the implementation plan for investments in the Montana equity fund: "For every $1 invested by the Montana equity fund ..... the designated investor group (fund of funds manager) shall seek to cause a *minimum of $1 of equity capital ..... to be invested in Montana businesses...*". *This* language does not guarantee that for every $1 invested in the fund at least $1 will be invested in Montana businesses, but it does provide a long term specific goal that the Montana fund is expected to achieve.

The second direct Montana initiative in this bill is the creation of the Montana Evergreen Fund. After the fund has been operating for a period of time and it has been determined that its investments will generate the required return to the investors then 25% of the excess will go to the general fund and 75% will be invested in the Evergreen Fund until it has reached $60 million in size and then 100% will go to the general fund. The Evergreen Fund must only be invested in Montana businesses. After 50 years both funds must be terminated and the proceeds deposited in the general fund.

In 2004 Montana had the lowest average wage per job in the nation at $26,900. To improve our economy we must become more competitive and more innovative. A good start would be to build an equity capital infrastructure in our state to help finance the growth of those Montana businesses on terms that are available in many other states. Oklahoma has done it. Utah and New Mexico have started doing it. There is no reason that we cannot do it. We have the comparative advantage of a place where many people would like to live. We simply need to give them more reasons to live here and to invest here.