

Protecting Montana's consumers through insurance and securities regulation

Montana Capital Formation Act SB 133

SENATE TAXATION

DATE 1/7/05

EXHIBIT NO. 1

BILL NO. SB 133

SB 133 encourages economic development by promoting capital formation

- Mobilizes capital and increases the availability of venture capital for emerging, expanding and restructuring growth of commerce in the state.
- Promotes a strong, professional venture capital industry in Montana.
- Maximizes the rate of return for investors and the State of Montana.

Montana Fund of Funds provides ongoing source of seed capital

- Strengthens Montana's economy.
- Encourages investment in Montana businesses.
- Helps build a permanent and significant source of capital to serve the needs of Montana businesses.
- Invests in private seed capital and venture capital funds.
- Encourages the availability of a wide variety of venture capital in Montana.
- Provides direct investment in rural and small Montana businesses.
- Builds an Evergreen Fund, which receives excess returns from the Fund of Funds, to be invested in Montana.

Tax credits provide incentive for investments

- Contingent, deferred tax credits provide incentive for investors to invest in the Fund of Funds.
- Tax credits are used only if the Fund of Funds does not provide its expected rate of return. The Act is designed to minimize the use of tax credits, as demonstrated by successful programs in other states.
- Limit of \$60 million available for distribution, with the added limitation that no more than \$12 million in tax credits may come due in any fiscal year.
- Redemption of the tax credits is limited to an amount offsetting any shortfalls in the scheduled returns to designated investors.

Montana Equity Fund Program Details

Expanding the supply of seed and venture capital for Montana entrepreneurs

The mission of the Montana Equity Fund is to mobilize and invest new sources of equity and near-equity capital to help build a vigorous entrepreneurial economy in the State of Montana. Over the next ten years, the program intends to generate at least \$120 million of new capital for Montana businesses.

Program Highlights

Private Capital – The fund will be capitalized with \$60 million in the beginning years by private investors and institutions.

Seed and Venture Capital – The Fund will primarily invest in professional, privately managed seed and venture capital partnerships that meet the high investment standards and strategic objectives of the fund.

- Each partnership will maintain a significant focus in Montana.
- Each will invest in fast growing businesses, the kinds that create new industries in the state.
- Together they will support a wide range of early and growth stage companies throughout the state, particularly in regions where venture capital resources have historically been sparse.

State Incentive – The state provides an incentive by backing the privately invested capital. Special contingent deferred state tax credits will be in place, if needed, to guarantee a return to the private investors. In exchange, the state will receive 100% of the investment returns after tax credit certificates have been redeemed or cancelled and fees paid. The state's proceeds will be allocated to the Montana Evergreen Fund for a long term self-sustaining program and the general fund.

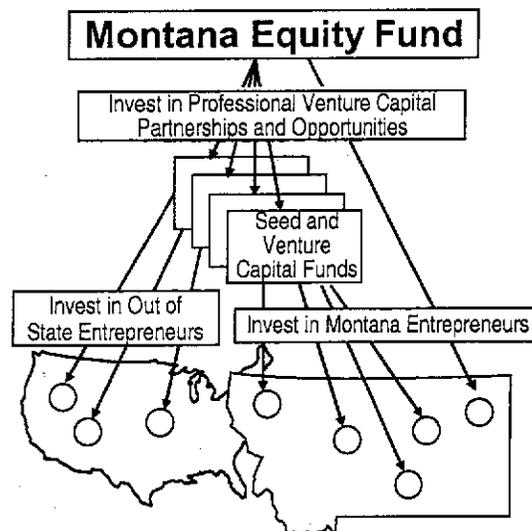
Benefits to the State – The program will provide significant economic as well as capital benefits to the State

1. **Low Cost** – Minimal State funds are required. With professional management, it is unlikely that tax credits will ever be used. Over the life of the program the State should enjoy significant economic benefits at no cost.
2. **Montana Evergreen Fund** – 75% of the net cash proceeds generated by the program will be continuously reinvested to serve the capital needs of Montana entrepreneurs through the Montana Evergreen Fund.
3. **Private / Public Partnership** – The program relies on strong private sector leadership, with appropriate public sector oversight.
4. **Leveraged Private Investment** – Over time, the program seeks to attract at least \$120 million for Montana businesses. Using Oklahoma as a reference program, \$48M of committed capital has resulted in \$94M for businesses in the state over the past 10 years¹.
5. **Professional Talent** – By investing in a number of venture capital partnerships, each with its own team of professionals, the Fund will be able to support a broad range of investment talent to serve the diverse needs of entrepreneurs throughout the state.
6. **State Revenues** – Proceeds remaining after paying program costs and capitalizing the Evergreen Fund are deposited directly to the state's general fund.

Organization and Management - The Fund will be managed as a private program with public oversight.

Oversight Authority – The State of Montana, through the Montana Capital Investment Board, is responsible for approving the allocation plan, investment strategy and selection of the Fund manager as well as the use of the tax credits.

The Fund – The Fund will be a private entity managed for the benefit of the state. The Board will select the Fund manager and investor group through a merit-based competition.



¹ Oklahoma's Program (The Oklahoma Capital Investment Board, "OCIB") is most similar to Montana's proposed "Montana Equity Fund". Over the past 10 years OCIB has committed \$48 million to 12 separate venture and seed capital funds (average of \$4 million per fund) that raised a total of \$716 million (average fund size of \$60 million). Through June 30, 2003 Oklahoma businesses and entrepreneurs have received \$94 million (195% of the state's commitment) in capital as a result of this program. Eventually, OCIB intends to invest \$100 million in the program which is expected to result in over \$400 million of new capital for Oklahoma businesses and entrepreneurs.