SENATE TAXATION
EXHIBIT NO 2
DATE 2-14-85
BILL NO. SB 133

Sen. Gillan -

Received from Auditors Office on SB 133. I also sent a copy to Sen. Essmann.

— Lee

SB 133 Committee Questions:

1. Do we need statutory authority to charge fees and/or receive funds from the designated investor group?
2. Will the fee structure be a problem down the road? Do we need to build in some protections for fee oversight?

National experts believe that fees are most appropriately tied to the performance of the fund. This is the model used in other states and provides the most incentive for fund performance.. The Board should carefully scrutinize the fee structure and perhaps provide for review in rulemaking process and in the contracting process.

3. What would happen if a designated investor group can only sell a few million in tax credits? Do you need a critical mass and full sale of tax credits for the program to work? If you only sold a few million tax credits, would they come due without having any funds to repay?

A small fund investment can still satisfy the goals of the program. The sale of the tax credit will provide funds to be invested in sub-funds which will provide necessary funds to repay the certificate. While the goal is to never use the tax credits, it is important to demonstrate the credits have value. The contracting process can require that the designated investors will need to demonstrate a critical mass can be sold before the program can be launched.

4. In new section 5(4), the scheduled rate of return may not exceed the sum of 400 basis points and the return on a US treasury obligation that has a maturity similar to the investment being made by the certificate holder, plus actual tax and other expenses. What would be a sample expense scenario? What types of "actual tax and other expenses" exist? Would it be easier to increase the basis points and eliminate the "actual tax and costs" language?

In other states the actual scheduled rate of return is less than 400 basis points plus U.S. treasuries. All were achieved through competition. From the perspective of a designated investor group, it would be best to recognize the board has the ability to approve and control rates through the certificate, and remove the statutory cap. The cap makes fund raising more complicated and therefore may limit the options available to implement the program. If there must be a cap, then best to set it as high as possible, while still relying on competition to ensure the actual rate is as low as possible.

"Actual tax and other expenses" is standard venture capital language to include– cost of tax preparation for the fund[1] audit reports, audits, etc. The language is appropriate to leave in and is probably a better measure than increasing the statutory cap.

5. What is the market for these types of financial instruments and the tax credits (if used)?

Structured properly, the market is very large and the costs very low. Value and market depends of the credit rating of the state. Montana is an AA rated state which is a very high rating and should generate a strong market for the instruments.

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[1] The entity will be a pass through, so there will be no tax consequences.

6. Is there sufficient liability protection for the Board?

A government board has standard liability protections in Montana law.

7. Why is this different from Science and Tech or Capital Corporation?

The short answer is that this program is private sector driven, with a proven model. More information can be found in materials drafted by Pat Murdo for the interim economic affairs committee. See, e.g. Murdo, *Studying the Past and Preparing for Future Economic Development*, April 2004, pp 8-9, Appendix C; Murdo, *Background Information and Questions related to Venture/Equity/Seed Capital Programs in Montana*, January 7, 2004, pp10-11. (Available through Legislative Services or on the web).

Department of Revenue Questions:

1. The bill implies, but never makes clear, that the investors in the fund are the persons who become certificate holders

Section 8.6.a says "the amount of tax credits certified for use by investors . . ."

2. The definition of proceeds refers the revenue arising from the designated investor group's investments after deducting its contractual obligation to its and the Montana equity fund's investors. It is not clear what is meant by "its" investors.

"Its" investors means the Designated Investor Group's investors. (this may be appropriate for amendment).

3. Section 5(4) provides that the board shall approve the "designated investor's" scheduled rates of return. The term "designated investor" is not defined and is not clear if this refers to the designated investor group or the actual individual investors in the fund.

Suggest changing "designated investor's" to "Designated Investor Group's".

4. Section 10(5) provides that the term of the contract between the designated investor group and the board "may exceed 7 years." It is not clear why the language is in the bill.

Answer: As investments in funds of funds are designed to provide returns in 5-7 years, it seemed appropriate to allow for at least 10 years of contract authority with the designated investor group.

Proposed Amendments:

New section 3 (13) "Proceeds" means revenue arising from the designated investor group's investments after deducting its contractual obligation to ~~its~~the designated investor group's and the Montana equity fund's investors.

New section 5(3) The Board shall ~~monitor~~ approve the timing of the initial sale of certificates and the implementation of the investment plan.....

New section 5(4) board shall approve designated investor group's scheduled rate of return.

New section 8(2) - a tax credit may not be claimed prior to July 1, ~~2005~~ 2010, or after July 1, 2031.

New section 8(2) A certificate is binding on the board and the Department of Revenue once capital is ~~committed~~provided to the Montana Equity Fund."

Montana Equty Fund Projections (SB-133)
As of January 31, 2005

Best Case	7/1/07	6/30/08	6/30/09	6/30/10	6/30/11	6/29/12	6/29/13	6/29/14	6/29/15	6/28/16	6/28/17	6/28/18	6/28/19	6/27/20	6/27/21	6/27/22	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
Rate		4.75% current US T-bond 4.25 plus 50 basis points															
Deferred Tax Credit Certificates Sold	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0							**60.0**
Principle	6.0	12.0	18.3	24.9	31.7	38.9	46.4	27.0	8.1	6.0	-	-	-	-	-	-	
Interest	-	0.3	0.6	0.9	1.2	1.5	1.8	2.2	1.3	0.4	-	-	-	-	-	-	**10.1**
Payback of Tax Credits	-	-	-	-	-	-	(27.3)	(27.1)	(9.4)	(6.4)	-	-	-	-	-	-	**70.1**
Total Value of Tax Credit Liability	6.0	12.3	18.9	25.7	32.9	40.4	21.0	2.1	-	-	-	-	-	-	-	-	
Investment Assumptions																	
IRR	33.40%																
Multiple of Invested Capital	5.6																
Investments / Returns	-5.9	0.0	0.0	0.3	0.3	0.3	32.3										
		-5.9	0.0	0.0	0.3	0.3	0.3	32.2									
			-5.9	0.0	0.0	0.3	0.3	0.3	32.0								
				-5.8	0.0	0.0	0.3	0.3	0.3	31.9							
					-5.8	0.0	0.0	0.3	0.3	0.3	31.8						
						-5.8	0.0	0.0	0.3	0.3	0.3	31.7					
							-5.7	0.0	0.0	0.3	0.3	0.3	31.0				
								-5.7	0.0	0.0	0.3	0.3	0.3	31.0			
									-5.7	0.0	0.0	0.3	0.3	0.3	31.1		
										-5.7	0.0	0.0	0.3	0.3	0.3	31.1	
Annual Investments	-5.9	-5.9	-5.9	-5.8	-5.8	-5.8	-5.7	-5.7	-5.7	-5.7	0.0	0.0	0.0	0.0	0.0	0.0	
Gross Annual Return on Investments	0.0	0.0	0.0	0.3	0.7	1.0	33.3	33.1	33.0	32.9	32.8	32.7	32.0	31.7	31.4	31.1	
Management Fee	-0.099	-0.119	-0.140	-0.160	-0.181	-0.201	-0.322	-0.321	-0.321	-0.320	-0.300	-0.280	-0.260	0.000	0.000	0.000	**3.0**
Tax Credit Certificate payback							27.3	27.1	27.0	6.4	0.0	0.0	0.0	31.7	31.4	31.1	
General Fund							0.0	0.0	0.0	5.9	7.3	7.3	7.1	0.0	0.0	0.0	**27.6**
Montana Evergreen Fund							0.0	0.0	0.0	17.7	21.9	21.9	21.4	0.0	0.0	0.0	**82.9**
Fund Manager							0.0	0.0	0.0	2.6	3.2	3.2	3.2	0.0	0.0	0.0	**12.3**

Montana Evergreen Fund ($M)	$ 83
IRR of Evergreen Fund	6.4%
Life of Fund (Years)	34
Net Return to General Fund in 2056 ($M)	$ 683

Assumptions:

1. Best case analysis uses a 33.4% internal rate of return which is the median average for the highest quartile (top 25%) returns for all venture funds by an independent study for the years 1985-2003
2. $60 Million of tax credit certificates are sold over a 10 year period at $6 Million per year.
3. Each tax credit certificate sold will provide the investor with return of principal plus 4.75% per year all due and payable 10 years from the investment date.
4. The return to the investor calculated as follows: current 10 year Treasury note rate of 4.25% (as of 1/28/05) plus 50 basis points = 4.75%
5. Management fees average about 1% per year on funds invested or committed
6. This case funds the Montana Evergreen Fund for a total of $82.9M which must be invested in Montana businesses. The reinvestment of these funds in Montana businesses at a 6.4% IRR provides a consistent source of equity capital up until the year 2056 when the fund is liquidated with all proceeds going to the general fund projected at $683 Million

Montana Equity Fund Projections (SB-133)
As of January 31, 2005

Breakeven Case	7/1/07	6/30/08	6/30/09	6/30/10	6/30/11	6/29/12	6/29/13	6/29/14	6/29/15	6/28/16	6/28/17	6/28/18	6/28/19	6/27/20	6/27/21	6/27/22	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
	Rate	4.75% current US T-bond 4.25 plus 50 basis points															
Deferred Tax Credit Certificates Sold	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0							60.0
Principle	6.0	12.0	18.3	24.9	31.7	38.9	46.4	49.1	52.2	55.5	53.0	44.8	36.3	27.6	18.5	9.3	
Interest	-	0.3	0.6	0.9	1.2	1.5	1.8	2.2	2.3	2.5	2.5	2.1	1.7	1.3	0.9	0.4	22.3
Payback of Tax Credits	-	-	-	-	-	-	(5.1)	(5.1)	(5.1)	(5.0)	(10.7)	(10.6)	(10.5)	(10.4)	(10.1)	(9.8)	82.3
Total Value of Tax Credit Liability	6.0	12.3	18.9	25.7	32.9	40.4	43.1	46.2	49.5	53.0	44.8	36.3	27.6	18.5	9.3	(0.0)	
Investment Assumptions																	
IRR	11.17%																
Multiple of Invested Capital	1.9																
Investments / Returns	-5.9	0.0	0.0	0.3	0.3	0.3	10.1										
		-5.9	0.0	0.0	0.3	0.3	0.3	10.1									
			-5.9	0.0	0.0	0.3	0.3	0.3	10.1								
				-5.8	0.0	0.0	0.3	0.3	0.3	10.0							
					-5.8	0.0	0.0	0.3	0.3	0.3	10.0						
						-5.8	0.0	0.0	0.3	0.3	0.3	10.0					
							-5.7	0.0	0.0	0.3	0.3	0.3	9.8				
								-5.7	0.0	0.0	0.3	0.3	0.3	9.8			
									-5.7	0.0	0.0	0.3	0.3	0.3	9.8		
										-5.7	0.0	0.0	0.3	0.3	0.3	9.8	
Annual Investments	-5.9	-5.9	-5.9	-5.8	-5.8	-5.8	-5.7	-5.7	-5.7	-5.7	0.0	0.0	0.0	0.0	0.0	0.0	
Gross Annual Return on Investments	0.0	0.0	0.0	0.3	0.7	1.0	11.1	11.1	11.1	11.0	11.0	10.9	10.7	10.4	10.1	9.8	
Management Fee	-0.099	-0.119	-0.140	-0.160	-0.181	-0.201	-0.322	-0.321	-0.321	-0.320	-0.300	-0.280	-0.260	0.000	0.000	0.000	3.0
Tax Credit Certificate payback							5.1	5.1	5.1	5.0	10.7	10.6	10.5	10.4	10.1	9.8	
General Fund							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Montana Evergreen Fund							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Fund Manager							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-

Assumptions:

1. This case determines that a rate of return of 11.17% must be realized for the state to have no liability for any of the tax credit certificates sold. The 11.17% return is between the median and the third quartile (fourth quartile is highest) for all venture funds by independent study for years 1985-2003, but less than the Oklahoma program's return of 16%.
2. $60 Million of tax credit certificates are sold over a 10 year period at $6 Million per year.
3. Each tax credit certificate sold will provide the investor with return of principal plus 4.75% per year all due and payable 10 years from the investment date.
4. The return to the investor calculated as follows: current 10 year Treasury note rate of 4.25% (as of 1/28/05) plus 50 basis points = 4.75%
5. Management fees average about 1% per year on funds invested or committed
6. This case would provide $60 Million for Montana businesses, but would not fund the Montana Evergreen Fund because the return realized is just enough to repay the principal and interest on the tax credits plus paying off all the administrative costs with the investment returns realized.

Montana Equity Fund Projections (SB-133)
As of January 31, 2005

Average Case	7/1/07	6/30/08	6/30/09	6/30/10	6/30/11	6/29/12	6/29/13	6/29/14	6/29/15	6/28/16	6/28/17	6/28/18	6/28/19	6/27/20	6/27/21	6/27/22	6/27/23	6/26/24	6/26/25	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16				
Rate	4.75% current US T-bond 4.25 plus 50 basis points																			
Deferred Tax Credit Certificates Sold	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0										60.0
Principle	6.0	12.0	18.3	24.9	31.7	38.9	46.4	51.7	57.4	63.3	63.6	58.5	53.4	48.2	42.6	37.0	31.4	20.9	9.9	
Interest	-	0.3	0.6	0.9	1.2	1.5	1.8	2.2	2.5	2.7	3.0	3.0	2.8	2.3	2.0	1.8	1.5	1.0	0.5	31.5
Payback of Tax Credits	-	-	-	-	-	-	(2.6)	(2.5)	(2.5)	(2.5)	(8.1)	(8.1)	(8.0)	(7.9)	(7.6)	(7.3)	-	-	-	57.1
Payments of Credits from General Fund																	(12.0)	(12.0)	(10.4)	34.4
Total Value of Tax Credit Liability	6.0	12.3	18.9	25.7	32.9	40.4	45.7	51.4	57.3	63.6	58.5	53.4	48.2	42.6	37.0	31.4	20.9	9.9	-	
Investment Assumptions																				
IRR	6.40%																			
Multiple of Invested Capital	1.5																			
Investments / Returns	-5.9	0.0	0.0	0.3	0.3	0.3	7.6													
		-5.9	0.0	0.0	0.3	0.3	0.3	7.5												
			-5.9	0.0	0.0	0.3	0.3	0.3	7.5											
				-5.8	0.0	0.0	0.3	0.3	0.3	7.5										
					-5.8	0.0	0.0	0.3	0.3	0.3	7.5									
						-5.8	0.0	0.0	0.3	0.3	0.3	7.4								
							-5.7	0.0	0.0	0.3	0.3	0.3	7.3							
								-5.7	0.0	0.0	0.3	0.3	0.3	7.3						
									-5.7	0.0	0.0	0.3	0.3	0.3	7.3					
										-5.7	0.0	0.0	0.3	0.3	0.3	7.3				
Annual Investments	-5.9	-5.9	-5.9	-5.8	-5.8	-5.8	-5.7	-5.7	-5.7	-5.7	0.0	0.0	0.0	0.0	0.0	0.0				
Gross Annual Return on Investments	0.0	0.0	0.0	0.3	0.7	1.0	8.6	8.5	8.5	8.5	8.4	8.4	8.2	7.9	7.6	7.3				
Management Fee	-0.099	-0.119	-0.140	-0.160	-0.181	-0.201	-0.322	-0.321	-0.321	-0.320	-0.300	-0.280	-0.260	0.000	0.000	0.000				3.0
Tax Credit Certificate payback							2.6	2.5	2.5	2.5	8.1	8.1	8.0	7.9	7.6	7.3				57.1
General Fund							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Montana Evergreen Fund							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Fund Manager							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				

Assumptions:

1. Average case analysis - Uses a 6.4% Internal Rate of Return (IRR). The median average for all venture funds by independent study for the years 1985 through 2003
2. $60 Million of tax credit certificates are sold over a 10 year period at $6 Million per year.
3. Each tax credit certificate sold will provide the investor with return of principal plus 4.75% per year all due and payable 10 years from the investment date.
4. The return to the investor calculated as follows: current 10 year Treasury note rate of 4.25% (as of 1/28/05) plus 50 basis points = 4.75%
5. Management fees average about 1% per year on funds invested or committed
6. Under this case for the $60M Invested. The investment returns of the fund would pay back to the tax credit certificate investors, the state of Montana would have to make up the difference of $34.4M. The total payback to investors is $91.5 Million
7. Despite a state payback of $34.4 Million, the $60 Million would have been invested in Montana businesses

Montana Equity Fund Projections (SB-133)
As of January 31, 2005

Worst Case	7/1/07	6/30/08	6/30/09	6/30/10	6/30/11	6/29/12	6/29/13	6/29/14	6/29/15	6/28/16	6/28/17	6/28/18	6/28/19	6/27/20	6/27/21	6/27/22	6/27/23	6/26/24	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	
Rate	4.75% current US T-bond 4.25 plus 50 basis points																		
Deferred Tax Credit Certificates Sold	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0									60.0
Principle	6.0	12.0	18.3	24.9	31.7	38.9	46.4	54.3	62.5	71.0	74.0	65.5	56.6	47.3	37.6	27.4	16.7	5.4	
Interest	-	0.3	0.6	0.9	1.2	1.5	1.8	2.2	2.6	3.0	3.5	3.1	2.7	2.2	1.8	1.3	0.8	0.3	29.7
Payback of Tax Credits From General Fund	-	-	-	-	-	-	-	-	-	-	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)	(5.7)	89.7
Total Value of Tax Credit Liability	6.0	12.3	18.9	25.7	32.9	40.4	48.3	56.5	65.0	74.0	65.5	56.6	47.3	37.6	27.4	16.7	5.4	-	
Investment Assumptions																			
IRR	0.00%																		
Multiple of Invested Capital	0.0																		
Investments / Returns	-5.9	0.0	0.0	0.0	0.0	0.0	0.0												
		-5.9	0.0	0.0	0.0	0.0	0.0	0.0											
			-5.9	0.0	0.0	0.0	0.0	0.0	0.0										
				-5.8	0.0	0.0	0.0	0.0	0.0	0.0									
					-5.8	0.0	0.0	0.0	0.0	0.0	0.0								
						-5.8	0.0	0.0	0.0	0.0	0.0	0.0							
							-5.7	0.0	0.0	0.0	0.0	0.0	0.0						
								-5.7	0.0	0.0	0.0	0.0	0.0	0.0					
									-5.7	0.0	0.0	0.0	0.0	0.0	0.0				
										-5.7	0.0	0.0	0.0	0.0	0.0	0.0			
Annual Investments	-5.9	-5.9	-5.9	-5.8	-5.8	-5.8	-5.7	-5.7	-5.7	-5.7	0.0	0.0	0.0	0.0	0.0	0.0			
Gross Annual Return on Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Management Fee	-0.099	-0.119	-0.140	-0.160	-0.181	-0.201	-0.322	-0.321	-0.321	-0.320	0.000	0.000	0.000	0.000	0.000	0.000			2.0
Tax Credit Certificate payback							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
General Fund							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			-
Montana Evergreen Fund							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			-
Fund Manager							0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			-

Assumptions:

1. Worst case analysis: All investment returns are zero
2. $60 Million of tax credit certificates are sold over a 10 year period at $6 Million per year.
3. Each tax credit certificate sold will provide the investor with return of principal plus 4.75% per year all due and payable 10 years from the investment date.
4. The return to the investor calculated as follows: current 10 year Treasury note rate of 4.25% (as of 1/28/05) plus 50 basis points = 4.75%
5. Management fees average about 1% per year on funds invested or committed
6. Tax credit certificates are paid out of the general fund to the investors at a maximum rate of $12M per year as stated in SB-133
7. Under this worst case, the cost to the state is $89.7M ($60M principal and $29.7M interest) to be paid at $12M per year starting in 2017 through 2023 and a final payment of $5.7M in 2024.
8. Despite a state payback of $89.7 Million, the $60 Million would have been invested in Montana businesses

Montana Equity Fund Projections (SB-133)
As of January 31, 2005

Oklahoma Base Case	7/1/07	6/30/08	6/30/09	6/30/10	6/30/11	6/29/12	6/29/13	6/29/14	6/29/15	6/28/16	6/28/17	6/28/18	6/28/19	6/27/20	6/27/21	6/27/22	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
Rate	4.75% current US T-bond 4.25 plus 50 basis points																
Deferred Tax Credit Certificates Sold	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	-	-	-	-	-	-	**60.0**
Principle	6.0	12.0	18.3	24.9	31.7	38.9	46.4	45.9	45.8	45.7	39.6	27.9	16.0	-	-	-	
Interest	-	0.3	0.6	0.9	1.2	1.5	1.8	2.2	2.2	2.2	2.2	1.9	1.3	-	-	-	**18.2**
Payback of Tax Credits	-	-	-	-	-	-	(8.4)	(8.3)	(8.3)	(8.2)	(13.9)	(13.8)	(17.3)	-	-	-	**78.2**
Total Value of Tax Credit Liability	6.0	12.3	18.9	25.7	32.9	40.4	39.9	39.8	39.7	39.6	27.9	16.0	-	-	-	-	
Investment Assumptions																	
IRR	16.00%																
Multiple of Invested Capital	2.4																
Investments / Returns	-5.9	0.0	0.0	0.3	0.3	0.3	13.4										
		-5.9	0.0	0.0	0.3	0.3	0.3	13.3									
			-5.9	0.0	0.0	0.3	0.3	0.3	13.3								
				-5.8	0.0	0.0	0.3	0.3	0.3	13.2							
					-5.8	0.0	0.0	0.3	0.3	0.3	13.2						
						-5.8	0.0	0.0	0.3	0.3	0.3	13.2					
							-5.7	0.0	0.0	0.3	0.3	0.3	12.9				
								-5.7	0.0	0.0	0.3	0.3	0.3	12.9			
									-5.7	0.0	0.0	0.3	0.3	0.3	12.9		
										-5.7	0.0	0.0	0.3	0.3	0.3	12.9	
Annual Investments	-5.9	-5.9	-5.9	-5.8	-5.8	-5.8	-5.7	-5.7	-5.7	-5.7	0.0	0.0	0.0	0.0	0.0	0.0	
Gross Annual Return on Investments	0.0	0.0	0.0	0.3	0.7	1.0	14.4	14.3	14.3	14.2	14.2	14.1	13.8	13.5	13.2	12.9	
Management Fee	-0.099	-0.119	-0.140	-0.160	-0.181	-0.201	-0.322	-0.321	-0.321	-0.320	-0.300	-0.280	-0.260	0.000	0.000	0.000	**3.0**
Tax Credit Certificate payback							8.4	8.3	8.3	8.2	13.9	13.8	17.3	0.0	0.0	0.0	
General Fund							0.0	0.0	0.0	0.0	0.0	0.0	-0.8	3.0	3.0	2.9	**8.1**
Montana Evergreen Fund							0.0	0.0	0.0	0.0	0.0	0.0	-2.5	9.1	8.9	8.7	**24.2**
Fund Manager							0.0	0.0	0.0	0.0	0.0	0.0	-0.4	1.4	1.3	1.3	**3.6**

Montana Evergreen Fund ($M)	$ 24.2
IRR of Evergreen Fund	6.4%
Life of Fund (Years)	34
Net Return to General Fund in 2056 ($M)	$ 199

Assumptions:

1. This case assumes a rate of return equal to the Oklahoma Capital Investment Board's (OBIC) experience for their first four fund investments that have reached maturity and will achieve a 16% Internal Rate of Return (IRR). OCIB began investing in 1992 and is most similar to the proposed Montana Equity Fund (SB-133). Over the past 10 years OCIB has committed $48 Million to 12 separate venture and seed capital funds that have invested $94 Million in Oklahoma businesses through June 30, 2003
2. $60 Million of tax credit certificates are sold over a 10 year period at $6 Million per year.
3. Each tax credit certificate sold will provide the investor with return of principal plus 4.75% per year all due and payable 10 years from the investment date.
4. The return to the investor calculated as follows: current 10 year Treasury note rate of 4.25% (as of 1/28/05) plus 50 basis points = 4.75%
5. Management fees average about 1% per year on funds invested or committed
6. This case funds the Montana Evergreen Fund for a total of $24.2M which must be invested in Montana businesses. The reinvestment of these funds eventually provides consistent source of equity capital for Montana businesses up until the year 2056 when the fund is liquidated with all proceeds going to the general fund projected at $199 Million