SELECT COMMITTEE ON ECONOMIC DEVELOPMENT

HOUSE OF REPRESENTATIVES

48TH LEGISLATURE

ATTENDANCE

DATE: Feb. 10, 1983

ROOM: Old Supreme Crt Chambers

	PRESENT	ABSENT	OTHER
VINCENT, John - Chairman	X		
SCHYE, Ted - Vice-Chairman	X		
ASAY, Tom	X		
DARKO, Paula	X		
FABREGA, Jay	X		
FAGG, Harrison	X		
HANSEN, Stella Jean	X		
HARPER, Hal	X		
HARRINGTON, Dan			Excused
METCALF, Jerry	X		
NEUMAN, Ted	X		
RAMIREZ, Jack	X		
VINGER, Orren	X		

MINUTES OF THE SELECT
COMMITTEE ON ECONOMIC DEVELOPMENT

The fourth meeting of the Select Committee on Economic Development was called to order by Chairman John Vincent at 8:45 p.m. in the old Supreme Court hearing room of the Capitol Building, Helena, Montana on February 10, 1983.

Roll call was taken and all members were present with the exception of Representative Harrington who was excused.

CHAIRMAN VINCENT opened the hearing on House Bill 685.

REPRESENTATIVE HARPER, Chief Sponsor of HB 685, stated this was a good bill and it fills a vital gap and a big nitch in the program to develop Montana's economy. It addresses the need for risk capital to start new businesses and expand existing ones. Statistics show that one out of five businesses fail, so we are not talking about state money or coal tax money, we are talking about private money. This bill adresses how to attract this private money into venture capital pools. The venture capital field is a changing dynamic field that is growing in the United States today. He noted this bill is along the same lines as Representative Fabrega SPIC Bill from last session which ended up being killed in the Senate. The need has been seen for years, and it is finally being addressed by this bill. HB 685 will provide $1 million per biennium in tax credits to attract this pool of venture capital and aid in the formation of capital companies which can be certified and designated by the department. Each one of these will receive a maximum of $375,000 tax credit, and credit can equal 25% of the investment up to a maximum of $25,000 per taxpayer. An added feature of this is, since venture capital investments usually have strong equity features, we have a real link going on between the older experienced business heads and a sharing of experience with the people that they are investing some of their money in. This should be a real benefit and provide some of the needed money.

SENATOR VAN VALKENBURG, Co-Sponsor of HB 685, asked permission from Chairman Vincent to go through the mechanics of HB 685. He passed out Exhibit A, the Statement of Intent, to the committee.

CHAIRMAN VINCENT asked for Proponents to HB 685.

PROPONENTS

GARY BUCHANAN, Director of Department of Commerce, stated his support of HB 685. He explained Exhibit B, the flowchart of Montana Capital Companies Tax Credits, and Exhibit C, Investing in America.

JOHN MARCHI, Vice-President of D.A. Davidson, expressed support of HB 685 and felt this was the most important Bill developed from the Governor's Temporary Committee concerning I-95. He emphasized what he felt to be the key points concerning this bill. See Exhibit D and Exhibit E.

DICK REMINGTON, Montana Vice-President of Mountain Bell, and representing Montana Development Credit Corporation, expressed support of HB 685. He stated this was a well designed and thoughtful approach to providing incentives for the private sector to meet the risk and equity capital needs of Montana's small business community. He stated there exists a strong consensus among Montana's financial and business community that we lack access to venture capital, and that this is likely the most serious capital problem facing our small business people. See Exhibit F.

JOHN SCULLY, Representing Montana Independent Bankers Association, expressed their support of HB 685.

FRED FLANDERS, Representing Northwestern Bank of Helena, stated their support of HB 685. He noted that from a bankers point of view, the type of capital talked about is a type of capital not available through conventional banking sources. We offer debt capital and this type of capital can very much facilitate the borrowing of the former group. We strongly feel this is an area that is desperately needed in Montana and urge the committee to pass this legislation.

MIKE FITZGERALD, Representing the Montana Trade Commission, expressed support of this bill. He stated he had worked on the committee three years ago and worked on efforts to gear up the DCCM and also supported Representative Fabrega's bill in the last session. Venture capital is the life blood of the new business, and is virtually the only vehicle that we can potentially develop in Montana in the near term. He asked the Committee to view his Exhibit G, which is the 1982 Venture Capital Directory. He drew attention to the last page which lists the 10 largest independent venture capital firms. These 10 firms were contacted about three years ago to see if they would invest in Montana and virtually everyone of these firms stated they would consider investment potential in Montana and outlined the categories they were potentially interested in. Virtually everyone of them said they would not invest in Montana until such time as there was an institution here they could work with to package, structure and help manage their investments. We see this Montana Capital Corporation as that vehicle, and feel this is very important not only as to the level we are speaking of here, but to access much larger levels of capital here in Montana for investment purposes.

DICK BOURKE, Vice-President of the Development Credit Corporation of Montana, stated his corporation enthusiastically endorses the approach to solving our risk and equity capital problems contained in HB 685. He wanted to mention a few of the safeguards contained in the bill to insure that its objectives are met as efficiently as possible. See Exhibit H. He also wanted to bring to the attention of the committee several proposed amendments to HB 685, see Exhibit H, pages 3, 4, 5, 6, 7 and 8.

CASEY EMERSON, President and General Manager of King Tool in Bozeman, stated support of HB 685. He stated his company manufactures small specialty hand tools that are sold nation-wide. They presently employ 11 people and are now a nice profitable company, but went through some real struggles and still have a long way to go. He gave a case history to emphasize the financial problems that manufacturers have in Montana. He noted because of the present financing problems, he has placed an add in the Wall Street Journal to sell the company if the current problems can't be solved. One of the apparent problems is that they are way behind in scheduling and production and are behind at least 2 years because of the lack of financing. Had the bills that are being worked on now, been passed two years ago, Montana's government would have gained about $51,000 in corporate tax, about $40,000 in income tax during the last two years, and that is just from this one small company. He commented that when the manufacturers in Bozeman get together, the most discussed topic is horror stories about the lack of financing. He stated the committee would be acting on about three different bills, and all three of these bills are needed because manufacturers have different problems, and different aims. He feels of all the bills coming up, HB 685, is the most badly needed one of all, and if passed will help keep his company here in Montana.

JANELLE K. FALLAN, Public Affairs Manager of Montana Chamber of Commerce, stated their support of HB 685. She noted the Private Industry Council, in which the Montana Chamber was actively involved contracted for a study that determined there is definitely a need for such capital in Montana. Her further remarks are seen in Exhibit I.

DON JUDGE, Representative of Montana State AFL-CIO, expressed support of HB 685. He noted that even though this bill contains no provisions for matching money from the state, as originally proposed, he believes that this legislature still has some ownership over the "targeting" of "qualified" investments because of the tax credit provisions. Because these provisions reflect a credit for liability of money owed the state, it is his assumption that state money is still involved here. He stated assuming that the legislature still has the ability to provide "targeting" goals for "qualified" investments, he would like to suggest a few amendments. See Exhibit J, pages 1, 2 and 3.

JOHN LOPACH, Director of the Economic Growth Council of Great Falls, expressed support of HB 685. He feels this is probably the most important bill before the committee. He explained without non-debt borrowing base equity, companies simply cannot expand, or even attract suppliers. He stated that the Economic Growth Council has loaned companies the money needed to expand only to find that the debt that has been put on the books make it difficult for them to buy on credit from suppliers, because their debt ratios are too high. Equity capital is an answer to this problem. He stated he would like to make a few suggestions. One is to consider the concept in place of the network of Montana Capital Companies, the use of the federal Small Business Investment Companies. These SBIC's were organized by the Small Business Investment Act in 1958 and have been regulated by the federal government very successfully. They include many of the most powerful venture capital companies in the U.S., and they have the tremendous advantage of borrowing four times the capital from the federal government at treasury note rates. The regulation of the Small Business Investment Companies is by the Investment Division of the SBA. SBIC also have the tremendous asset of a network with other SBIC's with whom they can syndicate their investments. He also wanted the Committee to look carefully at the minimum capital suggested in the bill which is $200,000 and at the concept of allowing half of that going into any one investment. He noted that by making this testimony he does not want to upset anything, but to be able to come back in 2 years and answer the question, "Did we act wisely?" in setting up the most important bill before us. He also asked the committee to look again at the maximum credit of $25,000 per investor which he considers too low. He expressed hope that this bill comes out as one of the strongest in this session.

JACK MARTIN, President and General Manager of Superior Fire Aparatus, stated his support of this bill. He commented that during a recent meeting of a group of manufacturers, he was nominated the spokesperson. He stated that HB 685 contributes to a broader tax base, greater employment and in time will help lessen the ever increasing tax burden on those who presently have businesses already established.

DAN BUCKS, Department of Revenue, stated he would like to make two types of comments. First a general comment relating to a conclusion his department has arrived at, is that tax credits that are highly targeted for specific purposes are more effective in accomplishing their ends than tax credits that are too general. Secondly in respect to the features of this bill that have been commented on by other proponents, he would like to explain the reasons why they were written the way they were. See Exhibit J-1 for further information.

DON REED, Representing the Montana Environmental Information Center, stated their support of HB 685. He feels that HB 685 is different from some of the other bills because it does not directly invest any state held funds, but rather it uses tax credits to stimulate private investment. He noted he would like to make a few suggestions regarding the Economic Development Board. See Exhibit K for further comments.

CAROL DALY, President of the Montana Economic Development Association, stated their support of HB 685. She stated that MEDA believes that the Capital Companies bill should be passed for two reasons. The first would be that it would help fill a gap in financing resources in the state, and secondly it represents a positive private sector response to a private sector problem, and facilitates the investment of Montana capital in Montana. For further comments see Exhibit L.

SENATOR TOWE, explained to the committee that this is the Venture Capital portion. It is true that a qualified investment may well be debt as well as lease-hold, but the principal focus is on the equity venture capital, and that is very important as the other proponents have pointed out. The second important fact about this bill is that it is the private industry that is doing this. He stressed you can't get the private sector to make the investment without giving them an incentive. He noted they had hoped for a larger incentive, but this would be a start and it can be expanded from there. He agreed with John Lopach's testimony regarding the advantages of the SBIC. He noted that we will first have to see how well this is being utilized and may eventually have to open this up to more than Montana Venture Capital Corporations. He commented that it may be that no corporation in Montana can attract the type of talent that will make this work, and we should not be discouraged by this. He stressed this is a very important piece of legislation and is needed to support the other bills currently being put before the committee.

STACY A. FLAHERTY, Representing Women's Lobbyist Fund, stated their support of HB 685. They particularly feel this bill is important because it will make credit available for businesses owned and operated by women. They would like to recommend adding to the aims of this bill the attached suggestions. See Exhibit M.

RON HARMON, President of Big Bud Tractor Company in Havre stated his support of HB 685. He noted that his company went from 200 employees down to 40 due to lack of capital. During the past few months, he has been to Chicago, Kansas City and New York looking for capital. One of the things admitted by the venture capital people when he visited them is that he would be paying a premium to bring capital into his company. He asked the question why he should have to pay a premium for capital just because he decided to locate in Montana. He feels this is a very important bill and he looks forward to its implementation.

KEN MACMAN, Billings manufacturer, stated he feels this is the greatest bill, because venture capital so far in this state is nonexistent. He felt one thing brought up that is a good idea was regarding the $200,000 capitalization. He feels there should not be a figure placed on this, but the individual company should be judged on their individual program. He agreed with changing the date to September 1983 since the sooner this gets going, the sooner businesses will be paying taxes. Secondly he feels they should raise the $375,000 figure. He agreed it is important not to re-invent the wheel and the best way to get ahead is to steal someone else's idea. He stated we should pay more attention to our neighbor to the east, since they rank number 4 in the nation business wise, and Montana ranks number 28. He expressed hope for the passage of HB 685, since it will help put people to work.

ROBERT M. GRIFFIN, Liberty Manufacturing in Chester, stated support for HB 685. He agreed with previous testimony regarding the frustration of expansion and the necessity of expanding with equity capital. The high interest rates available through the banks have caused problems in his business, and he is presently in a reorganization process. He feels had there been venture capital available 2 years ago, he would not be in his present position. If Montana is going to get ahead in their economic development, there has to be some means where people can attain venture or equity capital.

CHAIRMAN VINCENT asked if there were any OPPONENTS to HB 685. There being no OPPONENTS to the bill, he asked for questions from the committee. There being no questions from the Committee, the hearing on HB 685 was closed. The committee went into Executive Session.

<u>EXECUTIVE SESSION</u>

REPRESENTATIVE FAGG moved to approve the bill drafting request for a committee bill to expand or supplement the umbrella bonding bill. See Exhibit N. The motion carried unanimously.

REPRESENTATIVE FABREGA stated there was a meeting of a number of people who were interested in HB 70 regarding its subject matter. At the recommendation of the committee, HB 70 was tabled. He would like to make a request for bill drafting authority on three separate bills, rather than have them all in one. They would be called revenue bills even though they do not effect revenue at the current level. The purpose of the first bill would be to provide an incentive to encourage energy conservation quality for use in the state for export. The second bill would encourage and manufacture energy efficient wood stoves in regard to minimum air pollutants. The third bill would offer tax incentives to encourage in-state manufacturers on renewable energy equipment.

REPRESENTATIVE FABREGA moved the Committee authorize the drafting of these three bills. The motion carried unanimously.

REPRESENTATIVE FABREGA moved that HB 70 BE TABLED. The motion carried unanimously.

CHAIRMAN VINCENT stated the last item of business tonight was consideration of another committee bill relative to the submission of the Constitutional Amendment No. 10, See Exhibit O.

REPRESENTATIVE METCALF moved to have a committee bill to draft the Constitutional Amendment No. 10. The motion carried unanimously.

The Executive Session adjourned at 10:42.

Mitzie Grover
Secretary

John Vincent
Representative John Vincent
Chairman

House BILL NO. 685

INTRODUCED BY Harper Van Valkenburg Vincent Fabrega

BY REQUEST OF THE GOVERNOR'S OFFICE Kennedy Oppen

A BILL FOR AN ACT ENTITLED: "AN ACT PROMOTING THE AVAILABILITY AND INVESTMENT OF DEVELOPMENT CAPITAL IN MONTANA THROUGH THE CREATION OF CAPITAL COMPANIES; PROVIDING TAX CREDITS FOR INVESTMENT IN THE COMPANIES; PROVIDING OVERSIGHT AND AUDITING REQUIREMENTS; PROVIDING THAT OFFERINGS OF THE COMPANIES ARE EXEMPT FROM SECURITIES REGISTRATION; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Short title. [This act] may be cited as the "Montana Capital Company Act".

Section 2. Declaration of policy. (1) The legislature finds and declares that:

(a) economic insecurity due to unemployment is a serious menace to the health, safety, and general welfare of not only the affected people but of the people of the entire state;

(b) involuntary unemployment, with its resulting burden of indigency, falls with crushing force upon unemployed workers and ultimately on the state itself in the form of public assistance and unemployment compensation

payments; and

(c) unemployment causes a migration of Montana workers and families seeking jobs and establishing homes elsewhere, which deprives the state of its most valuable resource, its people, and reduces the tax base of local governments, impairing their ability to provide basic services.

(2) (a) The legislature further finds that the best method of combating unemployment and protecting Montana against the loss of its people is by promoting, stimulating, developing, rehabilitating, and revitalizing the business prosperity and economic welfare of the state and its citizens.

(b) To accomplish this goal, the legislature seeks to encourage the formation of venture and equity capital in Montana for use in diversifying, strengthening, and stabilizing the Montana economy by increasing Montana employment and business opportunities while protecting the peoples' constitutional right to a clean and healthful environment.

(3) The legislature further finds that:

(a) private investment of venture and equity capital in the Montana economy will be encouraged and promoted by making tax credits available to taxpayers investing in Montana businesses;

(b) demands on state revenues restrict the financial

 INTRODUCED BILL

HB 685

ability of the state to make unlimited tax credits available for investment purposes and require that the state place reasonable limits on the total amount of tax credits to be made available for investment incentive;

(c) establishment of a rational tax credit program which gives priority to investments in the order of time in which they are committed will encourage prompt private investment in Montana businesses.

Section 3. Purpose. (1) The purpose of [this act] is to promote the development of the human resources and the diversification of the economy of Montana. The venture capital generated by [this act] must be used to encourage and assist the strengthening of the economy through loans, equity investments, and other business transactions for purposes of developing new small business and industry in Montana, rehabilitating existing small business and industry, and stimulating and assisting in the expansion of small business activities that promote and maintain the economic stability of the state by providing maximum opportunities for employment and improving the standard of living of the people of Montana.

(2) [This act] is aimed at:

(a) increasing the availability of development capital in order to encourage and assist in the creation, development, and expansion of small businesses based in

Montana and controlled or managed by residents of Montana;

(b) aiding those businesses to which risk and equity financing are not readily or fully available through traditional sources;

(c) developing, preserving, diversifying, expanding, and strengthening the agricultural, industrial, and business base of Montana's economy, particularly for those small businesses utilizing the state's technical, managerial, and research resources in domestic and international markets; and

(d) providing the residents of Montana with greater opportunities to invest and participate in the economic development and potential of the state.

Section 4. Definitions. As used in [this act], unless the context requires otherwise, the following definitions apply:

(1) "Capital base" means equity capital or net worth.

(2) "Certified Montana capital company" means:

(a) a development credit corporation created pursuant to Title 32, chapter 4; or

(b) a profit or nonprofit entity organized and existing under the laws of Montana, created for the purpose of making venture or risk capital available for qualified investments and that has been certified by the department.

(3) "Department" means the department of commerce

provided for in Title 2, chapter 15, part 18.

(4) "Montana business" means a business which is located or principally based within Montana.

(5) "Qualified investment" means a debt or equity financing of or a purchase and leaseback financing of a Montana business that meets both of the following criteria:

(a) the business is engaged in one or more of the following activities:

(i) manufacturing;

(ii) agricultural, fishery, or forestry production and processing;

(iii) mineral production and processing, except for conventional oil and gas exploration;

(iv) recognized nonfossil forms of energy generation as defined in 15-32-102(5);

(v) transportation;

(vi) research and development of products or processes associated with any of the activities enumerated in (i) through (v) above;

(vii) wholesale or retail distribution activities for which products produced in Montana comprise 50% or more of the gross sales receipts; and

(viii) any activity conducted in the state for which 50% or more of the gross receipts are derived from the sale of products or services outside Montana; and

(b) the business is a small business as defined in rules adopted by the department.

(6) "Qualified Montana capital company" means a certified Montana capital company that has been designated a qualified capital company under the provisions of [section 6] so that investors in the company may receive the tax credits authorized in [section 6].

Section 5. Certification of Montana capital companies. (1) Every 6 months, commencing March 1, 1984, or 3 months after rules are adopted to implement [this act], whichever occurs first, the department shall certify Montana capital companies. A company seeking to be certified as a Montana capital company must make written application to the department on forms provided by the department. The application must contain the information required by [section 16] and such other information as the department requires. The application and certificate must specify the level of capitalization that the company expects to qualify for the tax credits provided for in [section 6].

(2) The application must show that the applicant's purpose is to encourage and assist in the creation, development, and expansion of Montana-based businesses and to provide maximum opportunities for the employment of Montanans by making venture capital available to sound small Montana firms.

(3) Certifiable applicants include but are not limited to local and community development corporations, small business administration 503 corporations, and small business investment companies.

(4) Certification is a prerequisite to and must be completed before seeking designation as a qualified capital company.

Section 6. Designation of qualified Montana capital companies -- tax credit. (1) Every 6 months, commencing 6 months after the first date on which the department certifies a Montana capital company, the department shall designate as qualified Montana capital companies those certified companies that have been privately capitalized at a minimum level of $200,000. A certified company seeking designation as a qualified Montana capital company must make written application to the department on forms provided by the department. The application must contain the information required by [section 16] and such other information as the department requires. The application must be accompanied by a bond sufficient to cover the cost of any penalty that could be assessed under [section 7(4)].

(2) The total amount of tax credits authorized for a single qualified company may not exceed the company's private capitalization or $375,000, whichever is less. In the event the capitalization of the company is later

increased, the company may apply for authorization of additional tax credits within the foregoing limitation. The total credits authorized for all companies may not exceed a total of $1 million prior to June 30, 1985. The total credits authorized for all companies between July 1, 1985, and June 30, 1987, may not exceed $1 million plus any portion of the $1 million available for authorization before June 30, 1985, that is allocated to qualified companies. The credits shall be allocated to qualified companies in the order that completed applications for designation as qualified capital companies are received by the department, and the department shall certify to each such company its appropriate allocation.

(3) Investors in a qualified Montana capital company are entitled to the tax credits provided for in subsection (4). Funds invested in a certified company prior to designation as a qualified Montana capital company may, at the discretion of the investor, be placed in an escrow account in a Montana financial institution pending designation of the company as a qualified Montana capital company.

(4) Subject to the provisions of subsection (2), an individual, small business corporation, partnership, or corporate taxpayer who makes a capital investment in a qualified Montana capital company is entitled to a tax

credit equal to 25% of the investment, up to a maximum credit of $25,000 per taxpayer. The credit may be taken against the tax liability imposed on the investor pursuant to Title 15, chapter 30 or 31. The credit for investments by a small business corporation electing to be taxed under 15-31-202 or a partnership may be claimed by the small business corporation shareholders or the partners.

(5) The tax credit allowed under subsection (4) is to be credited against the taxpayer's income tax liability for the taxable year in which the investment in a qualified Montana capital company is made. If the amount of the tax credit exceeds the taxpayer's tax liability for the taxable year, the amount of the credit which exceeds the tax liability may be carried back or carried forward in accordance with the provisions of section 46(b) of the Internal Revenue Code of 1954, as amended.

(6) The tax credit provided for in this section is available only to those taxpayers who invest in a qualified Montana capital company within 5 years of [the effective date of this act].

Section 7. Unused investments -- company penalty. (1) If the amount invested by a taxpayer in a qualified Montana capital company is not used by the company for qualified investments as provided in subsection (2), the taxpayer is not subject to a recapture provision for any tax credit

claimed by him but the company is subject to the penalty provided for in subsection (4).

(2) A qualified Montana capital company receiving investments for which a taxpayer has applied and received a tax credit must use its capital base to make qualified investments according to the following schedule:

(a) at least 30% of its capital base within 3 years of the date on which tax credits were certified as allocated to the company for investment;

(b) at least 50% of its capital base within 4 years of the date on which tax credits were certified as allocated to the company for investment; and

(c) at least 70% of its capital base within 5 years of the date on which tax credits were certified as allocated to the company for investment.

(3) Following each annual examination, the commissioner of financial institutions shall notify the department of revenue of any companies that are not in compliance with this section.

(4) A qualified Montana capital company that fails to make qualified investments pursuant to subsection (2) shall pay to the department of revenue a penalty equal to all of the tax credits allowed to the taxpayers investing in that company during that time period, with interest at 1% a month from the date the tax credits were certified as allocated to

the qualified Montana capital company. The department of revenue shall deposit any amount received under this subsection to the credit of the state general fund.

Section 8. Investment reporting and recordkeeping. (1) Each qualified Montana capital company shall report to the department on a quarterly basis:

(a) the name of each investor in the qualified Montana capital company who has applied for a tax credit;

(b) the amount of each investor's investment; and

(c) the amount of the tax credit allowed to the investor and the date on which the investment was made.

(2) The department shall provide the information contained in subsection (1) to the department of revenue on a quarterly basis.

(3) The department shall provide each investor in a qualified Montana capital company with a certificate authorizing the tax credit, and the certificate shall be submitted with each tax return requesting a credit under [section 6].

(4) Each qualified Montana capital company shall report to the department on a quarterly basis all qualified investments that the company has made. The department shall share the information with the department of revenue, in order that the provisions of [section 7] may be complied with.

Section 9. Restriction on investment. No more than 50% of the capital base of a Montana capital company may be invested in any one Montana business, and no more than 25% of the total funds raised for which tax credits were claimed pursuant to the investment credit provisions of [this act] may be invested in any one Montana business.

Section 10. Conflict of interest. (1) The director of the department, the commissioner of financial institutions, or a bank examiner may not have a monetary interest in or be a borrower from any Montana capital company, either directly or indirectly.

(2) A member of the investment committee of a Montana capital company who has an interest in a venture that comes before the committee for a vote shall disclose such interest and abstain from voting on investment in the venture.

Section 11. Legislative review and oversight. The department shall report on an annual basis to the revenue oversight committee of the legislature concerning Montana capital companies.

Section 12. Examination. (1) At least once a year the bank examiners of the department of commerce shall examine the books and affairs of each Montana capital company. The examination must address the methods of operation and conduct of the business of the Montana capital company to determine if the company is abiding by the purposes of [this act] and that the funds received by the company have been invested within the time limits required for a qualified Montana capital company in [section 7].

(2) The department of commerce may examine under oath any of the officers, directors, agents, employees, or investors of a Montana capital company regarding the affairs and business of the company. The department of commerce may issue subpoenas and administer oaths. Refusal to obey such a subpoena may at once be reported to the district court of the district in which the company is located, and the court shall enforce obedience to the subpoena in the manner provided by law.

(3) The cost of the annual review must be paid by each Montana capital company in accordance with reasonable fees assessed by the department.

Section 13. Decertification. (1) If the examination conducted pursuant to [section 12] discloses that a Montana capital company is not in compliance with the provisions of [this act], the department of commerce may exercise any of the powers with regard to banks granted in Title 32, chapter 1, part 5, and may seize the assets of the company and liquidate it.

(2) If in the discretion of the department of commerce the action allowed under subsection (1) is not required to protect the company's investors, the department of commerce

may place the company on notice that it will lose its certification as a Montana capital company within a specified period of time if the company does not come into compliance with the provisions of [this act].

(3) As long as the department acts in good faith, the department and its employees and agents may not be held civilly or criminally liable or liable upon their official bonds for action taken under this section or for any failure to act under it.

Section 14. Application of securities law. In lieu of registration under Title 30, chapter 10, a Montana capital company may file all disclosure documents, along with a consent to service of process, with the state securities commissioner. The commissioner may not charge a fee for such filing or deposit.

Section 15. State liability disclaimed. The state of Montana may not be held liable for any damages to an investor in a Montana capital company that fails to become designated as a certified or qualified Montana capital company.

Section 16. Application requirements. A company applying to become either a certified or qualified Montana capital company shall include in its application evidence that it has disclosed or will disclose to all investors the following:

(1) the condition that a tax credit is not available for investment in a company until the company has been designated a qualified Montana capital company and the investor has received a certificate approving the credit from the department;

(2) the terms and conditions under which a company may be denied designation as a qualified Montana capital company and the limits on tax credits that may be authorized; and

(3) the fact that the state of Montana is not liable for damages in accordance with [section 15].

Section 17. Rulemaking. The department may adopt rules to implement the provisions of [this act].

Section 18. Coordination. (1) If either House Bill No. 100 or ____ Bill No. ____ [LC 1148], including the sections of those bills creating the Montana economic development board, is passed and approved, all references to "the department of commerce" in sections 4 through 11 of this act are changed to "the Montana economic development board".

(2) If section 17 of House Bill No. 100 is passed and approved, "the committee" referred to in section 11 of this act is changed to "the economic development oversight committee".

Section 19. Severability. If a part of this act is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of this act is invalid in

one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

Section 20. Effective date. This act is effective on passage and approval.

-End-

VISITOR'S REGISTER

HOUSE SELECT ECONOMIC DEVELOPMENT COMMITTEE

BILL HB 685 DATE 2/10/83

SPONSOR

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
Janelle Fallan	Helena	Mont Chamber	X	
Dick Remington	Helena	Mont Devel Credit Corp	X	
Carol Daly	Helena	Mt Econ Dev. Ass'n.	X	
Ron Harmon	Havre	Big Bud Tractors	X	
Robert M. Guffin	Chester	Liberty Mfg.	X	
Dick Brown	Helena	DCCM	X	
Jon Marchi	Great Falls	D.A. Davidson	X	
Mike Fitzgerald	Helena	Mt Tel. Com	✓	
John Scully	Bozeman	Mont Ind. Bankers	✓	
FRED FLANDERS	HELENA	NORTHWESTERN BANK HELENA	✓	
Terry Murphy	Gt Falls	Mt Farmers Union	X	
Don Judge	MT STATE AFL-CIO	Helena		
Gary Buchanan	[illegible] Comm	Helena	✓	
Don Reed	Helena	MFIC	✓	
Ken Kopach	Great Falls	Economic Growth Council of Great Falls	✓	
Casey Emerson	Bozeman	[illegible]	✓	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

FORM CS-33
1-83

STATEMENT OF INTENT

HOUSE BILL 685

A Statement of Intent is required for House Bill 685 because it grants rulemaking authority to the Department of Commerce to implement the act.

It is the intention of the legislature that the tax credits herein provided be applied only in the case of properly qualified investments. It is therefore the intention of the legislature that the department of Commerce, in making rules to define a small business, use whatever means necessary to arrive at a definition of small business which takes into account the unique nature of Montana small business. It is similarly the intention of the legislature that in the development of rules for certification and qualification of capital companies, the department shall take into account the capital needs of the state based upon such information made available to it on its own initiative and through such hearings as are necessary to achieve the purposes of the act. It is further the intention of the legislature that in determining such rules as are necessary to carry out the examination functions of the act, the department shall take into account commonly accepted principals of financial institution examinations currently

EXHIBIT A.

in use in.the examination of banks and other such institutions. It is further the intention of the legislature that the rules authorized in the act be adopted in a timely fashion.

-END-

STATE OF MONTANA

REQUEST NO. 366-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 10, , 19 83 , there is hereby submitted a Fiscal Note for House Bill 685 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA). Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 685 authorizes the creation of Montana capital companies, their certification by the Department of Commerce and a total of $1,000,000 in tax credits against personal or corporate income tax for each of the next two bienniums for investors in the "qualified" capital companies. Qualified capital companies must have a minimum of $200,000 capitalization and tax credits are limited to $25,000 per investor. The act provides for the annual examination of the companies by the commissioner of financial institutions and repayment of tax credits and penalties by a capital company that fails to make qualified investments as authorized by the act. The act will be administered by the Department of Commerce or the Montana Economic Development Board if House Bill 100 is adopted.

ASSUMPTIONS:

1) Ten companies with $400,000 capital base each will be certified and authorized by the end of the biennium so that the entire $1,000,000 in tax credits will be used.
   Assume that the tax credits will be taken in FY 1985, although they can be carried both forward five years and back three years.
3) Companies will not begin actual operations until second year of biennium.
4) Company with $400,000 in capital base could leverage another $1,600,000 in investments.
5) Examination of companies will be somewhat simpler than examination of depository financial institutions and will take only 1/2 of the examination man-days to examine and produce a report that it would take for a depository institution of the same size.
6) Staff work for certification, qualification, adoption of rules, examination, and granting tax credits can be done by existing staff of the Department of Commerce and Revenue.

FISCAL IMPACT:

	FY84	FY85
General Fund		
Reduction Due to Credit	$ -0-	$ (750,000)
Exam Fees Deposited	-0-	11,000
Net Decrease	$ -0-	$ (739,000)
School Foundation Program		
Reduction Due to Credit	$ -0-	$ (250,000)
Expenditures:		
Adopt rules, printing, etc.	$ 3,700	$ -0-
Examination process	11,000	11,000
Total	$11,000	$ 15,700

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-15-83

FISCAL NOTE 13:P:1

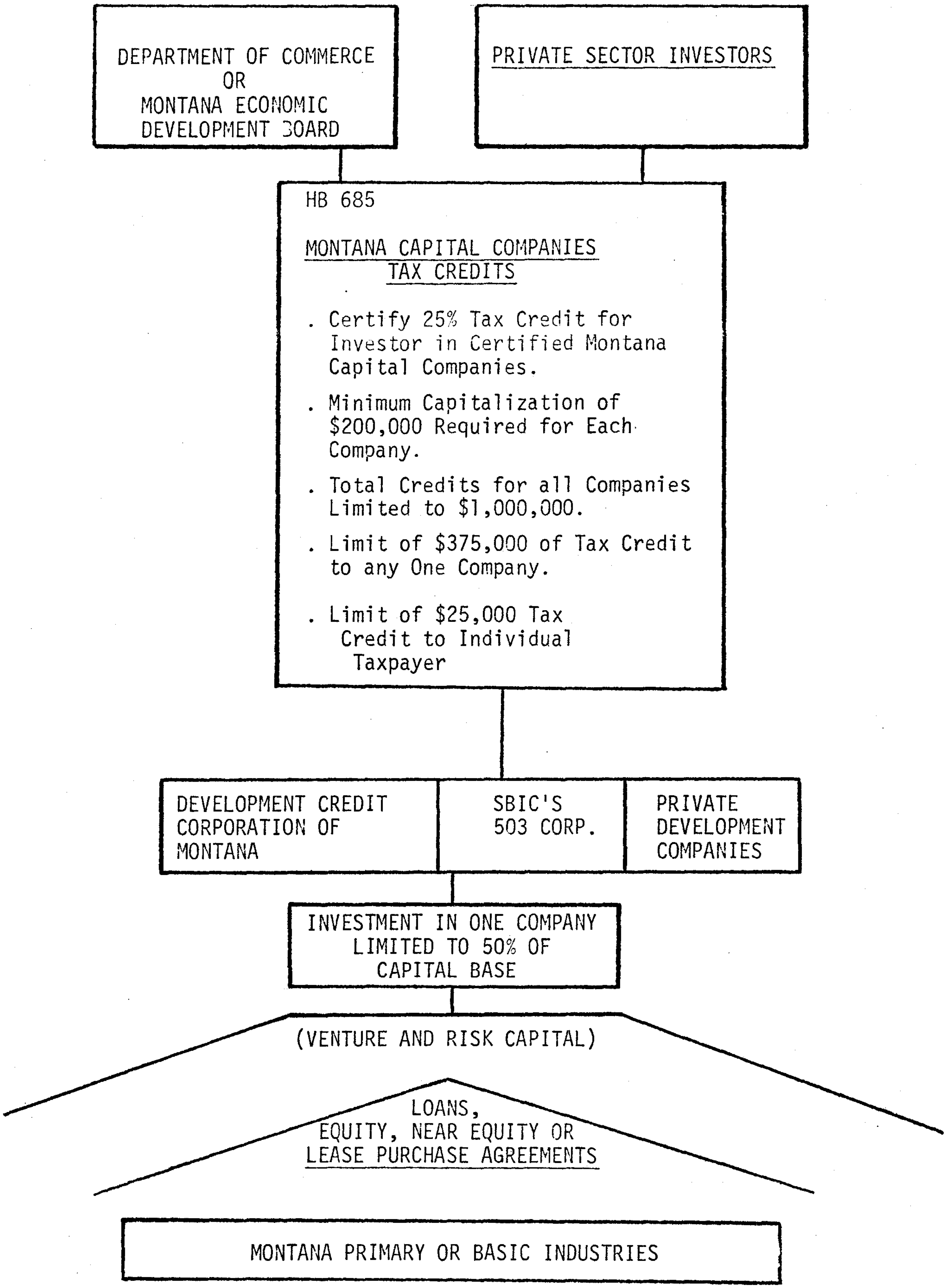
DEPARTMENT OF COMMERCE
OR
MONTANA ECONOMIC
DEVELOPMENT BOARD
PRIVATE SECTOR INVESTORS
HB 685
MONTANA CAPITAL COMPANIES
TAX CREDITS
. Certify 25% Tax Credit for Investor in Certified Montana Capital Companies.
. Minimum Capitalization of $200,000 Required for Each Company.
. Total Credits for all Companies Limited to $1,000,000.
. Limit of $375,000 of Tax Credit to any One Company.
. Limit of $25,000 Tax Credit to Individual Taxpayer
DEVELOPMENT CREDIT CORPORATION OF MONTANA
SBIC'S
503 CORP.
PRIVATE DEVELOPMENT COMPANIES
INVESTMENT IN ONE COMPANY LIMITED TO 50% OF CAPITAL BASE
(VENTURE AND RISK CAPITAL)
LOANS,
EQUITY, NEAR EQUITY OR
LEASE PURCHASE AGREEMENTS
MONTANA PRIMARY OR BASIC INDUSTRIES

EXHIBIT B

SCHEDULE

Effective Date of Act (Estimate)	March 31, 1983
Adoption of Rules to (Estimate) Implementation Act	April - November 30, 1983
Application Period	November 30 - April 31
Certification of Capital Companies	March 1, 1984 - And Every Six Months Thereafte
Designation of "Qualified" Capital Companies	September 1, 1984 - And Every Six Months Thereafte

OPERATION

30% Invested Within 3 years
50% Invested Within 4 years
70% Invested Within 5 years

QUARTERLY REPORTS

ANNUAL EXAMINATION

INVESTING IN AMERICA

INITIATIVES FOR COMMUNITY AND ECONOMIC DEVELOPMENT

The President's Task Force on Private Sector Initiatives

EXHIBIT C

6 VENTURE CAPITAL

By The National Association of Small Business Investment Companies

Atari, Federal Express, Air Florida, Pizza Time Theatres, Kentucky Fried Chicken, Hospital Corporation of America, Digital Equipment and Apple Computer all have something special in common. In addition to being highly successful companies, the development of each was financed, in part, by venture capital dollars.

Perhaps no investment area profiled in this book is as dynamic today as venture capital. For a variety of reasons, the field is rapidly changing and expanding, developing innovative financing tools and broadening the scope of venture investing.

Traditionally, venture capital has referred to the money invested by professionals in a selected few small or embryonic businesses, in the hope they will grow and become very profitable. Such investments, by nature quite risky, can mean enormous payoffs for venture capitalists with shares in the earnings of companies that become highly successful.

This classic definition still applies, but only illustrates part of the picture of venture capital investing today. After a relative pausity of activity during the mid-1970s, venture investing is booming. New financing tools are being developed; more traditional ones are seeing a resurgence and being used in new ways. Innovative venture partnerships involving public as well as private participants are greatly expanding the role of venture capital in revitalizing distressed areas and industries. Even the parameters of what constitutes venture capital are expanding: at its broadest, it may today include the dollars invested by employees in the highly risky venture of buying a plant no longer considered profitable enough by the parent owners.

Two essential elements distinguish venture capital financing from other types of business investments. First, venture capital investments usually have strong equity features. Second, venture investors generally remain involved in the management and progress of the businesses they finance, sitting on the firms' boards, almost always as a minority shareholder, and providing counseling, often without cost. These non-financial contributions are not a matter of charity; they are made because the venture capital investors will profit only if the companies grow.

Between 450 and 500 organized venture capital companies operate in the United States today, holding investments worth more than $6 billion. In addition to the organized and professionally managed venture capital funds--the subject of this chapter--there are hundreds of thousands of individuals who have made true "venture capital" investments—in the birth or growth of small family owned businesses, for example. No precise information can be collected on the magnitude of these informal venture capital flows. But it is important to mention this pool, because it is so critical in the formation of businesses and because government policies can impact heavily on capital formation through this mechanism.

Venture capital firms made record investments in 1981, some $1.4 billion in disbursements, compared with only $250 million in 1975 and $400 million in 1977. Some believe that the industry is growing so fast that there may actually be a shortage of experienced venture capitalists to manage the growing supply of available capital. But while the industry has more than doubled in size in the past five years, it still holds only a tiny percentage of the nation's capital. For comparison take pension funds, with close to $800 billion worth of investments in their portfolios. If pension fund managers were to invest just one percent of their assets in venture capital, the industry would more than double overnight. (Actually, as we shall examine later, many large capital sources, including pension funds and even foreign investors, are beginning to devote more of their assets to venture investments.)

Venture capitalists are highly selective, choosing for investment only a minute percentage of the funding requests they receive. The typical venture firm might review 200 to 300 proposed ventures annually, prepare a detailed analysis for 25 or 30, and fund five. Probably only one of those five will produce significant profits. Investors are looking for entrepreneurs who can develop a new or better product or service which has the potential to fill or create a niche in the market. They are seeking businesses with the potential to grow to a fairly large size rapidly. Key factors in making the investment decisions include technology, market, and business plan, and especially management talent. A cliche in the venture capital industry is that a company with a second rate idea and first rate management is a better investment risk than one with a first rate idea and second rate management. Among the skills the venture firm is looking for are unique technical know-how, a proven management track record, knowledge of manufacturing, marketing and finance, and a high level of commitment to the enterprise.

Since most firms receiving venture capital will not be highly successful, the venture capitalist hopes to make big profits on the 10 percent or so that are. Growth is extremely important. A critical milestone to the venture financier is the ability of a funded company to "go public": that is, to obtain further equity capital through the public sale of stock. Going public usually provides the venture investor the highest return on invested capital.

Since only a small percentage of venture funded firms actually go public, venture financiers have other means for "cashing out" their investments. The venture capitalist can sell shares in successful firms to other investors; some have even proposed creating a publicly supported secondary market to do so. Venture capitalists can cash out if a funded firm is bought by others or merged with another firm. Or the venture financier can negotiate a "put" with a funded firm—that is an agreement to sell the firm's stock or options back to the entrepreneur at some pre-determined multiple of earnings. Generally, "puts" are used when a debt financing instrument is involved. They are agreed upon at the beginning of the venture financing, but are not to be called in for at least five years, and ordinarily not until the funded firm has paid back its loan.

Although the pool of venture capital is small, many believe the industry's investments--because they are heavily weighted toward new technologies and job creating small enterprises—have a disproportionate impact on the nation's economy. The Government Accounting Office, in a 1982 report, Government Industry Cooperation Can Enhance the Venture Capital Process (GAO/AFMD-82-35, August 12, 1982), found: "...this small segment of the U.S. economy has produced disproportionately large benefits to the Nation's productivity and economic well-being." Venture capital funded firms had unusually high levels of productivity and job creation, GAO found in its evaluation of 1332 companies receiving $1.4 billion in venture investments during the 1970s. The $209 million in venture funds invested in 72 firms that eventually went public was ultimately responsible for an estimated 130,000 jobs, over $100 million in corporate tax revenues and $350 million in employee tax revenues, and $900 million in export sales, the report showed. In addition, GAO found, the products produced by venture capital funded firms tended to be productivity enhancing, contributing to the formation and development of new and economically promising industries. Other studies have tended to confirm GAO's conclusions.

Composition of Venture Capital Industry

Private venture capital firms supply about half of all the venture capital invested in enterprises. Most private venture capital firms are organized as limited partnerships. They are managed by a small team of general partners and financed by limited partners, including pension funds, insurance companies, wealthy individuals and endowments, who invest funds to make up a capital pool. Some private venture capital firms are organized in corporate form; still others are the family funds--the Rockefeller, Whitney and Phipps, for example--which are managed professionally by outsiders. As a group, the estimated 130 private venture capital firms in the United States had committed about $3.3 billion in venture investments as of July 1982.

Sources of Funds

The following table details the major sources of capital committed to the private venture capital companies from 1980 through the first half of 1982.

CAPITAL COMMITMENTS
(Independent Private Firms Only)
(millions)

				Percent of Total Capital Committed		
	1980	1981	1982 (6 mos)	1980	1981	1982
Pensions Funds	$197	$200	$228	30%	23%	32%
Individuals/Families	102	201	115	16	23	16
Insurance Companies	88	132	112	13	15	16
Foreign	55	90	107	8	10	15
Corporations	127	142	90	19	17	13
Endowments/Foundations	92	102	54	14	12	8
TOTAL	$661	$867	$706			

Source: Venture Capital Journal, July 1982.

As the table shows, both pension funds and foreign investments have increased dramatically as a source of venture capital funds, more than equalling their 1981 total in only six months of 1982.

A second category of venture capital organizations are the Small Business Investment Companies (SBICs). Although licensed and regulated by SBA, their investments and management decisions are made on a completely private basis. There is one key distinction between SBICs and other private venture capital firms: SBICs can borrow from SBA (at an interest rate somewhat above the cost of money to the U.S. Treasury) and use these funds for further investments. Minority Enterprise Small Business Investment Companies (MESBICs) provide equity and debt financing for firms owned by minorities and economically disadvantaged persons. Like SBICs, MESBICs can leverage private dollars with federal dollars creating a pool of capital several times the initial pool. SBICs vary dramatically in size. Many are owned by a relatively small group of local investors. Some are owned by corporations; 20 are publicly owned. Another 70 are owned partially or wholly by commercial banks. The nation's largest SBICs is Citicorp Venture Capital Limited, a subsidiary of Citicorp; it has over $37 million in private capital to invest. As of July 1982, there were 360 SBICs and 125 MESBICs in the United States. They had committed almost $2 billion to venture investments, financing about 1800 firms in 1981 alone.

The final type of organized venture capital firms are the corporate subsidiaries, divided into two categories: financial and industrial. The financial subsidiaries are owned primarily by banks; insurance companies, too, have formed venture capital subsidiaries. (Allstate's is one of the oldest and most successful). In the industrial sector are the venture capital firms owned by such companies as Exxon, General Electric, Xerox, Monsanto, and Emerson Electric. As of July, 1982, corporate venture capital firms had committed about $1.7 billion in investments.

Who Receives Venture Capital

Venture capitalists tend to seek out new technologies, new goods or new services to invest in, and not surprisingly, a large share of the venture capital investments today tend to be in high technology oriented businesses. But venture capitalists are not concerned solely with "growth industries:" they have also made good profits by pioneering investments in "growth companies" in non-high tech fields, or so-called "mundane" industries. Some of the most successful include nursing homes and health care companies, intrastate and regional airlines (Air Florida and Midway Airlines), cable television franchises, and commercial and financial services (Federal Express Corp. and Pandick Press).

The chart on the following page shows the distribution of venture capital investments by industry type during 1980 and 1981.

1981 Disbursements—Private Venture Capital Partnerships

	Percent of Total Number of Investments	
	1981	1980
Communications	11.4%	11.5%
Computer Related	30.0	27.4
Other Electronics Related	14.5	9.6
Genetic Engineering	6.2	4.2
Medical/Health Related	7.0	10.5
Energy	4.9	8.3
Consumer Related	4.9	7.5
Industrial Automation	6.2	4.5
Industrial Products	4.4	3.6
Other	10.5	12.9

Source: Venture Capital Journal, June 1982.

Venture Capital Financing

Venture capital is used for a wide variety of purposes: to develop the ideas for a product, to start businesses, expand them or prepare them for going public. There is no single way to structure venture capital financing. Venture capitalists often buy common stock in a business, exchanging capital for a "share" in the enterprise, usually taking a minority ownership position. Or they may purchase preferred stock, usually convertible into common stock, giving the financier a share of earnings before anyone else, but little or no voting rights. Another popular equity-type instrument in venture financing is convertible debt, where in addition to a commitment to interest and principal repayment (usually long-term), the enterprise gives the venture financier the right to convert debt notes into common stock. Subordinated long-term debentures are another common form of financing; in the event of default on this kind of loan, the lender is paid only after senior creditors, such as banks or commercial finance companies, who have prior claim on a firm's assets, are paid off. A venture firm may also assist a small business by guaranteeing loans or advances made by senior creditors. Most often, the venture capital financing is structured by using two or more of these instruments. In every case the format is different, designed to meet the specific needs of the business and the investor.

For the small firm, each type of financing has certain advantages. The sale of common stock strengthens the balance sheet of a growth firm, enabling it to borrow more from traditional lenders. But the entrepreneur must give up a larger share of the ownership of the business, than would be the case if some of the financing were in the form of debt. Preferred stock carries an obligation to pay dividends out of after-tax income when the firm is profitable. Loans from venture capital firms are almost always long-term--seven years is the average for SBICs--and ordinarily subordinated to all other borrowings of the firm, to encourage senior creditors to extend and expand their line of credit.

One increasingly popular kind of venture arrangement is the "leveraged management buy out," where the management of a corporate subsidiary or division, together with an investor or investor group, purchases the subsidiary or division. The equity contributed by the investor and management purchasers is usually only 20 to 30 percent: the remainder is borrowed from banks and other institutions. The seller is usually a large corporation which has not achieved the benefits it expected when it either formed or bought the subsidiary or operation.

Financing Stages

Venture capital may be provided to firms at varying stages of development, each carrying different risks and payoffs for the financier. Early stage money, for example, may promise the greatest profits if the firm is successful, but also carries the most risk, requiring more hands on involvement for the venture firm and the possibility of open ended financial commitments.

The following chart shows the six financing stages for a developing business. These are not rigid or fixed, however. Venture capital can be used in any stage.

Early Stage:

Seed Financing—a relatively small amount of capital provided to an investor or entrepreneur to prove a concept. It may involve product development but rarely involves initial marketing. This kind of investment is sometimes referred to as "adventure financing."

Startup--financing for use in product development and initial marketing. Companies may be in the organization process or they may have been in business a short time (one year or less), but have not sold their product commercially. Usually, such firms would have assembled the key management, prepared a business plan, made market studies, and generally prepared themselves to do business.

First Stage Financing—financing provided to companies that have expended their initial capital (often in developing a prototype) and require funds to initiate commercial manufacturing and sales.

Expansion:

> **Second Stage Financing**--working capital for the initial expansion of a company which is producing and shipping, and has growing accounts receivable and inventories. Although the company has clearly made progress, it may not yet be showing a profit.
>
> **Third Stage Financing**--funds provided for major expansion of a company whose sales volume is increasing, and that is breaking even or profitable. These funds are utilized for further plant expansion, marketing, working capital or an improved product.
>
> **Fourth Stage (Bridge) Financing**--financing for a company expecting to go public within six months to a year.

The venture capital industry has gone through several swings in its financing patterns. Seed and start-up financing flourished during the 1960s, when venture firms stressed new business creation over on-going development. That reversed in the mid-1970s, when start-ups fell to only 10 percent of venture financing; today, early stage financing is again being emphasized, accounting for 52 percent of the 1981 venture dollars invested.

SBICs, which must pay interest on their loans from SBA, tend to invest in enterprises that are slightly more established. Only about one third of the firms financed by SBICs in 1981 were start-ups, while more than 13 percent were over 10 years old. More than 60 percent of SBIC dollars, however, went to firms less than three years old. Two thirds of the dollars invested by SBICs were used by recipient firms for operating capital.

Origins of Organized Venture Capital

Throughout its history, the United States has depended on venture capital to fuel its economic growth. George Washington and many others provided the funds for digging canals and building roads and railroads; later the duPonts helped finance General Motors; Mellon dollars built Gulf Oil and Alcoa; the Rockefellers took some of their oil dollars to fund Eastern Airlines. Less dramatic are the hundreds of thousands of examples of relatively small investments by family members and friends in hometown success stories in all parts of the country.

As an organized industry, venture capital was not highly visible before 1946, when the American Research and Development Corp.

(AR&D) revolutionized the nature of venture investments. Family funds, such as those organized by the Rockefellers, the Whitneys, and the Phipps were operating, but without publicity, so the typical entrepreneur had no access to these sources of venture funding.

AR&D, organized by a group of New England business leaders and headed by Gen. Georges Doriot, a Harvard Business School professor, was formed solely for the purpose of making venture investments. It supplemented its initial private capital by several public offerings of its stock; the resulting capital pool was invested heavily in high technology companies. Like the venture capital firms of today, AR&D gave managerial assistance and technical advice to its portfolio firms. In 1957, AR&D added to its portfolio a $70,000 investment to start a firm called Digital Equipment. Digital Equipment experienced early financial problems. But as the company matured, its value increased until AR&D's initial venture investment had evolved into a holding worth more than $300 million. AR&D's experiences helped convince others of the profits to be made in venture investing.

The next milestone in the development of the venture capital industry was the 1958 Small Business Investment Act, which authorized the SBIC program. Also that year, Congress took several actions in the tax field which had the effect of promoting capital formation for smaller firms and assisting in the formation of new businesses. These included: permission for closely-held corporations to elect to be taxed as partnerships; authority for losses on investments in small businesses to be written off against ordinary income; and the beginning of a graduated tax rate on corporate income.

Many SBICs were organized during the 1960s, and in the late 1960s and early 1970s, a number of venture capital firms were formed, many as partnerships but some as corporations and others as subsidiaries of major firms. In 1969, the SBIC pattern was extended to minority firms with the establishment of the MESBIC program.

After the rapid growth of the industry in the 1960s, many SBICs and venture capital firms left the business in the mid 1970s, due in part to changes in federal tax and regulatory policies and the depressed state of the over-the-counter securities market. In 1978, the industry began to revive as rates of return for venture firms improved and as new tax and other federal policies provided greater incentives for venture investments.

During the venture capital industry's relatively short existence, the highly visible success stories of venture backed firms such as Apple Computer, Control Data, Teledyne, Intel, Amdahl, Federal Express and Cray Research have continued to encourage expansion. Today venture capital companies tend to be concentrated in six or eight major metropolitan areas, including Boston, New York, Chicago, Minneapolis, Dallas, San Francisco and Los Angeles, although more geographic dispersion is occurring as new firms are established. The enterprises receiving venture investments also tend to be concentrated in a few states—California, Massachusetts, and New York, for example—where high technology firms are plentiful. Those three states accounted for 57 percent of the venture capital disbursements in 1981.

The Impacts of Federal Policy

Venture capital firms, depending on type, experience varying degrees of government regulation. SBICs and MESBICs are regulated by SBA; those that are publicly-owned are also regulated by the Securities and Exchange Commission, under either the Investment Company Act of 1940 or the Small Business Investment Incentive Act of 1980. Publicly-owned private venture capital firms are also regulated by SEC. The other segments of the venture capital community are free from any regulatory framework, but as is the case with all parts of the industry, must operate under federal and state securities laws.

Many students of the venture capital industry believe federal tax and regulatory policies have an important impact on the flow of venture capital to new enterprises. "The venture capital process is very sensitive to government policies, rules and regulations," concluded GAO in its comprehensive report. The Tax Acts of 1969 and 1976, which raised the federal tax rate on capital gains from 25 percent to 49 percent and altered the tax treatment of stock options, are frequently cited as contributing to the decline of venture investment activity in the 1970s, when disbursements dropped from nearly $500 million in 1969 to $250 million in 1975.

The federal actions may have had a ripple effect on venture financing and new enterprise formation, GAO concluded. With the perception of reduced capital availability, entrepreneurs became less inclined to pursue new business ventures. With stock options less attractive, experienced managers and technocrats became less inclined to abandon secure careers for entrepreneurial ventures. Venture capital firms tended to shift from start-ups to more short-term investments in existing businesses, and, GAO found, the number of venture firms declined.

The number of companies going public also declined significantly during the early 1970s, from an annual average of 721 from 1968 to 1972 to only 55 in 1974 and an average of 45 from 1975 to 1978. Some believe the federal tax laws and securities regulations were largely responsible for the decline in the number of new issues; others cite generally poor economic conditions during the 1973-1976 recession as the key factor. Whatever the cause, the poor securities market was an impediment to venture financing.

In 1978 Congress cut the tax rate on capital gains back to 28 percent, and venture funding, which had been increasing slowly since the lowpoint in 1975, shot up dramatically, from around $400 million in disbursements in 1977 to $1 billion in 1979. Congress lowered the rate again in 1981, to a maximum of 20 percent, and reversed the changes in stock option provisions that had been enacted in 1976. Another government regulatory action cited as having a significant impact in encouraging venture financing was the decision by officials at the Labor Department to take a more liberal view of the "prudent man" requirements of the Employee Retirement Income Security Act of 1974, governing the investment of pension fund assets, to allow for some more "risky" investing.

CASE EXAMPLES

The Private Venture Capital Firm: Oxford Partners

Like most private venture capital companies, Oxford Partners operates as a limited partnership. Oxford Partners manages the Oxford Venture Fund, a $20 million capital pool, made up of investments from pension funds, corporations, wealthy individuals, insurance companies, bank trust departments, and others.

Oxford Partners began in June 1981. It now has nine investments in its portfolio, all high technology oriented companies, with names such as Aspech, Queue Systems, RF Monolithics, Faded J, and Micro General. Oxford generally makes equity investments, usually purchasing common or preferred stock. It stresses early stage financing.

Oxford Partners will only consider business plans submitted for financing. It receives somewhere around 50 funding requests per month, from which fewer than one percent are selected.

The SBIC: Northwest Growth Fund

Founded in 1961, this Minneapolis-based company has been one of the nation's largest and most successful SBICs, investing more than $65 million in 165 companies. In the late 1970s Northwest Growth purchased two other SBICs, in Portland and Denver. In 1979 it became a wholly-owned subsidiary of Northwest Bancorporation, the 18th largest bank holding company in the U.S.

As of mid-1981, Northwest Growth Fund held over 65 companies in its portfolio: many were in high technology, but the firm's investments are quite diverse, in such areas as machining, medical products and pharmeceuticals, chemical agriculture, education and computer assisted design and manufacturing. The only kind of venture Northwest Growth will not invest in is real estate.

Between 1975 and 1980, the firm's net asset value grew at a compounded annual rate of over 50 percent. Firms funded by Northwest Growth employed 15,000.

For most of Northwest Growth's investments, the fund takes an equity position in its enterprises, using a combination of convertible debt securities and common and preferred stock. The fund also provides management assistance, and usually sits on its firms' boards of directors as a minority shareholder.

Revitalizing Distressed Areas: Kentucky Highlands Investment Corporation

Increasingly, venture capital financing tools are being used to stimulate economic activity in distressed communities. One excellent example is the Kentucky Highlands Investment Corporation, a community development corporation which has taken a venture capitalist approach to community and business development. KHIC supplies risk capital and management assistance to entrepreneurs wishing to start or expand businesses in a 12-county region of Eastern Kentucky, where per capita income is far below the national average and unemployment is high.

KHIC is nonprofit, but it has established two for-profit development subsidiaries: Mountain Ventures Inc., an SBIC, and Kentucky Highlands Real Estate Corporation, which has begun developing industrial properties.

KHIC tends to invest in manufacturing companies, generally low technology, labor intensive industries, but will also consider wholesaling and service ventures. KHIC uses many different types of financing arrangements, buying common or preferred stock, and issuing convertible and subordinated long-term loans. About two-thirds of its financing is in debt form. It also provides a wide range of management services.

Since 1971, KHIC has invested close to $5 million in 19 companies, employing nearly 500 area residents. Among KHIC supported ventures are Possom Trot Corporation in McKee, Ky., manufacturer of soft toys and tote bags, Outdoor Venture Corporation, producer of camping tents, and American Bag Co., producer of sleeping bags, in Pine Knot, Ky.

KHIC built its capital pool using a combination of public and private dollars. Initially it received federal funds primarily from the Community Services Administration, but since 1982 has been privately financed.

State Supported Venture Capital Funds

An increasing number of states are establishing venture capital type funds to help finance development within the state of new products or technologies, or to revitalize distressed communities.

+ The **Connecticut Product Development Corporation**, a quasi-public agency authorized by the Connecticut legislature in 1972, supplies equity capital to small enterprises within the state that wish to develop new products, expand production or diversify. In return for its investment, the CPDC receives a royalty on each product sold.

CPDC will fund up to 60 percent of the development costs of a new product: the company is expected to raise the remainder. CPDC funds may not be used for working capital or the purchase of land, equipment or buildings. If the product reaches the marketplace, CPDC receives a royalty of 5 percent of the sales until the grant has been repaid five times. One important advantage of CPDC's funding approach is that the payoff to the venture financier, in this case CPDC, depends only on the success of the product, not on the ability of the producing firm to go public or be acquired by another firm, as is normally the case in venture investing.

CPDC, modeled on the British National Research Development Corporation, established in 1948 to help speed post war recovery, was initially capitalized with $10 million in state bond funds. By June 30, 1982, the corporation had committed more than $5.3 million to 39 small firms and was collecting more than $500,000 annually in royalties. Among the 46 products financed to date are laser equipment to inspect newly manufactured machine parts, computer software packages, solar heating panels, a freezing technique to better preserve food flavors, computerized business telephones, bathroom scales and an electronic file cabinet.

+ Like CPDC, the **Massachusetts Technology Development Corporation** uses public venture financing to encourage the development of high technology companies. The corporation generally supplies seed capital in the form of subordinated debt.

Four criteria govern MTDC investments: the venture must have an innovative technology; it must have a reasonable chance of commercial success; private sector financing must be involved; and the investment should yield benefits to Massachusetts through by creating jobs and stimulating economic development.

+ Massachusetts and Louisiana are among a growing number of states which have established venture funds to stimulate economic activity in distressed areas. The Massachusetts Community Development

Finance Corporation was established in 1975 to make investments in community-based ventures in low-income areas across the state. The Louisiana Small Business Equity Corporation supplies financing for small firms that contribute to increased employment and economic activity in the state, that are owned by disadvantaged persons, or that invest in distressed areas. Recipient firms must show they are capable of providing at least $1 of private capital for every $4 they receive from the state.

Innovative Private Venture Capital Funds

+ The Massachusetts Capital Resource Company is a partnership of nine life insurance companies in Massachusetts which, in return for tax relief granted by the state, are providing venture capital to in-state businesses. MCRC is for-profit. Now capitalized at $100 million, it supplies four basic types of investments: long-term loans to companies unable to borrow from conventional sources, subordinated debt to rapidly growing firms, investments with others to revitalize existing businesses, and growth capital to young firms. MCRC will finance all sizes of businesses, but is prohibited from investing in real estate developers, retailers, construction companies, public utilities and most financial intermediaries.

By November 9, 1982, MCRC had invested over $81.5 million in 72 firms, with individual investments ranging from $100,000 to $5 million. Its earnings exceeded $5 million in 1981.

+ The Minnesota Seed Capital Fund was organized in 1980 by several Minnesota corporations as a for-profit venture to provide start up money, or so-called "angel funds," primarily for high technology companies in the state. Its initial corporate contributors included Control Data Corp., Dayton-Hudson Corp., Data Card Corp., Piper, Jaffray and Hopwood, Inc., Northern States Power Co., Carlson Cos. and the Minneapolis Star and Tribune Co. In 1982, two large pension funds announced their participation: Control Data pension fund committed $500,000, as did the public Minnesota Employees Retirement Fund (MERF).

The fund works closely with the Minnesota Cooperation Office, an independent, nonprofit organization formed by the business community to advise small firms. All potential recipients of Seed Capital investments must go first to the MCO, which is staffed by volunteer business professionals, to receive assistance in preparing a business plan. Once a firm receives an investment, however, the Seed Capital Fund, unlike some venture capital financiers, is not heavily involved in its management.

As of November, 1982, the Seed Capital Fund had $3.2 million in capital, of which $866,000 had been committed to seven firms. These included Audiobionics, developer of computer aided systems for the deaf; Multi-Arc Vacuum Systems, Inc., a company specializing in increasing the durability of high speed machine tools; DataText Systems, Inc., a computer graphics company; Magnetic Data Inc., which helps refurbish magnetic disks for computers; and Mid-American International Trading Co., the Fund's only non-high technology investment, which assists small Minnesota businesses in marketing products worldwide.

The Seed Capital Fund's investments generally take the form of preferred or common stock, and to date have not exceeded $250,000 to any single company.

THE MONTANA CAPITAL COMPANY ACT

HOUSE BILL NO. 685

TESTIMONY TO THE SELECT COMMITTEE FOR ECONOMIC DEVELOPMENT

THE HOUSE OF REPRESENTATIVES

STATE OF MONTANA

FEBRUARY 10, 1983

BY JON MARCHI

I very much appreciate the opportunity to provide this Committee with testimony regarding what I believe to be the most important Bill developed from the Governor's temporary Committees concerning Initiative 95. I have lived in Montana since I was 3 years old, in various locations throughout the State. This Bill is unique in that it provides Montanans with a way and a facility to help themselves create and maintain more jobs in our State. Currently, I am a Vice President with D.A. Davidson & Co. I have been with D.A. Davidson for the past 10½ years and my current responsibilities include research, recruiting, marketing, training and special products. Mr. Bill Beaman, our office manager here in Helena, provided you with testimony last week concerning D.A. Davidson's position in regards to Initiative 95. Having been with Montana's oldest investment firm for the past 10½ years, I have had the opportunity to experience the critical need for venture and equity capital for Montana businesses. Also, I am a Director of Big Sky Airlines of Billings, Montana, which now employs 130 people and, in terms of net new jobs, is perhaps the best current success story in the State of what an adequately-funded company on an equity basis can do.

I served as the Chairman of the Governor's temporary subcommittee for equity and venture capital development for Initiative 95. Our Committee developed the Montana capital Company Act.

A quick over-view of what I consider to be the key points concerning this Bill:

1. As Legislators, you have the unique ability to create economic events through tax policy and tax legislation.

EXHIBIT D

2. Our Committee, in developing the Montana Capital Company concept, did not try to re-invent the wheel.
3. We already have nine (9) different types of tax credits on the books that are available to taxpayers on both a Federal and State level.
4. The "yes" vote for Initiative 95 was, as I understand it, the highest "yes" vote for any initiative to date passed in the State of Montana. In my discussions with individuals and businessmen throughout the State of Montana, the point has been made that when those voters were voting "yes", they were voting for the Legislature to develop a concept that would hopefully provide not only debt capital, but equity capital, for new and existing businesses to expand the number of jobs available in Montana.
5. The Bill is specifically designed to address the equity capital needs. The Bill establishes public incentive for the private sector to act. This Bill is perhaps different than the other three bills related to Initiative 95 in that those bills generally require the public sector to act whereas the Capital Company Bill is a much more private sector orientated proposal.
6. This Bill does not provde for an expenditure of State funds. It provides for an investment of State funds in the private sector. Those funds, through tax credits, should in time create additional jobs and those jobs should in time create additional tax revenues back to the State.

I have provided a packet of information for each of you, which includes my testimony, a copy of the Bill as it originally came out of our subcommittee at the end of December, and my proposed amendments to the Bill as it has been introduced in the House.

The purpose of the Bill is simply and most importantly to develop and preserve jobs in Montana. The Bill creates a new financial institution--"a capital company" to make available equity or quasi equity--"borrowing base" capital to existing and new Montana businesses. Most importantly, the Bill provides for the individual and corporate residents of Montana an opportunity to invest and participate in an organized manner in the economic development potential for the State. The idea is to forge a new partnership with the State Government and private enterprise that is mutually compatible as to job creation and preservation.

A capital company can be a corporation, a partnership, an S "S Corporation", SBIC or a local development company whose purposes are compatible with the objectives defined.

The capital company must be certified by the Department of Commerce and an annual audit and review is required at the capital company's expense. Decertification would involve substantial penalties.

CRITERIA AND REQUIREMENTS:

A minimum of $200,000.00 in net private equity capital must be raised in order to apply for certification as a capital company.

30% of the equity capital raised must be invested in qualifying businesses within three (3) years, 50% in four (4) years, and 70% in five (5) years to maintain the certification.

No more than 50% of the capital company's total capitalization can be invested in any one business. This provides diversification of the capital company's assets.

Any user of the capital cannot vote for his own interests; that is, he must abstain from voting.

The intent is to let the capital companies operate with as few restrictions as possible. Free of undue regulation and interference. Let the market place dictate the best opportunities. For example, in Alberta, the provincial government provided $200 million and very favorable financing to their venture capital organization, which they call the Alberta Opportunity Company. That Company's purposes are compatible with our capital company proposal. Their capital corporation is structured as a private company owned and operated as a public company. Securities have been sold to the public to provide the equity base. The Company operates with virtually no restrictions. Its purpose is very comparable to our proposal.

Advantages to an investor in a capital company is that he will receive a 25% State income tax credit. Our Committee originally recommended 50% but at the Governor's request, it was reduced to 25%. As I indicated earlier, tax credits dictate economic events, in my opinion. For example, recently we at D.A. Davidson sold limited partnership units in Times Square ($600,000.00), a commercial rehab shopping mall in downtown Great Falls. The primary advantage to an investor was a 42% Federal tax credit and a 12.6% State tax credit, for a total credit of 54.6% of his total cash investment. In time, the project will create fifty new retail-type jobs and has a total construction budget in excess of $3.5 million.

Other States have provided their venture capital companies with State income tax credits. The most successful has been Massachusetts, which raised over $100 million for in-State venture capital companies over a five-year period.

Massachusetts provided a 100% State tax credit of the amount of investment. The second most successful has been Indiana, who provided a 30% tax credit and raised $8 million. Maine provided a 50% credit but spread the credit 10% per year over five years and was only able to raise $1 million.

In the current Bill, the amount of tax credits available is $1 million, which would equate to $4 million at a 25% tax credit rate. Originally, the Bill came out of our temporary subcommittee with a recommendation of $3 million in tax credits. There is a limitation of no more than $25,000 in tax credits per individual or corporation, which would equate to a maximum investment of $100,000. If one attempted to form a rather rough calculation of what these tax credits might produce in the way of jobs, the following scenario is well within the realms of possibility: assume that the $4 million was raised, which generates the $1 million in maximum tax credits. "By the way, I think it will be very difficult in this competitive money market environment to raise $4 million." The current EDA Guidelines are that it requires about $10,000 in investment to create one primary job. $4 million would then create approximately 400 primary jobs. Currently, in Montana, one primary job would typically create an additional one and one-half derivative jobs; or, in this case, another 600 jobs, for a total of 1,000 jobs. Assume that there are 1,000 individuals who earn, on an average, $12,000 per year or a $12 million annual payroll. Assume a 6% State income tax rate on that $12 million payroll or $720,000 in State income taxes. This does not take into consideration increased property taxes from new construction and so forth. In this scenario, the State would have recovered its tax credit money through increased State income tax collections from individuals in about two years or so. That's a good return on the investment.

As I indicated earlier, Massachusetts was very successful in raising $100 million for their in-State venture capital companies through a 100% tax credit. Currently, Massachusetts has the lowest unemployment rate of all industrial states in the nation. Secondly, according to the Governor, there are currently only three States in the Union whose revenues will exceed expenditures in their current fiscal year. Those States are Massachusetts, Alaska, and Montana. The concept has been proven.

As I indicated earlier, in your packet is a copy of the Bill as it originally came out of our temporary subcommittee. The Bill originally contained an income bond debenture as part and parcel of the capital company concept. I continue to believe that this is an excellent idea but, as the Bill is presently written, my support for it has not been diminished in its present form.

I am proposing a few amendments to the current Bill, some of which I think are quite important. On Page 7, Lines 17 thru 21, starting with the words "The application" should simply be deleted. The Department of Revenue came up with the idea that a capital company should be required to post a bond to cover the cost of any penalty. This is simply too onerous and too unwieldy, and as the Bill stands as written, the odds are not good for this concept to be successful. It is important, I think, to keep the concept as free and clean of restrictions as possible, as other States (particularly Alberta and Massachusetts) have done.

Also on Page 7, Line 24, I would propose that $500,000 be inserted for $375,000. It is very important for these capital companies to be large enough to adequately diversify their investment base and to have a sufficient capital base to be able to afford the best expertise in the area of venture capital financing. On Page 7, I would propose the deletion of Lines 23, starting with the word "the" and ending with Line 2 on Page 8. In other words, the deletion of Lines 23, 24, 25 and 1 and 2, Pages 7 and 8 respectively.

The only other amendment I would propose is that on Page 11, Lines 6, 14 and 21, that the word "Annual" be inserted for the present word "Quarterly". There is absolutely no need to require that a capital company report quarterly to the Department of Commerce when an annual review and audit will be conducted anyway at the capital company's expense. In closing, I would like to reiterate that I strongly support the Bill in its present form, with the exceptions of the amendments that I have just proposed. Secondly, I would encourage you to consider utilizing a higher percentage tax credit than 25%, and I would encourage you to consider the income bond proposal as outlined in the original Bill.

Thank you.

Jon Marchi

sl

______ BILL NO. ______

INTRODUCED BY ______________________________

A BILL FOR AN ACT ENTITLED: "AN ACT TO PROMOTE THE AVAILABILITY AND INVESTMENT OF DEVELOPMENT CAPITAL IN MONTANA THROUGH THE CREATION OF CAPITAL COMPANIES; PROVIDING TAX CREDITS FOR INVESTMENT IN THE COMPANIES; PROVIDING OVERSIGHT AND AUDITING REQUIREMENTS; PROVIDING THAT OFFERINGS OF THE COMPANIES ARE EXEMPT FROM SECURITIES REGISTRATION; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Short Title. [This act] may be cited as the "Montana Capital Company Act".

Section 2. Declaration of policy. (1) The legislature finds and declares that:

(a) economic insecurity due to unemployment is a serious menace to the health, safety, and general welfare not only to the affected people but to the people of the entire state;

(b) involuntary unemployment, with its resulting burden of indigency, falls with crushing force upon unemployed workers and ultimately on the state itself in the form of public assistance and unemployment compensation payments; and

(c) unemployment causes a migration of Montana workers and families seeking jobs and establishing homes elsewhere, which deprives the state of its most valuable resource, its people, and reduces the tax base of local governments, impairing their ability to provide basic services.

(2) The legislature further finds that:

(a) the best method of combating unemployment and protecting Montana against the loss of its people is by promoting, stimulating, developing, rehabilitating, and revitalizing the business prosperity and economic welfare of the state and its citizens; and

(b) to accomplish this goal, the legislature seeks to encourage the formation of venture and equity capital in Montana for use in diversifying, strengthening, and stabilizing the Montana economy by increasing Montana employment and business opportunities while protecting the peoples' constitutional right to a clean and healthful environment.

Section 3. Purpose. (1) The purpose of [this act] is to promote the development of the human resources and the diversification of the economy of Montana. The venture capital generated by [this act] must be used to encourage and assist the strengthening of the economy through loans, equity investments, and other business transactions for purposes of locating new business and industry in Montana, rehabilitating existing business and industry, and stimulating and assisting in the expansion of business activities that promote and maintain the economic stability of the state by providing maximum opportunities for employment and improving the standard of living of the people of Montana.

(2) [This act] is aimed at:

(a) increasing the availability of development capital in order to encourage and assist in the creation, development, and expansion of businesses based in Montana and controlled or managed by residents of Montana;

(b) aiding those business where risk and equity financing is not readily or fully available through traditional sources;

(c) developing, preserving, diversifying, expanding, and strengthening the agricultural, industrial, and business base of Montana's economy, particularly those businesses utilizing the state's technical, managerial, and research resources in domestic and international markets; and

(d) providing the residents of Montana with greater opportunities to invest and participate in the economic development and potential of the state.

Section 4. Definitions. As used in [this act], unless the context requires otherwise, the following definitions apply:

(1) "Capital base" means equity capital or net worth.

(2) "Department" means the department of commerce provided for in Title 2, chapter 15, part 18.

(3) "Income bond" means a bond of no more than 30 years maturity issued by a Montana capital company for the repayment of amounts borrowed from the small business development capital fund.

(4) "Montana capital company" means:

(a) a development credit corporation created pursuant to Title 32, chapter 4; or

(b) a profit or nonprofit entity organized and existing under the laws of Montana, created for the purpose of making venture or risk capital available for qualified investments and that has been certified by the department.

(5) "Qualified investment" means an investment in the form of a loan, debt financing, or equity purchase in a Montana business but does not include investment in conventional oil and gas exploration, residential real estate development, or the operations of a regulated lender as defined in 31-1-111.

(6) "Qualified Montana capital company" means a Montana capital company privately capitalized at a minimum of $200,000 capital base at the time it is certified by the department, and that is eligible to receive investments eligible for the tax credit provided for in [section 5].

(7) "Small business development capital fund" means a fund financed by the legislature to create a pool of venture capital available to Montana capital companies.

Section 5. Certification. (1) A company seeking to be certified as a Montana capital company for purposes of accessing the small business development capital fund must make written application to the department on forms provided by the department, and containing such information as the department requires.

(2) The application must show that the applicant's purpose is to encourage and assist in the creation, development, and expansion of Montana-based businesses and to provide maximum opportunities for the employment of Montanans by making venture capital available to sound, smaller Montana firms.

(3) Certifiable applicants include but are not limited to local and community development corporations, small business administration 503 corporations, and small business investment companies.

(4) A company certified as a Montana capital company that has been privately capitalized at a minimum level of $200,000 may also apply for designation as a qualified Montana capital corporation eligible to receive investments qualifying for the tax credit provided in [section 6], in the same application. The $200,000 privately raised for

qualification prior to department certification must be placed in an escrow account in a Montana financial institution until certification.

Governor recommends 25%

Section 6. Investment tax credit. (1) Subject to the provisions of [section 7], an individual or corporate taxpayer who makes a capital investment in a qualified Montana capital company is entitled to a tax credit equal to 50% of the investment, up to a maximum amount of $100,000 per taxpayer. The credit may be taken against the tax liability imposed on the taxpayer pursuant to Title 15, chapter 30, or Title 15, chapter 31.

(2) The tax credit allowed under subsection (1) is to be credited against the taxpayer's income tax liability for the taxable year in which the investment in a qualified Montana capital company is made. If the amount of the tax credit exceeds the taxpayer's tax liability for the taxable year, the amount of the credit which exceeds the tax liability may be carried back and carried forward in accordance with the provisions of section 46(b) of the Internal Revenue Code of 1954, as amended, until the total amount of the credit has been used.

(3) The tax credit provided for in this section is available only to those taxpayers who invest in a qualified Montana capital company within 5 years of [the effective date of this act].

(?) recommend
8 million

Section 7. Limitation on total credit. (1) The total amount of the tax credits provided for in [section 6], available to all taxpayers for the period ending July 1, 1986, may not exceed $3 million.

(2) Taxpayers seeking the tax credit for investment in a qualified Montana capital company must apply in writing to the department. If the number of taxpayers applying for the tax credit is such that the amount of tax credits applied for exceeds the limitation provided for in subsection (1), the tax credits must be allocated to applicants according to rules adopted by the department.

Section 8. Unused investments — company penalty. (1) If the amount invested by a taxpayer in a qualified Montana capital company is not used by the company for qualified investments as provided in subsection (2), the taxpayer is not subject to a recapture provision for any tax credit claimed by him, but the company is subject to the penalty provided for in subsection (3).

(2) A qualified Montana capital company receiving investments for which a taxpayer has applied and received a tax credit must use its capital base to make qualified investments according to the following schedule:

(a) at least 30% within 3 years of receipt;

(b) at least 50% within 4 years of receipt; and

(c) at least 70% within 5 years of receipt.

(3) A qualified Montana capital company that fails to make qualified investments pursuant to subsection (2) shall pay to the department of revenue a penalty equal to all of the tax credits allowed to the taxpayers during that time period, with interest from the time of the investment, reduced by any amount actually invested in qualified investments. The department of revenue shall deposit any amount received under this subsection to the credit of the state general fund.

Section 9. Investment reporting and recordkeeping. (1) The department shall report to the department of revenue on an annual basis:

(a) the name of each investor in a qualified Montana capital company who has applied for a tax credit;

(b) the amount of each investor's investment;

(c) the amount of the tax credit allowed to the investor; and

(d) the qualified Montana capital company in which the investment was made.

(2) Each qualified Montana capital company shall report to the department, on a yearly basis, all qualified investments that the company has made. The department shall share the information with the department of revenue, in order that the provisions of [section 8] may be complied with.

Section 10. Financing of fund. (1) The small business development capital fund may be funded through the appropriation of interest earned on the coal severance tax trust fund created in 17-6-203(5).

(2) The fund is to be administered by the department to provide additional investment capital to Montana capital companies.

(3) If the fund is financed through the issuance of general obligation bonds, the state is not liable for the deferred interest, if any, on amounts borrowed from the fund.

Section 11. Income bond provisions. The interest rate on the income bonds must be set at a rate comparable to long-term United States treasury bonds on the date on which the income bond is issued. Interest on the bond accrues from the date the bond is issued, but no interest is required to be paid during the first 5 years of the bond's life if the Montana capital company issuing the bond does not have profits during that period. Interest is required to be paid after the initial 5-year period regardless of whether the company earns profits. If any interest has been deferred, it becomes due on the bond's maturity.

Section 12. Investment of small business development capital fund. (1) The small business development capital fund shall be invested in Montana capital companies by loaning the funds to a company on an income bond or other basis approved by the department.

(2) No Montana capital company may borrow an amount greater than the lesser of its capital base or $1 million, except as provided in subsection (3).

(3) If the department does not receive sufficient applications for loans from Montana capital companies during a biennium to allow it to invest the total fund, it may either:

(a) make loans to Montana capital companies in excess of the limitation provided in subsection (2); or

(b) make loans to any regional or national venture capital corporation, provided such corporation agrees to make investments in Montana within its normal course of business and within time constraints similar to those required for Montana capital companies.

Section 13. Subordination of debt. Any amount borrowed from the small business development capital fund may be subordinated to any other debts of a Montana capital company, including federal debts, in the discretion of the department.

Section 14. Restriction on investment. No more than 50% of the capital base of a Montana capital company may be invested in any one project.

Section 15. Conflict of interest. (1) The director of the department or a bank examiner may not have a monetary interest in or be a borrower from any Montana capital company, either directly or indirectly.

(2) A member of the investment committee of a Montana capital company who has an interest in a venture that comes before the committee for a vote shall disclose such interest and abstain from voting on investment in the venture.

Section 16. Legislative review and oversight. The department shall report on an annual basis to the coal tax oversight subcommittee of the revenue oversight committee of the legislature all investments of the small business development capital fund in Montana capital companies. The subcommittee may review the investments and make recommendations to the department.

Section 17. Examination. (1) At least once a year the bank examiners of the department shall examine the books and affairs of a Montana capital company. The examination must address the methods of operation and conduct of the business of the Montana capital company to determine if the company is abiding by the purposes of [this act] and that the funds received by the company have been invested within the time limits required for a qualified Montana capital company.

(2) The department may examine under oath any of the officers, directors, agents, employees, or investors of a Montana capital company regarding the affairs and business

of the company. The department may issue subpoenas and administer oaths. Refusal to obey such a subpoena may at once be reported to the district court of the district in which the company is located, and the court shall enforce obedience to the subpoena in the manner provided by law.

(3) The cost of the annual review must be paid by each Montana capital company in accordance with reasonable fees assessed by the department.

Section 18. Decertification. (1) If the examination conducted pursuant to [section 17] discloses that a Montana capital company is not in compliance with the provisions of [this act], the department may exercise any of the powers with regard to banks granted in Title 32, chapter 1, part 5, and may seize the assets of the company and liquidate it.

(2) If in the discretion of the department the action allowed under subsection (1) is not required to protect any income bond held by the state or the companies' investors, the department may place the company on notice that it will lose its certification as a Montana capital company within 1 year if the company does not come into compliance with the provision of [this act].

(3) As long as the department acts in good faith, the department and its employees and agents may not be held civilly or criminally liable or liable upon their official bonds for action taken under this section or for any failure

to act under it.

Section 19. Application of securities law. In lieu of registration, under Title 30, chapter 10, a Montana capital company may file all disclosure documents along with a consent to service of process with the state securities commissioner. The commissioner may not charge a fee for such filing or deposit.

Section 20. Coordination. (1) If ____Bill No.____ [LC 557], including the section of that bill creating the Montana economic development board, is passed and approved, all references to the department of commerce in sections 1 through 16 of this act are changed to the Montana economic development board.

(2) If section 17 of ____Bill No.____ [LC 557] is passed and approved, the subcommittee referred to in section 14 of this act is changed to the economic development oversight committee.

Section 21. Severability. If a part of this act is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of this act is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

Section 22. Effective date. This act is effective on passage and approval.

Article taken from the Montana Standard
Tuesday, July 29, 1975

WHAT'S WRONG?

EDITOR'S NOTE -- Jim McLean of D.A. Davidson & Company in Butte, reports that the following commentary, from the old Park County News in Livingston, was found among the possessions of his wife's aunt, who died recently at age 90. There was no date on the clipping, but McLean feels the article, entitled "What's Wrong With Montana?" remains timely.

"NOTHING'S WRONG with Montana except entirely too many of us get up in the morning at the alarm of a Connecticut clock, button on a pair of Chicago pants and put on a pair of Massachusetts shoes, wash in a Pittsburgh tin basin, using Connecticut soap and a towel made in New Hamphire, sit down to a Grand Rapids table, eat pancakes made from Minnesota flour, spread with Vermont maple syrup and Kansas bacon fried on a St. Louis stove, buckle on a leather coat raised in Montana then shipped to Europe, labeled "Imported," and sent back to Montana at double the price, hitch up a Detroit mule fed on Oklahoma gas to an Ohio plow and work all day on a Montana farm covered by New England mortgage. At night we crawl under New Jersey blankets to be kept awake by a sheep dog, the only home product on the place, and wonder where all the money went from our wonderful state."

EXHIBIT E

R. A. Remington
Montana Vice President

Mountain Bell
560 North Park Avenue
Helena, Montana 59601
Phone (406) 449-2211

Testimony in Support of House Bill 685

Mr. Chairman and members of the committee:

My name is Dick Remington, Montana Vice President for Mountain Bell, and President of the Development Credit Corporation of Montana.

The Development Credit Corporation is a private, for-profit business development corporation chartered under Montana state law. Our shareholders are many of the state's financial institutions, a few large corporations operating in Montana, and half a dozen rural electric cooperatives. We have an existing capitalization of about $250,000 and are the only organized financial institution in Montana capable of providing risk and equity capital to worthy Montana businesses.

We enthusiastically support the passage of House Bill 685 as a well designed and thoughtful approach to providing incentives for the private sector to meet the risk and equity capital needs of Montana's small business community. As you may know, there exists a strong consensus among Montana's financial and business community that we lack access to venture capital, and that this is likely the most serious capital problem facing our small business people.

EXHIBIT F

The Development Credit Corporation is designed to be in the business of providing risk and equity capital. In simple terms, this is capital which is not available from conventional financial institutions, due to either size or term requirements, level of risk or sufficiency of equity. For example, let's assume a business is being started which needs $500,000. The local bank may lend up to $250,000 but the owners only have $50,000 in cash. The $200,000 gap in financing may be filled by what I refer to as risk or equity capital. Types of financings which fall in this category include subordinate or convertible debt, usually of a longer term nature, purchase of preferred or common stock in the business, or purchase and leaseback of real estate and equipment.

There has been little, if any, institutional capacity to supply this kind of capital in Montana. In 1981, only four percent of the venture capital investments made nationally were made in the entire eight-state Rocky Mountain region. The national venture capital industry simply grew up where the money and deals existed, namely the east and west coasts, and Minneapolis area. Our remoteness from these areas, and perceived lack of high technology and high growth businesses has kept this source of funds from being made available to our business sector.

What does this have to do with HB 685? House Bill 685 simply establishes tax credits for investors in companies like the Development Credit Corporation. We need to offer potential investors this additional financial incentive in order to raise significant amounts of new capital which will allow us to aggressively pursue venture capital investing. In Montana, it is extremely difficult to raise capital for an in-state venture capital company, particularly when the return to the investors will not be realized for at least three years, and up to seven years.

Several important points must be remembered. First, out-of-state venture capitalists are not generally interested in Montana, for reasons mentioned above. Second, we must develop an in-state private sector institutional capability to supply risk and equity financing tailored to our unique economic environment. Third, our company needs a large capital base in order to vigorously pursue venture capital investing. This bill provides a critically needed incentive to spur investment from the private sector in capital companies such as ours, and I urge you to give it a do pass recommendation.

1982 Venture Capital Directory

Today's venture capital industry is in a state of dynamic flux. Not only is it continually evolving but its needs and preferences are perennially changing. Venture's fourth annual **Venture Capital Directory** is designed to help entrepreneurs recognize the current trends in the industry and put them in touch with those venture capitalists who can best serve their needs today.

The venture capitalists who have paid to be listed in this year's directory are interested in qualified proposals for venture financing and investing in those that best meet their criteria. However, they want to inform entrepreneurs of their current areas of interest and specialization.

Indeed, today's venture capitalists have sharply defined areas of interest and specialization. A venture capitalist who finances only buy-outs and acquisitions is not interested in start-ups and first-round financing. Similarly, one who lists a preference for projects situated in the Midwest is not going to trudge all the way to the Northeast. There's also the question of industry preference. A venture capitalist who has only been involved in oil and gas financing may not have the expertise or interest in evaluating a communications venture. In contrast, however, venture capitalists are more than eager to examine those proposals that fall within their area of stated preferences and consider their financing needs.

Approaching venture capitalists is not the easy task it once may have been. Myth has it that even ideas hastily scribbled on the back of an envelope could get financed in the first heady days of venture capital. Not any more. Venture capitalists are professional investors with formally defined goals who expect a similar degree of professionalism from entrepreneurs. They expect all entrepreneurs to be fully prepared and armed with a comprehensive plan for the venture they want financed.

A good business plan forms the cornerstone of successful venture financing. It distills the market conditions, the technical and professional expertise and the finances that will form the basis of the business. It must clearly describe the people involved in a venture, the market the entrepreneur is seeking and the product that will be sold.

A business plan need not be unduly lengthy or complicated. It must, however, be informative and relevant and present a proposal's basic components: a market overview; a description of the company and the product; a series of strategy programs for the next five years in at least five key areas (manpower, product development, marketing, manufacturing and finance); and financial statements. An excellent guide to writing plans is "How to Prepare and Present a Business Plan" by Joseph Mancuso, published by Prentice Hall.

Once the plan is complete, it's time to select the right venture capitalists to approach. Gone are the days when they could be reached at random through scattershot mailings. These days, most venture capitalists expect each business proposal to be accompanied by an introductory letter on the company's letterhead—a personalized approach that is radically different from the early mass mailing ones. In fact, one venture capitalist emphasizes that the only proposals he looks at are those that have the personal approach.

You can save yourself and the venture capitalist a lot of time and aggravation by carefully choosing those who have an expressed interest in your area and reaching them with carefully targeted proposals. The venture capital firm, listed alphabetically in this directory, have all stated preferences with respect to project, geography and industry. A careful examination should help you determine the firms that will be most responsive to you.

Venture Capital Directory

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755 Page Mill Road
Suite A140
Palo Alto, CA 94304
(415) 494-0501
Contact:
Frederick R. Adler, James R. Swartz,
Arthur C. Patterson, James J. Harrison (CA)
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
Data Communications, Computer &
Electronic Fields, Medical Instrumentation,
Health Care, Automation

ADVANCED TECHNOLOGY VENTURES
50 Broad Street
New York, NY 10004
(212) 344-0622
530 Oak Street
Menlo Park, CA 94025
(415) 321-8601
Contact:
T. F. Walkowicz (NY)
R. J. Nunziato (CA)
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
High Technology

ADVENT CAPITAL COMPANIES
111 Devonshire Street
Boston, MA 02109
(617) 725-2300
525 University Avenue, Suite 420
Palo Alto, CA 94301
(415) 328-1210
Contact:
David D. Croll, Managing Partner
E. Roe Stamps IV, General Partner
Richard H. Churchill, Jr., General Partner
Jeffery T. Chambers, Associate (CA)
Type of Firm: SBIC
Preferred Project:
Co. 1 to 3 years—break even to profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
Cable TV, Broadcasting, Cellular Radio,
Health Care, Manufacturing, and Technology

ATLANTIC VENTURE COMPANY, INC.
424 North Washington Street
Alexandria, VA 22314
(703) 548-6026
P.O. Box 1493
Richmond, VA 23212
(804) 644-5496
Contact:
Wallace L. Bennett (Alexandria)
Robert H. Pratt (Richmond)
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

R.W. ALLSOP & ASSOCIATES
Corporate Center East, Suite 210
2750 First Avenue, N.E.
Cedar Rapids, IA 52402
(319) 363-8971
Contact:
Robert W. Allsop Paul D. Rhines
Gregory B. Bultman
(Milwaukee, WI—(414) 271-6510)
Robert L. Kuk
(St. Louis, MO—(314) 434-1688)
Larry C. Maddox
(Overland Park, KS—(913) 642-4719)
Type of Firm: Private venture firm
Preferred Project:
Co. 1 to 3 years—break-even to profitable
Co. 3 years and older—profitable
Management buy-outs and acquisitions
Geographic Preference: Midwest
Industry Preference: Manufacturing—
Medical, Telecommunications

ALLSTATE INSURANCE COMPANY
Venture Capital Division E-2
Allstate Plaza
Northbrook, IL 60062
(312) 291-5681
Contact:
Charles L. Rees
Type of Firm: Venture capital subsidiary of
operating company
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

Venture Capital Directory

ARSCOTT NORTON & ASSOCIATES
369 Pine Street
Suite 506
San Francisco, CA 94104
(415) 956-3386
Contact:
David G. Arscott
Leal F. Norton
Dean C. Campbell
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

ASHWOOD RESOURCES INTERNATIONAL
230 Park Avenue #910
New York, NY 10106
(212) 332-0092
Contact:
William Ashwood
Bud Cavanaugh
Type of Firm: Private venture firm
Preferred Project:
Start-up
Co. 1 to 3 years—break even to profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
Oil & gas and entertainment industries, computer and technologies R & D

BRADFORD ASSOCIATES
1212 Avenue of the Americas
Suite 1802
New York, NY 10036
(212) 221-4620
Contact:
James T. Cullen, Jr.
Hamilton Robinson, Jr.
Type of Firm: Private venture firm
Preferred Project:
Co. 3 years and older—profitable
Management buy-outs and acquisitions
Geographic Preference:
No preference
Industry Preference:
No preference

BRENTWOOD ASSOCIATES
11661 San Vincente Blvd.
Los Angeles, CA 90049
(213) 826-6581
Contact:
George M. Crandell
Robert C. Davisson
Lucien Ruby
Michael J. Fourticq
Frederick J. Warren
B. Kipling Hagopian
Timothy M. Pennington III
G. Bradford Jones
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

BROVENTURE
16 West Madison Street
Baltimore, MD 21201
(301) 727-4520
Contact:
William Gust
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

BURR, EGAN, DELEAGE & CO.
1 P.O. Square
Boston, MA 02110
(617) 482-8020
3 Embarcadero Center
25th floor
San Francisco, CA 94111
(415) 482-8020
Contact:
Bill Egan
Craig L. Burr
Jean Deleage (CA)
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
United States
Industry Preference:
Electronics
Medical
Communications

Venture Capital Directory

CABLE, HOWSE & COZADD, INC.
11201 S.E. 8th
Suite 163
Bellevue, WA 98004
(206) 455-5522
Contact:
Bennett A. Cozadd
Michael A. Ellison
Type of Firm: Private venture firm
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Management buyouts and acquisitions
Geographic Preference:
Far West
Industry Preference:
High Technology

CAMBRIDGE RESEARCH & DEVELOPMENT GROUP
21 Bridge Square
Westport, CT 06880
(203) 226-7400
Contact:
Sean O'Connor, Director of New Products & Ventures
Deborah Gardner, Product Evaluation Mgr.
Type of Firm: Private venture firm, specializing in private placements
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Geographic Preference:
No preference
Industry Preference:
Patented new products

CAMBRIDGE VENTURE PARTNERS
6000 East Evans Ave.; 1-100
Denver, CO 80222
(303) 758-1758
Contact:
Oscar Malek
Bruce B. Paul
Type of Firm: Private venture firm
Preferred Project:
Start-up
Management buyouts and acquisitions
Geographic Preference:
Rocky Mountain Region & Western U.S.
Industry Preference:
Medical Technology
Computer Technology
Communications

CAPITAL MANAGEMENT SERVICES
2200 Sand Hill Road
Menlo Park, CA 94025
(415) 854-3927
Contact:
Donald T. Valentine
Gordon Russell
Type of Firm: Private venture firm
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Geographic Preference:
Southwest, Far West
Industry Preference:
Electronics
Communications
Software

COLUMBINE VENTURE ASSOCIATES
7000 E. Belleview Avenue
Suite 310
Englewood, CO 80111
(303) 694-3222
Contact:
Mark Kimmel
Sherman Muller
Type of Firm: SBIC, Private venture firm
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Geographic Preference:
Rocky Mountain States
Industry Preference:
Computers, Communications, Medical, Electronics, Energy, Security, Engineered Materials

CONTINENTAL ILLINOIS VENTURE CORP.
CONTINENTAL ILLINOIS EQUITY CORP.
231 S. LaSalle Street
Chicago, IL 60693
(312) 828-8021
Contact:
William Putze, Vice President
Paul R. Wood, Vice President
Type of Firm: Bank-related venture capital firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

Venture Capital Directory

CORPORATE FINANCE ASSOCIATES
8405 Pershing Drive
Suite 400
Playa Del Rey, CA 90291
(213) 827-7721
Contact:
John W. Kelley
George R. McLellan
Type of Firm: Investment Banking firm
Merger & Acquisitions
Preferred Project:
Management buyouts and acquisitions
No preference
Geographic Preference:
U.S.A. & International
No preference
Industry Preference:
No preference

DELTA CAPITAL, INC.
122 Cherokee Road
Charlotte, NC 28207
(704) 372-1410
Contact:
A. B. Wilkins, Jr.
William F. Lane
Betty B. Hendricks
Type of Firm: SBIC
Preferred Project:
Co. 3 years and older—profitable
Geographic Preference:
Southeast
Industry Preference:
Real Estate

DREXEL BURNHAM LAMBERT INC.
60 Broad Street
New York, NY 10004
(212) 480-6011
Contact:
Anthony M. Lamport
Brad Yoneoka
Type of Firm: Investment banking firm
(managed Partnership)
Preferred Project:
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
No consumer products, no entertainment,
no real estate, no construction,
no publishing

THE EARLY STAGES COMPANY
244 California St.
Suite 300
San Francisco, CA 94111
(415) 986-5700
Contact:
Woody Kuehn
Lionel Haines
Type of Firm: Private venture firm
Preferred Project:
Co. 1 to 3 years—break even to profitable
Geographic Preference:
Far West
No preference
Industry Preference:
Consumer products and services

FIRST CAPITAL CORPORATION OF BOSTON
100 Federal Street
Boston, MA 02110
(617) 434-2442
Contact:
Bruce G. Rossiter, President
Russ Salisbury, Vice President
Type of Firm: SBIC
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
Technology

FIRST CHICAGO INVESTMENT CORPORATION
One First National Plaza
Chicago, IL 60670
(312) 732-5400
Contact:
John A. Canning, Jr.
Type of Firm: SBIC (Bank Affiliate)
Preferred Project:
Start-up
Co. 1 to 3 years—break even profitable
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
No preference

Venture Capital Directory

FIRST INTERSTATE CAPITAL, INC.
707 Wilshire Blvd.
Suite 1850
Los Angeles, CA 90017
(213) 614-5903
Contact:
Jonathan E. Funk
Kenneth M. Deemer
Type of Firm: SBIC
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
Electronics
Medical technology
Biotechnology
Computer systems

FIRST VENTURE CAPITAL CORPORATION OF BOSTON
100 Federal Street
Boston, MA 02110
(617) 434-4481
Contact:
Richard C. Wallace, President
Type of Firm: Venture capital subsidiary of bank holding company
Preferred Project:
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
No preference

FRONTENAC CAPITAL CORPORATION
208 S. LaSalle Street
Room 1900
Chicago, IL 60604
(312) 368-0044
Contact:
Martin J. Koldyke, General Partner
David A. R. Dullum, General Partner
Type of Firm: Private venture firm, SBIC
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Management buyouts and acquisitions
Geographic Preference:
Midwest
Pacific Northwest
Industry Preference:
No preference

GENERAL ELECTRIC VENTURE CAPITAL CORPORATION
3135 Easton Turnpike
Fairfield, CT 06431
(203) 373-2069
Contact:
L. R. Robinson
J. J. Fitzpatrick
Type of Firm: Venture capital subsidiary of operating company
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Geographic Preference:
No preference
Industry Preference:
No preference

GOLDER, THOMA & COMPANY
120 S. LaSalle St.
Chicago, IL 60603
(312) 853-3322
Contact:
Stanley Golder
Bryan Cressey
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

GREATER WASHINGTON INVESTORS, INC.
1015-18th Street N.W.
Washington, D.C. 20036
(202) 466-2210
Contact:
Marty Pinson
Type of Firm: SBIC
Preferred Project:
Co. 1 to 3 years—break even to profitable
Geographic Preference:
East Coast
Industry Preference:
Applied Technology

Venture Capital Directory

;REYLOCK MANAGEMENT CORPORATION
One Federal Street
Boston, MA 02110
(617) 423-5525
:ontact:
Howard E. Cox, Jr.
Henry McCance
David N. Strohm
'pe of Firm: Private venture firm
referred Project:
Long term equity participation
Geographic Preference:
No preference
ıdustry Preference:
Computer
Medical
Communications
Manufacturing-related

HARRISON CAPITAL, INC.
2000 Westchester Ave.
White Plains, NY 10650
(914) 253-7845
Contact:
William T. Corl—President
John J. Huntz
Type of Firm: Venture capital subsidiary of operating company
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

HARVEST VENTURES, INC.
767 Third Avenue
ew York, NY 10017
12) 838-7776
Contact:
Harvey Mallement
Harvey Wertheim
of Firm: Private venture firm, SBIC
eferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Co. 3 years and older—profitable
Management buyouts & acquisitions
Geographic Preference:
U.S.A.
ıdustry Preference:
High technology

HELLER CAPITAL SERVICES, INC.
200 Park Avenue
New York, NY 10166
(212) 880-7198
Contact:
Jack A. Prizzi, Exec. V.P.
Type of Firm: SBIC
Preferred Project:
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
No preference

INTERCAPCO, INC.
One Erieview Plaza
Cleveland, OH 44114
(216) 241-7170
Contact:
Robert B. Haas, President
Glenn Golenberg, Chairman of the Board
Type of Firm: SBIC
Preferred Project:
No preference
eographic Preference:
No preference
Industry Preference:
Telecommunications
Oil & Gas
Energy
Computers
Medical Products

INVESTECH, L.P.
515 Madison Avenue
Suite 1901
New York, NY 10022
(212) 308-5811
Contact:
Carl S. Hutman
Tancred V. Schiavoni
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
Technology

Venture Capital Directory

JOHNSON & JOHNSON DEVELOPMENT CORPORATION
501 George Street
New Brunswick, NJ 08903
(201) 524-6407
Contact:
C. M. Anderson, President
W. H. Steinberg, Vice President
Type of Firm: Venture capital subsidiary of operating company
Preferred Project:
Start-up
No preference
Geographic Preference:
No preference
Industry Preference:
Health care only

KIERNAN PETROLEUM CORPORATION
P.O. Box 2066
Glens Falls, NY 12801
(518) 793-2861
Contact:
George H. Kiernan—C.O.B. and President
Type of Firm: Venture capital subsidiary of operating company
Preferred Project:
Start-up
Geographic Preference:
Midwest
Southwest
Far West
Industry Preference:
Oil & Gas; Integrated oil company

KLEINER, PERKINS, CAUFIELD & BYERS
4 Embarcadero Center, Suite 3520
San Francisco, CA 94111
(415) 421-3110
Contact:
Any Partner
Type of Firm: Private venture firm
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Geographic Preference:
Far West
Industry Preference:
Computers & Peripherals, Electronics
Medical Devices, Telecommunications,
Software, Instrumentation, CAD/Graphics

JAMES B. KOBAK, INCORPORATED
774 Hollow Tree Ridge Road
Darien, CT 06820
(203) 655-8764
Contact:
James B. Kobak
Hope M. Kobak
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
Publishing and other communications

LINCOLN CAPITAL CORPORATION
41 East 42nd Street
Suite 1510
New York, NY 10017
(212) 697-0610
Contact:
Martin Lifton
Type of Firm: SBIC
Preferred Project:
Co. 3 years and older—profitable
Geographic Preference:
Northeast
Industry Preference:
Real estate

MENLO VENTURES
3000 Sand Hill Road
Building 4, Suite 100
Menlo Park, CA 94025
(415) 854-8540
Contact:
H. DuBose Montgomery
Richard P. Magnuson
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

Venture Capital Directory

NARRAGANSETT CAPITAL CORPORATION
40 Westminster St.
Providence, RI 02903
(401) 751-1000
Contact:
Gregory P. Barber
Roger A. Vandenberg
Type of Firm: Public venture firm
Preferred Project:
Mongement buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
No preference

NEW ENTERPRISE ASSOCIATES
300 Cathedral St., Suite 110
Baltimore, MD 21201
(301) 244-0115

235 Montgomery St., Suite 1303
San Francisco, CA 94104
(415) 956-1579
Contact:
Charles W. Newhall (Baltimore)
Cornelius C. Bond, Jr. (San Francisco)
Type of Firm: Private venture firm
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Geographic Preference:
No preference
Industry Preference:
No preference

PAN AMERICAN INVESTMENT COMPANY
545 Middlefield Rd.
Suite 160
Menlo Park, CA 94025
Contact:
Spencer W. Hoopes
Type of Firm: SBIC
Preferred Project:
Co. 1 to 3 years—break even to profitable
Geographic Preference:
no preference
Industry Preference:
Computers and Support
Intelligent Roboiics
Medical Electronics

PAPAJOHN CAPITAL RESOURCES
2116 Financial Center
Des Moines, IA 50309
(515) 244-5746
Contact:
John Pappajohn
Type of Firm: Private venture firm
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Geographic Preference:
Midwest
Southwest
Far West
No preference
Industry Preference:
Medical Technology
Health Care

PATHFINDER VENTURE CAPITAL FUND
7300 Metro Boulevard
Suite 585
Minneapolis, MN 55435
(612) 835-1121
Contact:
A.J. Greenshields
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
Technology & Medical
No real estate, natural resources, or distribution companies

PENNSYLVANIA GROWTH INVESTMENT CORPORATION
(Wholly-owned SBIC Subsidiary of Pennsylvania Financial Development Corp.)
1000 RIDC Plaza—Suite 311
Pittsburgh, PA 15238
Contact:
M. G. Dell
Wm. L. Mosenson
Type of Firm: Private venture firm, SBIC
Preferred Project:
Co. operating 1 to 2 years—losses
Co. 3 years and older--profitable
Management buyouts and acquisitions
Geographic Preference:
Northeast, Southeast, Mid-Atlantic, Northern California
Industry Preference:
Investments in "Key Persons" who want to retain 100% of the equity

Venture Capital Directory

PLANT RESOURCES VENTURE FUND
175 Federal Street
Boston, MA 02110
(617) 542-5005
Contact:
John R. Hesse
Russell G. Harter
Type of Firm: Private venture firm
Preferred Project:
Co. 1 to 3 years—break even to profitable
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
Innovative Products, Services, or Technologies applicable in Agriculture, Forestry, Horticulture, or related areas

RESEARCH & SCIENCE INVESTORS, INC.
230 Park Avenue, Suite 1260
New York, NY 10169
(212) 867-9535
Contact:
John H. French II
Francine Sommer
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
Technology-based companies
Energy related companies
Publishing

ROTHSCHILD, INC.
One Rockefeller Plaza
New York, NY 10020
(212) 757-6000
Contact:
Francis X. Driscoll
Robert Lebuhn
Type of Firm: Private venture firm
Investment banking firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

SECURITY PACIFIC CAPITAL CORPORATION
4000 MacArthur Blvd., 9th Floor
Newport Beach, CA 92660
Contact:
Tim Hay or Brian Jones
Newport (714) 754-4780
John Padgett or Tony Stevens
Los Angeles (213) 613-5215
Dan Dye
Pennsylvania (412) 223-0707
Type of Firm: Venture capital subsidiary of operating company
Preferred Project:
Co. 1 to 3 years—break even to profitable
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
No preference

SIERRA VENTURES
3000 Sand Hill Road
Building One, Suite 280
Menlo Park, CA 94025
(415) 854-9096
Contact:
Peter C. Wendell, General Partner
Type of Firm: Private venture firm
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Geographic Preference:
Northeast, Far West
but will consider any domestic location
Industry Preference:
Prefer technology-oriented ventures
but will consider others

SMITH BARNEY VENTURE CAPITAL SMITH BARNEY, HARRIS, UPHAM & COMPANY, INC.
1345 Avenue of the Americas
New York, NY 10105
(212) 399-6360
Contact:
Chad Whitney Keck
John S. Dulaney
Brian T. Bristol
Robert K. McNamara
Type of Firm: Venture capital subsidiary of operating company
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
Technology: Data Processing, Telecommunications equipment, office and factory automation, and medical technology

Venture Capital Directory

SPECTRUM CAPITAL, INC.
208 LaSalle St.
Chicago, IL 60604
(312) 236-5231
Contact:
William C. Douglas
Michael V. Fox
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

SPROUT GROUP
c/o Donaldson, Lufkin & Jenrette, Inc.
140 Broadway
New York, NY 10005
(212) 902-2492
Contact:
Richard Kroon
Larry Reeder
Type of Firm: Private venture firm
Investment banking firm, SBIC
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Co. 3 years & older—profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
Electronics, Computers, Office Equipment, Specialty retailing, Industrial components

THE START-UP CAPITAL COMPANY
1257 Corona Street
Denver, CO. 80218
(303) 861-7999
Contact:
Peter H. Stern, President
Type of Firm: Private venture firm
Preferred Project:
Start-up
Co. 1 to 3 years—break even to profitable
Geographic Preference:
Northeast, Southwest, Far West
Industry Preference:
Technology, Energy Related, Entertainment, Health Care, Robotics, Medical Technology

SUTCLIFFE & COMPANY
516 Fifth Avenue
Suite 507
New York, NY 10036
(212) 869-9916
Contact:
David J. Sutcliffe
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

TA ASSOCIATES
111 Devonshire Street
Boston, MA 02109
(617) 725-2300
525 University Avenue
Suite 420
Palo Alto, CA 94301
(415) 328-1210
Contact:
C. Kevin Landry—Managing Partner
E. Roe Stamps IV—General Partner
Jeffrey T. Chambers—Associate (CA)
Michael C. Child—Associate (CA)
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
Technology, Manufacturing, Process Control, Health Care, Instrumentation, CATV and Radio

TEXAS CAPITAL CORPORATION
TEXAS CAPITAL VENTURE INVESTMENTS CORPORATION
2424 Houston Natural Gas Building
Houston, Texas 77002
(713) 658-9961
Contact:
Robert L. Burr
David G. Franklin
Type of Firm: SBIC (Texas Capital Corp.)
Venture Capital subsidiary of holding co.—(Texas Capital Venture Investments Corp.)
Preferred Project:
Co. 1 to 3 years—break even to profitable
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
Continental U.S.A.
Industry Preference:
Energy, Technology, Manufacturing

Venture Capital Directory

UNITED CAPITAL CORPORATION OF ILLINOIS
United Center, State & Wyman Streets
Rockford, IL 61101
(815) 987-2179
Contact:
Type of Firm: SBIC
Preferred Project:
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
No preference
Industry Preference:
Computer related, medical, electronics

URBAN NATIONAL CORPORATION
195 State Street
Suite 700
Boston, MA 02109
(617) 723-8300
Contact:
Edward Dugger III, President
Type of Firm: Private venture firm
Preferred Project:
Co. 1 to 3 years—break even to profitable
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
Anywhere in Continental U.S.A.
Industry Preference:
High technology
Manufacturing
Broadcast properties

U.S. VENTURE PARTNERS
633 Menlo Avenue
Suite 250
Menlo Park, CA 94025
(415) 321-3990
Contact:
Robert Sackman
William K. Bowes, Jr.
Type of Firm: Private venture firm
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even profitable
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
Far West
Industry Preference:
High technology and Speciality Retailing

VENROCK ASSOCIATES (ROCKEFELLER FAMILY & ASSOCIATES)
30 Rockefeller Plaza—Rm. 5600
New York, NY 10112
(212) 247-3700
Contact:
A. B. Evnin
T. H. McCourtney
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
Technology-based companies

THE VENTURE CAPITAL FUND OF NEW ENGLAND
100 Franklin Street
Boston, MA 02110
(617) 451-2575
Contact:
Richard A. Farrell
Harry J. Healer, Jr.
Type of Firm: Private venture firm: limited partnership managed by Farrell, Healer, & Co., Inc.
Preferred Project:
No preference
Geographic Preference:
East Coast
Industry Preference:
Computer related, Distribution, Manufacturing, Medical, Retail, Technology, Services, especially CATV and Broadcasting

VENTURE FOUNDERS CORPORATION
Business Development Group 1983
100 Fifth Avenue
Waltham, MA 02254 (617) 890-4888
Contact: Alec Dingee, Leonard Smollen
Type of Firm: Private venture firm
Preferred Project: Start-up, Seed
Geographic Preference: Northeast—United States
Industry Preference:
High technology only, seed or start-up coupled with entrepreneur who has significant working experience in the proposed field. The entrepreneur team should have previous profit and loss management experience. Product and service must be sold on a national basis.

Will not consider: real estate, promotional, general construction, contracting or development companies, hotels, restaurants, local retail, regionally restricted businesses, motion pictures, gambling, magazine publishing, finance, lending.

Venture Capital Directory

VISTA VENTURES CORPORATION
1600 Summer Street
Stamford, CT 06905
(203) 359-3500
Contact:
Gerald B. Bay
Edwin Snape
Type of Firm: Venture capital subsidiary of operating company
Preferred Project:
Start-up
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Co. 3 years and older—profitable
Geographic Preference:
No preference
Industry Preference:
Computer related, technology, telecommunications, medical, biotechnology, oil field services, manufacturing

WARBURG PINCUS CAPITAL CORP.
277 Park Avenue
New York, NY 10172
(212) 593-0300
Contact:
Sidney Lapidus
Christopher W. Brody
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

WELLS FARGO EQUITY CORPORATION
475 Sansome Street
15th floor
San Francisco, CA 94163
(415) 396-3291
Contact:
Richard Borenstein
Jean Yves Gueguen
Type of Firm: SBIC
Preferred Project:
Co. operating 1 to 2 years—losses
Co. 1 to 3 years—break even to profitable
Co. 3 years and older—profitable
Management buyouts and acquisitions
Geographic Preference:
Southwest, Far West
Industry Preference:
No preference

WHITEHEAD ASSOCIATES, INC.
15 Valley Drive
Greenwich, CT 06830
(203) 629-4633
Contact:
Joseph A. Orlando
Andrew Ziolkowski
Type of Firm: Private venture firm
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

J. H. WHITNEY & CO.
630 Fifth Avenue
Room 3200
New York, NY 10111
(212) 757-0500
Benno Schmidt, Managing Partner

Menlo Park, CA 94025
(415) 854-0500
Contact:
Don E. Ackerman (New York)
Russell E. Planitzer (New York)
Robert E. Pursley (New York)
Edward V. Ryan (New York)
David T. Morgenthaler II (Menlo Park)
Type of Firm: Private venture firm
Preferred Project:
Start-ups, buyouts, other
Geographic Preference:
No preference
Industry Preference:
No preference

XEROX CORPORATION
800 Long Ridge Road
Stamford, CT 06904
(203) 329-8711

9200 Sunset Blvd.
Suite 700
Los Angeles, CA 90069
(213) 278-7940
Contact:
Peter G. Imperiale—Director—Venture Capital—Stamford, CT
Al Talbot—Principal—Venture Capital—Los Angeles, CA
Type of Firm: Venture capital subsidiary of operating company
Preferred Project:
No preference
Geographic Preference:
No preference
Industry Preference:
No preference

October 13, 1982

We are pleased to announce the formation within our Corporate Finance Division of the

Technology Financing Group

to specialize in investment banking for growth companies in data processing, telecommunications equipment, office and factory automation, and medical technology.

Corporate Finance Professionals comprising the Technology Financing Group include the following:

John S. Dulaney
(212) 399-6160

Chad Whitney Keck
(212) 399-6360

Brian T. Bristol
(212) 399-3168

Robert K. McNamara
(212) 399-3068

Carroll R. Wetzel, Jr.
Mergers and Acquisitions
(212) 399-4606

The Technology Financing Group will draw extensively on the professional capabilities of various other departments of our firm, in particular:

Venture Capital

Michael J. Myers
President,
Smith Barney Venture Corporation

John B. Poindexter

David S. Lobel

Walter C. Johnsen
San Francisco

Investment Research

Data Processing
Peter Labé
Jean W. Orr

Electronics
James W. Barlage

Telecommunications
Special Situations
Susan Hirsch

Computer Services
H. Lloyd Kanev

Medical Technology
D. Larry Smith
Joseph D. France

Limited Partnership Financing

William M. Folberth III
Co-Manager
Tax Advantaged Investments

Stephen Treadway
Co-Manager
Tax Advantaged Investments

Smith Barney, Harris Upham & Co.

Incorporated

1345 Avenue of the Americas, New York, New York 10105

10 LARGEST INDEPENDENT VENTURE CAPITAL FIRMS

T.A. Associates $105 MM
111 Devonshire
Boston, Mass. 02101
(617) 725-2300

J. H. Whitney & Co. $100 MM
630 5th Avenue
New York, N.Y. 10017
(212) 757-0500

Adler & Co. $100 MM
280 Park Avenue
New York, N.Y. 10017
(212) 986-3010

Warburg E M Pincus & Co., Inc.
277 Park Avenue
New York, N.Y. 10017 $81 MM
(212) 573-0300

New Court Securities Corp. $77 MM
1 Rockefeller Plaza
New York, N.Y. 10017
(212) 757-6000

Welsh, Carson, Anderson & Co.
45 Wall Street
New York, N.Y. 10017 $53 MM
(212) 422-3232

Kleiner Perkins Caufield $70 MM
& Byers
2 Embarcadero Center
San Francisco, CA. 94111
(415) 421-3110

Idanta Partners $95 MM
3344 N. Torrey Pines Court
Suite 200
La Jolla, Calif. 92037
(714) 455-5280

Sprout Capital Groups $78 MM
Donaldson, Lufkin & Jenrette
140 Broadway
New York, N.Y. 10005
(212) 943-0300

Golder, Thoma & Co.
Suite 630 $60 MM
120 South LaSalle
Chicago, Ill. 60603
(312) 853-3322

DEVELOPMENT CREDIT CORPORATION OF MONTANA

P. O. BOX 916
HELENA, MONTANA 59601

TELEPHONE
442-3850

Testimony in Support of House Bill 685

Mr. Chairman and members of the committee:

My name is Dick Bourke and I am the Vice-President of the Development Credit Corporation of Montana. As you heard from Mr. Remington, our corporation enthusiastically endorses the approach to solving our risk and equity capital problems contained in House Bill 685.

I would like to briefly mention a few of the safeguards contained in the bill in insure that its objectives are met as efficiently as possible. First, the tax credits will obviously not be taken until the private sector commits some capital to these capital companies. Passage of this bill does not automatically mean foregone revenue; the private sector must act first. In addition, this foregone revenue is being leveraged 4:1 in the private sector and invested in Montana businesses, which will generate job and tax revenues to the state. Second, there is a ceiling of $1,000,000 this biennium on the total tax credits available. I frankly do not think more than half of these credits may be utilized because of the difficulty of raising this kind of money. Third, the monies raised under this act must be put to use in Montana within a specific and reasonable time frame. They cannot remain invested in high yielding treasury bills in order to simply generate funds to pay the investment companies overhead. Finally, there is an annual examination of the companies by the states bank examiners to insure compliance with this act, and a specific penalty and decertification process for out of compliance companies.

EXHIBIT H.

In addition, I have some amendments which clarify language in the bill and allow it to more efficiently meet its policy objectives. These amendments are attached, and I urge that you carefully consider them.

Thank you.

DEVELOPMENT CREDIT CORPORATION OF MONTANA

P. O. BOX 916
HELENA, MONTANA 59601

TELEPHONE
442-3850

Proposed Amendments to House Bill 685

Page 2, line 24

Strike: "businesses"
Insert: "capital companies"

- clarification

Page 3, lines 6-7

Strike: "which gives priority to investments in the order of time in which they are committed"
Insert: "requiring investments within a specific period of time"

- clarification

Page 5, lines 4-25

Strike: All
Insert: "(5) Qualified investment means a debt or equity financing of, or purchase and leaseback financing of a Montana small business, as defined in rules adopted by the department, but does not include investment in conventional oil and gas exploration, residential real estate development, the operations of a regulated lender as defined in 31-1-111, or retail trade activities directly competitive with another Montana small business."

- I feel it is more direct and simpler to refer to what is excluded, rather than what is included. This is the language adopted by the committee, with the exception of the reference to retail trade. In addition, the language in the bill does not include a reference to tourism or construction, and sections (vii) and (viii) would be impossible to enforce or verify.

Page 6, lines 9-10

Strike: "March 1, 1984"
Insert: "September 1, 1983"

- I do not see why we should have to wait one year to put this bill to work. Our company is prepared to raise new capital as soon as possible, and the needs in our business community exist now. September 1, 1983, would allow the department four full months to adopt rules to implement the act. Companies potentially eligible for certification should not have to wait any longer than this to apply for certification.

Page 7, lines 9-14

Strike: "Every 6 months, commencing 6 months after the first date in which the department certifies a Montana capital company"

- After capital companies are certified, they should be able to file for qualification as soon as they raise the minimum capital. There is no reason to have to wait six months.

Page 7, lines 19-21

Strike: "The application . . . assessed under (Section 7(4))."

- It will simply be impossible to get bonded under conditions where there is no similar historical experience for a bonding company and little, if any, track record for the company seeking the bond.

Page 7, lines 23-24

Strike: "the company's private capitalization or $375,000, whichever is less."

Insert: "$375,000."

- I do not understand what this means. The tax credits are tentatively allocated at the time of certification. Of course, the amount allocated cannot be exceeded, and obviously will be reduced if the capitalization raised is less than expected.

Page 10, lines 8-9

Strike: "tax credits were certified as allocated to the company for investments."

Insert: "the certified company was designated as a qualified capital company by the department."

- clarification

Page 10, lines 11-12

same as above

- clarification

Page 10, lines 14-15

same as above

- clarification

Page 10, lines 21-22

Strike: "shall pay to the department of revenue"
Insert: "may be subject to"

- There should be flexibility when assessing the penalty, to allow for best and good faith efforts at investing the money or, to the contrary, minimal or no effort. An automatic penalty may result in poor investment decisions.

Page 11, lines 1-3

Strike: "The department of revenue shall deposit any amount received under this subsection to the credit of the state general fund."
Insert: "The departments of commerce and revenue shall jointly negotiate the penalty, and the department of revenue shall deposit any amount received under this subsection to the credit of the state general fund."

- same as above

Page 12, line 2

Strike: "capital base of"
Insert: "investments made by"

- In the act, capital base is defined as the equity of the company. The existing language would tie the company's investments to the equity base, which is inappropriate since a capital company can, through leverage, make total investments equal to 10-20 times its equity base. The amendment clarifies this point, and achieves the objective that we do not have single project capital companies.

Page 12, line 3

Strike: "invested"

- same as above

Page 14, line 22

Strike: "either" and "or qualified"

- The existing language seems to require two full disclosures. Since the critical point for raising money is certification and tentative approval for an amount of tax credits, evidence of full disclosure need only be required at the application for certification.

Page 14, line 24

Strike: "has disclosed or"

- same as above

Page 15, lines 6-8

Strike: all

Insert: "(2) that the tax credit will not be made available until the company raises at least $200,000 in capital, and the limits on tax credits that may be authorized."

- The existing language implies that there may be reasons for a certified company not getting qualified other than not simply raising $200,000. To avoid potential liability when soliciting investors, the capital company must be absolutely specific during fund raising about what conditions must be met to get qualified, and receive the tax credits. All requirements, except the minimum capitalization of $200,000, should be clear and met when the company is certified. The minimum capitalization should be the only issue left affecting the ability of a certified company to get qualified.

MONTANA CHAMBER OF COMMERCE

P. O. BOX 1730 • HELENA, MONTANA 59624 • PHONE 442-2405

Testimony
before the
Select Committee on Economic Development
John Vincent, Chairman
in support of
HB 685
by
Janelle K. Fallan
Public Affairs Manager
Montana Chamber of Commerce

February 10, 1983

The Private Industry Council, in which the Montana Chamber was actively involved, contracted for a study that determined there definitely is a need for such capital in Montana. That need would be addressed by HB 685.

Traditional financing sources do not meet small businesses' needs for equity financing. The basic capital availability problem for developing businesses is of great importance for the economic development in Montana.

Of all the programs in the Governor's Build Montana package, the portion dealing with capital companies is the only part that seeks to provide the venture and risk capital needed for meaningful economic development in Montana.

The Montana Chamber has a long record of concern about this issue. Three years ago, we formed a venture capital committee to work on it. The result was the SBIC bill of last session. However, that does not provide the necessary tax credit.

EXHIBIT I.

(more)

Last month, we invited Larry MacDonald from the Wyoming Industrial Development Corporation to address legislators and other interested citizens on this issue. He noted that one problem with attracting venture capital to Montana is our remote location. Another is our income tax, because many of the states that venture capitalists deal in do not have an income tax. For both these reasons, the income tax credit is important to attract venture capital to our state.

We urge your support of this bill.

/ssg

MONTANA STATE AFL-CIO
AFL CIO
APRIL 29 1956

Box 1176, Helena, Montana

JAMES W. MURRY
EXECUTIVE SECRETARY

ZIP CODE 59624
406/442-1708

TESTIMONY OF DONALD R. JUDGE, ON HOUSE BILL 685, BEFORE THE SELECT COMMITTEE ON ECONOMIC DEVELOPMENT, FEBRUARY 10, 1983

Mr. Chairman, members of the Committee, my name is Don Judge and I'm here today representing the Montana State AFL-CIO in support of House Bill 685. Although we received our copy of House Bill 685 today, which didn't leave much time to properly prepare for this hearing, I think that I understand it, perhaps even better than any of the other bills we've testified on before this committee.

House Bill 685 is, simply put, a tax credit bill. As a simple example, and please correct me if I'm wrong; If I, as a taxpayer expecting to owe $1,000 in taxes, subsequently invested $4,000 in a certified capital company eligible for investment credit, I could apply 25% of my investment to wipe out my tax liability. That's a simple example, I realize, but beyond all the miscellaneous language contained in this bill, that's what it does.

Now even though this bill contains no provisions for matching money from the state, as originally proposed, I believe that this legislature still has some ownership over the "targeting" of "qualified" investments, because of the tax credit provisions. Because these provisions reflect a credit for liability of money owed the state, it is my assumption that state money is still involved here.

Assuming that I am correct, and that the legislature still has the ability to provide "targeting" goals for "qualified" investments, I am going to suggest a few amendments. They are as follows:

EXHIBIT J.

(1) Amend page 3, line 20

Following: "for employment"

Insert: <u>of Montanans</u>

(2) Amend page 3, line 25

Following: "small business"

Insert: at least 60% of whose operations are

(3) Amend page 5, line 6

Following: "that meets"

Strike: "both of"

(4) Amend page 6, line 2

Following: "rules adopted by the department."

Insert: a new subsection (c) to read as follows:

(c) priority shall be given to selection of qualified investments which:

(i) are made in counties or groups of counties designated as "critical economic areas" by the Montana Economic Development Board. Such areas will be prioritized as areas which (a) have had unemployment rates at least 5% above the state average for the last two years; (b) have had unemployment rates at least 1% above the state average for the last two years; and (c) have had unemployment rates at least 1% above the state average for the last one year;

(ii) pay the prevailing wage for that occupation, or utilize contractors who pay the prevailing wage, for any construction made possible by state investment;

(iii) meet or exceed the state standards for affirmative action in hiring veterans, women, minorities, and the handicapped.

Mr. Chairman, members of the Committee, I ask that you consider these amendments in your deliberations.

The last comments I wish to make regarding House Bill 685 concern the makeup of the "board" referred to in Section 18. Let me echo our comments made on the composition of the Board in the hearing on House Bill 100. We simply encourage you to consider establishing criteria that the Board be primarily composed of members of the public and include a representative of organized labor.

With those thoughts, we ask you to support House Bill 685. Thank you.

HB 685

Presented to the House Select Committee on Economic Development
By the Montana Environmental Information Center

February 10, 1983

HB 685 is a fairly significant departure from the other bills considered by this committee. For starters, HB 685 does not directly invest any state held funds. Rather, it uses tax credits to stimulate private investment.

HB 685 is quite different from the Montana Capital Corporations bill suggested by the Temporary Committee on Development Finance. The committee's bill would have provided a 50 percent tax credit, not a 25 percent credit. The committee's bill would have provided state funds to match the capitalization of the MCC's. In that sense, the committee's bill represented more of a joint public/private venture than does HB 685. Finally, the list of "qualified investments" in the committee's bill was couched in terms of business types excluded, not in terms of eligible businesses.

As I read through HB 685, I was surprised that all of the administraive functions were to be done by the Department of Commerce and not the Economic Development Board. Section 18 finally set me straight by pointing out that if the Board is created by HB 100, then the Board will be responsible, not the Department of Commerce.

We would like to make a suggestion to the committee regarding the Economic Development Board. General citizen representation will be essential to the success and fairness of the development finance programs. The composition of the Board is one place to ensure such representation. An additional possibility is to form several regional boards to advise the main Board. This would provide a more direct link between the diverse communities in Montana and the Board. This kind of grassroots involvement would strengthen the long-term ability of the Board to meet the economic development needs and desires of all Montanans.

The list of "qualified investments" (pp. 5-6, starting at line 4) is different than the approach suggested by the temporay committee. MEIC strongly supports "(ii) agricultural, fishery, or forestry production and processing;" "(iv) recognized nonfossil forms of energy generation as defined in 15-32-102(5);" "(vii) wholesale and retail distribution activities for which products produced in Montana comprise 50% or more of the gross sales receeipts;" and "(viii) any activity conducted in the state for which 50% or more of the gross receipts are derived from the sale of products or services outside Montana."

Finally, MEIC recommends that that the preferences in HB 100, as the select committee finally determines, be inserted in HB 385. The purpose is to carefully focus the program to maximize its ultimate

EXHIBIT K

MONTANA

ECONOMIC DEVELOPMENT ASSOCIATION
Post Office Box 1093 • Helena, Montana 59624 • February 10, 1983

TESTIMONY IN SUPPORT OF H.B. 685

The Montana Economic Development Association believes that the Capital Companies bill should be passed for two reasons:

1. It would help fill a gap in financing resources in the state. Capital companies can be more versatile than conventional financing institutions in developing creative, appropriate solutions to a wide range of business/industry financing needs.

2. It represents a positive private sector response to a private sector problem~~s~~, and it facilitates the investment of Montana capital in Montana.

Successful small businesses traditionally go through a series of phases to maturity. In its formational state, the business/industry is financed largely through the owners' personal savings and trade credit. Once it enters a period of substantial growth, however, it should be able to draw upon internal financing (from retained earnings), trade credit, bank credit, and venture/equity capital. Unfortunately, the latter has not always been the case in Montana.

A growing small business in Montana may well have a hard time acquiring equity (or long-term debt) financing because it is not large enough to go public and individual private investors are difficult to find. The average small business owner does not know where to find a potential investor. He or she may place an ad in the <u>Wall Street Journal</u> or in another publication widely read by investors, but there is a certain randomness about that, and its productivity is questionable. On the other side of the desk, the individual investor may not have the time, the knowledge, or the desire to spend a great amount of effort evaluating the potential of the business, the soundness of its management, and the degree of financial risk involved. It is simply easier to put one's money elsewhere, in CDs or in structured funds which spread investors' risks over a number of investments. A Montana capital company could be a useful, important intermediary in the matching of investors and investments.

EXHIBIT L

The need for equity in a growing company is not a sign of weakness, but is a positive indication. At low growth rates a firm may need no external financing. For substantial growth, however, it must raise capital from outside sources -- the faster the growth rate, the greater the capital requirements. Particularly if a firm is capital intensive, even a small growth in output may require a great deal of outside capital. Technological considerations may also dictate that if a firm is to be competitive that it must add fixed assets in large, expensive units, where even a moderate increase in sales may require a firm to substantially increase its plant capacity.

Then, too, the availability of an equity base makes it easier and less expensive for a small firm to raise its debt capital. During periods of tight money and high interest rates, financial institutions may tighten their credit standards. A stronger balance sheet is required to qualify for bank credit. Since financial ratios for small and growing firms tend to be less strong, such firms often bear the brunt of credit restraints. Obviously if a firm has been able to raise some equity capital it is in a better position to ride out a tight money period. When it does need additional financing, its equity base enables it to present a stronger picture to the banks, thus helping it obtain further financing in the form of debt.

Small businesses generally are managed by their owners -- who are also responsible for overseeing production, negotiating sales, developing new products, training personnel, and a hundred other duties. Working 70-80 hour weeks, these individuals do not have the luxury of time to work on creative financial solutions to their capital problems. A capital company could be a valuable resource, providing both financial and management counseling and assistance.

For these and for many other reasons which have been enumerated by the other proponents of this measure, we endorse H.B. 685 and respectfully urge your favorable consideration of it.

Carol Daly, Pres.
MEDA

WOMEN'S LOBBYIST FUND

Box 1099
Helena, MT 59624
449-7917

February 10, 1983

TESTIMONY OF STACY A. FLAHERTY, WOMEN'S LOBBYIST FUND, BEFORE THE HOUSE SELECT COMMITTEE ON ECONOMIC DEVELOPMENT, CONCERNING HOUSE BILL 685.

The Women's Lobbyist Fund would like to make several comments about HB 685. Becuase of the problems that women have traditionally had in obtaining credit, this bill is particularly important in making credit available for businesses owned and operated by women. In this interest we would recommend adding to the aims of this bill on page 4, line 4

"including businesses owned and operated by non-traditional owners."

HB 685 is designed to make credit available to interests which have been disadvantaged in the traditional credit market--as the bill states to businesses for which risk and equity financing are not readily or fully available. Businesses owned and operated by women and minorities, i.e. non-traditional, are severely disadvantaged in obtaining credit. They frequently do not have long credit histories, initial cash balances, and the number of employees traditionally required on the credit market.

We also believe that this committee should consider moving the section of preferences from HB 100 (as amended to include the preference many of us mentioned last week to give preference to firms with demonstrable affirmative action programs) to HB 685.

While the capital corporations reflect private money collected through governmental policy rather than actual state money, we believe this same committtment to policy direction would be appropriate throughout the Build Montana and economic development package.

Finally, a real way of expressing our preference for economic development is to reflect those policy directives through the composition of the Economic Development Board. Certainly, we believe that a sensitivity to, knowledge of, and attention to the role of women in economic development would best be ensured through having women in Montana businesses on that board.

We believe that in the course of discussing all of these bills additional attention needs to be paid to the composition of the Economic Development Board.

EXHIBIT M

NOTES REFLECTING TESTIMONY BY DAN BUCKS, DEPT. OF REVENUE, ON HB 685

1. The bill would be a tax credit that is likely to succeed because it is targeted to a very specific purpose -- the creation of venture capital companies.

2. The definition of "qualified investments" in section 4 of the bill is very important. The definition helps insure that venture capital will be focused on small businesses that operate in basic, growth-producing sectors of the economy. Growth-producing activities are those that earn new export dollars for the state or that substitute in-state products or services for imports. The economic activities described in the definition are those that are most likely to produce new economic growth for the state. The alternative approach of leaving investments open to anything except certain activities does not guarantee the Legislature that the financing is focused on basic, growth-producing economic activities. Further, the approach in the original version of the bill establishes clear legislative policies for this program.

3. The certification start-up date of March 1, 1984 was specified to allow for adequate time for rule-making by the Dept. of Commerce or the new Economic Development Board and for adequate time, subsequent to rule-making, for private sector groups to decide whether or not to develop venture capital companies.

4. The penalty in section 10, subsection 4 of the bill is important to insure that capital companies make investments in the activities specified in the bill. Without an effective penalty, there is no guarantee that the tax credits will be used to achieve the intended purpose. The bond required in section 6 was included to insure that a repayment of the tax credits would occur in the case of a failure of a venture capital company. If a bond is unworkable, some other mechanism should be included to guarantee repayment of the tax credits in such cases.

5. The quarterly reports were specified in section 8 of the bill for two purposes. First, they are necessary to facilitate the timely granting of tax credits in the case of fiscal year taxpayers. An annual report would not timely enough to allow the Dept. of Revenue to verify, and therefore promptly approve tax credits, in the case of taxpayers who file returns on a fiscal year basis. Second, because the tax credit is relatively large, it could invite some fraudulent returns. The Dept. of Revenue wants to be able to verify credit claims quickly to avoid granting a fraudulent claim.

Mitzi - 224r

(FOR LEGISLATIVE COUNCIL USE ONLY)

LC No. ____________

Date of Request 2-10-83

Drafter Greg Date drafted 2-11-83

Requestor(s) ____________

☐ SB ☐ HB ☐ SJB ☐ HJB

☐ SR ☐ HR ☐ SJR ☐ HJR

Subject ____________

(FOR LEGISLATIVE COUNCIL USE ONLY)

REVIEW

	Initials	Date
Legal		
Director		
Reader		
Drafter		

(FOR LEGISLATIVE COUNCIL USE ONLY)

FINAL REVIEW

From Alter		
Drafter		
Final final		

BILL DRAFTING REQUEST

Legislative Council
Room 138 — State Capitol
Helena, Montana 59620
(406) 449-3064

BILL DRAFTER CHECKLIST

Drafter ____________ Phone ____________

NOTE: Each question on checklist calls for "yes", "no" or "N/A" (not applicable) response. Page number references are to Bill Drafting Manual.

Conformity with state and federal Constitutions considered (p. 1)? ______

Existing Montana statutes reviewed to avoid conflicts, duplication, or confusion (p.3)? ______

Note attached indicating source of draft (e.g., model act, other state statute, etc.; p. 5)? ______

Internal references checked using internal references list (p.6)? ______

Fiscal note required (p.58)? ______

Fiscal impact requiring July 1 effective date (p.58)? ______

Statement of legislative intent required (p.60)? ______

Code placement and applicability considered; codification instruction included in draft or suggested assignment of statute numbers attached (pp. 50, 110)? ______

Title contains one subject clearly expressed (p. 35)? ______

SUBSTANCE OF PROPOSED LEGISLATION

REQUESTED BY SELECT COMMITTEE ON ECONOMIC DEVELOPMENT

A constitutional amendment to permit investment of trust funds in corporate stocks.

Committee Bill

EXHIBIT N

REVISED August, 1982

REQUESTOR

CONSTITUTIONAL AMENDMENT NO. 10

Attorney General's Explanatory Statement

The legislature submitted this proposal for a vote. It would amend the Montana Constitution regarding the investment of public funds. Currently, public funds may not be invested in private corporate capital stock and school fund investments must bear a fixed rate of interest. This proposal would eliminate those restructions.

Fiscal Note

Removing these restrictions will allow the legislature to broaden the range of investments in which public funds may be invested. The fiscal impact of state funds is not known.

AN ACT TO SUBMIT TO THE QUALIFIED ELECTORS OF MONTANA AN AMENDMENT TO ARTICLE VIII, SECTION 13, OF THE MONTANA CONSTITUTION REMOVING THE RESTRICTION ON INVESTMENT OF PUBLIC FUNDS IN CORPORATE CAPITAL STOCK AND THE REQUIREMENT THAT SCHOOL FUND INVESTMENTS BEAR A FIXED INTEREST RATE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Article VIII, section 13, of the Constitution of the State of Montana is amended to read:

"Section 13. Investment of public funds. (1) The legislature shall provide for a unified investment program for public funds and provide rules therefor, including supervision of investment of surplus funds of all counties, cities, towns, and other local governmental entities. Each fund forming a part of the unified investment program shall be separately identified. ~~Except for monies contributed to retirement funds, no public funds shall be invested in private corporate capital stock.~~ The investment program shall be audited at least annually and a report thereof submitted to the governor and legislature.

(2) The public school fund and the permanent funds of the Montana university system and all other state institutions of learning shall be safely and conservatively invested in:

(a) Public securities of the state, its subdivisions, local government units, and districts within the state, or

(b) Bonds of the United States or other securities fully guaranteed as to principal and interest by the United States, or

(c) Such other safe investments ~~bearing a fixed rate of interest~~ as may be provided by law."

Section 2. Effective date. If approved by the electorate, this amendment is effective January 1, 1983.

Section 3. Submission to electorate. This amendment shall be submitted to the electors of the State of Montana at the general election to be held November, 1982, by printing on the ballot the full title of this act and the following:

☐ FOR removing the restriction on investment of public funds in corporate capital stock and the requirement that school fund investments bear a fixed rate of interest.

☐ AGAINST removing the restriction on investment of public funds in corporate capital stock and the requirement that school fund investments bear a fixed rate of interest.

ARGUMENT FOR CONSTITUTIONAL AMENDMENT NO. 10

This constitutional amendment would allow state public monies and school fund investments to be invested in corporate capital stock, as well as in bonds and securities bearing a fixed rate of interest, which are now the only permitted investments.

During periods of high inflation, like we have been experiencing, fixed interest securities tend to lose purchasing power as fast as or faster than interest is earned, thereby eroding the real value of state investments. Permitting corporate capital stock investments gives the State Investment Board more opportunity and flexibility to preserve and enhance the purchasing power of our public monies in today's uncertain investment climate.

This investment flexibility is already permitted for the state public employees' and teachers' retirement funds. This constitutional change will not require such corporate capital stock investments. It only gives the State Investment Board this option for when, in their best judgment, it best serves the goal of preserving the value of Montana's public monies.

s/Bill Norman
Ken Nordtvedt

ARGUMENT AGAINST CONSTITUTIONAL AMENDMENT NO. 10

The state constitution is the fundamental law of the state and ought not be changed for light or transient causes and it is not the mission of state government to collect taxes to provide economic or financial relief to those having credit problems.

This proposed constitutional amendment would make an important change in how public funds may be invested. Now the constitution PROHIBITS the investment of public funds in PRIVATE CORPORATE CAPITAL STOCK but allows retirement funds to be so invested, however statute (17-6-211) has restricting limitations on investments with the purpose of protecting state funds while seeking maximum returns.

Retirement funds are long-term investments and may properly be placed in selective private corporate capital stock but public funds, tax generated revenues, which are collected for current expenditures require short-term placement in as safe a market as possible.

Obviously, the constitutional writers thought it unwise to allow public funds to be invested in private corporate capital stock — that is putting state money in stock in start-up (capital) issues which are not public issues qualifying on a national exchange.

We see no compelling reason to remove this restriction for if removed it might open the door to less conservative practices that even an annual audit might be too late to save.

The second proposed change would eliminate the requirement that the interest on school funds earn a fixed rate as provided by law. The legislature can change the interest rate as conditions indicate and, again, we see no compelling reason

EXHIBIT O

to change the constitutional language.

State funds are public funds managed with a special obligation to protect the security of the funds and the safety of the investments and requires personal, statutory, and constitutional support. We see it a mistake to relax the restrictions and urge voting against removing the constitutional restrictions.

s/Matt Himsl
Francis Bardanouve

REBUTTAL OF ARGUMENT FOR
CONSTITUTIONAL AMENDMENT NO. 10

Writers of the argument against Constitutional Amendment No. 10 indicated that they would not write a rebuttal of the Argument for Constitional Amendment No. 10.

REBUTTAL OF ARGUMENT AGAINST
CONSTITUTIONAL AMENDMENT NO. 10

Some state public monies are held for long term. The state's responsibility to maintain the true purchasing power of these funds can only be met during inflationary periods by permitting investments in capital stock which can experience growth. Fixed interest securities inevitably lose value in such times. We are presently not protecting the value of our interest-bearing public funds. At seven percent inflation the valueof bonds is cut in half every ten years. This amendment will give the State Board of Investments more ability to do their job.

The State Board of Investments under this proposed amendment may invest in blue chip capital stocks as it now can with the various retirement funds. This amendment is not a license to speculate in unlisted securities as the opponents claim.

If the state monies and school monies, held in trust for future Montanans, are worth maintaining in real purchasing power, we urge your support of this constitutional amendment which improves the opportunity of the state to carry out this trust.

s/Bill Norman, Chairman
Ken Nordtvedt
Jack Stevens

HOW THE ISSUE WILL APPEAR ON THE BALLOT:

CONSTITUTIONAL AMENDMENT NO. 10

AN AMENDMENT TO THE CONSTITUTION PROPOSED BY THE LEGISLATURE

Attorney General's Explanatory Statement

The legislature submitted this proposal for a vote. It would amend the Montana Constitution regarding the investment of public funds. Currently public funds may not be invested in private corporate capital stock and school fund investments must bear a fixed rate of interest. This proposal would eliminate those restrictions.

AN ACT TO SUBMIT TO THE QUALIFIED ELECTORS OF MONTANA AN AMENDMENT TO ARTICLE VIII, SECTION 13, OF THE MONTANA CONSTITUTION REMOVING THE RESTRICTION ON INVESTMENT OF PUBLIC FUNDS IN CORPORATE CAPITAL STOCK AND THE REQUIREMENT THAT SCHOOL FUND INVESTMENTS BEAR A FIXED INTEREST RATE.

FISCAL NOTE

REMOVING THESE RESTRICTIONS WILL ALLOW THE LEGISLATURE TO BROADEN THE RANGE OF INVESTMENTS IN WHICH PUBLIC FUNDS MAY BE INVESTED. THE FISCAL IMPACT ON STATE FUNDS IS NOT KNOWN.

☐ FOR removing the restriction on investment of public funds in corporate capital stock and the requirement that school fund investments bear a fixed rate of interest.

☐ AGAINST removing the restriction on investment of public funds in corporate capital stock and the requirement that school fund investments bear a fixed rate of interest.

FOR LEGISLATIVE COUNCIL USE ONLY

LC No. 1374

Date of Request 2/1

Drafter Grey   Date drafted 2-12-83

Requestor(s) B&I Comm (Fabrega)

☐ SB   ☐ HB   ☐ SJB   ☐ HJB

☐ SR   ☐ HR   ☐ SJR   ☐ HJR

EN, BI - Subject Renewable energy equipment manufacturing incentive

BILL DRAFTING REQUEST

Legislative Council
Room 138 — State Capitol
Helena, Montana 59620
(406) 449-3064

(FOR LEGISLATIVE COUNCIL USE ONLY)

REVIEW

	Initials	Date
Legal		
Director		
Reader		
Drafter		

(FOR LEGISLATIVE COUNCIL USE ONLY)

FINAL REVIEW

From Alter		
Drafter		
Final final		

BILL DRAFTER CHECKLIST

Drafter ______________ Phone ______________

NOTE: Each question on checklist calls for "yes", "no" or "N/A" (not applicable) response. Page number references are to Bill Drafting Manual.

Conformity with state and federal Constitutions considered (p. 1)?	✓
Existing Montana statutes reviewed to avoid conflicts, duplication, or confusion (p.3)?	✓
Note attached indicating source of draft (e.g., model act, other state statute, etc.; p. 5)?	NA
Internal references checked using internal references list (p.6)?	✓
Fiscal note required (p.58)?	yes
Fiscal impact requiring July 1 effective date (p.58)?	no
Statement of legislative intent required (p.60)?	to Ellen
Code placement and applicability considered; codification instruction included in draft or suggested assignment of statute numbers attached (pp. 50, 110)?	✓
Title contains one subject clearly expressed (p. 35)?	✓

SUBSTANCE OF PROPOSED LEGISLATION

By unanimous request of B&I Comm.

Fabrega

House   REQUESTOR

ISED August, 1982