Legislative Testimony – March, 2016

My name is James Burgum, I am a co-founder and serve as Managing Partner of Arthur Ventures. Arthur Ventures is a venture capital firm based in Fargo, ND with approximately $65M of capital under management today and we focus our investments in Seed & Series A (exhibit A) software companies. Thank you for the opportunity to provide written testimony regarding the Angel Fund Tax Credit legislation. I understand there has been discussion and debate among committee members regarding the stipulation that the current policy allows investors to participate in angel funds that may deploy portions of that invested capital outside of North Dakota. If I'm reading sentiment of the committee accurately, the line of thinking is that if ND-based investors receive tax credits for participation in these angel funds, (at a cost the state of ND) it makes sense that those dollars contributed to these funds ought to be reinvested in the state of ND on a dollar for dollar basis. The logic in this argument makes complete sense – *but only if the goal of the policy is to encourage investment in North Dakota today.*

My Goal…is Goal Alignment

In preparing for this testimony I reviewed my prior comments submitted to the House Finance and Taxation Committee in 2011. As I reviewed my prior testimony from 2011 there was plenty of discussion included on the concept of legislative intent. Before making any adjustments to any public policy, it's critical that there is agreement among the body of lawmakers on the legislative intent of the policy under review. ***From my perspective, the original goal of this policy has nothing to do with investment in North Dakota***. The intent of this policy, in my opinion, was to provide one small tool in a much broader strategy goal to ***develop a capital base in North Dakota.*** Therefore, the gauge for success of this policy should NOT be the traditional metrics of economic development policy tools – such as jobs created, or direct and indirect economic impact indicators. The only metric that matters for us to gauge the success or failure of this policy is; ***how many dollars has North Dakota aggregated in ND-based angel and venture capital funds?*** In my view, this policy has always been about providing an environment to seed a non-existent capital industry in ND. To my knowledge, we have ZERO private capital and professionally managed venture capital or private equity funds in the state of ND, outside of

Arthur Ventures. More importantly, according to the National Association of Venture Capital and PWC MoneyTree report ND continues to rank at the very bottom of venture capital investing. For 2015, we were 47th of 50 states with one investment for $50,000. That is miserable – ***out of $58B of private capital that was invested into the US economy last year tracked by NVCA, we obtained $50,000 of that*** (exhibit B). The Angel Fund Tax Credit strategy and policy has always been about providing incentives to create a capital industry in ND – ***especially at the seed and angel stage of capital formation***. Venture capital investing (the business I am in today) cannot exist without the foundation of an active angel investment community. I consider Arthur Ventures a "graduate" of this successful policy, these credits should no longer apply to funds over a certain size – say $25M. ***Arthur Ventures' existence in this industry would never have been possible without the foundation of the early angel funds in ND.*** We need dozens more angel funds with millions of more private capital dollars allocated to them to keep pouring concrete into this fragile foundation. Counterintuitively, if capital aggregation is the goal – it is not how many investments take place in ND, how many dollars are invested in ND companies, how many jobs, or how quantifiable the ***near-term*** ND economic benefit. THAT WILL COME WITH TIME. While that view and the traditional metrics associated with it is completely understandable, we must recognize before making any decisions around changes to this policy that <u>goal alignment must be in place first.</u> My intent in this testimony is to make the case for goal alignment, and then analyze the policy tools in place to achieve balance toward the optimal outcome in pursuit of that goal. <u>**I fundamentally believe this policy goal should be about building our capability to aggregate capital in ND.**</u> If we agree that this is the goal, *then within that context, does restricting angel and seed fund managers to only invest in ND based businesses hider, or enhance that effort?*

Why Capital Aggregation as a Goal?

Finally, I'd like to share with you why I believe capital aggregation is such an important strategy for our state. Over time if North Dakota is able to build as one of our "strategic pillars," a private capital industry – the economic benefits to ND will be tremendous. A system of angel funds, venture funds, and private equity capital can have exponential net returns because of its capacity to <u>***provide our economy with the***</u>

ability to recycle private capital. Growth requires capital. If you want to grow your business today and create more jobs, where do you go to get capital – the bank? Banks today are overregulated bureaucratic institutions (more-and-more are becoming extensions of failed federal policies), that can only lend to those individuals who already have money or to companies that already have assets. Essentially, today our economy in North Dakota has no lubricant; or more appropriately stated – we have no means with which to efficiently deliver the lubricant. There is private capital in our state – we just need to create the proper financial intermediaries such that it can flow efficiently to fund growth. Without a lubricant, our economic engines of growth will sputter, fit, and start – just as they always have. We'll never have the fluidity, flexibility, adaptability that other parts of the country have leaving us deeply susceptible to our economic cycles, and most importantly handicap our ability to realize our full economic potential. As you all know our economy is heavily dependent on commodity-based industries; and our efforts to diversify around targeted industries in advanced manufacturing, technology, tourism, value-added agriculture, and energy have yielded success – but could yield even greater success if we can attract capital to North Dakota over time. If we invest as much as we do in education and human capital formation (Fiscal Year 2016 has budgeted ~\$1B for human capital formation), we can't ignore the fact that to realize returns on these incredible public investments ***we need to couple that with investments in capital formation.*** The two go hand-in-hand. Without access to capital, we'll never be able to fully realize our investments on the tremendous talent, creativity, brainpower that we cultivate in our education systems. Those investments will continue to get exported to other areas of the country where economies have the lubricant to accelerate their ability to drive growth and wealth creation. Capital formation is the metric we need to measure in this policy pillar, NOT jobs. ***If we can attract capital to ND today, even if fund managers are not investing in the state today, they will over time. Capital acts as gravity in the free-market economic system and jobs, just as water does in nature, will flow downhill.*** Having a capital base in ND will continually attract talent and companies to the state that we would never be able to do otherwise under any economic development plan. For those that say we have plenty of private capital in the state, we do! But what we don't have the means with which to aggregate this capital in professional intermediaries such that it can flow efficiently into our economic system. So, in conclusion: if we believe that capital formation is the goal – I would not require fund managers to only invest in ND-based companies. I would keep the current policy in place to continue our efforts in planting seeds to build early-stage capital access, and most importantly plant seeds of success for future capital aggregation in North Dakota. Thank you for the opportunity to present this testimony.

Respectfully submitted,

James Burgum.

Exhibit A

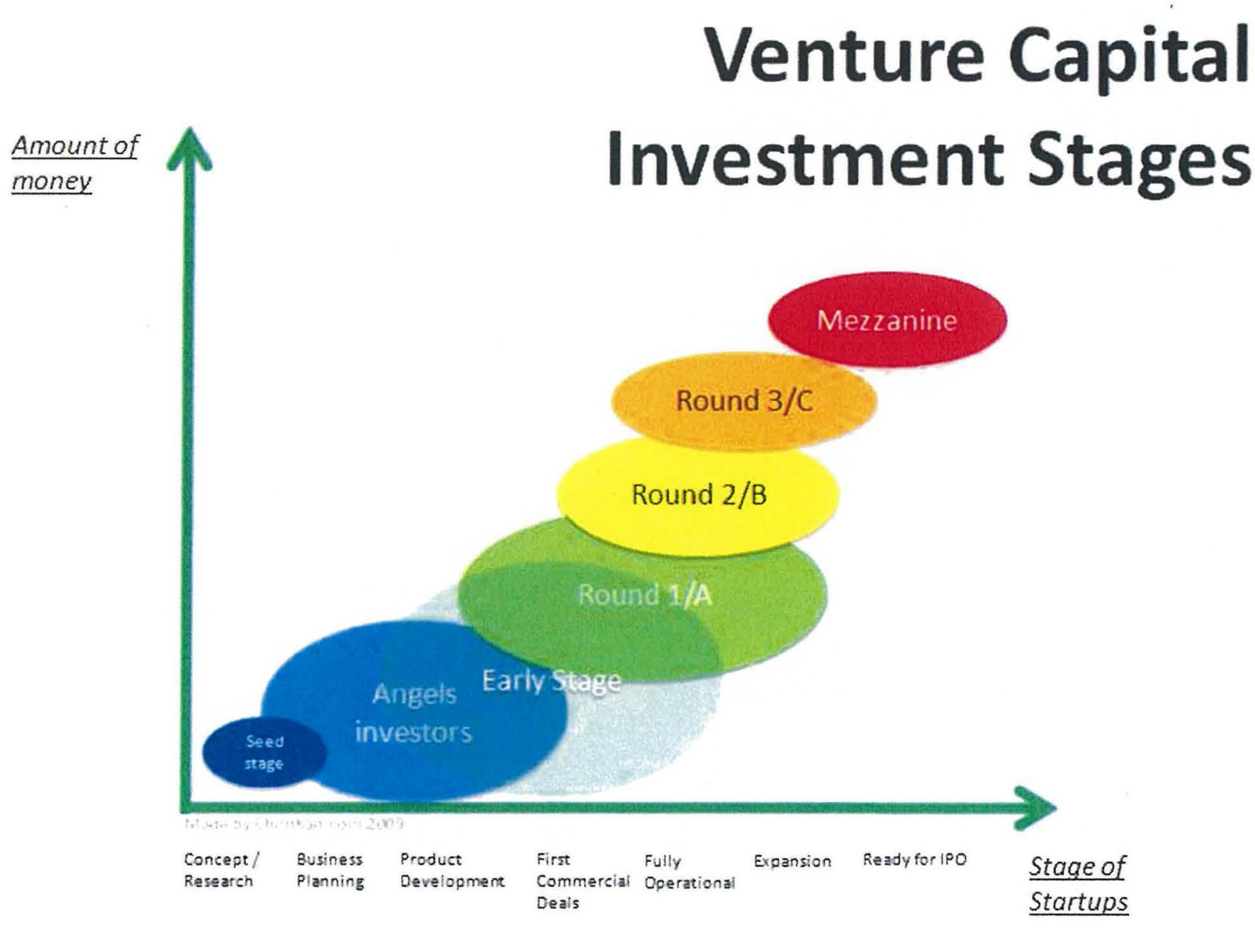

Exhibit B

See attached PricewaterhouseCoopers/National Venture Capital Association MoneyTree Report.

PricewaterhouseCoopers/National Venture Capital Association
MoneyTree™ Report, Data: Thomson Reuters
Investments by State Q1 - Q4 2015

STATE	Q1 2015		Q2 2015		Q3 2015		Q4 2015		
	Deals	Amount	Deals	Amount	Deals	Amount	Deals	Amount	Total
AL			1	100,000	2	39,000,000			39,100,000
AR	5	3,250,000	2	2,575,000	2	3,450,000	2	1,100,000	10,375,000
AZ	6	31,136,100	11	58,946,900	4	7,195,000	7	16,234,000	113,512,000
CA	441	8,086,138,300	491	10,459,895,600	471	9,558,448,000	370	5,562,289,400	33,666,771,300
CO	23	101,218,300	22	320,022,100	16	89,635,600	26	271,746,600	782,622,600
CT	14	57,646,100	15	116,709,900	16	97,234,000	12	175,077,100	446,667,100
DC	5	33,546,100	8	59,702,200	7	64,200,100	3	14,528,800	171,977,200
DE	4	31,276,000	1	5,000,000	4	61,879,000			98,155,000
FL	19	85,566,000	16	148,691,900	13	194,887,100	10	31,624,200	460,769,200
GA	22	189,349,600	18	206,876,000	13	75,819,900	18	364,032,300	836,077,800
HI									-
IA	1	4,000,000	1	-	2	8,276,000			12,276,000
ID	1	40,000,000	1	8,000,100			1	15,000,000	63,000,100
IL	28	189,485,200	23	145,849,800	19	215,889,300	26	567,811,300	1,119,035,600
IN	4	17,533,000	4	3,135,100	5	28,580,000	4	5,694,000	54,942,100
KS	1	3,000,000	2	43,699,800			2	9,500,000	56,199,800
KY			2	14,382,000			2	8,200,000	22,582,000
LA			2	1,100,000			1	9,000,000	10,100,000
MA	102	1,293,098,600	122	1,433,453,600	108	1,935,043,700	94	1,052,027,800	5,713,623,700
MD	13	91,207,800	20	137,258,200	24	140,227,000	14	451,319,600	820,012,600
ME	6	17,788,000	1	200,000	3	67,801,000	2	2,379,000	88,168,000
MI	12	87,313,400	17	45,843,300	16	147,018,000	9	48,225,300	328,400,000
MN	5	44,502,000	7	61,436,300	7	74,814,000	11	190,936,100	371,688,400
MO	10	10,116,800	6	66,606,700	18	116,439,700	9	64,019,100	257,182,300
MS									-
MT					1	300,000	1	1,200,000	1,500,000
NC	12	115,399,100	15	117,962,300	18	363,508,700	18	78,630,200	675,500,300
ND			**1**	**50,000**					**50,000**
NE	2	73,566,100	3	1,864,900	5	39,350,100	3	5,200,000	119,981,100
NH	2	17,133,000	5	64,231,000	3	22,415,900	3	21,928,700	125,708,600
NJ	12	105,057,000	14	184,915,200	13	185,057,700	14	491,078,300	966,108,200
NM	6	32,894,900	3	17,347,000	2	5,895,000	6	17,638,000	73,774,900
NV	1	-	3	7,234,000	1	5,000,000	1	8,000	12,242,000
NY	99	1,325,501,500	128	2,116,069,900	138	1,745,444,900	97	1,043,581,800	6,230,598,100
OH	19	80,194,600	19	42,481,000	14	89,198,000	19	50,845,300	262,718,900
OK	3	23,473,000	3	3,660,000	2	625,000	2	2,000,000	29,758,000
OR	11	41,560,100	13	39,168,000	13	116,526,000	7	29,216,000	226,470,100
PA	43	127,707,300	55	202,492,800	45	146,626,000	58	161,338,100	638,164,200
RI	2	3,942,000	3	620,000	1	2,250,000	5	9,450,900	16,262,900
SC			3	42,000,000	2	4,335,100	2	7,358,000	53,693,100
SD	1	6,002,000	1	1,050,000					7,052,000
TN	15	21,868,200	24	62,049,600	21	68,095,000	15	41,805,100	193,817,900
TX	49	423,017,000	40	221,913,200	45	340,308,300	29	185,549,900	1,170,788,400
UT	11	241,203,400	13	309,578,100	17	118,131,200	14	50,605,100	719,517,800
VA	20	205,102,000	22	48,054,100	20	79,051,100	12	90,371,100	422,578,300
VT	1	5,000,000	4	3,932,000	3	12,062,000	1	2,000,000	22,994,000
WA	21	271,357,700	36	449,912,000	34	323,813,200	25	165,737,800	1,210,820,700
WI	10	18,528,900	5	34,307,100	1	12,000,000	7	23,015,000	87,851,000
WV	1	-							-
Total	1,063	13,555,679,100	1,206	17,310,376,700	1,149	16,605,830,600	962	11,339,301,900	58,811,188,300

Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters