

Mr. Chairman and Committee Members:

## **Reasons for Angel Fund Investment Tax Credits in North Dakota**

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My name is Emily O'Brien, I am a graduate at the University of North Dakota in Entrepreneurship and Business Management and currently pursuing my Masters in Entrepreneurship. I joined Dakota Venture Group in October of 2013- with zero knowledge in the private equity/angel investing sector. Currently, I have the privilege of serving as President of Dakota Venture Group (DVG). Dakota Venture Group is the nation's first student run private equity fund – with 29 investors, 18 being from North Dakota. DVG was founded in October 2006 through a \$300,000 donation from Bart and Lynn Holaday from their Dakota Foundation. Later, DVG received a \$100,000 donation to grow the fund. Harvest Fund Partners, LLC was organized by DVG as another unprecedented opportunity for UND students. Harvest Fund I, LLLP continues the innovative work DVG students are doing by becoming the first ever, for-profit venture capital fund managed by students. This fund provides DVG members additional experience with fundraising and investor relations; both valuable skills needed for becoming future venture capitalists and entrepreneurs alike. Harvest Fund I, LLLP is currently \$1.4M of capital under management today with focus in high-growth, early stage ventures focusing on the medical, technology, and energy sectors. Harvest Fund's mission is threefold: providing return on investment, providing economic stimulus to the region/country and building future entrepreneur talent a triple-bottom line ROI.

Throughout my time in Dakota Venture Group, I have realized that angel investors play a crucial role in the economy that not many are willing to fill: They make personal, risky bets on start-up companies that have the potential to create significant numbers of well-paying jobs. Banks are unable to do that. Venture capitalists won't jump until the bet looks safer. Grants from government agencies and nonprofits aren't enough to keep companies on track. This is not that banks, venture capitalists, grants or nonprofits aren't vital for startup companies, but there are phases that startups must go through to reach those points.

In the majority of cases, only angels provide money that allows a new company to take the initial steps toward becoming a big employer and possibly even an inspiration for other new

businesses. That's a role worthy of government support. Tax credits are the best way to provide that support.

Yes, it is true that tax credits won't make angels invest in a company that they wouldn't invest in without the credit. But not always. A bad investment is a bad investment, and while angels are risk takers, most of them aren't so foolish as to throw their money away because someone waves an incentive in front of them.

But there are two ways that tax credits can increase the amount of funding available for startup companies. They keep more money in the pockets of existing angel investors- money that can be plowed back into a company an investor has already funded, as it continues to grow, or that can help the investor support another company that might otherwise go unfunded. And credits can help create new angel investors- people who otherwise would put their money in financial instruments, real estate, art or some other more-proven asset if a tax credit didn't make investing in a start-up worth considering.

There is anecdotal evidence that tax credits are doing more than just pushing money around from state to state in search of the best deal- they are bringing new investors, and therefore new money, into the angel fold. Angel Fund tax credits do attract some money from public markets back to North Dakota however, encouraging some accredited investors to invest in entrepreneurs for the first time.

Creating jobs- only a very small percentage of start-ups receive angel investment- the companies that do attract angel investment generally have the potential to employ far more people per company than those that muddle through their early years without any help from angels. The impact of angel investment on employment should not be underestimated – without angels, many companies that today employ dozens of people or more might not ever had it past infancy. And the money their employees are pumping into the economy might not be there.

If we continue to compare our angel fund tax credit to surrounding states and what worked best for their "Angel Fund Tax Credit" we will continue to run in circles. We need to focus on our eco-system and what is best for our growth as a state. Yes, we need to invest in companies outside our state- BUT we need to drive these companies to start doing deals in North Dakota whether it is syndication with ND Angel Investors, manufacturing in the state, opening up offices in the state, and/or hiring employees in North Dakota.

Not every investment is going to be a success. That is why angels build portfolios with 10 or more companies, in syndication with other funds from North Dakota and surrounding states.

To the best of my knowledge, the reporting on outside investors has been lacking in the past. But that simply does not mean to axe a program. We need a leadership team that can help with these efforts and supporting the importance of reporting these numbers. I understand that it is difficult to resurface items from the past- but the best we can do is communicate and work on receiving this information- NO it is not going to happen overnight, but we can start now for the future.

The possibility of losing not only these angel investors to other states and deals, but future angel investors is a risk that can't afford to take. If these investors have success, North Dakota will see a return through income tax.

"Buzz360 has received investment from several North Dakota individuals and the Harvest Fund approximately 15 months ago. These investments were no only good for Buzz360 but they were also good for North Dakota. Since these investments, we have employed 4 individuals living in Fargo and rural ND and have become a North Dakota business. The Buzz360 business plan projects hiring 6 additional ND individuals within the next 2 years.

These investments were instrumental in showing us the business friendly environment in our neighboring state and have encouraged Buzz360 come to ND and to continue to grow in ND."

**Conclusion: Mr. Chairman and Committee please consider forming a committee to do what is best for both North Dakota Tax Payers & Angel funds. I would be happy to serve on this committee to address the legislative concerns. I would also, like to extend an invitation to attend one of our Dakota Venture Group meetings, to meet the future students that can help support these efforts.**