

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1454

2001 HOUSE EDUCATION

HB 1454

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1454

House Education Committee

Conference Committee

Hearing Date 01/30/01

Tape Number	Side A	Side B	Meter #
#1		X	425 to 6200
#2	X		1 to 6233
#2		X	1 to 1898
Committee Clerk Signature <i>Lisa Gilbert</i>			

Minutes:

Chairman R. Kelsch, Vice-Chair T. Brusegaard, Rep. Bellew, Rep. Grumbo, Rep. Haas, Rep. Hanson, Rep. Hawken, Rep. Hunskor, Rep. Johnson, Rep. Meier, Rep. Mueller, Rep. Nelson, Rep. Nottestad, Rep. Solberg, Rep. Thoreson

Chairman Kelsch: We will now open the hearing on HB1454.

Rep. Glassheim: ND has long struggle with the issue of dependence and independence, and in many respects, the well-being of someplace like Dickinson depends on what they do in Saudi Arabia, and the same thing with the price of wheat, where so much of what we do in ND is determined outside of ND, yet we like to be independent and we like to create our own vitality and our own activity, so basically what this bill is trying to do is create a pool of investment money which will enable us to grow new industries and new businesses with our money and within our state. I've become very concerned with the lack of venture capital, the lack of money invest in new business and risk businesses. There are many loan programs, but the need for

equity capital for start ups is serious. Average per capita investment for venture capital throughout the US is \$64 per capita. Translating that into our population, we should have about \$40 million in ND, and there's no where near that kind of money involved for investment for ND. This bill is not perfect, but I think it can be made workable if you share the general goal of making venture capital available in the state. The purpose, then, is to encourage private investment, have state action, do what it can to encourage private investments. Small investors might have three motives, one is simply to support the state. I know I'd like to be able to invest \$1000 in this state. The second motive for small investors is a decent return. Small investors don't necessarily have access all the time to 10%-15% return on their investments, so I've provided in having the Bank of ND guarantee this investment at 6%. The third motive, investors in this fund would be able to gamble for higher returns, and the point about venture capital is, you don't know. I also want to encourage former ND to put money into this fund. There are many people who think one way have left ND and are not coming back, but they have a place in their heart for the place they grew up, and I think one way to stay attached to the state is to have a state venture capital pool that they could invest in. There are three parts to this bill, which I think are intermingled, although any one of them could be broken out. The first part creates a fund. The second part uses a number of state trust funds to invest in the funds in ND to assure some return. A 6% return for ten years, so that if the worst happens, they would have gotten 60% of their investment back in the highest risk. Also, with this 6% return, you guarantee the trust fund the same 6% return on their money as a minimum. Needless to say that costs money. Page three, the core of the bill cooperation with the securities commissioner needs to set up appropriately to allow state entities to invest. Then, we privatize it, and we say that the state will not run it. A

private investment company will be chosen to operate it. They will manage it and they will make equity investments. In subsection 2, in section 4, we have the bank guaranteeing a return for ten years at 6%. It seems likely that during the first year there will be no investments, there will be really no real expenses to it, then it will be probably a minimum of three years after investments would be made before any return would be made from those businesses. In section one, two and three, a variety of state funds are taxed to put some money in. They're not expected to do so unless the private sector raises \$5 million. In doing homework, economically targeted investment is where the funds not only seek to maximize returns for retirees, who's money they have in trusts, but they also attempt to benefit a targeted geographical area, like ND, and these are not extensively used, however, there are a number of economically targeted investment pension funds around the country and they are usually a tenth to two tenths of a percent of the asset base that they manage. Just to say that although there are concerns, other funds have put, are putting small percentages of their funds into economic development venture capital activities to benefit their state. PA, CA, NY, WI, CO all have systems. The current investment portfolio of the investment board does have 4.8% devoted to private equity investment, so they do have venture capital with capital investment. The issue is, I don't believe any of the 4.8% is in ND, risk capital investment, and the issue is, should a tiny portion of the total portfolio be targeted for ND. Basically, any investment that's made, with the greatest calculation is risk. When I ask for one tenth of one percent of the total fund to be diversified into ND emerging businesses, I saw some potential changes myself, but as its written, I think that the investments are almost an annual basis from those funds, and I'm not sure we need that much, so I think it could be made into a one time investment and accomplish the purpose. For some reason, on page three, line

nine, we say that this allows state residents to invest, but we certainly want our parents, grandparents, children from outside the state to invest.

Rep. Haas: How long do you think it would take to raise the \$5 million of private investments, or for the pool?

Rep. Glassheim: Of course, I don't know, but my hope would be that a year after the plane is organized, so possibly not until we're back again. By the time we're back again, I would hope it would be underway.

Rep. Haas: How would you fund that marketing effort, and what point would you contact a private firm?

Rep. Glassheim: The commerce department and the securities commissioner would have to put together the legal work, and I would suspect that would take a year, so you are putting some burden on the commerce incorporated and the parameters set in a prospectus, you would then go out to have a private company.

Chairman Kelsch: On page two, line 8 and 9, you are not guaranteeing the average 6% average annual return to tobacco, however, you are returning that money to the other funds, why?

Rep. Glassheim: I'm not sure. I think legislative council did that. I don't know.

Chairman Kelsch: And what if there isn't a commerce department, and also, did you consult with the fund board before putting this bill together?

Rep. Glassheim: If there isn't a commerce department, this is written for E, D and F, if there is a commerce department, it would just be rolled into that. I consulted with the managers in the process, but I didn't consult with the board specifically.

Rep. Keiser: (District 47) If you go home to your communities, if you go home to those entrepreneurs and they exist throughout the state of ND, and they will tell you that their big problem is venture capital. There are a lot of people currently in ND investing in venture capital projects, but the reality is those venture capital projects are located within 50 miles of the ocean on either side of our country. I can't defend the bill, I think anyone can shoot holes in it, but I do perceive this bill as a vehicle for jobs creation in our state, and I think that's a key issue. As this committee knows, Fargo, Bismarek, Grand Forks, Minot are four of our largest communities today that have the exact profile relative to education that the small schools had when I came into this legislature ten years ago. Fargo is booming, without Fargo, where would the economy of our state be? And despite the growth in Fargo, we have a declining school enrollment to Fargo, and if we don't address this issue in a significant way, we can wait for the next census period and ask ourselves what happened.

Rep. Brusegaard: Was a similar bill under consideration in your interim committee?

Rep. Keiser: We considered five different attempts at options. The one creative thing about this was whether or not to tap these funds as the state's participants.

Rep. Brusegaard: So, the interim committee recommended no specific legislation?

Rep. Keiser: No. We did have several bills that came out directly or indirectly related to venture capital and the formation of venture capital.

Rep. Mahoney: I think that this is a good move toward investment in the state. It's the direction we need to go with all of the talks of economic development that we're doing. The guaranteed income, when you're talking about investment, when I looked at that, I thought, there are a lot of these people that are elderly people, and those that are reaching retirement age when you're going

to be a little conservative in your investments, and there are these people who put their money in 5% CDs and they're pretty much nixed from the market of possibly getting into a company that's going to take off. This gives them the best of both worlds. This makes use of something that we're fortunate to have that no other state in the union has, and that's our own bank. It's an investment tool, it's an economic development tool, and it's appropriate for this type of a very forward looking measure.

Chairman Kelseh: Anyone who wishes to appear in opposition to HB1454?

Ed Sather: (Bank of ND) The bank is not opposed to the creation of a venture capital fund. During the next biennium, the bank will transfer \$60 million of its profits to the general fund. As we continue to grow the Bank of ND, we also need to grow our capital, and as such, we are oppose to any legislation that would or could reduce the capital of the Bank of ND. Section 4 of this bill would reduce the banks capital by providing a guarantee to this money.

Rep. Hawken: If it were capped, would that help? So there would only be a certain percentage. It couldn't be \$50 million, it could only be \$15 million.

Sather: To respond to that, it would still eat into our capital. Rep. Glassheim's intent was just to guarantee the interest, which I did not know what the interpretation was on this bill. Normally, if you look at a venture capital fund or an equity fund, and you look at a total rate of return, that is determined by appreciation depreciation. We anticipate by the end of the biennium, the Bank to be a billion eight in footings. We anticipate to start the biennium at a hundred and sixty eight million in equity. We project earnings of \$64 million over the next biennium. \$60 million to go to the general fund. It allows capital to grow an additional \$4 million.

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Steve Cochran: (Executive Director of Retirement and Investment Office) *Please refer to written testimony*

Howard Snortland: Sales tax was started back in the depression. An initiative measure provided the 2% sales tax, with seven twelfths going to schools and five twelfths going to welfare. We prospered in our schools, and we increased the amount that our state provided to run our schools. Since that time, we have not had any increases in the amount of money that's going to school. The common trust fund begins in 1889, the amount of money that would be lost, would not be great, probably, by going into this. We should be looking for more money for schools, not taking money from the common trust funds, so there's less money for schools.

Jeff Engleson: (State Land Department) *Please refer to written testimony*

Chairman Kelsch: We will now close the hearing on HB1454.

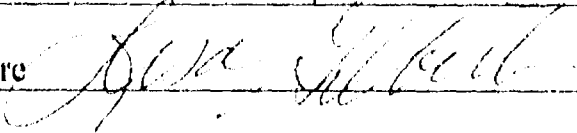
2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1454 A

House Education Committee

Conference Committee

Hearing Date 02/07/01

Tape Number	Side A	Side B	Meter #
#2	X		3775 to 6220
Committee Clerk Signature 			

Minutes:

Chairman R. Kelsch, Vice-Chair T. Brusegaard, Rep. Bellew, Rep. Grumbo, Rep. Haas, Rep. Hanson, Rep. Hawken, Rep. Hunskor, Rep. Johnson, Rep. Meier, Rep. Mueller, Rep. Nelson, Rep. Nottestad, Rep. Solberg, Rep. Thoreson

Chairman Kelsch: We will now open the hearing on HB1454?

Rep. Mueller: I move the amendments.

Rep. Hawken: Second.

Chairman Kelsch: What are the wishes of the committee?

Rep. Brusegaard: I move a DO NOT PASS AS AMENDED

Rep. Bellew: Second.

Chairman Kelsch: Committee discussion.

The motion of DO NOT PASS AS AMENDED passes with 10 YAY 4 NAY 1 ABSENT

Floor Assignment: Rep. Brusegaard

FISCAL NOTE

Requested by Legislative Council
02/12/2001

Bill/Resolution No.:

Amendment to: HB 1454

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$600,000	\$0	\$600,000
Appropriations	\$0	\$0	\$0	\$5,700,000	\$0	\$4,700,000

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

See narrative provided on HB 1454 as of 1/29/01 to Legislative Council.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

See narrative provided on HB 1454 as of 1/29/01 to Legislative Council.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

See narrative provided on HB 1454 as of 1/29/01 to Legislative Council.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

See narrative provided on HB 1454 as of 1/29/01 to Legislative Council.

Name: Randy Schwartz Agency: ND Dept of Economic Development &

Finance

Phone Number: 701 328-5314

Date Prepared: 02/12/2001

