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ROLL NUMBER

DESCRIPTION

2224

2007 SENATE FINANCE AND TAXATION

SB 2224

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2224**

Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: February 7, 2007

Recorder Job Number: # 3064 & #3075

Committee Clerk Signature

Sharon Kenyon

Minutes:

Sen. Urlacher called the committee to order and opened the hearing on SB 2224.

Sen. Grindberg prime sponsor of the bill appeared in support and presented amendments.

Steve Mercil: CEO of Rain Source Capital appeared in support with written testimony. (See attached)

Sen. Cook: how is the return determined on the risk?

Answer: determined by the Angels

Sen. Cook: so the return is going to be different on each deal?

Answer: yes

Sen. Tollefson: this is not too different from the Venture Capital Organization is it?

Answer: this is how its different, it uses venture capital techniques to make equity investments so its buying stock like venture capital but the difference between on how these individuals react is their more patient, there doing smaller rounds of capital so the average venture of capital rounds today is probably between 5 and 8 million.

Sen. Hacker: co-sponsor of the bill appeared in support and feels it's a phenomenal tool for these groups to get together and to provide some capital to our urban stage start up

companies throughout the State of ND so they can access some capital, develop their business and releverage that money. In other words to expand their business.

Bruce Gjovig: Center for Innovation appeared in support with written testimony. (See attached)

Sen. Tollefson: the typical investment is high risk?

Answer: yes

Sen. Oehlke: who actually manages or makes the decision on who gets the dough?

Answer: the fund themselves do as a collective group, the Angels themselves.

Sen. Oehlke: would someone have more votes if they've invested more than someone else?

Answer: no, they each get one vote.

Sen. Cook: do you find competing with other deals out there?

Answer: it has happened in other states but not here.

Sen. Tollefson: There are other venture capital groups in the state, do they receive the treatment your looking for here?

Answer: yes

Sen. Horne: do we have an angel fund law in the books now?

Answer: no

Duane Tietz: Northern Plains Investment Fund in Bismarck appeared in support and gave scenario of their venture.

Raymond Gruby: CEO of Gruby Technologies appeared in support with written testimony. (See attached)

Dana Bohn: Economic Development Assoc. of ND appeared in support with written testimony. (See attached)

Bob Humann: Senior Vice-President of Lending for the Bank of ND appeared in support with written testimony. (See attached)

Sen. Oehlke: Why don't you have your own angel fund?

Answer: in some aspects they do, the ND for Development Fund, its state dollars, not individual investors that have provided the funding for that fund.

Sen. Tollefson: if this bill passes you could invest outside of the state.

Answer: what we're trying to accomplish here, the way the law is currently written we know that our dollars have to be invested in ND so we haven't been able to just go out and buy membership units in these 3 community based funds. For such a small percentage of the out of state investments that we going to make it doesn't seem like its really worth the extra paper work.

Sen. Tollefson: \$5,000 is probably not very big but this would open the door, then co-investments would not be necessary and investments of larger amount could be out side of the State with the Bank of ND money. To me it opens it up. It would be ND dollars from the Bank of ND which now the law prohibits that type of out of state investment, is that correct?

Answer: that's correct. But as a state owned bank our mission is to promote economic development and we want to do that in the State of ND so we want these dollars to be spent in ND that's our primary mission.

Sen. Horne: do angel fund investors get a tax credit even if their investment is made out side of the State of ND or are they restricted to the State of ND investments?

Answer: I don't know.

Donita Wald: Tax Dept. To answer that, yes you would

Sen. Oehlke: How much do you need to start up an angel fund?

Steve Mercil: minimum of \$500,000

Sen. Cook: In order for the Bank of ND to buy membership units, do you need the amendment?

Bob Humann: yes we need it.

Sen. Cook: I assume that the biggest thing that passing this piece of legislation is going to offer the incentive is the tax credit. That certainly isn't an incentive to the Bank of ND is it?

Bob: correct, we don't pay taxes.

Sen. Cook: where is the benefit to the bank by going into the angel fund rather than just go and invest it in a ND company?

Bob: the real question is why are we involved in these rain funds? We have our own separate equity program through the new venture capital program so why are we supporting these rain funds? To help them get started, they have to start out somewhere and by having us involved and having our people part of their voting groups, and it just adds support to their local community based angel investors is really what it does. That's the sole reason we're involved in them because we already had a separate investment in Gruby Technologies.

Donita Wald: Tax Dept. Appeared to go through the bill stating that basically this bill was drafted exactly like the seed capital investment tax program.

Sen. Anderson: on page 2 line 7 you can claim no more than 1/3 of the credit and line 29 says the credit must be credited against the income the tax payer's income tax liability for the taxable year. So I read one where its you can only take off 1/3 in the year but this one says you can only take it off in the year that you invest it. Am I reading that incorrectly?

Donita: yes. Line 29 to 31 says the credit in section 03, the purpose of this section really is to say when you can take the credit, the purpose is to say you take the credit in the year that the investment was made whatever amount of credit your able to claim.

Sen. Oehlke: so basically if I already had enough deductions so I really have a tax and I made this investment, I wouldn't be able to defer one part of it until next year anyway, I'd have to take it in that year regardless of what my tax situation might be.

Donita: that's correct. I would like to propose a couple of amendments, #70255.01tx and #70255.02tx.

Sen. Horne: Recertification, who certifies in the first place and why some funds need to be recertified?

Donita: we are proposing that the certification process be made by the Commerce Dept. as opposed to having the Tax Commissioners certify these angel funds. We think its kind of a conflict of interest when we are certifying the angel fund as being eligible to receive funds that can get a tax credit and then turn around and if the angel fund doesn't comply then we have to decertify the fund then we have to go back and get tax credits for tax payers who said go ahead and invest in. So its an awkward situation for us to be the certifier and the enforcer of the tax credit.

Closed the hearing.

Sen. Tollefson: I had a concern with one of the amendments 0101 which deals with investments outside the State of ND. My concern is with the Bank of ND which historically was created for the benefit of the citizens of the State of ND I think is being transgressed a bit by that section 1 amendment on 0101. To allow any investments outside the State is contrary to the premise that the Bank of ND is built. I think this amendment is contrary the wishes of the Historic legislation that has been enacted.

3075

Sen. Tollefson: some of my concerns were the amendment 0101 and was to do with the special venture capital investment, Bank of ND and their investment in this; I've taken my concern away.

Sen. Cook: I move the two amendments that were offered by the Tax Commissioners Office 01tx and 02tx, seconded by Sen. Horne.

Sen. Cook: 01tx is simply technical in nature and 02tx had to do with clarifying the certification process and recertification.

Sen. Oehlke: the problem I had with recertification is that when it forces any angel fund stand at for 8 years. I think the wording on that were changed to the angel fund shall apply to the direction, number 3 and then cross out only one recert is available.

Sen. Anderson: so that it takes the overseeing away from the Tax Dept. or they'd be overseeing themselves?

Sen. Cook: yes

Voice vote: 6-0-1

Sen. Tollefson: made a Motion for DO PASS on 0101, second by Sen. Oehlke.

Sen. Horne: if we approve this then it gives the Bank of ND worth all to invest in angel funds that invest in out of state ventures? 1) How much the bank can invest in out of state and 2) in favor of restricting?

Sen. Anderson: the Bank of ND want to join up with people in an Angel fund that they can be a member of that group but I didn't hear them say they were going to invest outside of ND. Maybe I misread that. I don't want to the Bank of ND money going out of state. Can we write something in there to make it more clear that no Bank of ND money can go outside of ND?

Sen. Urlacher: now they can't invest outside of ND

Sen. Horne: I heard him say that the Bank of ND can be involved with an Angel Fund that invests out of state but they have to have a separate document. It's cumbersome, takes time and they want to eliminate that irritant by having this amendment passed to allow them to invest out of state with an angel fund if their a part of that angel fund, this would allow them to do that as part of another group, not on their own. Is guess the question now is do we want to give the Bank of ND the authority to blend in the Angel funds seamlessly and invest in money out of state?

Sen. Tollefson: the legality of the amendment is proper according to the AG's Office. But we're talking about is philosophy. If the Bank of ND is going to get involved with any angel fund it becomes very clumsy apparently to go through the legal work and the process to keep those funds separate when your invested in an angel fund. In order to do that, this amendment is necessary so we can wipe out the problems with trying to keep it separate.

Sen. Horne: my concern is that we would be saying in affect if we approve this, the main part of the bill we'd be saying, its alright for folks in angel funds to invest up to 49% of their investments out of state and still receive a 45% tax credit and I question whether that's what we really want to be encouraging.

Sen. Urlacher: is that going to make the bill ineffective?

Sen. Horne: I don't think so; it would just force them to keep most of the money in ND.

Voice vote: on motion to approve amendment 0101. 1-5-1 Motion fails

Sen. Horne: I made a Motion to amend on line 9, page 1 to at least 70% of the angel funds investments must remain in ND to qualify for 45% tax break, 70% - No second, Motion fails.

Sen. Cook: made a Motion to change 51% to 100%, seconded by Sen. Horne.

Sen. Oehlke: if we did that then we certainly wouldn't have any problem with the bank.

Sen. Urlacher: will this eliminate the bank to be a partner in that because of the outside investments?

Sen. Cook: the question on the banks amendments is do they participate by buying units in an angel fund or do they participate as a co-investor? They can do that anyway, that's why I didn't understand, they never sold me on the benefit of buying the units, the benefit is a tax credit and they don't pay taxes. Sen. Cook read the definition of a qualified business out of the Century Code.

Sen. Tollefson: if think if we ignored amendment 0101 we'd be right back to where we were and the bank would have to jump through the hoops to make any investment in an angel fund.

Voice vote: 6-0-01 amendment carries

Sen. Cook: made a **Motion for DO PASS as amended**, seconded by Sen. Oehlke.

Roll call vote: 7-0-0 Sen. Tollefson will carry the bill.

FISCAL NOTE
Requested by Legislative Council
03/15/2007

Amendment to: Engrossed
 SB 2224

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.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Engr. SB 2224 with House Amendments allows a qualified Angel Fund that invests in a qualified business to receive the seed capital investment tax credit, and to assign that credit to the investors in the Angel Fund.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

It is not known if an Angel Fund will make investments in qualified businesses or if an Angel Fund will receive any seed capital investment tax credits in the 2007-09 biennium.

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.*

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.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	03/15/2007

FISCAL NOTE
 Requested by Legislative Council
 01/16/2007

Bill/Resolution No.: SB 2224

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.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2224 creates an income tax credit for investments in an angel fund.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 defines an angel fund and sets out the reporting requirements and computation of the tax credit. Each qualifying taxpayer is limited in the amount of tax credit that can be claimed, with the overall ceiling on the available tax credits limited to \$2.5 million per year. It is not known if the \$5 million biennial limit will be reached in the 2007-09 biennium.

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.*

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.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/07/2007

PROPOSED AMENDMENTS TO SENATE BILL NO. 2224

Page 1, line 3, after the semicolon insert "to amend and reenact subdivision c of subsection 4 of section 6-09-15 of the North Dakota Century Code, relating to defining eligible investments by the Bank of North Dakota in North Dakota alternative and venture capital investments;"

Page 1, after line 4, insert:

"SECTION 1. AMENDMENT. Subdivision c of subsection 4 of section 06-09-15 of the North Dakota Century Code, as effective through July 31, 2009, is amended and reenacted as follows:

- c. In North Dakota alternative and venture capital investments and early-stage capital funds, including the North Dakota development fund, incorporated, not to exceed ten million dollars, for the purpose of providing funds for investment in North Dakota alternative and venture capital investments and early-stage capital funds and in North Dakota-based venture capital entities whose investments may include companies outside North Dakota. The Bank may allow for third-party management of the funds invested under this subdivision if the management is provided by the North Dakota development fund, incorporated, or a third party that is located in the state and that has demonstrated fund management experience."

Page 2, line 12, replace "a qualified business" with "an angel fund"

Page 2, line 14, replace the second "a" with "an angel fund"

Page 2, line 15, remove "qualified business"

Re-number accordingly

PROPOSED AMENDMENTS TO SENATE BILL NO. 2224

Page 1, line 10, after "57-38.5" insert "and is in compliance with the requirements for filings with the securities commissioner under the securities laws of this state"

Page 2, line 12, after "A" insert "partnership, subchapter S corporation, limited liability company that for tax purposes is treated like a partnership or any other"

Page 2, line 18, after "be" insert "made on or after the certification date and must be" and after "fund" insert "to be eligible for the tax credit under this section"

Page 2, after line 7, insert:

"7. An investment made in a qualified angel fund from the assets of a retirement plan is deemed to be the retirement plan participant's investment for the purposes of this chapter if a separate account is maintained for the plan participant and the participant directly controls where the account assets are invested."

Renumber accordingly

February 7, 2007

PROPOSED AMENDMENTS TO SENATE BILL NO. 2224

Page 1, after line 10, insert:

"2. "Director" means the director of the department of commerce division of economic development and finance."

Page 1, line 11, replace "2." with "3."

Page 1, line 15, replace "3." with "4."

Page 1, line 17, remove "The tax commissioner shall certify"

Page 1, replace lines 18 through 20 with

- "1. The director shall certify whether a business that has requested certification as an angel fund under this chapter meets the requirements of subsection 1 of section 57-38.7-01. The director shall establish the necessary forms and procedures for certifying qualifying angel funds.
2. A certification letter must be issued by the director to the qualified angel fund. The certification letter must include:
 - a. The certification effective date.
 - b. The certification expiry date. The expiry date may be more than four years from the certification effective date.
3. An angel fund may apply to the director for recertification. Only one recertification is available to a qualified angel fund. The application for recertification must be filed with the director within ninety days before the original certification expiry date. The recertification issued by the director must comply with the provisions of subsection 2."

Page 3, line 23, after the period insert "The director is charged with administration of this chapter as it relates to certification of qualified angel funds and the commissioner of commerce may adopt rules for that purpose."

Renumber accordingly

Date: 2-7-07

Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2224

Senate Finance & Tax Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass As Amended

Motion Made By Sen. Cook Seconded By Oehlke

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Anderson	✓	
Sen. Tollefson	✓		Sen. Horne	✓	
Sen. Cook	✓		Sen. Triplett		
Sen. Oehlke	✓				

Total (Yes) 20 7 No 0

Absent 0

Floor Assignment Senator Tollefson

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2224: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2224 was placed on the Sixth order on the calendar.

Page 1, line 9, replace "at least fifty-one" with "one hundred"

Page 1, line 10, after "57-38.5" insert "and is in compliance with the requirements for filings with the securities laws of this state"

Page 1, after line 10, insert:

"2. "Director" means the director of the department of commerce division of economic development and finance."

Page 1, line 11, replace "2." with "3."

Page 1, line 15, replace "3." with "4."

Page 1, line 17, remove "- Investment reporting" and remove "The tax commissioner shall certify"

Page 1, replace lines 18 through 20 with:

"1. The director shall certify whether a business that has requested certification as an angel fund meets the requirements of subsection 1 of section 57-38.7-01. The director shall establish the necessary forms and procedures for certifying qualifying angel funds.

2. The director shall issue a certification letter to a qualified angel fund. The certification letter must include:

a. The certification effective date.

b. The certification expiration date, which may not be more than four years from the certification effective date.

3. An angel fund seeking recertification shall apply to the director. The application for recertification must be filed with the director within ninety days before the original certification expiration date. The recertification issued by the director must comply with the provisions of subsection 2."

Page 2, line 12, after "A" insert "partnership, subchapter S corporation, or limited liability company that for tax purposes is treated like a partnership or any other"

Page 2, line 18, after "be" insert "made on or after the certification date and must be" and after "fund" insert "to be eligible for the tax credit under this section"

Page 2, after line 28, insert:

"7. An investment made in a qualified angel fund from the assets of a retirement plan participant's investment for the purposes of this chapter is a separate account, is maintained for the plan participant, and the participant directly controls where the account assets are invested."

Page 3, line 23, after the underscored period insert "The director is charged with administration of this chapter as it relates to certification of qualified angel funds and the commissioner of commerce may adopt rules for that purpose."

Renumber accordingly

2007 HOUSE FINANCE AND TAXATION

SB 2224

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2224A

House Finance & Taxation Committee

Check here for Conference Committee

Hearing Date: 2/28/07

Recorder Job Number: 4098

Committee Clerk Signature *D. Moore*

Minutes:

Rep. Belter: We will open the hearing on SB 2224. Clerk will read the title.

Sen. Tony Grindberg: Sponsor, support. This bill can be described as an extension of the seed tax credit program that we have put in place here over a number of sessions making improvements and enhancements, to stimulate private investment into the growth of the state of ND, so we can move into the operation of business development. If you stand back and look at what we have primarily concentrated our efforts on, session after session, we know the seed tax credit program has been very popular. It has been changed the last couple of years to make it user friendly, with projects around the state. We haven't funded the ND Development Fund for a couple of biennium's because of their portfolio and their return on investment, but primarily that was funded by the State, and now it's been put into the Executive budget to put some capitol back into the ND Development Fund. My point to a couple of these examples is that the state of ND continues to look at best practices and ways to create programs and state support for what could be called venture capital. What this bill does, in one way it pools, and could potentially be used by the Seed Tax Credit program or a group of investors who would pool their funds in a regional annual investor network. One of the gentlemen that testified in the Senate side, who was the organizer of such funds out of

Minneapolis/St. Paul, could not be here today, but this has been a very effective program that has been growing across the Midwest. I believe there are 17 funds now, MN, IA, SD, 3 here in ND, one based in Grand Forks, one in Fargo that just made its capital call here last month, and then a fund here in Bismarck, and I'm not sure of the date, but there is a gentleman here that will talk about that in a little more detail. The bill proposes to extend the seed tax credit program, and that's by providing tax credits for those investors who would want to pool their funds, and have it organized by an administrator entity per se, that would be assisting with due diligence, looking for deal flow and looking for ways to grow start up business and businesses in ND. One way of looking at why pool, it would be to spread the risk. Obviously if it is a group of investors who are investing in a fund and the fund is making an investment in a company, that risk is spread rather than one or two individuals. That's one of the key advantages of this. I firmly believe this is another stage that we need to consider and put into law. As we go about our business and policy committees and appropriations, we all know that growing our new kind of trends that come before us and as they continue, we need to be there as a state to provide those tools so that we are positioned well for the entrepreneurs and risk takers in the state. I think it's a fair thing for the state to share in that, quite frankly to do that now already in some taxpayer programs. One thought, I believe, and I encourage your strong consideration, is that on the Senate side there is a requirement of a 100% of the funds would, as I understand it, the tax credit that applies toward the fund, those funds need to be invested in the state. I would ask you to remove that. One of the benefits of this regional fund approach, is that three funds in ND that exist today can leverage funds in other states. So from an administrative standpoint, if a fund made some investment, \$100,000 investment in a start-up company, the fund in Alexandria, MN or the fund in Minneapolis/St. Paul, because of that type of company, I would also have an interest in investing in that company in ND as well. So for our purposes,

we need to be careful that we don't restrict and create an administrative burden for an investor in ND who might be called on to put part of the fund, the fund might be called on to put an investment in the Alexandria, MN firm as well. They need to work hand in hand. Wealth can travel both ways in my vision of how this would ultimately work. I would go a step further with that consideration and put a sunset on it, and then come back in a period of time, 4 or 6 years from now, and look at how the funds that have been established for that period of time, wherever investment's been made and that will describe what many believe, the intent is to invest in ND businesses, but there's also some value to collaborate with other funds in other states.

Rep. Belter: Under the Seed Capitol program, was that also a 45% tax credit.

Sen. Tony Grindberg: It is my understanding, correct.

Rep. Weiler: Can you explain the fiscal note to me, there is nothing up on top, but in the middle of the page it talks about \$2.5 million and \$5 million. Can you explain that.

Sen. Tony Grindberg: I would have to have Dee Wald explain that.

Rep. Schmidt: Is the angel fund, is that in the chapter in the Century Code.

Sen. Tony Grindberg: It is my understanding, yes

Rep. Belter: Thank you. Further testimony in support.

Sen. Nick Hacker: Support. I won't repeat Sen. Grindberg's comments. What kind of scope are you talking about, is it millions of dollars or not. Angel funds tend to be full investments usually anywhere from funds, there are over 15 of them from MN, IA, ND and SD. They tend to be 15 members, there are contribution minimums and sometimes maximum's of \$50,000 or \$20,000 and each fund is member organized. So a group of individuals from a region meets together and they pool some resources together. Lots of times, the fund has a total of \$1 million or \$1.5 million dollars that the fund over approximately 7 years, will likely invest in

several companies, maybe up to 10 or 12 or 9 or some number in there. So they begin to hedge their risk. There's a great need for these funds to be able to recoup some of that investment right away and receive some incentive to do some of that investment which is why we have this bill before you today. I will explain a little about the process when these people are investing in the start-up or early stage companies. This is so that companies can leverage larger dollars, can develop different lines of business and grow during the essential period in the growth cycle, which is when they need some of this capital. They maybe don't necessarily need millions of dollars and they are two years old and they need to just get to that next stage. That is when this investment is critical. This is where that investment takes that company off the ground and takes it to the next level, which upon, you will begin to see large economic impact to the state. Because they're investing in high risk investments they need some sort of incentives to help do that. What happens is the capital seed tax credit, but they want to form the fund and there are several reasons. Not just the capitol, they just don't leverage their own dollars. But there is expertise that's involved. There is deal flow, if we were a RAIN fund, with all of these minds sitting around here, we all have different expertise about different areas of business, of industry, maybe one of us is very well versed in advanced manufacturing, one in finance, we all bring expertise to the table, but also we're going to bring deal flow. You might know John, who has a great idea sitting in the back of his garage, but has kind of stopped because he doesn't know where to go to some other individuals. So we bring deal flow, expertise. So around this fund, we count a Mecca of essential economic development and alliance. That's kind of the idea behind it. I did bring some other testimony from another individual, Bruce Gjovig, who is pretty well versed in the RAIN fund (see attached testimony #1). But also I speak to a little bit of expertise about some RAIN funds, two of them because they have been successful in MN, in my hometown of Alexandria. It's been interesting to see

