

# FIRST PERSON: OUR STATE'S BUSINESSES NEED MORE ACCESS TO CAPITAL; WE HAVE A STRATEGY TO HELP

A 2021 law allows North Dakota to reimagine the use of its Legacy Fund and stimulate new — and lasting — investment and entrepreneurial activity



by North Dakota Treasurer Thomas Beadle (tbeadle@nd.gov)

ot long ago, we said goodbye to my grandfather Earl Strinden former House majority leader in our state and head of the University of North Dakota Alumni Association.

Even though he had been out of elective office for more than 30 years, throughout my tenure in state government I would rarely go a week without someone asking me how Earl was doing.

He was remembered warmly by many, as were his many "Earlisms."

"It never rains on the rifle range." Or, "If you want to soar with the eagles, you can't hoot with the owls."

But my favorite Earlism is this one: "Always leave the woodpile higher."

Building things up for the benefit of future generations was how he lived his life, and I wouldn't be where I am today without his influence on mine.

In North Dakota, one of the ways that we as state elected officials and fiscal leaders are trying to continue the tradition of "leaving the woodpile higher" is through our Legacy Fund.

# **LEAVING A LEGACY**

For some background, in 2010, the same year I was first elected to the state House, voters passed a legislatively referred constitutional amendment to create a sovereign wealth fund. It called for 30 percent of the state's share of oil taxes from our newly tapped Bakken Formation to be set aside for this Legacy Fund.

Our goal from the beginning has



been to use it to benefit the future of North Dakota.

To date, we have deposited more than \$7.26 billion into the Legacy Fund, and during this most recent biennium, we transferred \$871 million in earnings. — for investments in infrastructure, education and other vital services.

The Legacy Fund already is paying dividends, but we are always looking for ways we can do more.

#### 'ACCESS TO CAPITAL' PROBLEM

As many folks in "flyover" country know, access to capital for businesses in our rural markets is a never-ending challenge.

In North Dakota, we have tried numerous investment tax credit initiatives, grant programs and revolving loan funds.

Some have been more successful than others.

Funding constraints and red tape often have limited the efficacy of these state-run programs, however — too small for larger projects to find them worthwhile, or too cumbersome for smaller companies to be able to track and monitor effectively.

In 2021, our state policymakers took a different approach.

Led by Rep. Mike Nathe, the North Dakota Legislative Assembly established a new in-state investment program (HB 1425). By leveraging the Legacy Fund's principal, we could access significantly more capital for our local markets and develop an investment ecosystem in North Dakota.

This legislation (HB 1425) directed our state investment staff to use up to 20 percent of the principal of the Legacy Fund for in-state investments, with that amount split 50/50 between equity and fixed income.

A large portion of our fixed income is being used for revolving loan funds for political subdivisions, or through a CD Match loan program offered through our Bank of North Dakota that is available to credit-worthy businesses.

The equity side has been a tougher hill to climb.

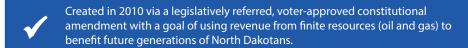
### **IN-STATE INVESTMENTS HELP OUR HOMEGROWN BUSINESSES**

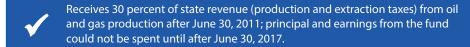
North Dakota is known for many things, but having a high number of large-scale venture capital firms or multitudes of publicly traded companies is not part of our reputation.

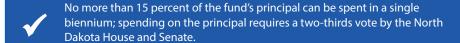
Growing that capacity is key. For our first round of funding under the 2021 law, we hired a firm, 50 South Capital, to start the process and help us build the model.

To date, we have committed \$100 million in capital of the

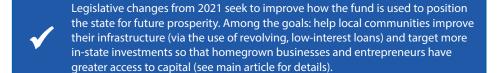
# OVERVIEW OF THE NORTH DAKOTA LEGACY FUND











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\$780 million in our equity-income mandate.

It is a "fund of funds" approach that aims to leverage private investment dollars to support our in-state businesses and entrepreneurs.

50 South Capital is a global firm, and it has now set up an office in Fargo and hired staff, found investment partners on the ground here, and deployed a majority of that \$100 million. The money is going to rapidly growing agriculture and technology firms in our state.

Through the program and fund run by 50 South Capital, we have seen venture capital companies such as gener8tor open an office in our area and start making investments here.

In the first year of this program, 50 South Capital has partnered with five different venture capital firms that previously weren't operating with large-scale capacity here.

We are beginning to make strides in solving our state's access-to-capital shortfall.

We have some kinks to work out to improve implementation, accelerate the rate of capital deployment, and meet our 20 percent target for in-state investments.

But we are off to a good start.

One tenet will remain a focus: we must be generating solid risk-adjusted returns to the fund so we can continue to grow and be able to make future investments.

Our goal is to grow the economic pie in North Dakota by helping entrepreneurs and assisting companies already operating here.

This will not only help our businesses in North Dakota, but also generate earnings for the Legacy Fund as a whole. We can then continue to use those earnings to meet the infrastructure and educational needs of communities across our state helping us leave that woodpile higher for future generations.

Thomas Beadle was elected state treasurer in 2020. He previously served for 10 years in the North Dakota House. Beadle is a 2013 graduate of CSG Midwest's Bowhay Institute for Legislative Leadership Development and a 2022 graduate of CSG's national Henry Toll Leadership Program.

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