

Growth Fund Committee Minutes
Virtual Meeting via Zoom -- City Hall closed due to COVID-19
May 18, 2020 – 4:00 p.m.

1. **Roll Call:** Members Present: Jonathan Holth, Bret Weber, Danny Weigel, Chris Wolf. Others Present: Meredith Richards, Ryan Brooks, Todd Feland, Andy Conlon, Michael Brown, Dana Sande, Josh Teigen, Keith Lund, Brandon Baumbach, Rick Robinson, Josh Riedy, James Higgins, Chuck Pineo, Brianne Osowski, Amy Whitney, Tom Schauer.
2. **Minutes – Meeting of April 27, 2020:** Motion by Holth, second by Weigel to approve as presented. Voting “aye”: all.
3. **FlexPACE Loan Request - Associated Potato Growers, Inc.:** Ms. Richards introduced the item. Mr. Baumbach presented the request, saying that Associated Potato Growers, Inc. is one of the largest grower-owned red potato packaging cooperatives in the Midwest with more than 40 growers. The company operates three climate-controlled packaging facilities in the region and is planning to upgrade equipment at its Grand Forks facility to improve capacity, efficiency and meet growing demand for different size packages of potatoes. The company is requesting a FlexPACE loan of \$22,885 from the Growth Fund which would leverage \$42,500 from the Bank of North Dakota to buy down the interest on a \$430,000 Bremer Bank commercial loan for the equipment from 5% to 1% over a 7-year term. The project is expected to create two to three jobs. Mr. Baumbach stated Mike Torgerson, CEO of Associated Potato and Rick Robinson, Bremer Bank were available for questions. **Motion by Holth, second Weigel to approve as presented. Voting “aye”: all.**
4. **Innovation Technology Loan Fund (LIFT) Overview:** Ms. Richard introduced ND Department of Commerce Head of Investments Josh Teigen, who oversees the LIFT Program. She noted the Committee has funding requests from Airtonomy and Tailorie, who both received LIFT assistance, and invited Mr. Teigen to present on the specifics and approach of LIFT. Mr. Teigen explained the LIFT Fund was created at the 2019 legislative session as a funding mechanism to commercialize intellectual property within the State to diversify the economy. LIFT was originally structured to be grant financing but at the last legislative session it was converted to loan with three years of no payments, two years of interest only payments, and then in year six it converts to Bank of ND interest rates. He provided background on the application process: 1) Dept. of Commerce intakes applications to determine if it is IP commercialization within the state; 2) the LIFT Committee, jointly appointed by the Dept. of Commerce and BND, reviews the materials and application; 3) approved applicants are invited to give a presentation. The level of due diligence that Commerce provides is to ensure the request meets the legislative intent for IP commercialization. He further stated that with Airtonomy and Tailorie, the Committee felt especially that they were good investments. Mr. Weber asked what the loan repayment process is in Year 6. Mr. Teigen explained there is zero collateral and no personal guaranties required. The goal is that the IP is commercialized and in the market generating revenue. If that is the case, then in Year 6 BND will restructure the loan. If it doesn't work out, then BND will write it off. Mr. Wolf asked what BND's approval process is. Mr. Teigen stated that once the Committee has given the “yes” vote, then the rest of the processing is administered by BND (i.e., credit checks, background checks, match requirement). Mr. Wolf asked how many LIFT loans have been funded; Mr. Teigen indicated that LIFT is a \$15 million fund and approximately \$6.5 million has been awarded (6-8 deals) with total requests at over \$50 million. He added that the majority of applications are from earlier stage companies, proof of concept, some validation in the market, non-bankable, venture-type of investments. Mr. Weber summarized that the LIFT Committee senses the potential of the technology, looking to diversify the State's economy, and BND does the corporate and personal due diligence. Mr. Teigen concurred with him and further explained that the Committee is in charge of validating the business case and the technology, and members include

all types of investors, including UAS experts. Mr. Teigen gave a synopsis of the journey both Airtonomy and Tailorie went through.

Mr. Baumbach provided an overview of the Airtonomy and Tailorie companies, noting they align closely with the State's LIFT Program and are seeking additional funding from the JDA. These tech companies have seen a greater demand for their product since Covid-19 and present an opportunity to grow through Covid-19 and protect against economic downturns like this in the future. When the EDC Board reviewed the requests, it was noted that less than one percent of startup loan capital is available in the Midwest and even less in North Dakota; growing companies seeking investors thus often must look to the east and west coasts for funds.

5. **Funding Request – Airtonomy:** Mr. Baumbach introduced co-founders Josh Riedy and Jim Higgins, and Chuck Pineo, UND Aerospace Foundation. As noted in the staff report, Airtonomy is poised for exceptional growth, and recently received \$1 million from the State's LIFT Program. Airtonomy is now requesting \$500,000 from the JDA for working capital to further fuel its expansion. Mr. Riedy noted that there is little venture capital available in the Midwest or North Dakota. Airtonomy has great partners in the best of the UAS community in the State and the Grand Forks area coming together and having UND Aerospace as a partner. Airtonomy is working with Xcel Energy, the Northern Plains UAS Test Site, and UND Research Institute of Autonomous Systems to get a Novel FAA Operational Waiver approved to maximize and expand drone usage beyond professional pilots and to enable practically anyone to use drone base technology. He believes that is the key to opening up the market and letting UAS blossom. With adding companies like Xcel Energy and Microsoft into that strong local ecosystem, amazing things can be done. Airtonomy exists between Governor Doug Burgum and the CEO of Microsoft, Satya Nadella who have created an environment that Mr. Riedy hopes North Dakota can exploit, which is the future of unmanned systems overall, and being able to provide the vision for a way the State can handle large scale infrastructure and the way Microsoft has positioned its Azure platform. Airtonomy sits right between those two aspects between two good partners. Mr. Riedy spoke to the Covid-19 response and stated during the lockdown, they opened up their technology and invited people from all over the world to see Airtonomy in action by launching inspections from Devils Lake. Airtonomy enabling workers to bring a tool to their site rather than putting themselves in jeopardy. Mr. Riedy shared Airtonomy's latest updates, stating they pulled off a trifecta: 1) Won First Major RFP; Filed First Patent; 2) Establishing Formal Relationships with Professional Drone Service Providers, Hardware Manufacturers, Partnership with Xcel and Microsoft; 3) First to be TechSpark, AI for Earth and Microsoft For Startups Recipient; Signed Formal MOU. Mr. Riedy explained why Airtonomy's winning the RFP was so huge. Under the wind turbine inspection category, there are two companies that say they are fully autonomous and in their last funding round at the end of 2019, they raised \$49 million; Airtonomy beat them. He indicated their fundraising competition an average of \$68.2 million and to date, Airtonomy has raised \$1.8 million and is proud those funds have come from institutional investors and grants. Airtonomy is seeking \$6 million from a variety of sources and making steps towards that but do have ground to make up if they want to be competitive, which is why the funding is so important. Airtonomy believes in supporting the technology startup ecosystem in Grand Forks, UAS technology in particular and 1) setting the Microsoft standard; 2) adding visibility to Silidrone Valley; 3) assisting with public safety efforts; 4) average salary with benefits and equity: \$70,000+; and 5) nine internships with UND students (\$20+ Per Hour), 21 Research North Dakota Grants with UND, one Microsoft AI for Earth Grant with UND. Jim Higgins further commented the average salary is \$70,000 and they pay 20% benefits and equity. They have 10 employees and soon to have 11. Chuck Pineo commented it's obvious the two founders of the company are passionate, which is important to the Foundation. The technology and artificial intelligence has been verified by companies like Microsoft and others and the commercialization has been verified by Xcel and Ottertail and others, which are going on during COVID-19. He is proud of support that Airtonomy has received and hopes the Growth Fund will continue to support them. Mr. Weber called for questions, Mr. Wolf asked who their investors are thus far. Mr. Riedy stated UND Aerospace Foundation, former Microsoft executives from Seattle, in particular a gentleman who was responsible for the drone program at Microsoft, who has a venture fund Rock Pile Ventures, (701) Angel Fund in Grand Forks, Renewable Energy Commission in

North Dakota, and they are also actively working with a North Dakota private investor to close approximately a \$2 million investment. He further noted this does not count any of the private or sweat equity that has been put in.

6. **Funding Request – Tailorie:** Mr. Baumbach introduced Brianne Osowski, founder & CEO of Tailorie, a social tech platform that connects brands and customers. Tailorie completed a successful Phase 1 brand launch in March 2020, with the Phase 2 consumer launch targeted for late June. To continue commercialization and growth, Tailorie received \$750,000 from the State's LIFT Program, and is now requesting \$375,000 from the JDA. Ms. Osowski noted in addition to the lack of investor opportunities in the Midwest, as a female-led team, less than two percent of all venture capital goes to females, but Tailorie has had much success. Ms. Osowski explained that Tailorie is a social platform that will change the way brands and consumers discover one another. The presentation outlined market trends and opportunities and the top three reasons why Tailorie chose this platform: 1) consumers are expecting personalized results; 2) data privacy is the core of their platform to provide consumers a better option; and 3) rise in conscious consumerism. Covid-19 has added three additional reasons for Tailorie's growing importance with: 1) onboarding brands to the platform, many of them have had to pivot their operations away from business-to-business and to business-to-consumer; 2) rallying around small business so people can see what can be purchased locally or who is creating products in their region; and 3) the increased importance in discovery. Tailorie believes the modern consumer is misunderstood by the way their data is handled online, which paints a fuzzy picture of the consumer. Tailorie is a human-centered company and creates human-driven data, looking at the behaviors consumers take using technology to make sure they are painting an accurate picture of the consumer. She said the market is huge, and they are sitting in an interesting space between digital advertising and data analytics. Digital advertising surpassed traditional advertising in dollars spent for the first time in 2019. Looking at data analytics and seeing how that is growing and increased importance especially for small businesses on line trying to get access to the same type of analytics to allow them to compete in this new digital world. Tailorie will be doing this by mobile applications, and mobile dominates. Two-thirds of advertising goes directly to mobile. Ms. Osowski provided a sneak peak of the Tailorie difference (mobile app) and the three core foundations: 1) humanized technology by adding the human voice to AI; 2) empower consumers to be part of the conversation; 3) assumption free data for brands providing unprecedented insights to help brands "tailor" their target audiences on and off Tailorie, combining customer acquisition with data analytics to drive true audience understanding at a rate small business can afford. Ms. Osowski provided a snapshot of their progress. They are a team of six full-time employees but also have two large contracting teams: an engineering team of six and a marketing agency team of five. To date, they have raised \$1.65million from two main sources: North Dakota private investors and \$750,000 from LIFT. They launched their brand in March 2020 and have already on-boarded 175+ brands. Their goal for the year is 750 brands. Their next steps are to finish development of mobile applications for consumers within the next two to three months. Their goal for their seed round was \$2 million which will give them approximately 24 months of runway to finalize and commercialize the platform. They are creating jobs and are excited about hiring locally. They partnered with UND and also have three interns starting this summer. They are acquiring brands at such a rapid rate that they are hiring additional positions. They are also planning a national consumer launch marketing campaign that will be rolling out in August.

Mr. Weigel asked how her product will help local bricks and mortar businesses. Ms. Osowski explained that retail is changing nationally and their intent is to help local brick and mortar stores but she also sees them pivoting to a dynamic model that combines brick and mortar with a digital experience. This helps local businesses reach their consumers in a more direct way, and aligns them with the people who are looking for their types of products. Tailorie is focusing now on the creators and the wholesalers but as they grow and move into phase 2, they will have the opportunity for brick and mortar retail businesses to inquire about a product locally and then direct them to a specific local retailer. Mr. Holth commented on the presentations and the momentum each company has built, stating they have looked globally but remained focused on the Grand Forks community. He gave kudos to both companies.

Mr. Lund thanked Josh Teigen for attending and stated that he witnessed the LIFT program move through the legislative process and affirmed that the initial intent was grants but then converted to loans. He said the real impetus was to diversify the state's economy. He thought there was a strong recognition that the State was investing heavily in traditional economic development but technology is a means of diversifying for the future. He noted that a previous Commerce commissioner provided a report to the legislature that stated a full two-thirds of North Dakota's economy is commodity based. Mr. Lund stated that the EDC Board reviewed both applications and was impressed with the technology and market potential, and really impressed with the entrepreneurs: that they convinced the state to invest as well as private investors. He further stated the Board unanimously recommended funding from the Growth Fund, and their motion was not only to forward it but to encourage the Growth Fund to consider an equity investment to participate in a larger potential upside if both companies realize the success they are projecting. Mr. Lund had conversations with Mr. Riedy and Ms. Osowski separately as well as City staff and the City Attorney. Moving forward he felt having the debt (loan) model made sense, with the JDA loan terms mirroring the LIFT program. (The loans will have a 5-year term; payment and interest accrual will be deferred 3 years; month interest-only payments at 2% would be required in years 4-5, with a balloon payment at the end of the 5-year term). Mr. Lund further stated that within the first three years of the loans, both Mr. Riedy and Ms. Osowski have offered an option for the Growth Fund to convert to an equity-type investment if the Growth Fund would so choose that option. If the company(s) has an equity event, which would be a Series A or an Acquisition, or if the Growth Fund felt that they were moving to a big win, the JDA could convert that debt into something that looks like equity. He felt there would need to be further discussion regarding this model called a SAFE agreement. This would be completely at the Growth Fund's option. The initial funding would be debt but if the JDA "sniffed a big win," it could convert. Mr. Baumbach added that EDC staff has connected with the City Attorney about his concerns with the SAFE and the exact mechanism is still to be worked out, but without the equity conversion option, there is limited upside potential. Mr. Weigel stated that he is more comfortable with the loan structure and hears all too often the City should not own properties and should not be investing in businesses. People could construe it as the City picking winners or losers. Mr. Weber asked Mr. Lund to confirm if our initial approach is to go with the loan and making no obligation to the equity position, which is just an option available if the Growth Fund so chooses. Mr. Lund concurred, stating it is an option 100% at the discretion of the Growth Fund. He further thanked both Mr. Riedy and Ms. Osowski for their flexibility and cooperation. He feels they both recognize the investment comes from public funds and want it to do the best that it possibly can. They have articulated that they want to grow their companies here and be Grand Forks companies, and they also want the Growth Fund to have a win financially if it turns out that way. Mr. Wolf stated he will ask to be recused from both of these items. He questioned where the funds would come from and what percentage that would be as far as our overall portfolio on loans and our policy on that. Ms. Richards said that the LIFT program is new and the Growth Fund is looking to mirror it, so the program is not listed in the Growth Fund policy and procedures document. She stated they could look at grants but those typically are limited to studies, and generally not intended for a for-profit business. If we are providing business assistance, it is typically in the form of a loan. Mr. Wolf asked how much cash does the Growth Fund have available. Ms. Richards said she did not have the numbers in front of her, but noted that Maureen Storstad presented a budget update last month and cash is definitely available. From a global standpoint, in the future, Mr. Wolf commented and recommends: 1) having an updated policy for this type of program; 2) including the policy with the new program since it is a new program; and 3) if there would be any equity considered, how much it should be and what percentage of the portfolio should it be. Per Mr. Wolf's previous question, Todd Feland reported that Fund 5996 has approximately \$7.8 million for strategic initiatives, which will increase in years 2021-2024 with anticipated sales of the Corporate Center and Cirrus properties. Mr. Lund said he appreciated Mr. Wolf's discussion on policy and portfolio basis and said that if the Committee is so inclined, he would hope that in their motion to approve the loans, they would accept the companies' offers to convert to an equity-type investment under the SAFE model that he and Mr. Baumbach described and then they could bring more detail at the JDA meeting. **Motion by Weigel, second by Holth to recuse Mr. Wolf. Voting "aye": all. Motion by Holth to recommend approval of the requests under the debt (loan) model and accept the companies' offers to give the Growth Fund**

the option to convert to a SAFE-type investment within the first three years should the Growth Fund choose to exercise that option; second by Weigel. All eligible members voted “aye.”

7. **Match Request for EDA Build to Scale Grant Application:** Amy Whitney, Director of UND’s Center for Innovation, was before the Growth Fund Committee last month providing information about grant opportunity available through the US Dept. of Commerce’s Economic Development Administration (EDA) for a downtown tech hub. Based on the concept proposal they submitted, EDA invited them to submit a full application. Only 25% of concept proposals were invited to submit a full application, which shows the merit of their proposal. The vision was inspired by Mayor Brown’s State of the City Address, and what is being proposed is to launch a downtown tech hub. In summary, this grant will provide for a project director and programming funds to coordinate the facilitation of entrepreneurial programming, assist with the streamlining of capital resources for startups, identify and formalize mentorships for various industry sectors, and enhance workforce upscale training. Ms. Whitney indicated that Airtonomy and Tailorie are the types of companies they hope to incubate, scale up, and be able to support with workforce in Grand Forks through this grant funding. This project leverages resources at UND, the EDC, private sector partners and also the City to coordinate these entrepreneurial activities in this downtown tech hub. Ms. Whitney indicated that Grand Forks is lagging in tech sector jobs. In the wake of Covid-19 especially, we have learned the extreme value in technology solutions and tech sector opportunities and this will provide the City with some economic resiliency in that sector. The hope is that this grant provides an opportunity for the city to grow out of these challenging times rather than hunker down. Local support is needed for this 3-year \$1.2 million project, funded with \$600,000 from EDA and a \$600,000 local match. UND has committed \$100,000 and are pursuing \$200,000 in private funding, and are requesting \$300,000 of that local match from the City/JDA.

Mr. Weber asked Ms. Whitney if the funding request is spread over three years. Ms. Whitney replied they can spread it however they want but ideally it can be spread over the three years. Mr. Weigel questioned why the City/JDA funding is \$300,000 and UND only committing to \$100,000. Mr. Baumbach explained it was the Mayor’s vision or lead from the City, with support from UND. The University identified the grant opportunity and is helping the City write the grant. Mr. Feland explained staff is proposing funding the City/JDA portion from Funds 2163 and 5996 plus funding budgeted for internships/traineeships that would be associated with the project, so funding sources may not be all new money. The specific funding breakdown will be identified prior to final action at JDA on June 1. **Mr. Wolf asked to be recused from this item. Motion by Weigel, second by Holth to recuse. Voting “aye”: all. Motion by Weigel, second by Holth to approve funding request. Voting “aye”: all eligible members.**

8. **Adjournment: Motion by Holth, second by Weigel. Voting “aye”: all. Meeting adjourned at 5:22 p.m.**

Submitted by:

Jane Beasley
Community Development

Bret Weber
Chair