

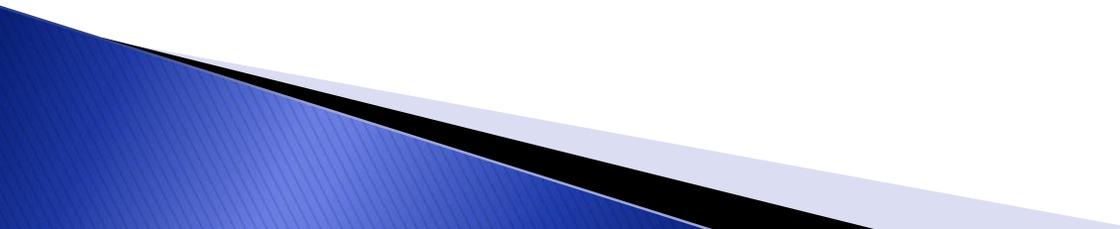
Iowa Fund of Funds – Contingent Venture Capital Tax Credit

Amy Rehder Harris
Tax Research and Program Analysis Section
Iowa Department of Revenue

Iowa Fund of Funds

- ▶ Established by the Legislature in 2002 to encourage venture capital investment
 - ▶ Goal to increase business development in Iowa, create jobs, and diversify the economy
 - ▶ Leverage funds for venture capital investment with State backing through tax credits
 - ▶ \$100 million in contingent tax credits originally authorized
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Definitions

- ▶ Venture capital: Financial capital provided to early-stage, high potential, high risk, startup companies
 - ▶ Fund of funds: Fund that invests in a portfolio of private venture capital funds
 - ▶ Contingent tax credit: Tax credit that is redeemable only if the actual return to the investor is less than the return that was targeted at the issuance of the certificate
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States with Similar Fund of Fund Contingent Credit Programs

- ▶ Arkansas
 - ▶ Michigan
 - ▶ Ohio
 - ▶ Oklahoma
 - ▶ Utah
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Fund of Fund Entities

- ▶ Iowa Capital Investment Board (ICIB)
 - Public entity with five voting and four non-voting members
 - Responsible for establishing contingent tax credits to back investments in the Fund of Funds
 - Also responsible for two other venture capital tax credit programs with initial award caps that have been exhausted
- ▶ Iowa Capital Investment Corporation (ICIC)
 - Organized as 501(c)(3)
 - Selects a venture capital investment manager
 - Receives investment returns for reinvestment
 - No financial interest, eligible for annual management fees

Fund of Fund Actors

- ▶ ICIC
 - General Partner
- ▶ Iowa Fund of Funds, Fund A, LLLP (Fund)
 - Entity holding equity for investment
- ▶ Iowa Designated Investor, Inc. (IDI)
 - Preferred Limited Partner
 - Entity making investments using Fund equity
 - Holds contingent tax credits
- ▶ Cimmaron Capitol Associates I, LLC
 - Manager of the Fund

Investment in Iowa

- ▶ Each portfolio fund in which the Fund invests must:
 - Make a commitment to consider equity investments in businesses located within Iowa
 - Maintain a physical presence within Iowa

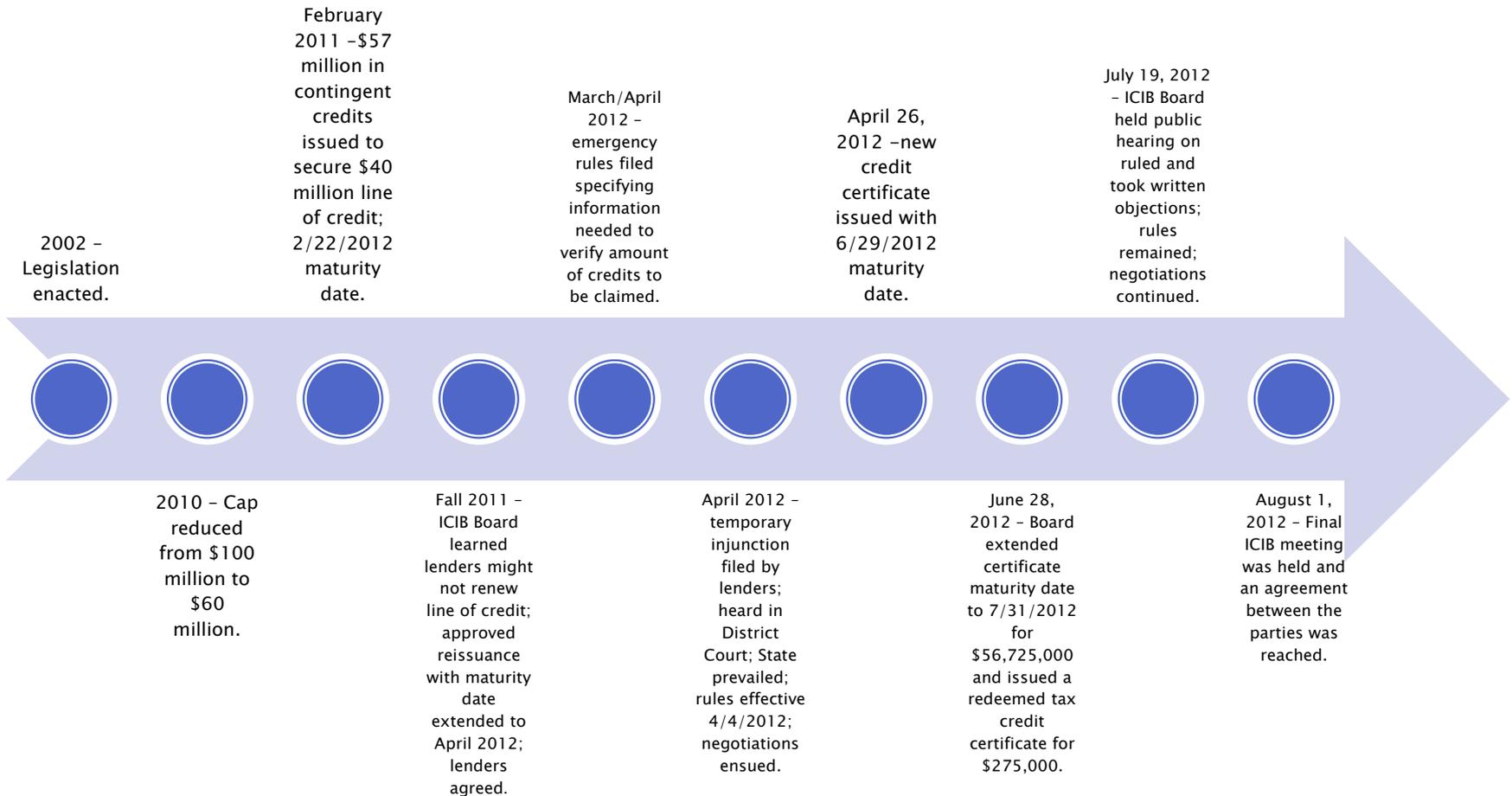
Fund of Funds Tax Credit History

- ▶ ICIB created in 2002
 - ▶ \$100 million in contingent tax credits authorized
 - 5% to be invested in rural and small businesses
 - ▶ Fund organized October 30, 2003
 - ▶ Portfolio investments first made in 2005
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Tax Credit Details

- ▶ To-date, IDI invested \$26 million for the Fund in venture capital funds
 - ▶ IDI investments funded by a revolving loan with contingent tax credits as collateral
 - Contingent tax credits issued to IDI
 - Scheduled Return equaled the sum of expenses and liability (principal and accumulated interest)
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Iowa Fund of Funds Contingent Tax Credits Timeline



Agreement Results

- ▶ Cures the loan default
- ▶ Avoids immediate call on the full \$57 million in contingent credits at \$20 million per year
- ▶ 7–9 year restructuring of financing for the existing investment portfolio
- ▶ Preserves \$26 million investment portfolio (future capital obligations)
- ▶ Caps future Fund expenses
- ▶ Creates 2nd “lien” in favor of the State for redeemed tax credits

Agreement Details

- ▶ No new partners in the Fund
- ▶ No new portfolio investments
- ▶ No expansion of investments as of Dec. 2011
- ▶ Distributions to lenders to satisfy loans
- ▶ Annual Fund manager fee set at \$275,000
 - Average fee of \$550,000 in prior years
- ▶ \$25.6 million in tax credits will be redeemed
 - \$4 million each year
 - \$1.7 million issued and transferred to-date
- ▶ Fund to expire Dec. 2027 (rather than 2052)

Questions?