

WITHDRAWN

HOUSE FILE 652
BY COMMITTEE ON ECONOMIC
DEVELOPMENT

MAR 14 1997
WAYS AND MEANS

(SUCCESSOR TO HF 375)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to establishing a capital investment board, tax
2 credits, termination of the Iowa seed capital corporation,
3 establishing a capital transition board, and providing an
4 effective date.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 652

WITHDRAWN

1 Section 1. NEW SECTION. 15E.181 PURPOSE.

2 The purpose of this division is to enhance the quality of
3 life for citizens of the state by encouraging the creation of
4 new jobs, industry, products, and wealth through the increased
5 availability and accessibility to capital, particularly at the
6 seed capital and venture capital investment stages.

7 Sec. 2. NEW SECTION. 15E.182 IOWA CAPITAL INVESTMENT
8 BOARD.

9 1. An Iowa capital investment board is established and
10 shall be composed of the following members:

11 a. The treasurer of state.

12 b. The director of the department.

13 c. Three members selected by the governor and confirmed by
14 the senate pursuant to section 2.32.

15 2. a. The three members selected by the governor shall
16 serve six-year staggered terms as determined by the governor.
17 A vacancy shall be filled by the governor for the remaining
18 portion of the unexpired term. A member is eligible for
19 reappointment.

20 b. Members of the board are entitled to receive a per diem
21 as specified in section 7E.6 for each day spent in performance
22 of duties as members and shall be reimbursed for all actual
23 and necessary expenses incurred in the performance of duties
24 as members.

25 c. The board shall annually elect a chairperson from among
26 its members.

27 3. The Iowa capital investment board shall do the
28 following:

29 a. Facilitate public and private investment in a series of
30 regional or national seed and venture capital funds willing to
31 invest in Iowa seed and venture capital opportunities. Funds
32 selected for investment must focus on economic or industry
33 sectors targeted for development by the state.

34 b. Facilitate the creation of and the state's investment
35 in a small business investment company to maximize the

1 leverage from available federal and private sources for
2 investment in seed and venture stage companies in the state.

3 c. Coordinate with other existing publicly created or
4 supported seed and venture investment funds to gain the
5 highest investment leverage with the lowest possible
6 administrative costs for the state.

7 d. Report annually to the governor and the general
8 assembly on the investments made pursuant to this division,
9 the current and anticipated value of such investments, the
10 current and anticipated value of any tax credits given, and
11 the estimated current and anticipated impact such investments
12 have on the state.

13 4. If tax credits are used to facilitate investment
14 pursuant to subsection 3, paragraph "a" or "b", the tax
15 credits shall only be redeemed for the amount of principal
16 invested, and only based on losses at the time of the
17 termination or insolvency of the Iowa capital investment
18 board.

19 5. The general assembly is not obligated to appropriate
20 any moneys to pay for any defaults or to appropriate any
21 moneys to be credited to the board programs beyond the tax
22 credits approved in section 15E.183, and the board in
23 administering this section shall not give or lend the credit
24 of the state of Iowa.

25 6. On or before July 1, 1998, the Iowa capital investment
26 board shall select and appoint, through a competitive
27 selection process and based on criteria established by the
28 board, an executive director to conduct the affairs of the
29 board. To the extent feasible, the selection of any fund
30 managers, investment advisors, or other consultants shall also
31 be through a competitive bid procedure and based on criteria
32 established by the board.

33 7. The Iowa capital investment board shall adopt
34 procedures, policies, rules pursuant to chapter 17A, and other
35 administrative measures necessary to carry out the purpose of

1 this division and administer the programs and business of the
2 board.

3 Sec. 3. NEW SECTION. 15E.183 TAX CREDITS.

4 1. The state of Iowa shall issue tax credits to the
5 department of revenue and finance equaling fifty million
6 dollars. The tax credits shall only be used as directed by
7 the Iowa capital investment board for purposes consistent with
8 section 15E.182, subsection 3, paragraphs "a" and "b". If the
9 tax credits are claimed, they may be claimed as either a
10 corporate or individual tax credit. An individual may claim
11 the credit allowed a partnership, subchapter S corporation,
12 estate, or trust electing to have the income taxed directly to
13 the individual. The amount claimed by the individual shall be
14 based on the pro rata share of the individual's earnings from
15 the partnership, subchapter S corporation, estate, or trust.
16 Any tax credit in excess of the taxpayer's liability for the
17 tax year may be credited to the tax liability for the
18 following five years or until depleted, whichever is earlier.

19 2. The department of revenue and finance shall, in
20 consultation with the Iowa capital transition board, develop a
21 system for the registration, issuance, transfer, or redemption
22 of tax credits issued by the state under this section. The
23 department shall also, in consultation with the Iowa capital
24 transition board, adopt any other policies, procedures, or
25 rules pursuant to chapter 17A necessary for the administration
26 of tax credits issued by the state under this section.

27 Sec. 4. NEW SECTION. 15E.184 SUPPORT.

28 The department shall provide staff assistance, physical
29 facilities, and other support as necessary.

30 Sec. 5. TERMINATION OF THE IOWA SEED CAPITAL CORPORATION.

31 On or before June 30, 1998, the board of directors of the Iowa
32 seed capital corporation shall wind up the affairs of the
33 corporation, including the transfer of remaining assets and
34 liabilities to the Iowa capital investment board, termination
35 of staff, and dissolution of the corporation. In the event

1 that the remaining assets and liabilities cannot be
2 transferred to the Iowa capital investment board, the board of
3 directors of the Iowa seed capital corporation shall liquidate
4 all assets, settle existing liabilities, and transfer
5 remaining moneys to the general fund of the state.

6 Sec. 6. IOWA CAPITAL TRANSITION BOARD.

7 1. The Iowa capital transition board is created to
8 coordinate the transition from the state's present seed and
9 venture capital activity to the opportunities provided by the
10 Iowa capital investment board.

11 2. The membership on the Iowa capital transition board
12 shall consist of all of the following members:

13 a. The treasurer of state.

14 b. The director of the department.

15 c. The administrator of the Iowa public employees'
16 retirement system.

17 d. The chairperson of the board of directors of the Iowa
18 seed capital corporation.

19 e. Three other private citizen members selected by a
20 majority of the Iowa capital transition board members
21 designated in paragraphs "a" through "d". Selection shall be
22 based on established experience, expertise, and background in
23 the areas of venture capital investments, entrepreneurial
24 businesses, and seed and venture capital issues in general.

25 3. The Iowa capital transition board shall select a
26 chairperson from among its members once all of the members of
27 the board have been selected.

28 4. The duties of the Iowa capital transition board shall
29 include, but are not limited to, the following:

30 a. Advise and consult with the department of revenue and
31 finance in the development of the capital tax credits system.

32 b. Advise and consult with the board of directors of the
33 Iowa seed capital corporation in the transition of Iowa seed
34 capital corporation assets and liabilities to the Iowa capital
35 investment board.

1 c. Advise and consult with the board of directors of the
2 department of economic development on the coordination of
3 existing department financial assistance programs with the
4 seed and venture capital opportunities provided by this
5 division.

6 d. Provide recommendations to the Iowa capital investment
7 board regarding the carrying out of the Iowa capital
8 investment board's duties.

9 5. The department of economic development shall provide
10 the board with staff assistance, physical facilities, and
11 other support as necessary.

12 6. The existence of the Iowa capital transition board
13 shall be terminated on July 1, 1998, unless the board is
14 terminated at an earlier time by a majority vote of the
15 members.

16 Sec. 7. EFFECTIVE DATE. This Act, being deemed of
17 immediate importance, takes effect upon enactment.

18 EXPLANATION

19 This bill provides for the creation of the Iowa capital
20 investment board. The board shall consist of the treasurer of
21 state, the director of the department of economic development,
22 and three members to be selected by the governor. The bill
23 provides that the board has the following four functions:

24 1. Facilitate public and private investment in regional or
25 national seed and venture capital funds willing to invest in
26 Iowa seed and venture capital opportunities in targeted
27 sectors.

28 2. Facilitate the creation and the state's investment in a
29 small business investment company.

30 3. Coordinate with other existing publicly created or
31 supported seed and venture investment funds.

32 4. Report annually to the governor and the general
33 assembly regarding the current and anticipated value of the
34 investments, tax credits, and impact of the investments on the
35 state.

1 The bill provides that the tax credits shall only be
2 redeemed for the amount of principal invested, and only based
3 on losses at the time of the termination or insolvency of the
4 Iowa capital investment board.

5 The bill provides that the Iowa capital investment board
6 shall select and appoint, through a competitive bid process,
7 an executive director to conduct the affairs of the board. To
8 the extent feasible, any fund managers, investment advisors,
9 or other consultants shall be selected in the same manner.
10 The board shall adopt procedures, policies, administrative
11 rules, and other administrative measures necessary to carry
12 out the purpose of this Act.

13 The bill provides that the state shall issue \$50,000,000 in
14 tax credits to be held by the department of revenue and
15 finance. The tax credits shall only be used as directed by
16 the Iowa capital investment board for purposes consistent with
17 this chapter. If the tax credits are claimed, they may be
18 claimed as either a corporate or individual tax credit. The
19 department of revenue and finance, in consultation with the
20 Iowa capital transition board, shall develop a system for the
21 registration, issuance, transfer, or redemption of the tax
22 credits.

23 The bill provides that the department of economic
24 development shall provide staff assistance, physical
25 facilities, and other support as necessary.

26 The bill provides that the Iowa seed capital corporation
27 shall wind up its affairs on or before July 1, 1998. The
28 winding up of affairs shall include the transfer of remaining
29 assets and liabilities to the Iowa capital investment board,
30 termination of staff, and dissolution of the corporation.

31 The bill provides for the establishment of the Iowa capital
32 transition board. This board shall coordinate the transition
33 from the state's present seed and venture capital activity to
34 the opportunities provided by the Iowa capital investment
35 board. The duties of the Iowa capital transition board shall

1 include the following:

2 1. Advise and consult with the department of revenue and
3 finance in the development of the capital tax credits system.

4 2. Advise and consult with the Iowa seed capital
5 corporation in the transition of the Iowa seed capital
6 corporation assets and liabilities to the Iowa capital
7 investment board.

8 3. Advise and consult with the board of directors of the
9 department of economic development on the coordination of
10 existing department financial assistance programs with the
11 seed and venture capital opportunities provided for in this
12 Act.

13 4. Provide recommendations to the Iowa capital investment
14 board regarding the carrying out of the Iowa capital
15 investment board's duties.

16 The bill provides that the department of economic
17 development shall provide assistance to the Iowa capital
18 transition board as necessary. The bill provides that the
19 existence of the Iowa capital transition board shall terminate
20 on July 1, 1998, unless the board is terminated at an earlier
21 time by a majority vote of its members.

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**HOUSE FILE 652
FISCAL NOTE**

A fiscal note for House File 652 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 652 relates to venture capital investment by creating a Capital Investment Board, Capital Transition Board, and by establishing a capital investment tax credit. The Bill also terminates the Iowa Seed Capital Corporation effective June 30, 1998, and transfers the assets of the Corporation to the Capital Investment Board.

The total of all tax credits allowed under the Bill is limited to \$50,000,000. The tax credit is used as "insurance" on the principal invested in qualified venture capital funds. The tax credit is available to investors in qualified venture capital funds at the time of termination or insolvency of the Iowa Capital Investment Board. The tax credit is available only to the extent that the principal value of invested funds in the qualified venture capital fund has been lost.

The Bill does not specify how the assets of the Iowa Seed Capital Corporation (valued by the State Auditor at \$5.9 million at the end of FY 1996) are to be used by the Capital Investment Board, nor does the Bill specify what funding source will be used to pay the expenses of the two Boards or the management necessary to implement the Bill.

ASSUMPTIONS

1. Assume the principal guarantee does not conflict with Article VII, Section 1, and Article VIII, Section 3, Constitution of the State of Iowa related to a prohibition on State assumption of private debt or liability.
2. Assume the Iowa Seed Capital Corporation's value at the end of FY 1998 will be similar to its value at the end of FY 1996.
3. Assume the assets of the Corporation would revert to the General Fund if not for the provision transferring them to the Capital Investment Board.
4. Assume the Capital Investment Board uses a portion of the Corporation assets to provide support for the Board and management of the program.
5. Assume the Iowa Capital Investment Board is not terminated and does not become insolvent for at least five fiscal years.

FISCAL IMPACT

The fiscal impact of the tax credit on the General Fund will be a maximum of \$50,000,000, beginning in FY 2003. The minimum fiscal impact is zero.

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The General Fund fiscal impact of shifting assets of the Iowa Seed Capital Corporation to the Capital Investment Board is \$5.9 million. Administrative expenses will consume a portion of the assets.

There would be a positive impact on the State economy and tax revenues to the extent the tax credit and activities of the Capital Investment Board create economic opportunities that would not otherwise exist.

SOURCE

Department of Economic Development

(LSB 2157hv, JWR)

FILED MARCH 31, 1997

BY DENNIS PROUTY, FISCAL DIRECTOR