

Iowa Agricultural Finance Corporation

Equity for the Food Capital of the World



December 10, 1999

Legislative Fiscal Committee
State Capitol
Des Moines, IA 50319

RE: Iowa Agricultural Finance Corporation

Dear Fiscal Committee Members:

On behalf of the IAFC Board and myself we regret our inability to appear before the Fiscal Committee yesterday. There was no attempt to withhold or intentional refusal to participate. We very much want you to know that IAFC is actively and openly pursuing the public purpose of expanding Iowa's agricultural value-added processing and biotechnology businesses, and providing opportunities for Iowa farmers and ag producers to share in ownership, control and profits.

IAFC's availability to appear before the Fiscal Committee

Both I and members of IAFC's volunteer board of directors made every effort to be responsive by rearranging schedules on short notice to be available for your meeting yesterday afternoon. The offer was declined. Prior to the meeting, we also volunteered to attend a later meeting of the Committee making a subpoena unnecessary as we had already volunteered. (See, following letter.)

The morning agenda for December 8 (including listing my name) was provided to me by e-mail on Friday leaving only two working days to juggle schedules and enlist at least one of IAFC's volunteer board members. We welcomed the opportunity – as we always do – to tell about our mission. We stated so in a written response. We simply needed a bit of scheduling flexibility.

Openness to public scrutiny and comment

IAFC and its tecTERRA Food Capital Fund want public awareness. The more the better as we must compete for good financing opportunities with other more established financing sources. Our objective to find opportunities for Iowa producers to have ownership in these projects adds additional challenges. To this end we've provided the following information over the last several months to IDED, the Legislature or the public:

- ✓ IDED is invited and attends Board Meetings (approximately one every 30-45 days). Frequent coordination and briefing sessions are conducted to assure IDED's knowledge of our progress, plans and support for implementation. This includes coordinating assistance to get business opportunities ready to receive loans or equity investments.
- ✓ 3 public forums were conducted around the State since September after operations went live in August. Each legislator received notice of the public forums by mail (and we had several participate). More than 800 invitations were mailed to commodity groups, local bankers and developers, and others. More than 300 media notices were provided to local media outlets to inform them of the meetings. Advertising was purchased in *Iowa Farmer Today* to assure targeted distribution to agricultural producers. Each forum was hosted by a local legislator: September 10, Wallace Foundation Center in Lewis, by Senator Derryl McLaren; October 27, Iowa Lakes Area Community College in Emmetsburg by Senator Jack Kibbie; and December 1, Upper Iowa University by Representative Steve Falck. An 8-page progress summary was distributed.

- ✓ More than 1,700 letters explaining IAFC's programming are out to value-added processing businesses with Iowa ties with over 550 follow-up phone calls. (Numbers increase weekly.) Just within the last two months more than 20 large group meetings were conducted with major commodity groups or potential clients.
- ✓ Copies of corporate contracts, including the IDED loan agreement, limited partnership agreement, and private placement memorandum (prospectus for our private fundraising) were provided. Corporate financials have been regularly provided to IDED.
- ✓ Corporate minutes reflecting Board resolutions and Board Meeting agendas were provided upon request showing the steps involved and deliberative approach of the corporation to its fiduciary duties. (These would not normally be available from other businesses related to the State through a loan or contract.)

Summary and offer of more details

Summarizing the complex mission and activities of IAFC in a short space is difficult. An attempt follows. We are available to provide additional information on either an individual basis or before the entire Committee. Of course the annual report will be available shortly with more written detail. We are proud of accomplishing two difficult legislative goals already: securing a board comprised of Iowans expert in this area; and attracting over \$18 million dollars of private capital to leverage the state loan.

Timeline to first investments

IAFC has not yet made any investments on this 30-year effort – a long-term project by the Legislature's own definition. First, the State's loan was not fully available to IAFC until May 24. Second, requested legislative amendments passed by the General Assembly were not effective until July 1, 1999. By August 12 we were fully operational. The first step is to multiply the dollars being put to work for Iowa. Knowing how much money is available influences how much we can invest and how, so this was the first priority. Since August 12 we have raised an additional \$18 million to invest into value-added agriculture -- a significant accomplishment though we want more.

Legislature chose corporate structure with general powers to balance competing demands

The Legislature chose a corporate structure with a prominent board of directors for several reasons. A private company can invest and hold equity when the Iowa Constitution prevents the State from doing so. The Legislature declined to invest in particular value-added projects offered in various bills, preferring to defer approval of such deals to an entity that would apply sound business practices and judgment rather than political considerations. IAFC's private board is charged with developing a business plan to achieve the dual assignment of pursuing a public purpose and making a profit to repay the loan. That is, IAFC's Board has to fill in the details to make it work. IAFC's ultimate shareholders are agricultural producers. We have a fiduciary obligation to deliver a successful, profitable company to these shareholders. Finally, the Legislature and IDED instructed IAFC to leverage the State loan to create a permanent on-going financing tool in Iowa's economy. Writing a check is easy. Creating a profitable, long-term financing enterprise to fuel value-added growth in Iowa with benefits for Iowa taxpayers and ag producers is harder.

Loan must be repaid – obligation drives responsible investment criteria

The money provided to IAFC is a loan not a grant. That requires investments be well documented and supported by appropriate business plans. We've had contact with well over four hundred (400) possible projects. A good number are realistic financing opportunities, but further progress on many others is hinged on receipt of a final business plan or other financial or business details. You are waiting for us while most business opportunities are not fully ready to turn the key and go. We

are actively developing deals, providing technical assistance and coaching to help refine business plans and advance prospects' status. Professional due diligence requires that how invested money will be spent and the intended results – including a profitable return to IAFC – be reasonably shown up front. More projects are added to the pipeline weekly through proactive marketing. Some drop off the list as well as they fail to meet business standards. In recent public forums we have stated that perhaps only one out of 50 or 100 will qualify for investment under IAFC's criteria for growth, profitability, market strength and management depth. With the current fund size, we can afford to do perhaps 15 projects over the next 3-5 years.

Meaningful producer involvement in successful businesses takes time

The legislative objective of producer involvement is one big reason for no deals yet financed. It is a hard task. Our goal is to find or create meaningful opportunities for Iowa farmers and producers to participate in profitable, successful businesses with Iowa facilities. While we are working with several producer-led ventures, most are still in the early planning stages, not yet ripe for financing. It takes a while to fill the pipeline. To do that we are working from two directions to deliver on the objective of food and other value-added growth businesses in Iowa with producer involvement. We are coaching and providing technical assistance to help producers create businesses that can attract competitive financing. This includes helping to pair start-ups with appropriate talent or strategic partners to turn ideas into reality. This helps even businesses that IAFC does not ultimately finance. There is no shortage of good ideas, but management and marketing are keys to success. We cannot write a check for the idea alone. Putting the pieces in place takes time. We are also working to find successful companies that we can help expand in Iowa with a tie-in to agricultural producers.

First investments expected soon based upon best opportunities not first opportunities

We have projects in the final stages of deal review and approval and expect announcements soon, but it is more important to invest well than to invest quickly. We are looking for the best – rather than the quickest -- opportunities for Iowa. Success will prove to private investors and agricultural producers that food and biotech companies in Iowa with producer involvement can be profitable, high growth opportunities. If we do that, we will have no shortage of investment money to build Iowa into the Food Capital of the World. If we fail to make money, IAFC, the State, value-added processing businesses in Iowa and agricultural producers all fall short of our potential.

Good prospects include both meat protein and grain processing opportunities with innovative technology and excellent market prospects. We envision creating demand-pull for higher margin alternative crops while linking producers into ownership opportunities.

We want good return to producer investors, as well as to IAFC. Producers should expect and demand the same sort of return on investment that other investors expect. Involving producers in bad deals or long shots does not help. We want the investments that are best for Iowa and Iowa producers.

6 Months of operations – results will follow

It's been six months of real operations on a thirty-year endeavor. This met the timeline presented in last year's annual report to the Legislature. In recent public forums we received encouraging, valuable public input on the IAFC mission by producers and others. We are asking for patience and are confident you will see results in the additional money raised and in investments now in the pipeline that you will hear about shortly.

Client confidentiality

Under the terms of confidentiality agreements with customers we cannot disclose with whom we are working as of yet. (Unless the client discloses it.) We see much proprietary confidential information

just like a bank. Customers insist on confidentiality. Legislators want openness and accountability. The Act struck a balance by creating a corporation that can report results but can maintain client confidentiality in the process. We understand you expect results and we are working hard to deliver.

Sincerely,

Daniel Pitts Winegarden
President