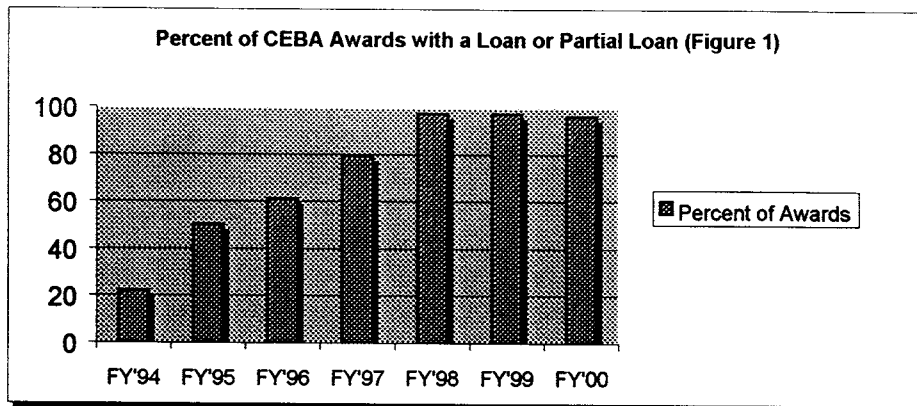


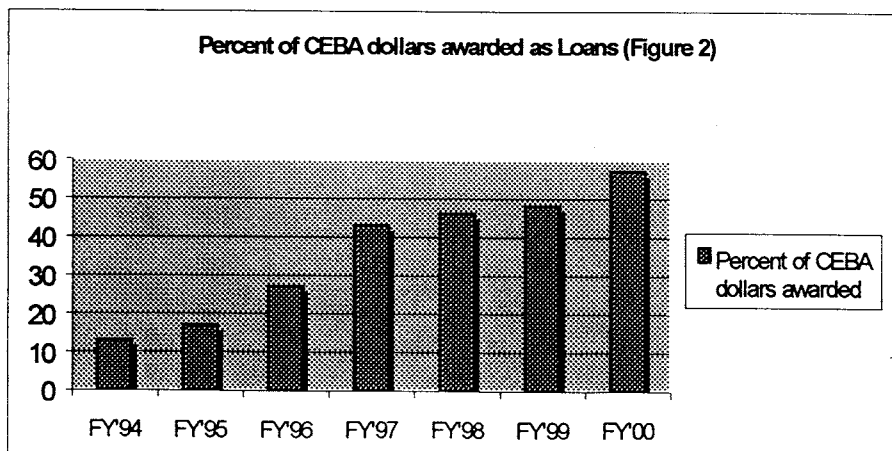
CEBA SELF-SUSTAINING PROGRESS REPORT
DECEMBER 2000

Progress To Date

Over the last seven fiscal years, the Community Economic Betterment Account has been making continued progress toward the self-sustaining goal. The percentage of projects receiving their CEBA award in the form of a full or partial loan has steadily increased from 22% in FY 1994 to 96% in FY 2000 (Figure 1 illustrates this trend). As illustrated, during the last three fiscal years, CEBA awards containing loans have averaged 95%. Only two projects in FY 2000 received a full forgivable loan.



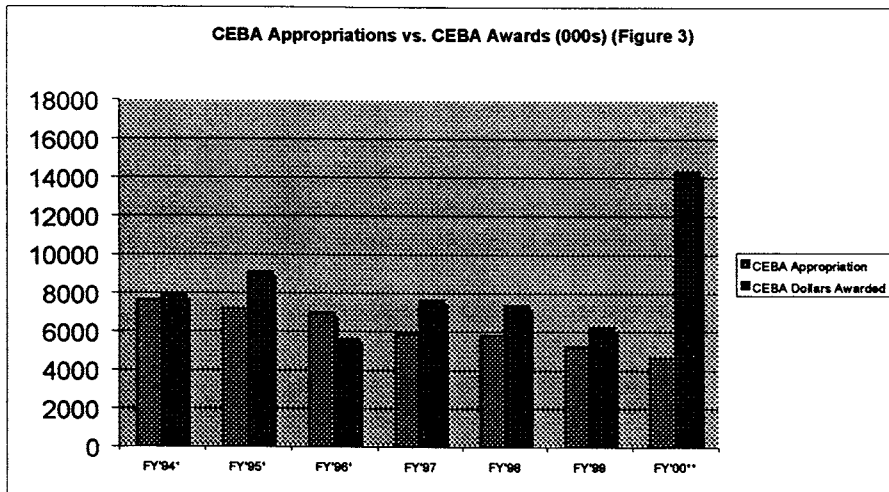
The percentage of CEBA funds awarded as loans has also increased dramatically over the last seven years. This percentage has increased from 13% in FY 1994 to 57% in FY 2000. (Figure 2 illustrates this trend). During this period, the program has furthered its goals of self-sustainability by increasing the percentage of loans while maintaining its flexibility and competitiveness by combining loans with forgivable loans.



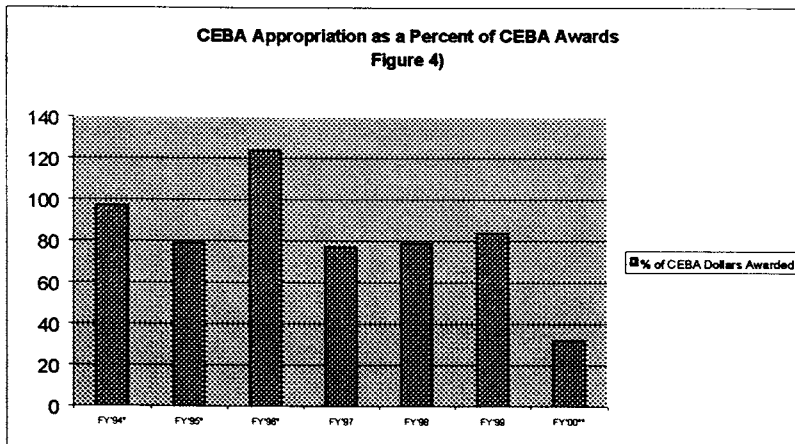
Use of Repayments

Repayments during the last seven fiscal years have also increased, averaging \$1,876,000 per year. In FY '99 repayments exceeded \$2 million and in FY '00 they exceeded \$1.9 million. Repayments are expected to steadily increase over the next five years.

These repayments have been utilized by the program for increased sustainability as well as funding new initiatives. The primary use of the repayments has been to offset demand for the CEBA program in excess of its annual appropriation. As illustrated in Figure 3, every year, except FY '96, the amount of funds awarded in the CEBA program has been greater than the CEBA appropriation. In the years where demand was greater than the appropriation, repayments were utilized to make up the shortfall. As Figure 4 illustrates, with the exception of FY '96, the CEBA appropriation has, on average, comprised approximately 82% of the CEBA funds awarded. The remainder has come from CEBA loan repayments and during FY '00, a **one-time funding from the liquidation of Iowa Seed Capital Corporation/Iowa Capital Corporation**.



- * These years required supplemental appropriations.
- ** Additional one-time funds were received from the liquidation of ISCC/ICC.



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- ** Additional one-time funds were received from the liquidation of ISCC/ICC.

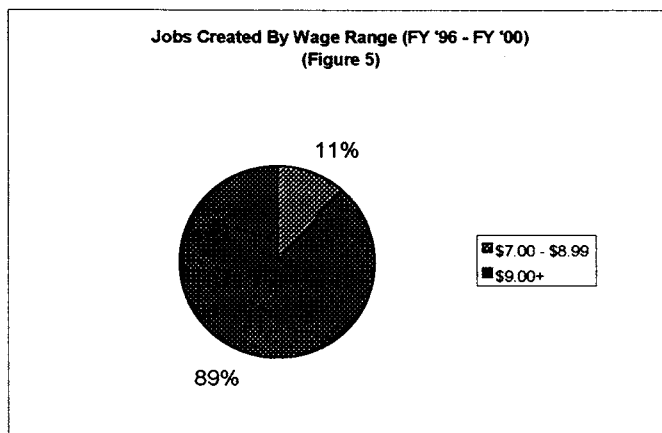
EVA and CEBA Venture

The increase in repayments has also allowed the CEBA program flexibility in financing new economic development initiatives. In FY '98, the CEBA program was instrumental in the creation of two innovative small business assistance programs, the Entrepreneurial Venture Assistance Program and the CEBA Venture Component. The program transferred \$100,000 from its appropriation to provide initial funding for the Entrepreneurial Venture Assistance (EVA) Program. The rules for the CEBA program were also amended to include the CEBA Venture Project Component. Both of these programs were designed to assist entrepreneurs in innovative business ventures. In FY '99 three projects were assisted through the CEBA Venture Project Component and in FY '00 the number increased to 15 projects totaling nearly \$1.7 million. The CEBA repayments allowed these two programs to be launched without any disruption in the service provided by the traditional CEBA program or any additional appropriation from the legislature.

In addition to the above venture fund, the repayments have allowed the CEBA program to assist several other critical small business programs. In FY '98, in addition to the allocation for EVA and CEBA Venture Component, CEBA transferred an additional \$25,000 to the Self-Employment Loan Program (SELP) and \$25,000 to the Entrepreneurs With Disabilities (EWD) program. In FY '99, in addition to the \$150,000 transfer to EVA and the increased demand of the CEBA Venture Component, the CEBA fund transferred \$25,000 to the Entrepreneurs with Disabilities (EWD) program. The EWD and SELP programs are valuable targeted small business programs that would have had to turn otherwise eligible applicants away if not for the ability of the CEBA program, made possible by the annual repayments, to assist. In FY '00 \$1,000,000 was transferred to the Physical Infrastructure Assistance Program to aid in community and business development and/or redevelopment projects which involve substantial capital investment and provide the opportunity to create quality, high wage jobs.

Wages and Benefits

Although the CEBA program is not yet fully self-sustaining, it is making excellent progress in that direction without losing its effectiveness as an economic development tool. The average wage per job between FY '96 and FY'00 was \$12.61. The average wage per job for those projects awarded CEBA funds during FY '00 was \$14.12. As illustrated in Figure 5, the vast majority of jobs created in CEBA projects between FY '96 and FY'00 have wages above \$9.00/hr. The rating criteria for the program has also been revised to mandate all Businesses receiving CEBA funds must at least provide a health insurance plan for their employees. Projects creating high wage jobs with excellent benefit packages can typically access more favorable terms for their CEBA awards. By utilizing the flexibility of repayable loans in conjunction with forgivable loans, the CEBA program can provide incentives for businesses to create high wage jobs with outstanding fringe benefit packages while still awarding repayable loans to move toward self-sufficiency.



Return On Investment

Although the repayments generated from the CEBA program are increasing the self-sustainability of the program, that is not the only measure of the return on investment received by the State from the program. Since the inception of the program, it has generated and will continue to generate funds for the State General Fund from the income tax received by the jobs created and retained by the program. Figure 6 illustrates the estimated annual income tax revenue generated by jobs created with CEBA projects. The average hourly wage for the program from 1986 to October of 2000 is \$10.46/hr., the number of jobs pledged to be created or retained is 53,391, the amount of CEBA dollars invested is \$100,728,346, the statistical percent of success for job creation is 95.82%, the estimated State individual income tax rate is 5%. When using these numbers, the estimated annual income tax generated by CEBA jobs is approximately \$55,652,807. At that level of annual income tax revenue, the State will recoup all of the dollars invested in the CEBA program through income tax revenue in less than two years. This figure is conservative in that it does not include revenue generated in sales tax or increase in wages over time.

Figure 6
Estimated annual income tax revenue generated by CEBA jobs (1986 - October, 2000)

Amount of CEBA Funds Invested	\$100,728,346
CEBA jobs pledged	53,391
CEBA jobs estimated to be attained	$53,391 \times 95.82\% = 51,159$
Average CEBA Hourly Wage	\$10.46/hr.
Estimated annual income tax rate	5%
Estimated annual income tax generated	$51,159 \times 10.46 \times 2080 \times .05 = \$55,652,807$

Over the last seven years, the program has been increasingly targeted toward creating even higher wage economic opportunities with good benefit packages. Between FY 1994 and October 2000, the average hourly wage for CEBA jobs has been \$12.26. As the average wage rate increases over time, the State will see even higher return on investment in income tax revenue generated from these higher wage jobs.

Summary

When reviewing the effectiveness of the CEBA program it is important to measure all aspects of the program. The Iowa Department of Economic Development is continuing to make steady progress toward the goal of self-sustainability through loan repayments as described in Figures 1 - 4. In addition, the income tax revenue generated from the high quality jobs created because of the program far exceeds the State investment in the program over time as illustrated in Figure 6.

Although the above areas are significant areas of success for the program, it has been even more successful in accomplishing its mission of assisting "communities of the State with their economic development efforts" and increasing "employment opportunities for Iowans by increasing the level of economic activity within the state." The program has increasingly focused on funding projects which create high wage jobs as illustrated in Figure 5 and the average wage for CEBA jobs has consistently been high, especially over the last six years and the current fiscal year (Figure 7). It has leveraged nearly \$30 in private investment for every CEBA dollar expended. Of the costs for all CEBA projects, through October 2000, CEBA funds have only accounted for 3% of the total project funding (Figure 8). All of this leveraged capital is predominantly non-public capital investment in the State. The CEBA program has assisted worthy projects throughout the state in both small and large communities (Figure 9). In addition, CEBA projects have occurred in 98 of the 99 counties in the State.

The CEBA program has been able to achieve this success because of its built-in flexibility. Through the use of a variety of funding options, the program cannot only generate loan income, but continue to create high wage, quality jobs which provide a much greater payback in the form of income tax revenue and a

more solid, diverse economy. Further payback to the communities will occur as we focus the program on our targeted industry clusters, higher wages, and business modernization.

