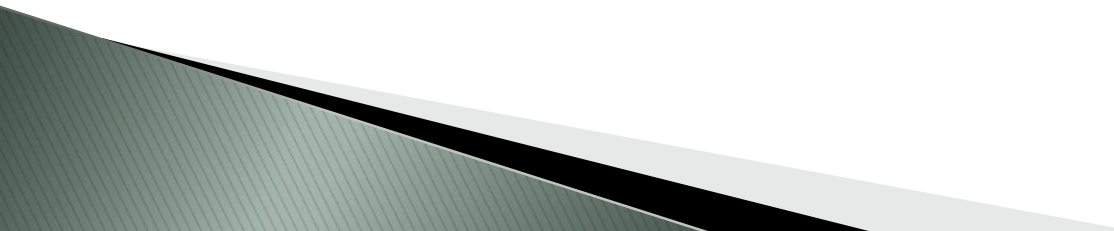


Iowa Fund of Funds Program

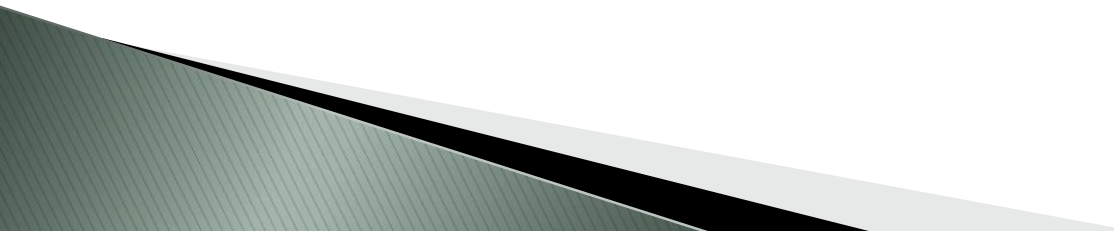
Tax Expenditure Committee – November 27, 2017

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

Outline

- ▶ Review of Iowa Fund of Funds Program
 - ▶ Walk through timeline of program
 - ▶ Brief update on program current status
- 

Iowa Fund of Funds Program

- ▶ 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
- 

Fund of Funds vs Innovation Fund

▶ Investment Structure

- Fund of Funds invested in a portfolio of private venture capital funds
- Innovation Funds invest directly in businesses

▶ Relationship to Iowa

- Each portfolio fund made a commitment to consider equity investments in Iowa businesses and maintain a physical presence within Iowa
- Innovation Funds must invest in startups with a principal place of business in Iowa

▶ Tax Credit Issuance

- Fund of Funds Tax Credits were contingent
- Innovation Fund Tax Credits result from every investment

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

- ▶ Iowa Capital Investment Corporation (ICIC)
 - Organized as 501(c)(3)
 - Selected a venture capital investment manager
 - Received 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

Iowa Fund of Funds Timeline

2002 - Legislation enacted

2005 - First investments made

February 2011 - \$57 million in contingent credits issued to secure \$40 million line of credit; Feb 2012 maturity date

2010 - Cap reduced from \$100 million to \$60 million

Fall 2011 - ICIB approved reissuance with April 2012 maturity date to encourage lenders to renew line of credit

Iowa Fund of Funds Turning Point

March/April
2012 -
emergency rules
filed specifying
information
needed to verify
amount of
credits to be
claimed

April 26, 2012 -
new contingent
credit certificate
issued with June
29, 2012
maturity date

August 1, 2012
- Agreement
reached at final
ICIB meeting

April 2012 -
temporary
injunction filed
by lenders;
heard in District
Court; State
prevailed; rules
effective April 4,
2012;
negotiations
ensued

June 28, 2012 -
ICIB extended
certificate
maturity date to
July 31, 2012 for
\$56.7 million

Agreement Results

- ▶ Cured the loan default
- ▶ Avoided immediate call on the full \$56.7 million in contingent credits at \$20 million per year
- ▶ 7–9 year restructuring of financing for the existing investment portfolio
- ▶ Preserved \$26 million investment portfolio (future capital obligations)
- ▶ Capped future Fund expenses
- ▶ Created 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
- ▶ Expected to issue \$25.6 million in tax credits
 - Expected to redeem \$4 million each year
- ▶ Fund to expire Dec. 2027 (rather than 2052)

Iowa Fund of Funds Wind Down

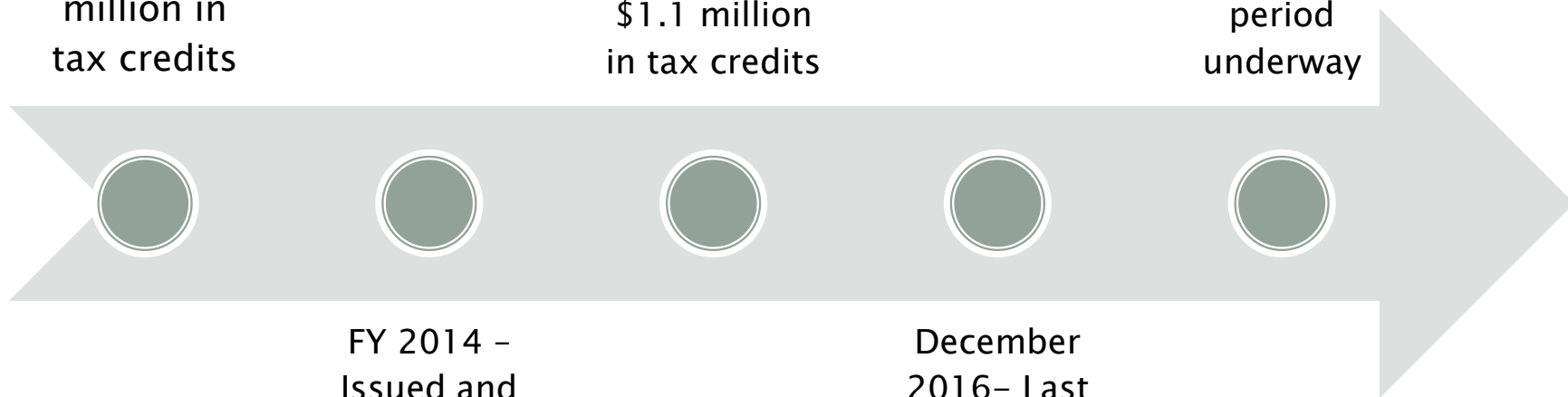
FY 2013 –
Issued and
transferred
\$11.3
million in
tax credits

FY 2016 &
2017 – Issued
and
transferred
\$1.1 million
in tax credits

July 2017 –
Bank loan
retired, State
repayment
period
underway

FY 2014 –
Issued and
transferred
\$12.8 million
in tax credits

December
2016– Last
tax credit
certificate
issued and
transferred



Ensuing Actions

- ▶ \$25.2 million in tax credits issued and transferred to various taxpayers
 - Claimed against corporation, franchise, and insurance premium taxes
 - All transfers: dollar for dollar
- ▶ Bank loan fully repaid
- ▶ State lien against the Fund: \$30.5 million
 - \$25.2 million in tax credits
 - \$0.3 million in fees
 - \$5.0 million to-date in interest