



GOVERNOR'S
EMPOWER RURAL IOWA
INITIATIVE

Governor's Empower Rural Iowa Initiative
Investing Rural Iowa Task Force Meeting Agenda
Wednesday, October 14
10 AM-1 PM

1. Roll Call:

Present:	Lt. Governor Gregg	Sandy Ehrig	Lexi Marek (Sen. Naig)
	David Barker	Shannon Erb	Hunter Callanan
	Troy Weary	Molly Varangkounh	Gene Gettys
	Sarah Thompson	Mark Reinig	Kiana Johnson
	Nick Sorensen	Brian Lenzmeier	Tim Ostroski
	Jim Thompson	Jordan DeGree	Lisa Houser
	Kimberly Tiefenthaler		

2. Introductions of New Members:

Liesl introduced new task force members: Jordan DeGree, Creative Adventure Lab, Dubuque; Kimberly Tiefenthaler, America's SBDC, Fort Dodge; Molly Varangkounh, Hy-Capacity, Humboldt; Brian Lenzmeier Buena Vista University, Storm Lake; Troy Weary, ITC Midwest

3. Approval of Minutes from September 21, 2020 meeting:

Minutes from the September 21, 2020 meeting had been provided for previous review. It was noted that Nathan Katzer was in attendance so the roll will be updated to reflect that change, as well as a correction to the previous minutes which should reflect November 6, 2019. With those changes, Nick Sorensen motioned to approve, seconded by David Barker. Passed unanimously.

4. Welcoming Remarks from Lt .Gov. Gregg:

The Lt. Governor welcomed new members and provided a brief update of past accomplishments and reviewed goals of task force moving forward. They have started a draft of the recommendations, which will be discussed at the next meeting. Today's agenda includes business succession planning and a roundtable of businesses that have gone through succession. Asked members to look for gaps, or ways we might make existing programs better, or possibly scaling regional programs statewide.

5. Remarks by Co-Chair Sandy Ehrig:

Sandy is a connected as Chair of the Iowa Rural Development Council (IRDC), which partners on Empower Rural Iowa efforts. In old news, the most recent Rural Summit was held virtually this year and all info from that is on the IRDC website at IowaRDC.org. Hopeful that we can host the

2021 Summit in-person at the Hotel Kirkwood April 14-16. In task force news, one of the projects out of the Growing task force was a leadership exchange, which will be held next week, with over 120 registered.

6. Transition Planning Resources:

Transition Point Business Advisors - Rena Striegel:

Based in West Des Moines and has worked to help succession of family owned businesses for years, primarily farms, but works with all businesses. Ag it is a hot topic right now with millions of acres transitioning and no plans in place. Past ten years many consultants started working with succession and it became confusing with all the providers such as attorneys, CPAs, and business consultants. If it is confusing, owners walk away, and the timeline then becomes short and options become less. Couple of years ago became concerned as most organizations were not addressing stress, just transactional, and felt there should be a better solution.

Last fall they started a program that is more accessible to all and accessed online. Launched a month ago, DIRT (Dedicated Internal Resource for Training and Transition), is an online self-directed program to walk through all the processes of succession. Includes a workbook, 22 tools and 32 videos to help them walk through process. Tailored to ag industry but look to expand next year for non-ag businesses such as construction and manufacturing. Have also created mastermind program for peer-to-peer learning, plus access to expert advice from a library of resources and once a month visit from a person on her team.

Questions:

Jordan: What do you see as a common barrier that businesses face when thinking on planning?

Rena: Has found that regardless of industry they wait too long to start the process, and don't know who business is transitioning to. Basis is people management vs transactional processes.

David: How often are businesses transferred to non-linear connection (nieces, etc.)? Rena:

Common – may have 3-4 generations of family in the business. Also, non-family transfer, especially in farming, when kids are not interested so they need an outside buyer. David: Iowa Estate Tax is an issue. Rena: Yes, especially in ag, sometimes misunderstandings about gifting.

Lisa: Do you work in the non-profit sector? Rita: Yes, non-family owned as well to help with boards and internal transfer on leadership.

Jordan: How does a business looking to succeed find you and other competitors, and how do they find potential buyers? Rena: Businesses come to them primarily by word of mouth referrals, there are not many online searches. For farms they rely on an ISU matching program with a list of farms and young professionals looking for opportunities. Other businesses have found there might be a key employee that is interested, and if structure in place internal leadership can turn into ownership.

Kimberly: Her office regularly works with businesses asking her for help finding buyers. The challenge, especially in rural Iowa, is if they don't know of a buyer, but they don't ask for help, they may just close. Rena: Business owners think it's just about transfer of ownership, but they need to have the business operating well before they can think about selling.

UNI, Advance Iowa – Dan Beenken, Paul Kinghorn:

Paul: Advance Iowa worked with businesses for several years and found that succession was an issue, especially in a rural community. Main concern is helping stop the exodus of businesses from those communities. They offer several services and are not competing with the private

sector as they want to leverage professionals working in this field. They work with both small and large companies. Focus time on employee ownership – maybe an ESOP if a larger firm, or employee ownership co-op. Must be many choices for business owner and aligning their interest with right one.

Dan: They originally started with succession planning consulting by using a third-party consultant. Realized a lot of companies are not sellable as they are, so much of their work shifted to what it is a buyer looking for, and what do you as a business have. They work on the buyer side as much as the seller, who wants growth potential. Worked with the RedTire program from the University of Kansas to develop a valuation formula so they can help offer a business a range of value. They also help pair a company with potential buyers they are aware of. They are also partnering with IEDA ESOP board to see how they can do more education on ESOPs. The University can be an objective third party, so they are in a unique position to help educate. They have received a grant to focus on worker coop development, where employees become equal owners in the company. Currently there is only one in the state and they want to develop the model to bring in more. They also offer the Family Business Forum, featuring family businesses talking about succession monthly.

Questions:

Jordan: Who helps extend your work in other regions? Dan: We rely on economic developers and organizations like ABI and PDI, to partner on their education series. The Family Business Forum is in central Iowa so easier to travel to, and they are now offering services through Zoom.

Paul: We have found that people won't go to workshops near them but will travel to another region to attend. ABI's Iowa Business Report is a weekly half-hour program that has a good reach into many regional radio stations. With the older population there is still a radio audience, so they are working on a strategy to get a message out through this medium.

IEDA, ESOP – Lisa Connell (Reference PPT):

Two primary incentives: ESOP Formation Assistance Program and Capital Gains Tax Deduction.

ESOP Formation Assistance Program was created in 2014 and provides up to \$25,000 for feasibility studies. Have provided about 20 awards to-date. Can reference PPT or IEDA website for criteria. No minimum valuation or number of employees, but review panel will take this into consideration, generally looking at companies with at least \$5 million valuation, cashflow of \$500,000 and at least 25 employees. There is a short application on IEDA website asking for general info. Applicant will then interview with expert panel which makes a recommendation to IEDA director for approval. If approved, then contract is executed.

Information on the Capital Gain Deduction Program is available on IEDA website. Basis is a 50% reduction for net gain from sale of stock to an ESOP.

Questions:

Lt. Gov.: Why is it limited only C and S corporations? How much funding is dedicated to the program and how much is used? Lisa: 1) In IRS requirements. If a company is going to make transition from LLC to C or S, can then be eligible, so they don't have to be at time of applications. 2) Original appropriation was \$500,000 to be used by a particular date and then reverted to the general fund. We have other internal funds we can use as well. To-date, \$170,000 has been disbursed, with about \$130,000 outstanding to be awarded.

Lt. Gov.: Surprised more haven't applied, what are barriers? Regulatory? Communications?
Lisa: Yes, to both. Are now working with UNI and hopeful that will be beneficial for educating companies. It's also not the right fit for many companies. Most outreach has come from the expert panelists and as service providers, that can come off as a sales pitch. Lt. Gov: Do you see issues on companies not applying because they don't fall within the guidelines? Lisa: We've only had two not meet eligibility criteria and one other that wasn't ready.

Jordan: What percentage go through with process? Lisa: They've only had a handful that did the full study and didn't go through.

ABI – Mike Ralston:

Identified issues with business success about nine years ago, more of an issue for rural Iowa where it's hard to find buyer.

They have done 50 programs on business transition across the state and have found people don't attend in their own region. Also, all think their business is worth more than it might be so a sound valuation is key. Refers businesses to Advance Iowa and other members for help with this and connect them with professionals who can help transfer. Important issue – key to ESOP is that it keeps ownership in Iowa.

Lt. Gov: Are there things we can do better from a policy standpoint? Mike: Their members say the resources available, so keep doing what we are doing and do more of it.

Jordan: What other types of funding could help business owners think about transition in general? Is there a funding opportunity that would help? Mike: Maybe state could market more. The real issue is that business owners have to think about this sooner.

7. Best Practices Roundtable – Jim Thompson, Moderator:

Mike McDonald, CFO, Kreg Tool:

Mary Landhuis, President, EZ Way, Inc. & Lisle Corporation:

Olivia Randall, Owner, Bauman & Company:

Bruce Hansen, V.P. of Business Development, IADG:

Jim: Asked panelists to each describe their transition.

Mike: Six years ago company decided to move to ESOP, moving first generation owners shares into the ESOP. Owner's son is majority owner, and they've started small, currently having 20% of employee ownership. Todd would be a good resource to owners thinking of making the decision to transfer ownership into an ESOP.

Mary: They have sister companies in Clarinda which have been family owned since 1903. She lived in Chicago and moved back to begin working at Lisle. They then purchased EZ Way, a medical device company and she took over operations of EZ Way in 2009. They have several family members involved in the business. In 2018, relative that was president of Lisle died suddenly. They did have a transition plan in place, but years down road. She now runs both.

Olivia: Company started in 1909 and has since had four owners, none with family connections. She and husband purchased in July 2019, and she manages day-to-day operations. Previous owner placed an article in newspaper saying he wanted to retire and sell the business. They met and worked with him for 18 months, going to buying shows, looking at financials and worked in store to see how day to day works before taking over ownership.

Bruce: Bruce gave an overview of the FIND Program (Fulfilling Iowa's Need for Dentists). City of Corning had been looking for incentives to obtain a dentist who was interested in locating there. They became involved with USDA funding and Delta Dental helped too, which started the process. Have hosted a series of discussions with dentists and communities across the state. Crucial issue with three counties in Iowa without a dentist and another 13 counties with a dentist that is young (mobile) or aging over 60 and pending retirement. Other professional services same issue – veterinarians, attorneys, eye doctors, etc.

Jim: What challenges did you face during transition?

Mary: Emotional sudden loss of a family member. As she had been involved with both companies, she knew on a high level how both ran. Panic moment from employees so communication was key. There was an educational uptick to learn from management staff. She had to look at her workload with both companies and decide what to let go of and trust staff to lead. It exposed people in the business to different areas of the company.

Olivia: The lack of technology was an issue as previous owner was still using paper ledger for all accounting, charge accounts, etc. They had to get everything on Quickbooks to save having to have a full time bookkeeper, accountant. Had to create social media and website for online sales. Josh: With lack of technology, cash flow and accounting records didn't exist. They had to recreate all of this. The owner was open to sharing info, but he'd worked with their accountant and others for recordkeeping. They put some equity in the business, and owner was willing to put some on contract, community bank was a benefit. Biggest challenge – two young kids.

Bruce: Gave an example of Allison Iowa - how to transfer from 80-year old dentist to a younger dentist. Took a lot of education and trust to let go of some of his original patients. Gets back to how personal this business is. Eventually he found a good fit. Letting go process is difficult for that generation.

Mike: From a business perspective they didn't know about ESOP's, but the transaction was very smooth. The owner wasn't leaving and there were no changes to business. Culturally, what did this mean for employees? Communication and education was key. Let people know how this is a good thing for them and the company.

Jim: Are there voids or tools that could have helped?

Olivia: Prior to taking over the business they took a Quickbooks class. They learned a lot, but it was more focused on service or industry – not on retail. Learned that retail accounting is specific so would be nice if there was a resource to help businesses to get this education.

Bruce: For all the professional services, when that service isn't in a community retail leakage will happen. Critical to look at all, and not just dentists. Conversations with ISU for vet programs, UI's program for dentists. Not heard from attorneys – that is equally as critical.

Mike: Marketing of ESOPs and getting word out. They were fortunate to have a good network, but others don't. Very emotional for business owners. A peer network that have gone through process would be useful.

Mary: They did have a plan in place, even though they had to enact early, so having that plan in place is very important. UNI offers good programs on succession, and the Family Business Council. Peer networks are important.

Questions:

David: Regarding the FIND program, is student debt the biggest issue? Bruce: Graduating students can have debt of \$300,000 or more. FIND offers four slots on a matching basis. They get \$100,000 over five years with participation from the community, Delta Dental and State of Iowa. Moving forward, fund is going to grow. Will be raising it to \$125,000 for locating in the 13 critical counties. Helps them to become more bankable and to hire employees.

Jordan: Outside of debt preventing someone from locating in rural, why don't communities have anyone to replace retiring people? Bruce – many just not familiar with rural Iowa and opportunities available. In Dental, dentists in metro areas is its saturated. Rural market more likely to be successful. Population may be smaller, but the ratio for the market is strong. In metro, dentists may have to work weekends to make up for competition. Market is there.

Jordan: Maybe there is an opportunity through Future Ready Iowa to create mentoring for students in community to connect with professionals that will be retiring to see how profitable it could be. Bruce: Many efforts underway in this direction. Brain: Have found at BV, they have dentists, optometrists that reach out to them to connect with students.

Molly: When PPP became available, many small businesses didn't have resources available from a financial literacy standpoint to have the financial documents to apply. Community discussed how to raise the level of financial literacy within the community. This has been a good opportunity to learn about the resources that are available.

Adam: Not just PPP, but the relief grants through IEDA had same issue. Businesses couldn't demonstrate their needs. We have resources, just don't communicate well. Whether entrepreneurial, community resources, financial literacy, etc. How can we better connect?

8. Public Comment: None

9. Wrap up & Next Steps:

Next meeting will be Friday, November 6, 10 – 1 PM. We are working on the agenda, with much work on the recommendations.

10. Adjourn