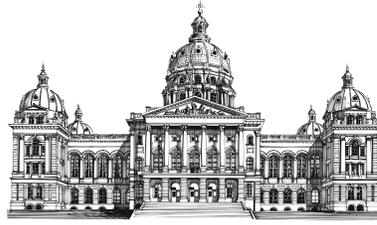

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Linked Investments for Tomorrow Program Update

ISSUE

This *Issue Review* provides an overview of the Linked Investments for Tomorrow Program in the State Treasurer's Office.

AFFECTED AGENCIES

Office of the Treasurer of State

CODE AUTHORITY

Sections 12.31 through 12.52, Code of Iowa

BACKGROUND

The Linked Investments for Tomorrow (LIFT) Program began in 1986 as part of a State government initiative to diversify Iowa's agricultural industry.¹

In subsequent years, other perceived needs were addressed with low interest loans:

- Targeted Small Business (1988). The General Assembly placed a moratorium on the Targeted Small Business Program between April 4, 1996, and June 30, 1997, in HF 2397 (Linked Investments) during the 1996 Legislative Session. The Focused Small Business Program was established on July 1, 1997, as a replacement (HF 613 [Linked Investment Programs]).
- Main Street Historical Preservation (1991). This Program, which provided below-market financing for restoration and rehabilitation of commercial buildings eligible for the National Register of Historic Places, was repealed in 1996 due to lack of use.
- Rural Small Business Transfer (1992).
- Traditional Livestock Producers (1999).
- Value-Added Agriculture (1999).

Through the Linked Investments For Tomorrow Programs, the Treasurer of State is authorized to deposit funds in Iowa depositories at an interest rate of 3.0% below current

¹The Program was initially authorized in HF 2313 (Horticulture and Nontraditional Crops Act) during the 1986 Legislative Session.

market rate for a U.S. Treasury Bill of comparable maturity. The interest received must be at least 2.0%. The depository must make a loan for a like amount to a qualified project. The interest rate for the loan cannot be more than 4.0% above the interest rate of deposit. The initial certificate of deposit for a borrower has a maturity of one year and may be renewed on an annual basis for a total term not to exceed five years for any program. The only exception is the Traditional Livestock Producers Program, which cannot exceed a total of three years in any 10-year period. All programs had been limited to a total term of nine years prior to the enactment of HF 779 (Linked Investment Loan Programs) by the General Assembly in 1999.

The following steps take place in the process of loaning money through the Program:

- A lending institution wishing to receive a linked investment accepts and reviews applications for loans from eligible borrowers. The institution must apply all usual lending standards to determine the creditworthiness of each borrower.
- The financial institution forwards a linked investment loan package to the State Treasurer. The package includes information required by the Treasurer, including the amount and purpose of the loan. The institution must certify that the applicant is an eligible borrower and state the present borrowing rate applicable to the borrower.
- The Treasurer may accept or reject a linked investment loan package or any portion of the package based on the type or terms of the loan involved.
- Upon acceptance of the package or any portion of the package, the Treasurer places certificates of deposit with the lending institution.
- Upon placement of a linked investment with a lending institution, the institution is required to lend the funds to the eligible borrower listed in the linked investment loan package in accordance with the investment agreement.

Projects must fit the requirements of one of the five programs eligible for participation. A description of each of the programs follows.

Horticulture and Alternative Crops

This Program is designed to provide lower cost funds for lending purposes to stimulate existing businesses and encourage new businesses in the areas of producing, processing, or marketing of horticulture, nontraditional crops, and livestock.

Borrowers may be individuals, corporations, or cooperatives. There are no net worth restrictions on borrowers and no fees.

The loan must be for the purchase or lease of land, machinery, equipment, or the purchase of other inputs. Loan proceeds are not to be used to refinance existing debt, including credit card debt. However, proceeds may be used to refinance a short-term bridge loan made in anticipation of the Treasurer's approval of the loan.

The maximum loan amount is two-tiered. Production loans up to \$200,000 or processing/marketing loans up to \$500,000 may be combined for a maximum of \$500,000 per borrower and business.

Focused Small Business (formerly Targeted Small Business)

The purpose of this Program is to provide below market financing to women and minority-owned small businesses. The small business must meet the following criteria:

- Located in Iowa and operated for profit.
- Owned 51.0% or more by one or more women, minorities, or persons with disabilities.
- Actively managed by one or more women, minorities, or persons with disabilities.

- Have annual sales of \$2.0 million or less.
- All owners of the business or borrowers must not have a combined net worth of more than \$500,000, excluding primary residence.
- Not have received a Linked Investment for Tomorrow loan prior to July 1, 1997.

Real estate as a business does not qualify under this Program nor does any business whose sales of liquor, beer, or wine exceeds 20.0% of annual sales. In addition, the business may not be operated out of a person's home unless the person is eligible for a deduction under Internal Revenue Service rules for a home office and the loan proceeds cannot be used to refinance existing debt, including credit card debt. Proceeds of loans under this Program may be used for any and all business expenditures, with a limit of \$100,000 per borrower or business. The borrower or business is limited to one loan from one financial institution.

Rural Small Business Transfer

This Program is designed to maintain and expand existing employment opportunities for rural communities facing a business closure.

The rural small business may not be a new business and must be located in a city with a population of 5,000 or less and the city must be located in a county with a population of less than 300,000. The borrower and seller may not be within the third degree of consanguinity or affinity, which means the parties must be more distant than first cousins by blood or marriage. In addition, the rural small business must meet the following criteria:

- Be located in Iowa and operated for profit.
- Have annual sales of \$2.0 million or less.
- All owners of the business or borrowers must not have a combined net worth of more than \$500,000, excluding primary residence.
- Not have received a Linked Investment For Tomorrow loan prior to July 1, 1997.
- The loan proceeds may not be used to refinance existing debt.

Real estate as a business does not qualify under this Program nor does any business whose sales of liquor, beer, or wine exceeds 20.0% of annual sales. The business may not be operated out of a person's home unless the person is eligible for a deduction under Internal Revenue Service rules for a home office. The transfer of the rural small business must be by purchase, lease-purchase, or contract sale. The purchase must be for a portion of the business that is essential to its continued viability.

The maximum loan amount per borrower or business is \$50,000.

Traditional Livestock Producers

The purpose of the Program is to increase the availability of lower cost loans to traditional livestock producers. A borrower may not obtain more than \$100,000.

In order to qualify for a loan:

- The borrower must be a traditional livestock producer who is at least 18 years of age and a resident of Iowa.
- The livestock operation must be in Iowa.
- The borrower's gross income from farm operations must be more than \$50,000 and not more than \$300,000 during the borrower's last tax year, with at least 50.0% of that income derived from livestock owned and sold by the borrower.

The borrower may not be:

- A party to a pending legal or administrative action relating to an alleged violation involving an animal feeding operation as regulated by the Department of Natural Resources.
- Classified as a habitual violator for a violation of State law involving an animal feeding operation as regulated by the Department of Natural Resources.

Value-Added Agriculture

The purpose of the Program is to stimulate existing businesses and encourage the establishment of new businesses that add value through the processing of agricultural commodities, as well as encourage the production of commodities in short supply.

The borrower may not obtain more than \$250,000 under this Program.

The borrower must qualify according to eligibility requirements established by the Treasurer of State. The eligibility requirements have not yet been established.

CURRENT SITUATION

Program Statistics

The following table provides information on current outstanding loans as of October 1, 1999:

LINKED INVESTMENTS FOR TOMORROW LOANS

Program	Maximum Loan Amount	Total Loaned	Number of Loans	Number of Borrowers
Focused Small Business	\$ 100,000	\$ 18,462,580	388	439
Horticulture & Alternative Crops*	500,000	16,258,781	352	452
Rural Small Business Transfer	50,000	1,982,059	58	85
Focused Small Business**	250,000	29,591,187	539	756
Traditional Livestock	100,000	17,416,042	761	852
Value-Added Agriculture***	250,000	0	0	0
Totals		\$ 83,710,649	2,098	2,584

*Maximum loan is \$200,000 for production, \$500,000 for processing/marketing, or \$500,000 combined.

**Formerly Targeted Small Business Program. Renewal of investments made prior to April 4, 1996.

***Eligibility requirements have not yet been established.

Limit on Amount Loaned

In 1997, the General Assembly passed HF 613 (Linked Deposit Investment Programs Act) which states that the Treasurer of State may invest up to the lesser of \$68.0 million or 10.0% of the balance of the State pooled money fund in certificates of deposit in eligible lending institutions. Due to this cap, the Treasurer's Office suspended new Linked Investments For Tomorrow loans in July 1998 and the suspension remained in effect until the amount of repayments of outstanding loans created a large enough margin that additional loans could be made. The suspension of loans lasted until November 1998.

In 1999, the General Assembly passed HF 779 (Linked Investment Loan Programs Act) which increased the amount the Treasurer of State may invest from \$68.0 million to the lesser of \$108.0 million or 10.0% of the balance of the State pooled money fund in certificates of deposit in eligible

lending institutions and sets aside \$20.0 million of that amount to be used for traditional livestock and \$20.0 million for value-added agriculture.

The following calculation shows the amount eligible to be loaned, the total amount outstanding in loans through the Program, approved but not closed loans, and the remaining amount eligible to be loaned as of October 1, 1999.

LINKED INVESTMENTS FOR TOMORROW - FUNDS AVAILABLE TO LOAN

	Traditional Livestock	Value-Added Agriculture*	Other Programs
Amount eligible to be loaned	\$ 20,000,000	\$ 20,000,000	\$ 68,000,000
Total amount of loans outstanding	0	0	-66,294,607
Approved, but not closed loans	-17,416,042	0	- 227,700
<i>Remaining amount eligible to be loaned</i>	\$ 2,583,958	\$ 20,000,000	\$ 1,477,693

*The Treasurer of State is in the process of establishing the qualifying guidelines for the Program.

BUDGET IMPACT

The total estimated amount of forgone interest to the General Fund due to the Linked Investments for Tomorrow Program from June 1986 to September 1999 is \$14,848,230.

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