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# Iowa Legislative Fiscal Bureau

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## Linked Investments for Tomorrow Program

### ISSUE

To provide an informational 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 Program began in 1986 as part of a State government initiative to diversify Iowa's agricultural industry. The initial effort was named "Horticulture and Alternative Crops." In subsequent years, other perceived needs were addressed with low interest loans for Targeted Small Business (1988), Main Street Historical Preservation (1991), and Rural Small Business Transfer (1993).

Through the Linked Investments for Tomorrow Program, the Treasurer of State is authorized to deposit funds in Iowa depositories at an interest rate of 3.0% below market rate for a U.S. Treasury Bill of comparable maturity. 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 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 but not limited to 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.

The project must fit the requirements of one of the four programs eligible for participation. A description of each of the programs follows.

### ***Horticulture and Alternative Crops***

This Program provides below-market financing for production, processing, and marketing of alternative crops and livestock.

Borrowers may be individuals, corporations, or cooperatives engaged in growing or bringing to market crops and animals not currently a standard part of Iowa's agricultural market. There are no net worth restrictions on borrowers and no fees.

The maximum 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.

### ***Targeted Small Business***

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

- Located in Iowa.
- Operated for profit.
- Owned 51.0% or more by one or more women or minorities.
- Actively managed by one or more women or minorities.
- Have an annual gross income of less than \$3.0 million.

Proceeds of loans under this Program may be used for any and all business expenditures, with a limit of \$250,000 per borrower and business.

### ***Main Street***

The Main Street Program provides below-market financing for restoration and rehabilitation of commercial buildings which are eligible for the National Register of Historic Places.

Plans and specifications for rehabilitation must meet the following criteria:

- Preliminary assistance must be received from the Historic Preservation Bureau of Iowa or the Main Street Iowa Program.
- Plans and specifications must be prepared by an architect with historic preservation experience.
- Plans and specifications must be approved by the local design review committee.
- Final approval must be received from the Main Street Linked Investment Design Review Board.

The maximum amount that can be loaned per borrower per project is \$50,000.

### ***Rural Small Business Transfer***

This Program is designed to financially assist in transferring ownership of an existing retail-oriented business which may otherwise close.

The rural small business 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 transfer of the rural small business must be by purchase, lease-purchase, or contract of sale. The purchase must be for a portion of the business which is essential to its continued viability.

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

## **CURRENT SITUATION**

### ***Program Statistics***

The following table provides information on current outstanding loans as of October 31, 1995:

<u>Program</u>	<u>Total Loaned</u>	<u>Number of Loans</u>	<u>Number of Borrowers</u>
Horticulture and Alternative Crops	\$ 13,511,132	370	275
Targeted Small Business	44,611,005	808	679
Project Main Street	37,980	2	2
Rural Small Business Transfer	1,049,174	25	25
Total	<u>\$ 59,209,289</u>	<u>1,205</u>	<u>981</u>

### ***Limit on Amount Loaned***

The Treasurer can invest up to 10.0% of the total balance of the State-pooled money fund in certificates of deposit in eligible lending institutions pursuant to this Program. As of September 30, 1995, the average monthly balance of the fund was \$1.1 billion. The amount eligible to be loaned under the Linked Investments for Tomorrow Program is 10.0% of this amount, or \$106.6 million.

The following calculation shows the balance of the fund, the amount eligible to be loaned, the total amount outstanding in loans through the Program, and the remaining amount eligible to be loaned.

Average monthly balance of pooled money fund	\$ 1,066,233,351
Percentage eligible to be loaned	X .10
Amount eligible to be loaned	<u>\$ 106,623,335</u>
Total amount of loans outstanding	- 59,209,289
<b>Remaining amount eligible to be loaned</b>	<b><u>\$ 47,414,046</u></b>

The Treasurer’s Office has indicated that if at some point in the future, the amount loaned reaches the total amount eligible to be loaned, additional loans will not be made until one of two things occur:

1. Repayments of outstanding loans create a large enough margin that additional loans can be made.
2. The balance of the pooled money fund increases to a level which provides a large enough margin that additional loans can be made.

***Active Bills Relating to the Program***

Senate File 60, establishing a Speculative Building Development Linked Investment Program, passed the Senate during the 1995 Legislative Session and passed the House in amended form, but did not receive final passage.

Passage of SF 60 would result in loss of interest due to funds receiving a lower interest rate when being utilized for this Program than would be received otherwise. As interest rates change daily, scenarios are given below showing the amount of interest lost yearly based on three different interest rates and two different loan amounts.

<b>Principle</b>	<b>Interest</b>	<b>Rate</b>	<b>Annual Interest</b>	<b>Difference</b>
\$250,000	MR*	7.0%	\$ 17,500	\$ -7,500
	LIR**	4.0%	10,000	
100,000	MR	7.0%	7,000	-3,000
	LIR	4.0%	4,000	
250,000	MR	6.0%	15,000	-7,500
	LIR	3.0%	7,500	
100,000	MR	6.0%	6,000	-3,000
	LIR	3.0%	3,000	
250,000	MR	5.0%	12,500	-7,500
	LIR	2.0%	5,000	
100,000	MR	5.0%	5,000	-3,000
	LIR	2.0%	2,000	

\* Market Rate Examples for Treasury Bills  
 \*\* Linked Investment Rate Reduction

**ALTERNATIVES**

No legislative action is necessary at this time; however, the Legislature may wish to consider the following items:

- *Eligibility standards.* The Legislature may wish to consider creating eligibility requirements relating to financial need, as no such provisions are currently in place.
- *Amount eligible to be loaned.* The Legislature may wish to establish additional guidelines concerning the total amount to be loaned under the Program and what is expected of the Treasurer’s Office as the total amount loaned nears the limit. Under current law, the Office would simply stop making loans if the total amount loaned reached the limit.

- *Future of small programs.* The Legislature may wish to consider eliminating the Project Main Street and Rural Small Business Transfer Programs, as they account for only 1.8% of the total amount loaned and 2.2% of the total number of loans made.

**BUDGET IMPACT**

The total estimated amount of forgone interest due to the Linked Investments for Tomorrow Program from June 1986 to December 1994 is \$4,586,338.

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