

appointed under section 107.13, while these vehicles are being used in criminal investigations or while attempting to apprehend suspected criminals.

Sec. 44. Section 110A.3, unnumbered paragraph 2, Code 1987, is amended to read as follows:

Pen-reared game birds, as defined in section ~~109.41~~ 109.1, released on licensed area may be taken during the shooting season provided in this chapter but not to exceed eighty percent of the total number of the species of said game birds released. Pen-reared waterfowl, two generations removed from the wild and chukar partridge may be released at any time of year for shooting purposes and one hundred percent may be harvested by shooting. The word "waterfowl" shall be defined as those birds constituting the Anatidae as listed in section ~~109.41~~ 109.1. All birds so released shall be at least twelve weeks of age before liberation date. A minimum of one hundred pen-reared birds of each species to be shot shall be released during the open season. Experimental releases of less than one hundred birds of each species shall require a special permit from the ~~commission~~ department.

Sec. 45. Section 111A.6, unnumbered paragraph 1, Code 1987, is amended to read as follows:

Upon request of the county conservation board, the board of supervisors shall establish a reserve for county conservation land acquisition and capital improvement projects. The board of supervisors may periodically credit an amount of money to the reserve. Moneys credited to the reserve shall remain in the reserve until expended for such the projects upon warrants requisitioned by the county conservation board. The interest earned on moneys received from bequests and donations in the reserve account which are invested pursuant to section 453.1 shall be credited to the reserve account.

Sec. 46. Section 111C.2, subsection 3, Code 1987, is amended to read as follows:

3. "Recreational purpose" means the following or any combination thereof: Hunting, trapping, horseback riding, fishing, swimming, boating, camping, picnicking, hiking, pleasure driving, motorcycling, nature study, water skiing, snowmobiling, other summer and winter sports, and viewing or enjoying historical, archaeological, scenic, or scientific sites while going to and from or actually engaged therein.

Sec. 47. Sections 109.40, 109.41, and 109.43 through 109.46, Code 1987, are repealed.

Approved May 11, 1988

CHAPTER 1217

COMMUNITY AND RURAL INFRASTRUCTURE, HOUSING, AND SEWAGE TREATMENT DEVELOPMENT AND FINANCING

S.F. 2092

AN ACT establishing a community and rural development loan program and a sewage treatment works financing program to assist communities in financing sewage treatment projects and in financing traditional and new infrastructure and housing for needy and elderly, authorizing the Iowa finance authority to issue bonds and notes for the program, and providing an appropriation from a revolving fund to be used for each program, and providing effective dates.

Be It Enacted by the General Assembly of the State of Iowa:

Section 1. NEW SECTION. 15.281 TITLE.

This part shall be known as the "Community and Rural Development Loan Program".

Sec. 2. NEW SECTION. 15.282 PURPOSE.

The purpose of this part is to assist communities and rural areas of the state with their development and governmental responsibilities by providing low interest and no-interest loans for traditional infrastructure, new infrastructure, and housing.

Sec. 3. NEW SECTION. 15.283 PROGRAM.

The department shall establish a program to effectuate the purposes of this part subject to the following guidelines:

1. General program criteria and applications are to be developed by the finance division of the department in conjunction with the Iowa finance authority, subject to approval of the boards of the department and Iowa finance authority.

2. The program shall provide for three categories of assistance. These are the traditional infrastructure category, the new infrastructure category, and the housing category.

3. All moneys available for the traditional infrastructure category and the new infrastructure category shall be administered by the department. All moneys available for the housing category shall be administered by the Iowa finance authority.

4. Moneys available under this program shall be allocated so that at least fifty-five percent of the moneys are for the traditional infrastructure category, at least fifteen percent of the moneys are for the new infrastructure category, and thirty percent of the moneys are for the housing category. If moneys allocated to the housing category are not used or dedicated by January 1, of the fiscal year, the moneys shall be reallocated to the other categories that have the most need as determined by the department. At least one-third of the moneys allocated to each category shall be set aside for cities with populations of five thousand or less. For purposes of this set aside, any city located in a county with a population in excess of three hundred thousand that is contiguous to another municipality in the county and that municipality is contiguous to the largest city in that county shall be considered as having a population in excess of twenty thousand.

Sec. 4. NEW SECTION. 15.284 TRADITIONAL INFRASTRUCTURE.

1. The traditional infrastructure category contains projects that include, but are not limited to, sewer, water, roads, bridges, airports, and other projects described in section 384.24, subsection 3.

2. Any Iowa city or county is eligible to apply for loans from this category. Along with the application, the city or county shall submit the following:

- a. A needs assessment study.
- b. A capital improvement program.
- c. Evidence of matching contribution of at least twenty-five percent of the total project cost.

3. Applications must be seeking funds to improve the physical assets of the traditional infrastructure of the political subdivision in aid of development.

4. The finance division of the department shall rank the applicants according to financial need, cost-benefit of the project, percent of match, impact, and ability to administer project.

5. The interest rate shall range from zero to five percent. The department may charge applicants an administration fee, not to exceed one percent of the principal amount of the loan, to be paid as a lump sum percent or a percent of the interest rate.

6. The department may coordinate with the department of natural resources to assist political subdivisions receiving federal or other state aid for waste water treatment facilities. However, the department shall not allocate more than fifty percent of the moneys available to this category for this purpose.

Sec. 5. NEW SECTION. 15.285 NEW INFRASTRUCTURE.

1. The new infrastructure category contains projects which are services or processes that do not currently meet the guidelines of standard public works projects. These include, but are not limited to, communication systems, day care, technology transfer adaptation, medical decision-support systems, special transportation services, physical improvements under town square and main street programs, physical improvements to historic, art, and cultural sites and attractions, emergency medical services, and other projects described in section 384.24, subsection 4.

2. Any political subdivision, or nonprofit development corporation, is eligible to apply for loans under this category.

3. Along with the application, the following shall be submitted:

- a. A needs assessment study.
- b. A capital improvement plan.
- c. Evidence of a match of at least ten percent.

4. The finance division of the department shall rank the applications according to the applicant's financial need, cost-benefit of the project, current conditions or situations, percent of private investment or contribution, and ability to administer the project.

5. The interest rate shall range from zero to five percent. The department may charge applicants an administration fee, not to exceed one percent of the principal amount of the loan, to be paid as a lump sum percent or a percent of the interest rate.

Sec. 6. NEW SECTION. 15.286 HOUSING.

1. Any Iowa city, county, housing agency, or developer shall be eligible to apply for loans under this category. Along with the application the person shall submit the following:

- a. A needs assessment for the area to be served.
- b. A demographic documentation of the housing trend.
- c. Evidence of a local commitment of at least twenty-five percent.

2. Applicants must be seeking funds to assist in meeting the area needs of low and moderate income in pursuit of decent housing or in meeting the purposes of the housing trust fund program as described in section 220.100, subsection 2.

3. For purposes of this section:

a. "Low-income" means an amount less than or equal to one hundred fifty percent of the then current poverty level as published by the federal department of health and human services in the federal register.

b. "Moderate-income" means an amount less than or equal to three hundred percent of the then current poverty level as published by the federal department of health and human services in the federal register.

4. a. The Iowa finance authority shall develop criteria to award assistance based upon the applicant's financial need, the cost-benefit of the project, the accessibility to the project by handicapped persons as defined in section 601E.1, percent of private investment, percent leveraged by other programs, assessment of local housing situation, and ability to administer the program.

b. The Iowa finance authority shall give a preference in the awarding of assistance to the following:

- (1) The assistance will be used to meet the purposes of the housing trust fund program.
- (2) The applicant is a nonprofit entity.
- (3) Programs to assist low income and the disadvantaged.

(4) A project that will qualify for the low-income housing credit under section 42 of the Internal Revenue Code.

(5) A project that will not otherwise qualify for the low-income housing credit but will provide an income mix of the residents as described in section 42(g)(1)(A) or (B) of the Internal Revenue Code.

5. Interest charged to applicants shall range from zero to five percent. The Iowa finance authority may charge applicants an administration fee, not to exceed one percent of the principal amount of the loan, to be paid as a lump sum percent, or a percent of the interest rate.

Sec. 7. NEW SECTION. 15.287 REVOLVING FUND.

The Iowa finance authority shall establish a revolving fund for the program and shall transfer to the department moneys to be administered by the department. The moneys in the revolving fund are appropriated for purposes of the program. Notwithstanding section 8.33, moneys in the fund at the end of a fiscal year shall not revert to any other fund but shall remain in the revolving fund. The fund shall consist of all appropriations, grants, or gifts received by the authority or the department specifically for use under this part; revenues designated in section 98.35 to be deposited in the fund; and all repayments of loans made under this part.

Sec. 8. NEW SECTION. 15.288 LOCAL BONDS NOT REQUIRED — INDEBTEDNESS LIMITATIONS.

A city, county, political subdivision, or other municipal corporation shall not be required to issue its bonds to secure loans under the community and rural development loan program. It is the intent of the general assembly that loans received by a city, county, political subdivision, or other municipal corporation under the loan program shall not constitute an indebtedness of that entity within the meaning of any state constitutional provision or statutory limitation.

**Sec. 9. Section 98.35, Code 1987, is amended to read as follows:*

98.35 TAX AND FEES PAID TO GENERAL FUND.

The proceeds derived from the sale of stamps and the payment of taxes, fees and penalties provided for under this chapter, and the permit fees received from all permits issued by the department, shall be credited to the general fund of the state, except as otherwise provided in this section. All permit fees provided for in this chapter and collected by cities in the issuance of permits granted by the cities shall be paid to the treasurer of the city where the permit is effective, or to another city officer as designated by the council, and credited to the general fund of the city. Permit fees so collected by counties shall be paid to the county treasurer. One and one-half cents of the first five cents received from the sale of each stamp and the payment of the tax on each pack of cigarettes or little cigars, not to exceed four million dollars in a fiscal year, shall be deposited into the revolving fund established by the Iowa finance authority under section 15.287. Deposits under this section to the revolving fund in section 15.287 shall not be made during a fiscal year for which an appropriation from other sources to the revolving fund has been made. However, if the amount of such appropriations does not equal four million dollars or has to be reduced below that amount for any reason, deposits under this section shall be made to the extent that the amount appropriated, less any reduction, is less than four million dollars.*

Sec. 10. NEW SECTION. 455B.291 DEFINITIONS.

As used in this part, unless the context requires otherwise:

1. "Authority" means the Iowa finance authority established in section 220.2.
2. "Cost" means all costs, charges, expenses, or other indebtedness incurred by a municipality and determined by the director as reasonable and necessary for carrying out all works and undertakings necessary or incidental to the accomplishment of any project.

3. "Municipality" means the city, county, sanitary district, or other governmental body or corporation empowered to provide sewage collection and treatment services, or any combination of two or more of such governmental bodies or corporations acting jointly, in connection with a project.

4. "Project" means the acquisition, construction, reconstruction, extension, equipping, improvement, or rehabilitation of any works and facilities useful for the collection, treatment, and disposal of sewage and industrial waste in a sanitary manner including treatment works as defined in section 212 of the Clean Water Act, or the implementation and development of management programs established under sections 319 and 320 of the Clean Water Act.

5. "Clean Water Act" means the federal Water Pollution Control Act of 1972, Pub. L. No. 92-500, as amended by the Water Quality Act of 1987, Pub. L. No. 100-4, as published in 33 U.S.C. §§ 1251-1376.

6. "Sewage treatment works revolving loan fund" or "revolving loan fund" means the sewage treatment works revolving loan fund established in section 455B.295.

7. "Sewage treatment works administration fund" or "administration fund" means the sewage treatment works administration fund established in section 455B.295.

8. "Program" means the Iowa sewage treatment works financing program created pursuant to section 455B.294.

9. "Executive director" means the executive director of the Iowa finance authority.

Sec. 11. NEW SECTION. 455B.292 FINDINGS.

The general assembly finds that the proper construction, rehabilitation, operation, and maintenance of modern and efficient sewer systems and wastewater treatment works are essential to protecting and improving the state's water quality; that protecting water quality is an issue of concern to the citizens of the state; that in addition to protecting and improving the state's water quality, adequate wastewater treatment works are essential to economic growth and development; that during the last several years the amount of federal grant money available to states and local governments for assistance in constructing and improving wastewater treatment works has sharply diminished and will likely continue to diminish; and that it is proper for the state to encourage local governments to undertake wastewater treatment projects through the establishment of a state mechanism to provide loans at the lowest reasonable rates.

Sec. 12. NEW SECTION. 455B.293 POLICY.

It is the policy of the general assembly that it is in the public interest to establish a sewage treatment works financing program and a revolving loan fund and administration fund to make loans available from the state to municipalities to acquire, construct, reconstruct, extend, equip, and improve works and facilities useful for the collection, treatment, and disposal of sewage and industrial waste in a sanitary manner.

Sec. 13. NEW SECTION. 455B.294 ESTABLISHMENT OF THE IOWA SEWAGE TREATMENT WORKS FINANCING PROGRAM.

The Iowa sewage treatment works financing program is established for the purpose of making loans available to municipalities to finance all or part of the costs of projects. The program shall be a joint and cooperative undertaking of the department and the authority. The department and the authority may enter into and provide any agreements, documents, instruments, certificates, data, or information necessary in connection with the operation, administration, and financing of the program consistent with this part, the rules of the department and the commission, the rules of the authority, and state law.

Sec. 14. NEW SECTION. 455B.295 FUNDS AND ACCOUNTS.

1. Two separate funds are established in the state treasury, to be known as the "sewage treatment works revolving loan fund", and the "sewage treatment works administration fund".

2. The revolving loan fund shall include sums appropriated to the revolving loan fund by the general assembly, sums allocated to the state expressly for the purposes of establishing a revolving loan fund under the Clean Water Act, all receipts by the revolving loan fund, and any other sums designated for deposit to the revolving loan fund from any public or private source. All moneys appropriated to and deposited in the revolving fund are appropriated and shall be used for the sole purpose of making loans to the municipalities to finance all or part of the cost of projects. The moneys appropriated to and deposited in the revolving loan fund shall not be used to pay the nonfederal share of the cost of projects receiving grants under the Clean Water Act. The moneys in the revolving loan fund are not considered as a part of the general fund of the state, are not subject to appropriation for any other purpose by the general assembly, and in determining a general fund balance shall not be included in the general fund of the state but shall remain in the revolving loan fund to be used for its purposes. The revolving loan fund is a dedicated fund under the administration and control of the authority and subject to section 220.31. Moneys on deposit in the revolving loan fund shall be invested by the treasurer of state in cooperation with the authority, and the income from the investments shall be credited to and deposited in the revolving loan fund.

3. The sewage treatment works administration fund shall include sums appropriated to the administration fund by the general assembly, sums allocated to the state for the express purposes of administering the program authorized by the Clean Water Act, and all receipts by the administration fund from any public or private source. All moneys appropriated to and deposited in the administration fund are appropriated for and shall be used and administered by the department to pay the costs and expenses associated with the program, including administration of the program, as may be determined by the department.

4. The department and the authority may establish and maintain other funds or accounts determined to be necessary to carry out the purposes of this part and shall provide for the funding, administration, investment, restrictions, and disposition of the funds and accounts.

Sec. 15. NEW SECTION. 455B.296 INTENDED USE PLANS — CAPITALIZATION GRANTS — ACCOUNTING.

1. Each fiscal year beginning July 1, 1988, the department may prepare and deliver intended use plans and enter into capitalization grant agreements with the administrator of the United States environmental protection agency under the terms and conditions set forth in Title VI of the Clean Water Act and federal regulations adopted pursuant to the Act and may accept capitalization grants for the revolving loan fund in accordance with payment schedules established by the administrator. All payments from the administrator shall be deposited in the revolving loan fund.

2. The department and the authority shall establish fiscal controls and accounting procedures during appropriate accounting periods for payments and disbursements received and made by the revolving loan fund, the administration fund, and other funds established pursuant to section 455B.295, subsection 4, and to fund balances at the beginning and end of the accounting periods.

Sec. 16. NEW SECTION. 455B.297 LOANS TO MUNICIPALITIES.

Moneys deposited in the revolving loan fund shall be used for the sole purpose of making loans to municipalities to finance the cost of projects in accordance with the intended use plans developed by the department under section 455B.296. The municipalities to which loans are to be made, the purposes of the loan, the amount of each loan, the interest rate of the loan, and the repayment terms of the loan, shall be determined by the director, in accordance with rules adopted by the commission, in compliance with and subject to the terms and conditions of Title VI of the Clean Water Act and any resolution, agreement, indenture, or other

document of the authority, and rules adopted by the authority, relating to any bonds, notes, or other obligations issued for the program which may be applicable to the loan.

Sec. 17. NEW SECTION. 455B.298 POWERS AND DUTIES OF THE DIRECTOR.

The director shall:

1. Process and review loan applications to determine if an application meets the eligibility requirements set by the rules of the department.
2. Approve loan applications of municipalities which satisfy the rules adopted by the commission, and the intended use plan developed by the department under section 455B.296.
3. Process and review all documents relating to projects and the extending of loans.
4. Prepare and process, in coordination with the authority, documents relating to the extending of loans to municipalities, the sale and issuance of bonds, notes, or other obligations of the authority relating to the program, and the administration of the program.
5. Include in the budget prepared pursuant to section 455A.4, subsection 1, paragraph "c", an annual budget for the administration of the program and the use and disposition of amounts on deposit in the administration fund.
6. Charge each municipality receiving a loan from the revolving loan fund a loan origination fee and an annual loan servicing fee. The amount of the loan origination fees and the loan servicing fees established shall be relative to the amount of a loan made from the revolving loan fund. The director shall deposit the receipts from the loan origination fees and the loan servicing fees in the administration fund.
7. Consult with and receive the approval of the authority concerning the terms and conditions of loan agreements with municipalities as to the financial integrity of the loan.
8. Perform other acts and assume other duties and responsibilities necessary for the operation of the program.

Sec. 18. NEW SECTION. 455B.299 ADOPTION OF RULES.

The commission shall adopt rules pursuant to chapter 17A appropriate for the administration of this part.

Sec. 19. Section 220.100, subsection 7, Code Supplement 1987, is amended by striking the subsection.

Sec. 20. NEW SECTION. 220.131 IOWA SEWAGE TREATMENT WORKS FINANCING PROGRAM — DEFINITIONS — FUNDING — BONDS AND NOTES.

1. The authority shall cooperate with the department of natural resources in the creation, administration, and financing of the Iowa sewage treatment works financing program established in sections 455B.291 through 455B.299.
2. Terms used in this part have the meanings given them in sections 455B.101 and 455B.291 unless the context requires otherwise.
3. The authority may issue its bonds and notes for the purpose of funding the revolving loan fund created under section 455B.295 and defraying the costs of payment of the twenty percent state matching funds required for federal funds received for projects.
4. The authority may issue its bonds and notes for the purposes established and may enter into one or more lending agreements or purchase agreements with one or more bondholders or noteholders containing the terms and conditions of the repayment of and the security for the bonds or notes. The authority and the bondholders or noteholders or a trustee agent designated by the authority may enter into agreements to provide for any of the following:
 - a. That the proceeds of the bonds and notes and the investments of the proceeds may be received, held, and disbursed by the authority or by a trustee or agent designated by the authority.

b. That the bondholders or noteholders or a trustee or agent designated by the authority may collect, invest, and apply the amount payable under the loan agreements or any other instruments securing the debt obligations under the loan agreements.

c. That the bondholders or noteholders may enforce the remedies provided in the loan agreements or other instruments on their own behalf without the appointment or designation of a trustee. If there is a default in the principal of or interest on the bonds or notes or in the performance of any agreement contained in the loan agreements or other instruments, the payment or performance may be enforced in accordance with the loan agreement or other instrument.

d. Other terms and conditions as deemed necessary or appropriate by the authority.

5. The powers granted the authority under this section are in addition to other powers contained in this chapter. All other provisions of this chapter, except section 220.28, subsection 4, apply to bonds or notes issued and powers granted to the authority under this section except to the extent they are inconsistent with this section.

6. All bonds or notes issued by the authority in connection with the program are exempt from taxation by this state and the interest on the bonds or notes is exempt from state income tax.

Sec. 21. NEW SECTION. 220.132 SECURITY — RESERVE FUNDS — PLEDGES — NONLIABILITY — IRREVOCABLE CONTRACTS.

1. The authority may provide in the resolution, trust agreement, or other instrument authorizing the issuance of its bonds or notes pursuant to section 220.131 that the principal of, premium, and interest on the bonds or notes are payable from any of the following and may pledge the same to its bonds and notes:

a. The income and receipts or other money derived from the projects financed with the proceeds of the bonds or notes.

b. The income and receipts or other money derived from designated projects whether or not the projects are financed in whole or in part with the proceeds of the bonds or notes.

c. The amounts on deposit in the revolving loan fund.

d. The amounts payable to the department by municipalities pursuant to loan agreements with municipalities.

e. Any other funds or accounts established by the authority in connection with the program or the sale and issuance of its bonds or notes.

2. The authority may establish reserve funds, to secure one or more issues of its bonds or notes. The authority may deposit in a reserve fund established under this subsection the proceeds of the sale of its bonds or notes and other money which is made available from any other source.

3. It is the intention of the general assembly that a pledge made in respect of bonds or notes shall be valid and binding from the time the pledge is made, that the money or property so pledged and received after the pledge by the authority shall immediately be subject to the lien of the pledge without physical delivery or further act, and that the lien of the pledge shall be valid and binding as against all parties having claims of any kind in tort, contract, or otherwise against the authority whether or not the parties have notice of the lien. Neither the resolution, trust agreement, nor any other instrument by which a pledge is created needs to be recorded or filed under the Iowa uniform commercial code to be valid, binding, or effective against the parties.

4. Neither the members of the authority nor persons executing the bonds or notes are liable personally on the bonds or notes or are subject to personal liability or accountability by reason of the issuance of the bonds or notes.

5. The bonds or notes issued by the authority are not an indebtedness or other liability of the state or of a political subdivision of the state within the meaning of any constitutional or statutory debt limitations but are special obligations of the authority, and are payable solely from the income and receipts or other funds or property of the department, and the amounts on deposit in the revolving loan fund, and the amounts payable to the department under its loan agreements with the municipalities to the extent that the amounts are designated in the resolution, trust agreement, or other instrument of the authority authorizing the issuance of the bonds or notes as being available as security for such bonds or notes. The authority shall not pledge the faith or credit of the state or of a political subdivision of the state to the payment of any bonds or notes. The issuance of any bonds or notes by the authority does not directly, indirectly, or contingently obligate the state or a political subdivision of the state to apply money from, or levy or pledge any form of taxation whatever to the payment of the bonds or notes.

6. The state pledges to and agrees with the holders of bonds or notes issued under the Iowa sewage treatment works financing program, that the state will not limit or alter the rights and powers vested in the authority to fulfill the terms of a contract made by the authority with respect to the bonds or notes, or in any way impair the rights and remedies of the holders until the bonds or notes, together with the interest on them including interest on unpaid installments of interest, and all costs and expenses in connection with an action or proceeding by or on behalf of the holders, are fully met and discharged. The authority is authorized to include this pledge and agreement of the state, as it refers to holders of bonds or notes of the authority, in a contract with the holders.

Sec. 22. NEW SECTION. 220.133 ADOPTION OF RULES.

The authority shall adopt rules pursuant to chapter 17A to implement sections 220.131 and 220.132.

*Sec. 23. NEW SECTION. 220.134 COMMUNITY AND RURAL DEVELOPMENT LOAN PROGRAM.

*The authority may exercise all of its powers contained in this chapter, including but not limited to, the power to issue bonds and notes, to implement and carry out the purposes of the community and rural development loan program established pursuant to sections 15.281 through 15.288. The authority shall issue its bonds and notes for the loan program consistent with the loan program and shall provide that the bonds and notes shall be payable solely from moneys in the revolving fund established pursuant to section 15.287. The authority shall not issue more than fifteen million dollars in bonds or notes in any one calendar year.**

Sec. 24. Sections 1 through 7 and 9 of this Act are effective July 1, 1988.

Sec. 25. This Act, being deemed of immediate importance takes effect upon enactment.

Approved May 11, 1988, except the items which I hereby disapprove and which are designated as section 9; and section 23. My reasons for vetoing these items are delineated in the item veto message pertaining to this Act to the Secretary of State this same date, a copy of which is attached hereto.

TERRY E. BRANSTAD, Governor

*Item veto; see message at end of the Act

Dear Madam Secretary:

I hereby transmit Senate File 2092, an Act establishing a community and rural development loan program and a sewage treatment works financing program to assist communities in financing sewage treatment projects and in financing traditional and new infrastructure and housing for needy and elderly, authorizing the Iowa Finance Authority to issue bonds and notes for the program, and providing an appropriation from a revolving fund to be used for each program, and providing effective dates.

Senate File 2092, the so-called rural development financing bill contains many positive features which I am approving. Specifically, this bill would allow the Department of Economic Development to establish a low interest loan revolving fund to aid small communities in rural development projects. The Governor's Rural Development Task Force report of last summer indicated the need for the state to provide targeted financial assistance to small communities in the area of traditional infrastructure, new infrastructure, and housing. Clearly, the maintenance of sewers, water, road, bridges and airports is critical to the economic vitality of small communities. In addition, I understand the need for so-called new infrastructure services — communications systems, day care, and technology transfer — in order to support economic diversity in our smaller communities. And, in many small communities the availability of housing is a critical component of economic development efforts.

I believe state financial assistance to communities in these areas will do much to assist us to implement our rural development strategy.

However, Senate File 2092 also contains two fiscally unsound and unworkable provisions which are not approved.

I am unable to approve the item designated as Section 9 in its entirety.

This section of the bill diverts one and one-half cents of the state's cigarette tax to the community development revolving loan fund. Apparently, this \$4 million is to be used by the Iowa Finance Authority to back up to \$15 million worth of bonds to be issued per year for the purposes specified in the Act.

I cannot approve this item because it sets a bad precedent by diverting general fund dollars for debt service. While I understand that these funds will not be utilized unless the legislature does not make a specific appropriation to provide for the debt service, I believe this provision could put the state in a fiscal straitjacket by tying up portions of state general fund revenue sources to pay off bonds. It is fiscally unwise in the long term to be dedicating a portion of our general fund tax revenues for bonding.

The general fund is just now beginning to be restored to reasonable fiscal health and diverting significant revenue sources from the general fund into debt service would restrict the state's ability to respond to financial emergencies in the future and limit our ability to return the state to a sound fiscal condition.

Moreover, the use of general funds dollars for debt service raises serious constitutional questions, given the constitutional prohibition on state indebtedness.

I am unable to approve the section designated as Section 23 in its entirety.

This section of Senate File 2092 authorizes the Iowa Finance Authority to issue bonds to capitalize the community and rural development loan program. The Iowa Finance Authority is authorized to issue up to \$15 million of bonds under this provision in any one calendar year. This

provision is simply unworkable and could jeopardize the entire community and rural development loan program. It would put the state too far in debt at too high a cost.

First, sufficient funds are not provided to service up to \$15 million per year of debt. In fact, due to the fact that loans are required to be made from these funds at a zero to five percent interest rate, it is anticipated that up to \$14 million may have to be used over the life of each \$15 million bond issue just to buy-down the interest rate. And, it is anticipated that one-third to one-half of each year's available appropriations would have to be used to buy-down the interest rate to the five percent maximum allowed.

Secondly, this provision would put the state too far in debt. Indeed, each \$15 million of debt would require up to \$43 million worth of debt service. This could financially hamstring the state and prevent us from having the financial flexibility to react to changing needs in the future.

And finally, this item in Senate File 2092 does not put an overall limit on the amount of bonds that could be issued under this section. The \$15 million limit is for each calendar year. Conceivably IFA would be authorized to issue \$15 million each and every subsequent year. Clearly, if that were to be done, the one and one-half cent cigarette tax diversion which is to be used to service these bonds would be woefully inadequate. As a result, the state would be forced to dedicate a larger and larger portion of its cigarette tax revenues for debt service.

In short, I believe that the community and rural development loan program can work effectively to provide essential infrastructure and housing services to small communities through a zero to five percent revolving loan fund. This approach was successfully achieved in the community revolving loan program established in 1983. However, it is simply unworkable and fiscally unwise to require the authority to issue bonds to capitalize the fund. Moreover, given the dubious financial feasibility of these bonds the authority had not planned on making use of the bonding authority included in Senate File 2092 in the near term in any event.

For the above reasons, I hereby respectfully disapprove these items in accordance with Amendment 4 of the Amendments of 1968 to the Constitution of the State of Iowa. All other items in Senate File 2092 are hereby approved as of this date.

Sincerely,
TERRY E. BRANSTAD, *Governor*