Fiscal TOPICS

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Funding of the I-JOBS Initiative

During the 2009 and 2010 Legislative Sessions, the General Assembly and the Governor provided funding for the I-JOBS Initiative, as well as creating the I-JOBS Board and Program. The funding was provided over several fiscal years and from multiple funding sources. The total initiative is packaged as $875.0 million. That funding comes from the following different sources and legislation:

Funding	Source	Legislation
$695.0 million	Net proceeds from State issued revenue bonds	SF 376, 2009 Session SF 477, 2009 Session SF 2389, 2010 Session
$115.0 million	Net proceeds from Board of Regents academic revenue bonds	SF 474, 2009 Session
$49.45 million	Rebuild Iowa Infrastructure Fund	HF 822, 2009 Session (FY 2010 Infrastructure Appropriations Act)
$5.55 million	Federal Stimulus monies	HF 820, 2009 Session (FY 2010 Federal Funds Appropriations Act)
$10.0 million	Unobligated city Revitalize Iowa's Sound Economy (RISE) funds	Not in legislation
$875.0 million	**Total**	

Bonding Authorization

The key pieces of legislation that provided bonding authorization for the State and the Board of Regents bonds include:

- SF 376 (Revenue Bonding and I-JOBS Program Act) – provided authorization for the State's initial issuance of revenue bonds to provided net proceeds of $545.0 million.
- SF 2389 (FY 2011 Infrastructure Appropriations Act) – adjusted the bonds authorized in SF 477 (Phase III Bonding Act) by changing the designation from appropriations bonds to revenue bonds, increasing the amount of net proceeds from $105.0 million to $150.0 million, and increasing the total authorization for State bond issuances to $695.0 million in net proceeds.
- SF 474 (Regents Bonding Act) – provided authorization to the Board of Regents to issue academic revenue bonds for net proceeds of $115.0 million.

Total Debt: The total projected debt resulting from legislation providing bonding authorization related to I-JOBS is $1.69 billion and includes:

State Debt:

- *SF 376* – $1.13 billion. This includes principal of $601.1 million and interest of $532.0 million. The net proceeds to the State total $545.0 million. These revenue bonds were issued in July 2009 and are guaranteed by State wagering tax revenue.
- *SF 2389* – $303.9 million. This includes principal of $176.9 million and interest of $127.0 million. The net proceeds to the State total $150.0 million. These revenue bonds were issued in September 2010 and are guaranteed by State wagering tax revenue.

More Information:

SF 376 (NOBA): http://www3.legis.state.ia.us/noba/data/83_SF376_Final.pdf
SF2389 (NOBA): http://www3.legis.state.ia.us/noba/data/83_SF2389_Graybook.pdf
SF 474 (NOBA): http://www3.legis.state.ia.us/noba/data/83_SF474_Graybook.pdf

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Board of Regents Debt:

SF 474 – $253.9 million. This includes principal of $137.2 million and interest of $116.7 million. The net proceeds to the Board of Regents total $115.0 million. Board of Regents academic revenue bonds are guaranteed by student tuition and are not considered State debt. Note: This projected number is an update compared to what was included in the Legislative Services Agency's Notes on Bills and Amendments (NOBA) for SF 474 and what has been used publicly since that time. Additional interest ($1.4 million) from anticipation project notes was added to the calculations.

State Debt

Of the bonding authorized in the legislation, only the bonds authorized in SF 376 and SF 2389 are considered State debt. These are the 2009 and 2010 revenues bonds guaranteed by State wagering taxes, one of the State's revenue streams. The bonds are providing net proceeds to the State of $695.0 million. The proceeds are deposited in two funds, $545.0 million in the Revenue Bonds Capitals Fund (RBC) and $150.0 million in the Revenue Bonds Capitals II Fund (RBC2). Appropriations from the proceeds were made from the two funds in the same legislation.

The combined estimated debt, principal and interest, from the two issuances will be approximately $1.44 billion in outstanding State obligations. The 2009 bond issuance has debt service payments of $41.8 million and the interest rate was 4.31%. The bond issuance in 2010 has debt service payments of approximately $12.4 million debt service payment and interest rate of 3.96%. The combined annual debt service payment is approximately $54.2 million. The wagering tax allocation for debt service is $55.0 million. Any unneeded amount for debt service will transfer back to the Rebuild Iowa Infrastructure Fund (RIIF) after the payments are made.

Net Debt Service

The net debt service on the $1.44 billion in estimated outstanding obligations that the State is anticipating paying is approximately $1.23 billion. The State is expecting to utilize $118.0 million in federal subsidies on the Build America Bonds (BABs) issued as part of the 2009 issuance and debt service reserve accounts, estimated at $90.6 million, that are used at the end of the bond life to pay the last payments.

Under the federal American Recovery and Reinvestment Act (ARRA) of 2009, the BABs are taxable bonds that receive a federal subsidy of 35.0% of the interest payment so the borrowing costs were lower under BABs than regular tax-exempt bonds. The BABs have the same restrictions as tax-exempt bonds regarding use of the proceeds and may only be issued for the same purposes as tax-exempt bonds. The opportunity for issuing BABS was limited by the federal ARRA and was only available in 2009 and 2010. Of the $601.1 million in principal in the 2009 revenue bond issuance, $221.0 million came from the BABs.

This estimate for net debt service assumes the federal subsidies are received and the reserve accounts are not needed for any unforeseen adversity. If the federal subsidies are not received for any particular fiscal year or the reserve accounts are needed, the actual net debt service could be higher. During the 2010 Legislative Session, SF 2389 provided a mechanism to allow an additional $3.75 million of wagering tax revenue to transfer to a new Revenue Bonds Federal Subsidy Holdback Fund to ensure the debt service is covered in the event the federal subsidy for the BABs is not received.

Federal Subsidy Holdback Fund

The wagering tax allocation of $3.75 million occurs after the $55.0 million is allocated for debt service. The Treasurer of State must transfer the funds from the Federal Subsidy Holdback Fund to the RIIF before the end of each fiscal year, once the subsidy is received. If the subsidy is not received, the monies will be used to pay that portion of the debt service and will not transfer back to the RIIF, resulting in a decrease of revenue to the RIIF. The Legislative Services Agency will track the flow of funds and report the status of subsidies received, decreases to the RIIF, and whether or not the overall net debt service increased.

Wagering Tax Revenue Allocations and Decrease to the RIIF

The wagering tax revenue that will pay the debt service on the State bonds is paid by casinos on adjusted gross receipts. In accordance with Code Section 8.57(6), there are several allocations of the State's wagering taxes before the remainder deposits in the RIIF. After the changes enacted in the 2009 and 2010 Legislation Sessions, the Code Section 8.57(6) allocations of the State's wagering tax revenue include:

- $55.0 million for Revenue Bonds Debt Service
- $3.75 million to the Federal Subsidy Holdback Fund
- $15.0 million to the Vision Iowa Fund
- $5.0 million to the School Infrastructure Fund
- $66.0 million total to the General Fund
- ***Remainder*** to the Rebuild Iowa Infrastructure Fund

Wagering taxes provide most of the revenue for the RIIF. For FY 2012, wagering taxes will provide an estimated 79.4% of total RIIF revenues. Under the structure of the allocations in Code Section 8.57(6) the impact of the debt service from the 2009 and 2010 revenue bonds, approximately $54.2 million annually at its highest, is felt solely in the RIIF. The revenues to the RIIF will be reduced by the total amount needed for debt service for the life of the bonds, and any unneeded amounts from the $55.0 million will transfer back to the RIIF before the close of the fiscal year. As mentioned above, if the federal subsidy is not received in a fiscal year, the RIIF revenues will be further reduced by the $3.75 million used for debt service rather than transferred back to the RIIF.

Other Costs to the State - Regents Tuition Replacement Appropriation

The academic revenue bonds issued by the Board of Regents are guaranteed by student tuition and fees and are considered to be independent and not part of the State debt. However, the State regularly provides a subsidy to the Board of Regents and pays most of the debt service on the academic revenue bonds through the appropriation process.

The appropriation, known as the “tuition replacement appropriation,” has been provided for many years. The appropriation is not mandatory by statute, but the Board of Regents has previously indicated that without a tuition replacement appropriation, an aggregate increase of 5.0% in tuition across the universities would be required to pay the debt service. The General Assembly subsidizes the Board of Regents debt service for academic revenue bonds to keep tuition costs lower for students.

The Board of Regents decides when to issue the bonds, and usually does so as needed to provide for specific projects and to keep tuition replacement needs at stable levels. The tuition replacement appropriation provides most of the annual debt service, but a portion of the debt service is paid from reserve fund interest. For FY 2009 through FY 2011, the tuition replacement appropriation of $24.3 million to pay debt service on existing academic revenue bonds was made entirely from the RIIF. For the period FY 2006 through FY 2008, a portion of the tuition replacement was funded from the General Fund ($14.0 million) and a portion from the RIIF ($10.3 million). Until FY 2002, the tuition replacement appropriations were made solely from the General Fund.

When SF 474 was being considered, estimates indicated that the additional authorization for academic revenue bonds meant that the tuition replacement appropriation would increase beginning in FY 2013. Prior to the new authorization in SF 474, the existing tuition replacement need would have begun to decrease in FY 2015 and the bonds would have been paid completely by FY 2035. With the new bonding authorization in SF 474, the debt service will continue through FY 2040. The amount of annual tuition replacement needed with the existing authorizations and the additional authorization from SF 474 will be $29.3 million in FY 2013 and continue to increase until it reaches a high of $34.5 million in FY 2018 and then decrease slowly over the life of the bonds.

If the State continues to provide tuition replacement appropriations to subsidize debt service on academic revenue bonds, the total amount of costs to the State for tuition replacement specifically as a result of the 2009 bond authorization from SF 474 is estimated to be $253.7 million.

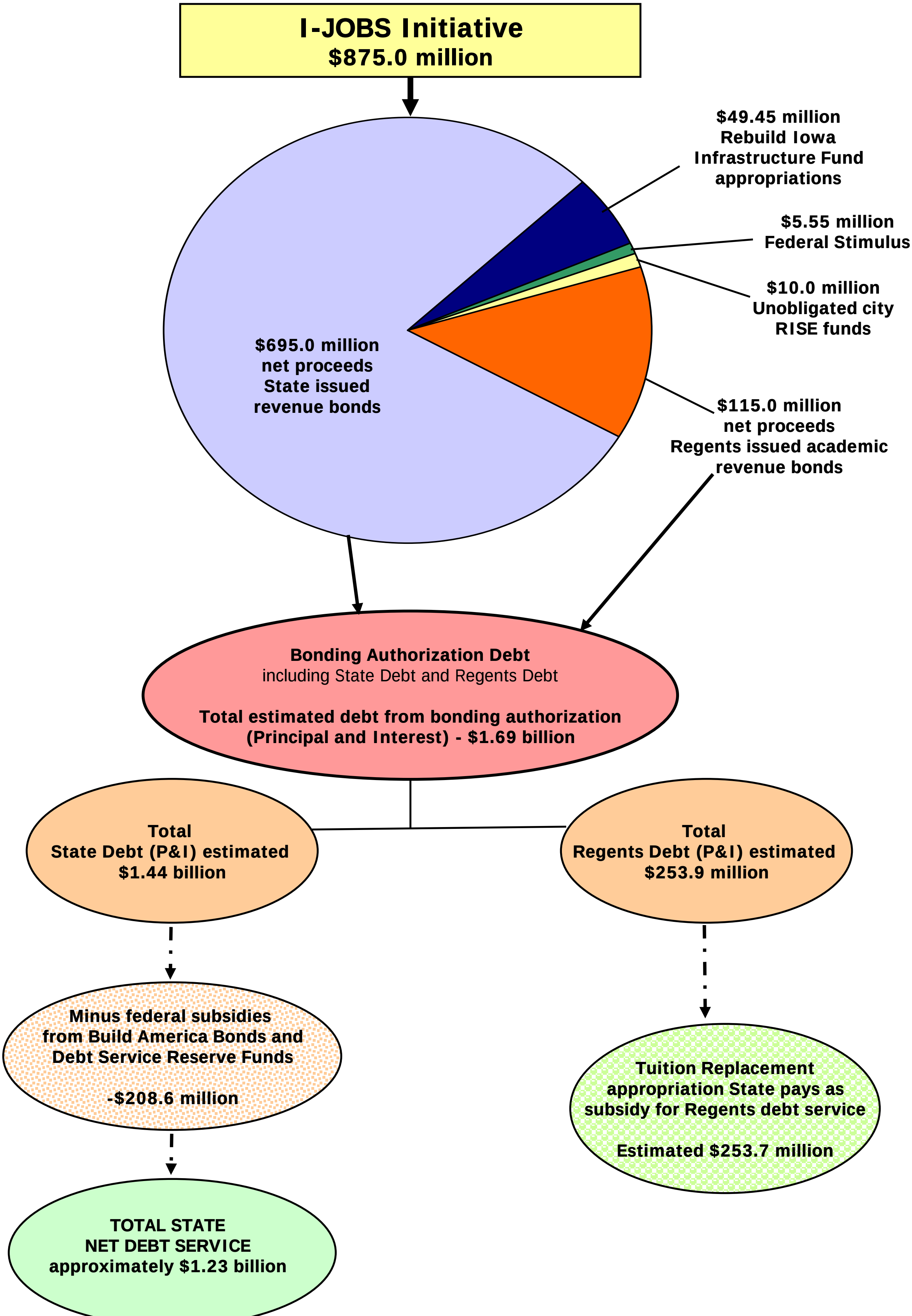
Other Costs to the State – Non-Bonded I-JOBS Funding

Of the $875.0 million of funding for I-JOBS, $55.0 million was provided by direct appropriations from the RIIF and available federal stimulus monies, totaling $49.45 million and $5.55 million, respectively. The appropriations from the RIIF included $10.0 million in regular multimodal transportation funding for the Department of Transportation, including funding for passenger rail, freight rail, recreational trails, public transit infrastructure, and general aviation infrastructure. All of these projects receive regular funding from the infrastructure budget, but for FY 2010 their funding is considered to be part of I-JOBS.

The direct appropriations provided $39.45 million from the RIIF and the $5.55 million from the federal stimulus monies for local road funding. The funding was divided evenly between cities and counties and deposited in their respective road funds to be used for local road maintenance. The cities and counties receive road funding from the State’s Road Use Tax Fund and the TIME-21 Fund, but only the $45.0 million from the combined RIIF and federal stimulus monies are considered I-JOBS funding.

A portion of the $875.0 million that was not a new cost or appropriation was the $10.0 million of unused RISE monies. The funds were available in the city share of the RISE funds and would have been allocated through the normal RISE grant process. The $10.0 million in projects was granted by the Transportation Commission as usual, but is considered to be part of the I-JOBS Initiative.

NOTE: See next page for funding flowchart.


I-JOBS Initiative
$875.0 million
$49.45 million Rebuild Iowa Infrastructure Fund appropriations
$5.55 million Federal Stimulus
$10.0 million Unobligated city RISE funds
$115.0 million net proceeds Regents issued academic revenue bonds
$695.0 million net proceeds State issued revenue bonds
Bonding Authorization Debt
including State Debt and Regents Debt
Total estimated debt from bonding authorization (Principal and Interest) - $1.69 billion
Total State Debt (P&I) estimated $1.44 billion
Total Regents Debt (P&I) estimated $253.9 million
Minus federal subsidies from Build America Bonds and Debt Service Reserve Funds
-$208.6 million
Tuition Replacement appropriation State pays as subsidy for Regents debt service
Estimated $253.7 million
TOTAL STATE NET DEBT SERVICE approximately $1.23 billion