OUTSTANDING OBLIGATIONS REPORT

STATE OF IOWA
SELECTED STATE OUTSTANDING OBLIGATIONS

FISCAL SERVICES DIVISION

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LSA
LEGISLATIVE SERVICES AGENCY
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EXECUTIVE SUMMARY

States issue bonds for a variety of purposes, including capital improvements, if annual tax revenues are not sufficient to support capital expenditures. Iowa has issued different types of revenue bonds to pay for a variety of programs and projects that the State otherwise would not have been able to fund within a given fiscal year.

This report provides information on selected outstanding obligations of the State. Most of the amounts listed for remaining obligations are as of June 30, 2013, but the discussion incorporates the defeasance of several revenue bonds in November 2013.[1] The outstanding obligations discussed in this report have been authorized by the General Assembly and the Governor, and are directly related to the amount of resources that the General Assembly has available to appropriate each year.[2] These outstanding obligations have specific revenue sources designated to pay the debt service. The debt service on most of the obligations discussed in the report is from revenue sources that would otherwise be available for appropriation by the General Assembly. These obligations may include revenue bonds, certificates of participation (COP), and capital leases and loans by State agencies.[3]

The report briefly reviews debt policy in general, recent legislation including the bond defeasance requirement from the 2013 Legislative Session, and then discusses and groups the remaining obligations as follows: 1) State-issued revenue bonds that have a direct impact on State revenues; and 2) selected other obligations that directly or indirectly affect what the State has to appropriate, such as the Board of Regents academic revenue bonds.

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[1] While this report reflects amounts as of June 30, 2013, the bonds that were defeased in November 2013 have been accounted for and discussed separately. The bonds in the November defeasance are the school infrastructure bonds, I-JOBS 2010 taxable series bonds, 2002 prison infrastructure bonds, and the Honey Creek Premier Destination Park bonds. Also, the amounts shown for the Board of Regents academic revenue bonds are as of October 2013 to incorporate the most recent bond issuance.

[2] This report references selected State obligations because it focuses on obligations that have an impact on what the General Assembly can appropriate. The Legislative Services Agency is often asked how this report compares to other reports on State obligations. Due to the specified focus of this report, it does not have an "apples to apples" approach with other obligation reports. For example, the Treasurer of State (TOS) publishes an annual Outstanding Obligations Report on the TOS website. The obligations reported include State agencies, State authorities, Board of Regents, cities, counties, school districts/area education agencies, community colleges, and other entities. The TOS report shows principal only. For purposes of comparing this report to the TOS report, this report shows primarily the obligations listed under State agencies, but not all of them. For example, this report includes the bonds issued by the Iowa Utilities Board for construction of the Iowa Utilities Board office building on the Capitol Complex in its discussion on selected other obligations, but not as part of the State-issued bonds, because the debt service is being paid by utility fees and not from revenue directed by the General Assembly. Also, this report discusses both principal and interest owed on remaining obligations. Another report that is often cited is the annual Moody's State Debt Medians Report. The Moody's report generally follows the State agencies category in the TOS Report for its discussion on the net tax -supported debt for the State. Again, the amount reported reflects only the principal owed on the obligations. In addition, the Department of Administrative Services annually provides the Iowa Comprehensive Annual Financial Report (CAFR). The CAFR, like the TOS report, includes discussion on obligations by all types of political subdivisions of the State, including counties, cities, Board of Regents, etc. Therefore, the CAFR is much broader in scope than this report. The CAFR, however, does discuss both principal and interest owed on obligations, so any discussion about the bonds that are referenced in this report (the revenue bonds such as Vision Iowa, etc.) will have numbers in common with the CAFR.

[3] The State of Iowa has created numerous authorities that are authorized to issue self-supporting debt for the purposes of implementing specific programs to benefit the public. This report does not include all of the outstanding obligations from these authorities, specifically, if the revenue source to pay the obligations is an independent source, not a liability to the State, and the authority does not receive assistance for the debt service from the State.

DEBT POLICY IN GENERAL

A governmental entity has several choices of securities, including but not limited to general obligation bonds, revenue bonds, and COPs. General obligation (GO) bonds require an obligation by the governmental unit to pay the debt service from taxes and other resources, therefore they are backed by the State's full faith and credit. The Iowa Constitution prohibits the State from exceeding a maximum of $250,000 in general obligation debt without voter approval.[4] The State does not have any outstanding GO bonds.

Outstanding obligations of the State are typically in the form of revenue bonds. Debt service on revenue bonds is paid from dedicated revenue sources and does not constitute indebtedness against the State.[5] In most cases, the debt service on the revenue bonds is paid from dedicated revenue sources that would otherwise be available for appropriation by the General Assembly. The debt service on capital leases and COPs is typically paid from funds appropriated for the operation of various State agencies.

Revenue bonds may be issued with a moral obligation that includes a pledge from the Governor to request money in his annual budget to repay the debt service, if the State is unable to make its payments from the specified revenue sources. While this obligation is not legally binding,[6] it can effectively act as binding because if the State is unable to pay its debt service it may have a negative effect on the State's bond ratings and credit quality. As of November 2013, the State has moral obligations for outstanding revenue bonds, including the Vision Iowa bonds, 2010 prison construction bonds, I-JOBS revenue bonds from 2009 and 2010 issuances, and the Iowa Utilities Board building bonds.

In addition, bond indentures may have specific terms and requirements structured in the agreements that can affect the flexibility the issuer has within the specific capital project. For example, the specifications of the State commitment to build the Honey Creek Resort were reflected in the indenture. If the issuer was unable to complete the requirements in accordance with the specific terms of the bond agreement, the issuer may be considered noncompliant and in default, having a similarly negative effect on the issuer's bond ratings and credit quality.

Generally, the State has issued revenue bonds that are tax-exempt.[7] Tax-exempt bond proceeds are restricted by federal law and regulations and must be used for capital projects that include depreciable assets with relatively long useful lives.[8] The projects must be for a governmental public purpose and

[4] Iowa Const., art. VII, §§ 2 and 5.

[5] There are several cases from the Iowa Supreme Court that address this issue. For example, in Farrell v. State Board of Regents, the Iowa Supreme Court found that revenue bonds do not constitute a State or municipal debt in violation of the debt limitations of the Iowa Constitution because the State General Fund was not obligated. *See* Farrell v. State Board of Regents, 179 N.W.2d 533, 542-545 (Iowa 1970).

[6] In John R. Grubb, Inc. v. Iowa Housing Finance Authority, the Iowa Supreme Court found that a moral obligation is not equivalent to a pledge of the State's credit, and that mandatory language creating a legal obligation would be necessary. *See* John R. Grubb, Inc. v. Iowa Housing Finance Authority, 255 N.W.2d 89 (Iowa 1977).

[7] 26 U.S.C. § 103 (2006).

[8] For useful lives calculation, the weighted average maturity of the bonds in a particular issuance may not exceed the average useful lives of the bond-financed assets by more than 20.0%.

must be completed within a specified time so that the bond proceeds are spent in the timeframe that is on the tax certificate filed with the federal government.[9]

Constitutional Debt

It is important to note that any use of the term "debt" in this report is solely to convey the meaning of principal and interest owed on outstanding State obligations. The Iowa Supreme Court held that "debt" in the context of Article VII, Sec. 5, of the Iowa Constitution arises only where the state itself is under a legally enforceable obligation.[10] The Court stated that "debt" when used in the constitutional sense, is given a meaning much less broad and comprehensive than it bears in general use.[11] In general, the legally enforceable obligation that is needed for constitutional debt is one where the bonds are backed by the full faith and credit of the State. Iowa does not have any outstanding bonds that are backed by the State's full faith and credit (i.e. no GO bonds), so the State does not have any constitutional debt.

Limited Special Obligations

The revenue bonds the State has issued are considered limited special obligations. These limited special obligations are not backed by the State's full faith and credit, but they are secured by a pledge of specified revenues. In these limited special obligations, the bondholder takes the risk that the revenue source will remain viable for the life of the obligation. The State is not liable to pay the obligations from the General Fund or by any other use of its full faith and credit should the specified pledged revenue source become insufficient.

In practice, however, it is likely the State will want to maintain its credit rating and credit worthiness so the State might continue to ensure that the debt service on limited special obligations is paid by another specified revenue source if the initial one is insufficient, even though the obligation is not an indebtedness of the State. Any decision to use another specified revenue source, should the need arise, would be made by the General Assembly.

2013 LEGISLATIVE SESSION – BOND DEFEASANCE

During the 2013 Legislative Session, the General Assembly approved HF 648 (Bond Repayment and Supplemental Appropriations Act) that provided for defeasance of several revenue bonds, including the school infrastructure bonds, I-JOBS 2010 taxable bonds, 2002 prison infrastructure bonds, and the Honey Creek Premier Destination Park bonds. For FY 2014, the Act transferred $116.1 million to a new State Bond Repayment Fund, established in Iowa Code section 8.57F, from excess funds remaining after the Economic Emergency Fund reached its maximum balance and the first $60.0 million has been transferred to the Taxpayers Trust Fund.

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[9] 26 U.S.C. § 149 (2006).
[10] John R. Grubb Inc. v. Iowa Housing Finance Authority, 255 N.W.2d 89, 97 (Iowa 1977).
[11] Hubbell v. Herring, 249 N.W. 430, 434 (Iowa 1933).

Bond Defeasance

In order to pay off the bonds (i.e. take them off the books) before the redeemable date, the State must set up a defeasance escrow account to pay the scheduled debt service, principal and interest, plus any outstanding principal as of the call date. In the case of the bonds without call provisions, the full amount of principal and interest due until maturity is needed. Funds are deposited in an irrevocable escrow account that an escrow agent verifies has enough money set aside to pay the debt service. Two of the bond issuances slated for defeasance were callable, the I-JOBS 2010 taxable revenue bonds and the Honey Creek bonds, while the 2002 prison infrastructure bonds and the school infrastructure bonds were not callable.

In November 2013, a cash defeasance was provided for the Honey Creek bonds, school infrastructure bonds, and 2002 prison infrastructure bonds. The funds needed were deposited into escrow accounts to pay the amounts through the call date for the Honey Creek bonds and through maturity for the prison infrastructure and school infrastructure bonds.[12] The defeasance for these bonds was completed on November 25, 2013. The I-JOBS 2010 taxable revenue bonds were eligible for redemption with a make-whole provision[13], and were redeemed on November 15, 2013.

Actual Costs of Defeasance

The actual amount needed for escrow accounts and redemption depend on market rates, and in order to ensure sufficient funds were provided, the amount deposited in the State Bond Repayment Fund per HF 648 did not reflect additional payments on debt service made during the fiscal year, nor the release of the debt service reserve funds. The final costs of defeasance totaled approximately $99.1 million, and $87.3 million of the total was provided from the State Bond Repayment Fund.[14] **Table 1** shows the remaining bond balances and the actual costs of defeasance and redemption.

Table 1
Bond Defeasance per 2013 Legislation
November 2013
Dollars in Millions

Revenue Bonds	Principal	Interest	Total Remaining Debt Service as of June 30, 2013	Total Cost for Defeasance	Funds from Debt Service Reserve Funds	Funds from State Bond Repayment Fund
Honey Creek Resort Bonds	$ 32.0	$ 20.7	$ 52.7	$ 35.8	$ 2.3	$ 33.5
Prison Infrastructure 2002 Bonds	16.2	1.5	17.7	17.6	4.5	13.1
School Infrastructure Bonds	18.9	2.7	21.6	20.5	2.7	17.8
I-JOBS 2010 Taxable Revenue Bonds	22.7	6.8	29.5	25.2	2.3	22.9
Total Revenue Bonds	**$ 89.8**	**$ 31.7**	**$ 121.5**	**$ 99.1**	**$ 11.8**	**$ 87.3**

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[12] The Honey Creek bonds are callable on June 1, 2016 and the maturity dates for the 2002 prison infrastructure and school infrastructure bonds are 2016 and 2021, respectively.

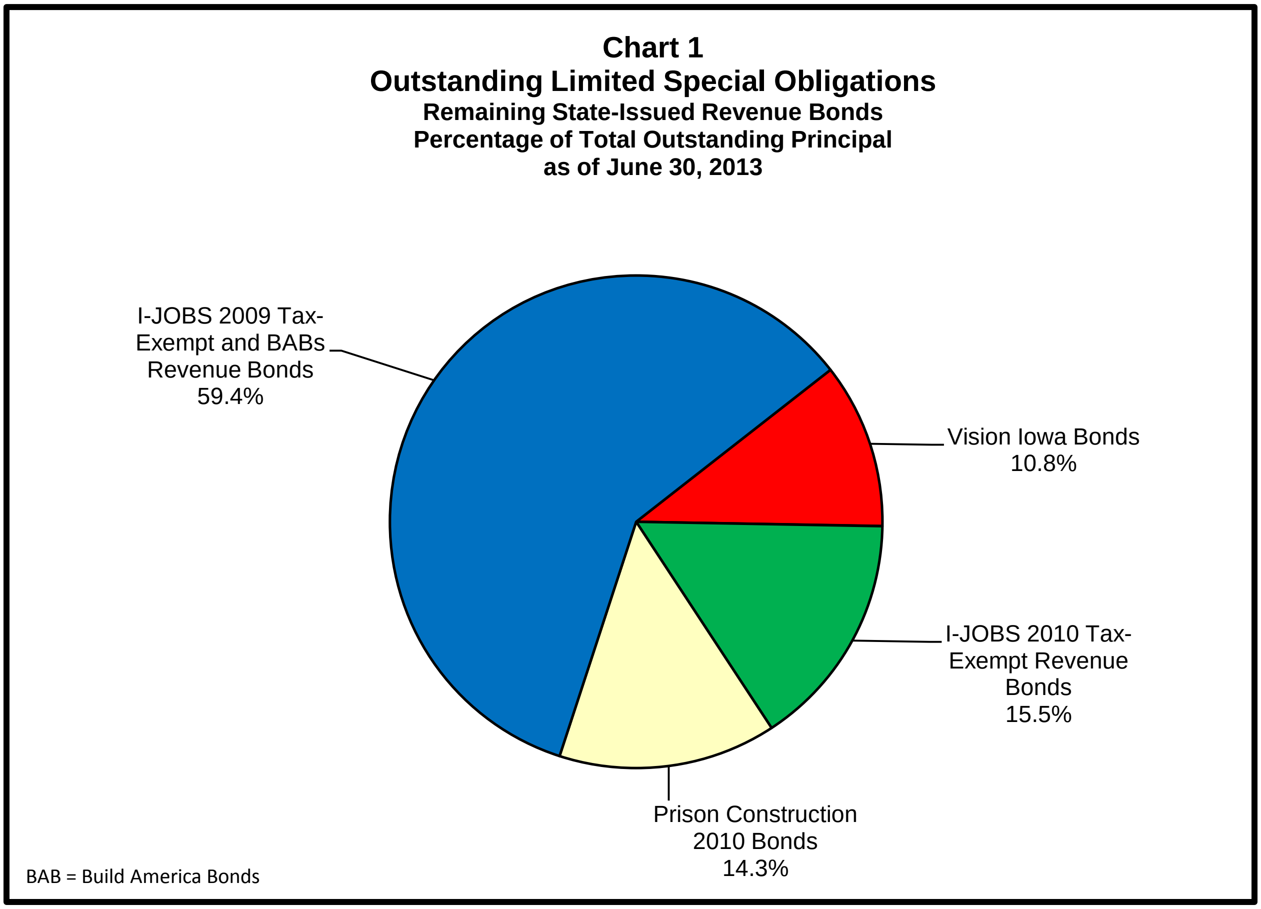
[13] A make whole call premium is a lump sum payment derived from a formula based on the net present value of future coupon payments that will not be paid because of the redemption.

[14] The unused portion of the appropriation, $28.8 million, remains in the State Bond Repayment Fund. Due to the language in Iowa Code section 8.57F that notwithstands Iowa Code section 8.33, legislative action may be required to transfer the remaining funds to the original appropriating source or to the General Fund.

STATE-ISSUED REVENUE BONDS

Summary

As of June 30, 2013, the total outstanding principal on the remaining State issued revenue bonds was $939.4 million.[15] **Chart 1** shows the percentage distribution of debt burden for remaining State-issued revenue bonds, reflecting outstanding principal.



Based on the current debt service schedules, the total amount of interest to be paid on this debt will be $621.2 million. Therefore, the total amount of remaining debt service is $1.561 billion. **Table 2** shows the total amount of principal and interest remaining on the obligations.

[15] As mentioned in the Executive Summary, the bonds that were defeased and redeemed in November 2013 are not included in this amount.

Table 2
Total Debt Service
Remaining Outstanding Selected State Obligations as of June 30, 2013
Dollars in Millions

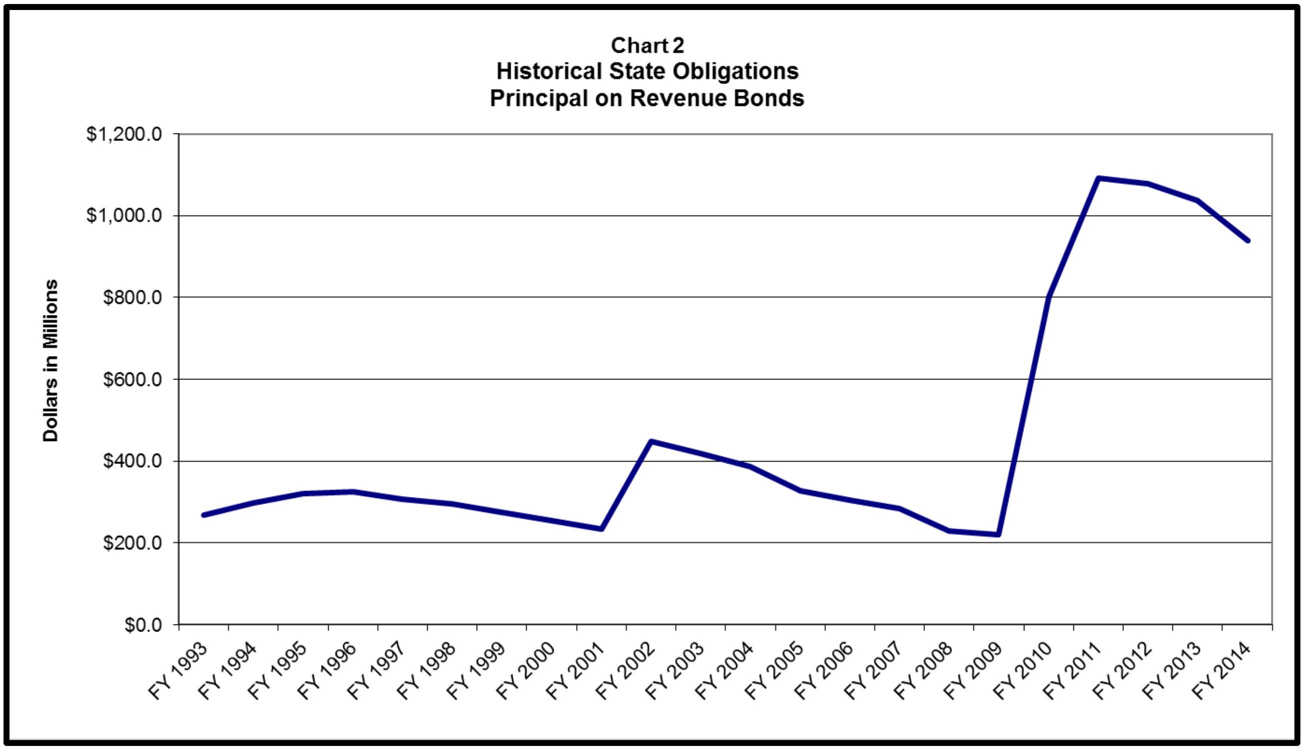
	Principal	Total Interest	Remaining Debt Service
Vision Iowa Bonds	$ 101.8	$ 25.8	$ 127.6
Prison Construction Bonds 2010	134.2	57.0	191.2
I-JOBS 2009 Revenue Bonds Tax-Exempt and BABs	558.1	429.4	987.5
I-JOBS 2010 Revenue Bonds Tax-Exempt	145.3	109.0	254.3
Total Revenue Bonds	**$ 939.4**	**$ 621.2**	**$ 1,560.6**

The total amount of interest paid on the debt service may be lower; however, due to the use of the debt service reserve funds to make final payments on the debt service (for example Vision Iowa bonds have a final payment by the reserve fund of $15.7 million). Also, the federal subsidies expected on the Build America Bonds (BABs)[16] in the 2009 revenue bond issuance reduce the total amount of interest for those bonds. If federal subsidies are not received for any particular fiscal year or the reserve funds are needed before the end of the bond life, the actual net debt service could be higher. Also, during the course of the bond payments, if interest earned on the debt service reserve funds is not as high as anticipated at the time of the bond issuance, net debt service could be higher.

Chart 2 shows historical levels of State-issued obligations on revenue bonds reflecting principal only.[17] Outstanding principal increased 398.3% when comparing FY 2011 to FY 2009, the highest and lowest points, respectively. Most of the increase is due to the revenue bonds authorized in the 2009 and 2010 Legislative Sessions, in addition to the 2010 prison construction bonds that were issued.

[16] Under the federal American Recovery and Reinvestment Act of 2009, the BABs are taxable bonds that receive a federal subsidy of 35.00% of the interest payment so the borrowing costs may be lower under BABs than regular tax-exempt bonds. If the bonds are more cost effective and beneficial to the State, the BABs may be issued. The BABs have the same restrictions as tax-exempt bonds regarding use of the proceeds and may only be issued for the same types of purposes as tax-exempt bonds.

[17] For the FY 2014 amount, the principal on the bonds that were defeased and redeemed in November 2013 is not reflected, and solely the principal on remaining State obligations is shown.



Annual Debt Service Payments

In FY 2014, the State will pay an estimated $74.7 million in net debt service for the revenue bonds issued by the State. Of that amount, $67.2 million, or 90.0%, of the debt service on the State-issued revenue bonds will be paid by wagering tax revenues.[18] **Table 3** shows the annual debt service payments and the repayment source for the selected revenue bonds for estimated FY 2014.

[18] The $67.2 million reflects only $15.0 million of the $15.9 million for the Vision Iowa bond debt service because the wagering tax allocation is only $15.0 million. The additional amount for the debt service comes from interest earned on the Vision Iowa Fund. In addition, the anticipated federal subsidy on the BABs has been calculated in, reducing the estimated amount of wagering taxes needed.

Table 3
State Issued Revenue Bonds
Annual Debt Service - FY 2014
Dollars in Millions

	Debt Service	Repayment Source
Vision Iowa Bonds	$ 16.0	Wagering taxes
Prison Construction Bonds 2010	6.5	Judicial revenue
I-JOBS 2009 Revenue Bonds Tax-Exempt and BABs	42.2	Wagering taxes
I-JOBS 2010 Revenue Bonds Tax-Exempt	10.0	Wagering taxes
Total Debt Service - Revenue Bonds	**$ 74.7**	

Due to the structure of the wagering tax allocations in Iowa Code section 8.57(5), the impact of the 90.0% of the debt service paid by wagering taxes for the existing revenue bonds is to the RIIF. The impact of the remaining debt service paid by judicial revenue (court fines and fees) is to the General Fund because the judicial revenue that deposits in the General Fund is reduced by the amount of the debt service. The transfer from the designated judicial revenue to the Prison Infrastructure Fund to pay the debt service, in accordance with Iowa Code section 602.8108A, occurs before the remaining amount of judicial revenue deposits in the General Fund.

I-JOBS 2009 and 2010 Revenue Bonds

During the 2009 and 2010 Legislative Sessions, the General Assembly enacted several bills providing authorization for new bond issuances.

- In the 2009 Legislative Session, SF 376 (Revenue Bonding and I-JOBS Program Act) provided for the issuance of revenue bonds in July 2009 for net proceeds of $545.0 million. In July 2009, the Treasurer of State issued the bonds in accordance with SF 376.
- In SF 2389 (FY 2011 Infrastructure Appropriations Act), the 2010 General Assembly authorized a bond issuance that provided $150.0 million in net proceeds. In October 2010, the Treasurer of State issued the bonds in accordance with SF 2389.
- The proceeds were 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 that created the funds and authorized the issuances.

Principal was $601.1 million on the 2009 bond issuance and $176.9 million on the 2010 bond issuance. From the two issuances, the combined principal and interest totaled approximately $1.437 billion in outstanding State obligations. The total net debt service on the $1.437 billion is approximately $1.228 billion. The State intends to utilize $118.0 million in federal subsidies on the BABs issued as part of the 2009 issuance and debt service reserve funds, estimated at $90.6 million, to pay the last payments at the end of the bond life. The 2009 bond issuance had debt service payments of $41.8 million and the interest rate was 4.31%. The bond issuance from 2010 had debt service payments of approximately $12.4 million and an interest rate of 3.96%. The combined annual debt service payment was approximately $54.2 million. The wagering tax allocation for the 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.

The $695.0 million in net proceeds funded capital projects around the State via appropriations from the Revenue Bonds Capitals Fund (RBC) and the Revenue Bonds Capitals II Fund (RBC2). Of the $695.0 million, $118.5 million was allocated through a competitive grant program for local infrastructure and $30.0 million was allocated for disaster prevention local infrastructure grants; both administered by the I-JOBS Board. Approximately $77.4 million was appropriated to specified targeted disaster and flood rebuilding and mitigation projects. The remaining $469.1 million was appropriated to various projects through State agencies, including:

- Prison construction at the Iowa Correctional Institution for Women (Mitchellville)
- Sewer infrastructure grants
- Public service shelter grants
- The Iowa Energy Center
- Bridge safety projects
- Main Street improvement grants
- Community Attraction and Tourism grants
- Small business centers
- State park infrastructure improvements

After the defeasance of the I-JOBS 2010 taxable series bonds, the remaining outstanding principal on the 2009 tax-exempt and BABs and 2010 tax-exempt bonds is approximately $703.4 million in FY 2014. Future estimated annual debt service remains approximately $51.9 million paid by the State wagering tax allocation until FY 2034.[19] Subsequently, a debt service payment of $10.2 million will continue until FY 2038. In FY 2038, the final bond payment made from the release of the debt service reserve funds will complete the last of the debt service on these revenue bonds. After the bond repayments are completed, the wagering tax previously designated for the debt service will deposit in the RIIF.

Vision Iowa Bonds

The Vision Iowa Program was created to provide State financial assistance in the form of grants, loans, forgivable loans, and loan guarantees to communities for the development and construction of major tourism projects. Recipients of the Vision Iowa grants included Burlington, Clinton, Council Bluffs, Davenport, Des Moines, Dubuque, Ottumwa, Mason City, Sioux City, Storm Lake, and Waterloo/Cedar Falls. In FY 2002, the Vision Iowa Board issued bonds totaling $196.4 million in principal to fund the

[19] For FY 2014, the amount paid by the State is increased by approximately $376,000 due to the impact of federal sequestration on the BABs and the amount of the subsidy anticipated by the State for FY 2014 is reduced by that amount.

Program. The debt service on the bonds is paid from the State wagering taxes deposited in the Vision Iowa Fund, as well as Program loan repayments, and interest earnings on the Fund. For FY 2012, the debt service on the Vision Iowa Bonds is approximately $15.9 million. As of June 30, 2013, the total outstanding principal of the Vision Iowa Bonds is $101.8 million. The final payment on the bonds will be made in FY 2021 from the release of the debt service reserve fund. After the bonds are paid off, the $15.0 million wagering tax allocation that had been designated for the Vision Iowa debt service will deposit in the RIIF.

Prison Construction Bonds

During the 2008 Legislative Session, SF 2432 (FY 2009 Infrastructure Appropriations Act) authorized the Treasurer of State to issue tax-exempt bonds for prison construction projects, specifically the new Iowa State Penitentiary at Fort Madison. The Act created a Prison Bonding Fund to receive the net proceeds of $130.7 million from the bond issuance. A $6.7 million anticipation note was issued in 2009, with the larger bond issuance completed in July 2010. Total principal on the new bonds at the time of the issuance was $135.5 million, while the existing 2002 prison infrastructure bonds (now defeased) had a principal of $42.0 million remaining. As of June 30, 2013, the remaining principal on the 2010 prison construction bonds is $134.2 million.

The bond issuance was structured so that annual debt service to pay both the 2002 and 2010 prison bonds will remain at a fixed rate of approximately $14.9 million per year from FY 2011 through FY 2027. With the defeasance of the 2002 prison infrastructure bonds, the debt service on the 2010 prison construction bonds will be $6.5 million in FY 2013, $8.7 million in FY 2015, $11.9 million in FY 2016, and then reach the level of $14.9 million until completion of the payments. Debt service is paid from the Prison Infrastructure Fund in accordance with Iowa Code section 602.8108A. Beginning in FY 2011, an estimated additional $5.5 million (for a total of $15.0 million) began transferring from the Judicial Branch revenue to the Prison Infrastructure Fund to ensure debt service payments and coverage for the rating agency. Any remaining funds transfer to the General Fund. In December 2013, the Revenue Estimating Conference estimated the Judicial Branch revenue depositing in the General Fund will be $102.6 million in both FY 2014 and FY 2015.

WAGERING TAXES AND DEBT SERVICE

Wagering tax revenue is paid by casinos on adjusted gross receipts. In accordance with Iowa Code section 8.57(5), there are several allocations of State wagering taxes before the remainder deposits in the RIIF. The allocations have changed several times to adjust for new revenue bonds issued. In the 2000 Legislative Session, the General Assembly allocated $20.0 million in wagering tax revenue to pay the debt service payments on revenue bonds issued for the Vision Iowa and School Infrastructure Programs. Beginning in FY 2011, SF 376 allocated $55.0 million to pay for the debt service on the revenue bonds that were authorized for the 2009 and 2010 issuances. 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 Revenue Bonds Federal Subsidy Holdback Fund[20] to ensure the debt service is covered in the event the federal subsidy for the BABs is not received. 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.

After the changes enacted in the recent Legislative Sessions, the Iowa Code section 8.57(5) allocations of State wagering tax revenue include:

- $55.0 million for 2009 and 2010 revenue bonds debt service
- $3.75 million to the Federal Subsidy Holdback Fund
- $15.0 million to the Vision Iowa bonds debt service
- $5.0 million to the School Infrastructure bonds debt service[21]
- $66.0 million total to the Iowa Skilled Worker and Job Creation Fund[22]
- ***Remainder*** to the Rebuild Iowa Infrastructure Fund (RIIF)[23]

For FY 2014, the total amount of wagering taxes and related license fees estimated for the State is $286.8 million. Of that amount, $78.8 million, or 27.5%, is allocated for debt service on State-issued revenue bonds, but not all will be needed and will transfer to the RIIF. Per statute, any unneeded debt service funds related to the 2009 and 2010 revenue bonds and the federal subsidy holdback fund will transfer back to the RIIF before the close of the fiscal year. The same occurred for the school infrastructure bonds after a legislative change in the 2011 Legislative Session, but with the defeasance of the bonds, the entire $5.0 million begins to deposit in the RIIF in FY 2015.

OTHER SELECTED OBLIGATIONS – DIRECT OR INDIRECT STATE IMPACT

Other obligations that affect either what the State has to appropriate or the operating budgets of State agencies are discussed below. **Table 4** shows the total amount of principal and interest remaining on the obligations.

[20] Iowa Code § 12.89A.
[21] Although the school infrastructure bonds are defeased, the wagering tax allocation will continue at least for the current fiscal year. It is anticipated that a statutory change is needed to remove the obsolete allocation. Beginning in FY 2015, all of the funds allocated to pay the debt service for school infrastructure bonds will transfer back to the RIIF.
[22] House File 638, enacted during the 2013 Legislative Session, created the new fund and altered the wagering tax allocations. The entire $66.0 million that had been depositing in the General Fund was directed to the new Iowa Skilled Worker and Job Creation Fund. See 2013 Iowa Acts, ch. 142, § 30.
[23] Amount changes depending on annual wagering tax receipts.

Table 4
Total Debt Service
Selected Other Obligations - Direct or Indirect State Impact
Dollars in Millions

	Principal	Total Interest	Remaining Debt Service
Board of Regents - Academic Revenue Bonds	$ 350.6	$ 164.4	$ 515.0
Iowa Utilities Board - Revenue Bonds	11.5	5.5	17.0
State Agencies - Capital Leases	2.0	0.2	2.2
DNR Loans (Wastewater Projects)	1.8	0.3	2.1
Lottery Authority - Revenue Bonds	1.0	0.1	1.1
Total Revenue Bonds	**$ 366.9**	**$ 170.5**	**$ 537.4**

Table 5 shows the estimated annual debt service for other selected obligations. The types of obligations and impact are discussed in more detail below.

Table 5
Selected Other Obligations - Direct or Indirect State Impact
Annual Debt Service - FY 2014
Dollars in Millions

	FY 2014
Board of Regents - Academic Revenue Bonds	$ 30.5
Iowa Utilities Board - Revenue Bonds	1.1
State Agencies - Capital Leases	0.8
Dept of Natural Resources Loans (Wastewater Projects)	0.3
Lottery Authority - Revenue Bonds	0.1
Total Debt Service - Selected Other Obligations	**$ 32.8**

Board of Regents Academic Revenue Bonds and Debt Service

General Assembly Authorization

During the 1969 Legislative Session, the 63rd Assembly enacted SF 537 (Regents Long-Range Building Plan Act), now codified in Iowa Code chapter 262A, authorizing the sale of academic revenue bonds for capital projects related to academic and administrative buildings and facilities at the State universities. The first academic revenue bonds were issued in 1970 and provided the primary source of funds for construction of academic facilities at the universities for several decades. The academic revenue bonds issued by the Board of Regents are secured by student tuition and fees and are considered independent and not part of State obligations. Recent authorizations for the Board of Regents to issue academic revenue bonds for construction, reconstruction, and renovation of facilities at the three State universities were enacted during the 2004, 2007, and 2009 Legislative Sessions. The total amount authorized was $120.0 million,[24] $131.4 million,[25] and $115.0 million,[26] respectively. As of October 2013, three issuances under the 2009 authorization have occurred. In addition, $13.0 million from the 2007 authorization, now slated for the University of Iowa flood recovery, remains to be issued. Authorizations were provided for various building construction, renovations, and improvements to academic facilities at the three universities.

Tuition Replacement Appropriation

The State regularly provides an appropriation to the Board of Regents and pays most of the debt service on the academic revenue bonds through the appropriation process and has done so for decades. The appropriation is not mandatory by statute, but the Board of Regents has previously indicated that without an appropriation (referred to as the tuition replacement appropriation), an aggregate increase of approximately 5.0% in tuition across the universities would be required to pay the debt service. The General Assembly provides the appropriation to keep tuition costs lower for students. The tuition replacement appropriation provides most of the annual debt service, but a portion of the debt service is paid from interest earned on the debt reserve funds for those bonds.

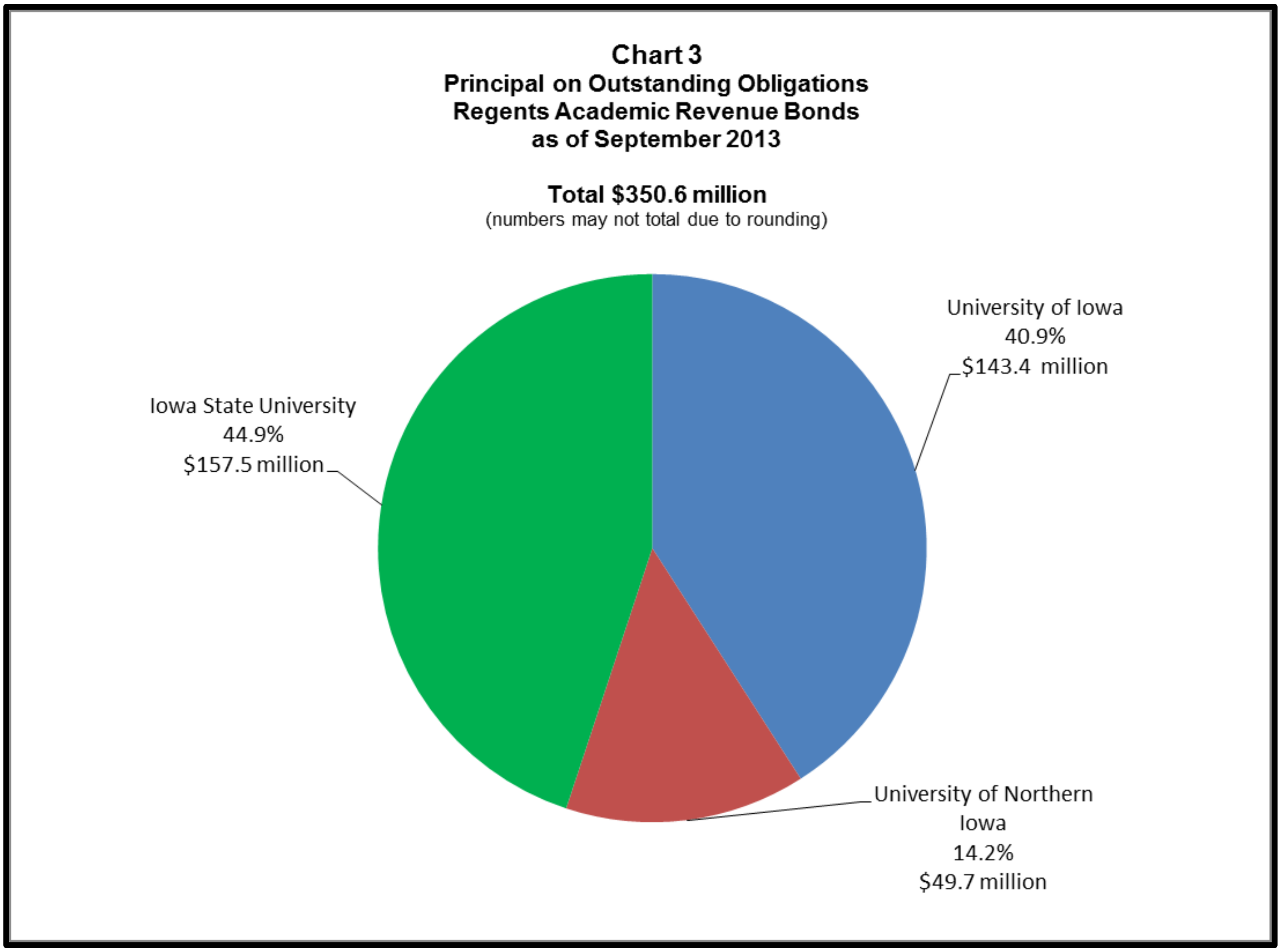
Until FY 2002, the tuition replacement appropriation was made solely from the General Fund. Then, after FY 2002, a portion was funded from the General Fund and from the infrastructure-related funds such as the RIIF and the Restricted Capital Fund (RCF). Beginning in FY 2009, the entire appropriation was made from the RIIF. The level of funding remained the same for many years, but beginning in FY 2013, the amount increased to $25.1 million due to the additional academic revenue bonds issued in accordance with the authorization provided in SF 474 (Regents Bonding Act) enacted during the 2009 Legislative Session. For FY 2014, the Regents were appropriated $27.9 million for Tuition Replacement, which will be used to fund a portion of the $30.5 million debt service payment. The remaining $2.6 million will be funded from the debt service reserve interest.

Status of Academic Revenue Bond Issuances

Once authorization is provided by the General Assembly, the Board of Regents decides when to issue the bonds, and usually does so as needed to provide for specific capital projects and to keep tuition replacement appropriation needs at relatively stable levels. Typically, the Board issues bonds in issuances of approximately $25.0 to $30.0 million, so it may take several years for all of the issuances to be completed. As of October 2013, the total outstanding principal of the academic revenue bonds is $350.6 million. The last bond payment is scheduled to be made by the end of FY 2036.

Chart 3 shows the percentage distribution of principal owed on existing academic revenue bonds issued by the three different universities.

[24] 2004 Iowa Acts, ch. 1175, § 277.
[25] 2007 Iowa Acts, ch. 205.
[26] 2009 Iowa Acts, ch. 101.



Lottery Authority

During the 2003 Legislative Session, the General Assembly approved SF 453 (Reinvention of Government Act) establishing the Iowa Lottery Authority as an independent authority within the Executive Branch. The Iowa Lottery Authority is a public enterprise based on a corporate model. Iowa Code chapter 99G requires the Lottery Authority to be self-sustaining and self-funded. In addition, net proceeds from lottery sales are transferred to the General Fund.[27] In 2004, the Lottery Authority issued $8.8 million in revenue bonds for the purchase and installation of lottery ticket vending machines and for the purchase and renovation of the Lottery headquarters building. Total debt service at the time of issuance was estimated at $9.9 million. The bonds are repaid by lottery revenue, thus reducing the amount of lottery proceeds depositing to the General Fund by the amount of the annual debt service. For FY 2014, the debt service is approximately $133,000. The final debt service payment is expected at the end of FY 2019.

[27] Iowa Code §§ 99G.7 and 99G.40.

State Agencies Capital Leases and Loans

State agencies have the authority to enter lease purchase agreements for the purchase of public property. Lease purchases generally constitute shorter-term debt (three to 10 years) than bonds. The agreements are primarily used by State agencies for the purchase of equipment or facility improvements. The debt service payments are paid from agency operating appropriations. Iowa Code section 12.28 gives the Treasurer of State the authority to enter lease purchase agreements on behalf of State agencies. Iowa Code section 8.46 requires the agencies to notify the Legislative Services Agency at least 30 days prior to entering any lease purchase contract that is greater than or equal to $50,000. As of June 30, 2013, there is approximately $2.0 million outstanding in capital leases, with an estimated debt service payment of $755,000 for FY 2014.

The outstanding debt of the Department of Natural Resources consist of loans from the State Revolving Fund for water system projects, wastewater systems, facilities, and land. As of June 30, 2013, there is approximately $1.8 million in principal in outstanding loans. The Department repays the loans from operating funds and fee revenue. The FY 2014 debt service payment will total $286,000.

Iowa Utilities Board and Consumer Advocate State Building

In the 2006 Legislative Session, HF 2782 (FY 2007 Infrastructure Appropriations Act) authorized the Treasurer of State to issue bonds for the construction of a building for the Iowa Utilities Board and the Consumer Advocate. The legislation required the building to be energy-efficient and located in the vicinity of the Capitol Complex. The Act required the debt service on the bonds to be secured by chargeable expenses of the Iowa Utilities Board, in accordance with Iowa Code section 476.10. The bonds were issued in 2009 and the building was completed and dedicated in 2011. The building received LEED[28] Platinum certification. As of June 30, 2013, the remaining principal owed on the bonds is $11.5 million. Annual debt service payments are made from the charges to various industries regulated by the Iowa Utilities Board. The annual debt service payment is approximately $1.1 million and will be completed in FY 2029.

Tobacco Settlement Authority

The Tobacco Settlement Authority (TSA) issued bonds securitized by annual tobacco settlement revenue payments (TSRs) from the tobacco industry that resulted from the 1998 tobacco Master Settlement Agreement. In 2001, the TSA issued both taxable and tax-exempt bonds. The net proceeds from the taxable bonds, $39.6 million, was deposited in the Endowment for Iowa's Health Account and used primarily for health-related purposes. The net proceeds from the tax-exempt bonds, $540.0 million, was deposited in the RCF and used to fund State infrastructure projects. In 2005, the TSA refinanced the tobacco bonds and issued bonds that generated an additional $50.2 million in net taxable proceeds and $100.5 million in net tax-exempt proceeds. The tax-exempt bond proceeds from the 2005 refunding

[28] The LEED, or Leadership in Energy and Environmental Design, is an internationally recognized certification system for measuring green building performance such as water efficiency, energy consumption, indoor environmental quality, sustainability, and innovation in design. The LEED Platinum designation is the highest certification from the U.S. Green Building Council.

were deposited in the Endowment for Iowa's Health Restricted Capitals Fund (RC2). Total principal from the two issuances was $1.365 billion. The bonds are payable through FY 2046. The Authority pledged 78.0% of the future TSRs to secure the bonds. The remaining 22.0% of the payments are deposited in the RIIF.[29] According to the most recent CAFR, as of June 30, 2013, total principal and interest remaining on the tobacco bonds is $2.173 billion.

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This report is available online at: https://www.legis.iowa.gov/DOCS/lsaReports/DebtReport.pdf

[29] House File 822 (FY 2010 Infrastructure Appropriations Act) required the 22.0% unsecuritized tobacco payments to be deposited in the RIIF beginning in FY 2010. Prior to that, the unsecuritzed payments were deposited in the Endowment for Iowa's Health Account.