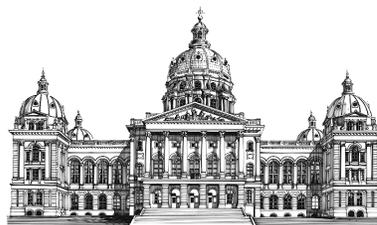


Iowa Legislative Fiscal Bureau

Dennis Prouty
(515) 281-5279
FAX 281-8451



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Des Moines, IA 50319
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Endowment for Iowa's Health Account Analysis of Projected Value

ISSUE

This *Issue Review* provides a revised analysis of the long-term earnings potential of the Endowment for Iowa's Health Account as a result of legislative action during the 2002 Legislative Session.

CODE AUTHORITY

Section 12E.12(1)(b)(2), Code of Iowa

BACKGROUND

In FY 2002, the General Assembly authorized the securitization of Iowa's tobacco settlement payments. Part of this process involved the establishment of the Endowment for Iowa's Health Account for the purpose of providing a long-term funding source for the Healthy Iowans Tobacco Trust. Section 12.65(2), Code of Iowa, requires the Healthy Iowans Tobacco Trust to be used *for purposes related to health care, substance abuse treatment and enforcement, tobacco use prevention and control, and other purposes related to the needs of children, adults, and families in the State.*

Chapter 12E, Code of Iowa, provides a standing appropriation of \$55.0 million from the Endowment beginning in FY 2002 to the Healthy Iowans Tobacco Trust and requires the appropriation to be increased annually by 1.5%.

ORIGINAL FUNDING STRUCTURE

The General Assembly originally dedicated a total of \$574.7 million from the General Fund and the State wagering tax to the Endowment to provide annual support for health care programs and to help establish a fund that would be valued at \$1.0 billion by the end of FY 2030. In addition to the State funds, the Endowment also receives other revenues that were the result of the securitization process. The following is a summary of the proposed Endowment revenues prior to the 2002 legislative action.

1. A total of \$435.0 million in State wagering taxes allocated over a period of six years in the following amounts:

- FY 2002: \$80.0 million
 - FY 2003: \$75.0 million
 - FY 2004 – FY 2007: \$70.0 million annually
2. A total of \$139.7 million from the General Fund appropriated over a period of six years in the following amounts:
 - FY 2002: \$7.2 million
 - FY 2003: \$27.1 million
 - FY 2004: \$28.3 million
 - FY 2005: \$29.8 million
 - FY 2006: \$29.6 million
 - FY 2007: \$17.8 million
 3. Taxable bond proceeds of \$39.6 million resulting from the securitization of a portion of Iowa's tobacco settlement payments.
 4. A \$40.0 million General Fund appropriation to reimburse the Endowment in FY 2003 for an appropriation to fund the first-year cost of the Student Achievement/Teacher Quality Act (HF 413).
 5. A total of \$46.2 million in revenue from litigation reimbursement payments from the tobacco industry in accordance with the settlement. These payments are projected to start in FY 2004 and will total approximately \$3.0 million annually.
 6. A total of \$1.163 billion in tobacco settlement payment residuals. These revenues include the amount of the tobacco settlement payments that are above and beyond the amount needed to pay the debt service on the bonds.
 7. A total of \$1.561 billion in interest based on a long-term earnings rate of 8.0%.

CURRENT FUNDING STRUCTURE

The General Assembly made several changes to the Endowment during the 2002 Legislative Session that affected the long-term earnings estimate. These changes included revenue transfers, deappropriations, and appropriations. The General Assembly also enacted legislation to reimburse the Endowment in future years for appropriations and transfers that were made from the Endowment to help balance the General Fund budget in FY 2002 and FY 2003. Changes to the Endowment are discussed below.

1. **General Fund appropriations:** The FY 2002 appropriation of \$7.2 million was reduced by \$72,000 due to the 1.0% across-the-board reduction in SF 2304 (FY 2002 Budget Adjustment Act). The FY 2003 appropriation of \$27.1 million was deappropriated in HF 2615 (FY 2003 Healthy Iowans Tobacco Trust Appropriations Act).
2. **Appropriations and Transfers:**
 - Senate File 2304 (FY 2002 Budget Adjustment Act) transferred a total of \$22.0 million from the Endowment to the General Fund in FY 2002. An additional \$9.0 million will be

transferred to the General Fund in FY 2003 through the enactment of HF 2627 (FY 2003 Second Omnibus Appropriations Act).

- Senate File 2315 (FY 2003 School Aid Foundation Act) appropriated \$20.0 million from the Endowment to fund a portion of the School Foundation Aid appropriation in FY 2003.
 - House File 2614 (FY 2003 Infrastructure Appropriations Act) appropriated \$16.8 million from the Endowment to fund a portion of the FY 2003 Regents Tuition Replacement appropriation.
 - House File 2245 (FY 2002 Medical Assistance Program Supplemental Appropriations Act) appropriated \$2.5 million from the Endowment to supplement the FY 2002 Medical Assistance Program (Medicaid) appropriation.
 - House File 2615 (FY 2003 Healthy Iowans Tobacco Trust Act) transferred \$9.0 million from the Endowment to the Healthy Iowans Tobacco Trust to provide increased funding for health care programs, including medical assistance.
3. **Reimbursements:** House File 2075 (FY 2002 Endowment Reimbursement Act) and HF 2627 (FY 2003 Second Omnibus Appropriations Act) commit future General Fund receipts totaling \$93.5 million to reimburse the Endowment for appropriations and transfers that benefited the General Fund in FY 2002 and FY 2003. Before the Endowment receives any reimbursements, the Economic Emergency Fund must have reached its maximum balance as required by the Code of Iowa. Once the Economic Emergency Fund has reached its maximum balance, the excess funds will be allocated as follows:
- The first \$40.0 million transferred to the Endowment.
 - The next \$35.5 million transferred to the Senior Living Trust Fund.
 - The next \$53.5 million transferred to the Endowment.

The current estimate assumes the first \$40.0 million will be repaid to the Endowment by the end of FY 2007 and the remaining \$53.5 million will be repaid by the end of FY 2012.

4. **Interest:** A total of \$917.6 million in interest is estimated to be earned and is based on a long-term rate of 8.0%.
5. This forecast assumes no changes in residual payments, State wagering tax allocations, and litigation payments that were discussed under the original funding structure.

COMPARISON OF ORIGINAL FUNDING STRUCTURE TO CURRENT LAW

Attachment A provides comparison estimates of the projected value of the Endowment by FY 2030. The estimated value of the Endowment based on the original funding structure is \$1.425 billion. Under current law, the Endowment is estimated to be valued at \$709.8 million, which is \$715.0 million less than the original estimate. The reduction is largely the result of the loss of an estimated \$662.1 million in interest earnings due to the appropriations and transfers made from the Endowment.

ENDOWMENT CASH FLOW ISSUES

The primary function of the Endowment is to provide a stable source of funding for health-related programs in the State. Under current law, the Endowment provides a standing appropriation, starting at \$55.0 million in FY 2002, to the Healthy Iowans Tobacco Trust, which is statutorily increased by 1.5% annually. In turn, the General Assembly appropriates funds from the Healthy Iowans Tobacco Trust for a variety of health-related programs.

In order for the programs funded through the Healthy Iowans Tobacco Trust to operate uninterrupted throughout the fiscal year, attention needs to be given to the timing of when revenues are deposited into the Endowment. A major source of revenue for the Endowment from FY 2002 through FY 2007 is the State wagering tax allocation. The Endowment typically begins receiving wagering tax revenues in November; therefore, for the first five months of the fiscal year, the Endowment must rely primarily on the previous year's carry-forward balance to cash-flow the appropriation to the Healthy Iowans Tobacco Trust. Any future decisions to alter revenues and expenditures should include an analysis of the monthly cash flow of the Endowment.

STAFF CONTACT: David Reynolds (Ext. 16934)

Endowment for Iowa's Health Account
Analysis of Projected Value
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**Endowment for Iowa's Health Account
Comparison of Projected Value
FY 2002 - FY 2030
(Dollars in Millions)**

	Estimate Prior to 2002 Session	Estimate Based on Current Law	Difference
Wagering Tax	\$ 435.0	\$ 435.0	\$ 0.0
General Fund	139.7	112.5	-27.2
Reimbursement	40.0	93.5	53.5
Litigation Revenue	46.2	46.2	0.0
Bond Proceeds	39.6	39.6	0.0
Residuals	1,163.1	1,163.2	0.1
Interest	1,581.1	919.0	-662.1
Total Revenues	\$ 3,444.7	\$ 2,809.0	\$ -635.7
Appropriation to Healthy Iowans Tbco Trust	\$ 1,979.9	\$ 1,979.9	\$ 0.0
FY 2002 Student Achievement/Teacher Comp	40.0	40.0	0.0
FY 2002 Medicaid Supplemental	0.0	2.5	2.5
FY 2003 School Aid	0.0	20.0	20.0
Transfer to General Fund FY 2002 & FY 2003	0.0	31.0	31.0
FY 2003 Tuition Replacement	0.0	16.8	16.8
FY 2003 Transfer to Healthy Iowans Tbco Trust	0.0	9.0	9.0
Total Expenditures	\$ 2,019.9	\$ 2,099.2	\$ 79.3
Ending Balance	\$ 1,424.8	\$ 709.8	\$ -715.0