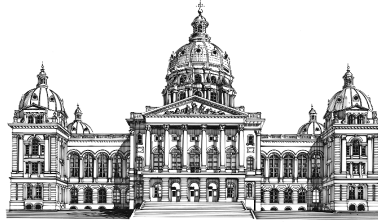

Iowa Legislative Services Agency

Fiscal Services

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



State Capitol
Des Moines, IA 50319
November 29, 2004

Projections for Infrastructure Funding

ISSUE

This *Issue Review* will examine the future availability of revenue for infrastructure funding.

BACKGROUND

Since FY 2002, State infrastructure funding has been provided by two primary sources, the Rebuild Iowa Infrastructure Fund (RIIF) and the Restricted Capital Funds Account of the Tobacco Settlement Trust Fund (RCF). These funds have also been used to fund environmental programs, technology projects, and debt service on State-issued revenue bonds.

REVENUE TRENDS

Rebuild Iowa Infrastructure Fund

The RIIF was established in FY 1996. From FY 1996 to FY 2001, the majority of the Fund's revenue came from the State Wagering Tax on racetrack and riverboat casinos and from the interest earnings of the Cash Reserve and Economic Emergency Funds. During this six-year period, the annual revenue ranged from \$99.2 to \$158.2 million.

Beginning in FY 2002, RIIF revenues decreased significantly due to the transfer of \$80.0 million of State Wagering Taxes to the Endowment for Iowa's Health Account, and the transfer of reserve fund interest to the General Fund. In FY 2003, wagering taxes were further reduced after an Iowa Supreme Court ruling reduced the tax on racetrack casinos from 32.0% to 20.0%, citing the disparity between the tax rates imposed on slot machines at racetracks and riverboats as unconstitutional. In addition, \$15.5 million in RIIF revenue was transferred to the General Fund. The total revenue from all sources decreased to \$57.2 million in FY 2002 and to \$16.7 million in FY 2003.

In FY 2004, revenues to the Fund were increased to \$72.3 million primarily due to the enactment of HF 2302 (Gambling Act). House File 2302 increased the wagering tax and established new license and riverboat assessment fees.

Under current law, for FY 2005 through FY 2007, revenues are projected to fluctuate between \$79.7 to \$103.6 million. Beginning in FY 2008, the RIIF will receive an additional \$70.0 million annually from the State Wagering Tax, which is currently allocated to the Endowment

for Iowa's Health Account. The allocation to the Endowment is scheduled to sunset at the end of FY 2007 and will be redirected to the RIIF as required by statute. The total RIIF revenue is projected to be \$156.7 million for FY 2008.

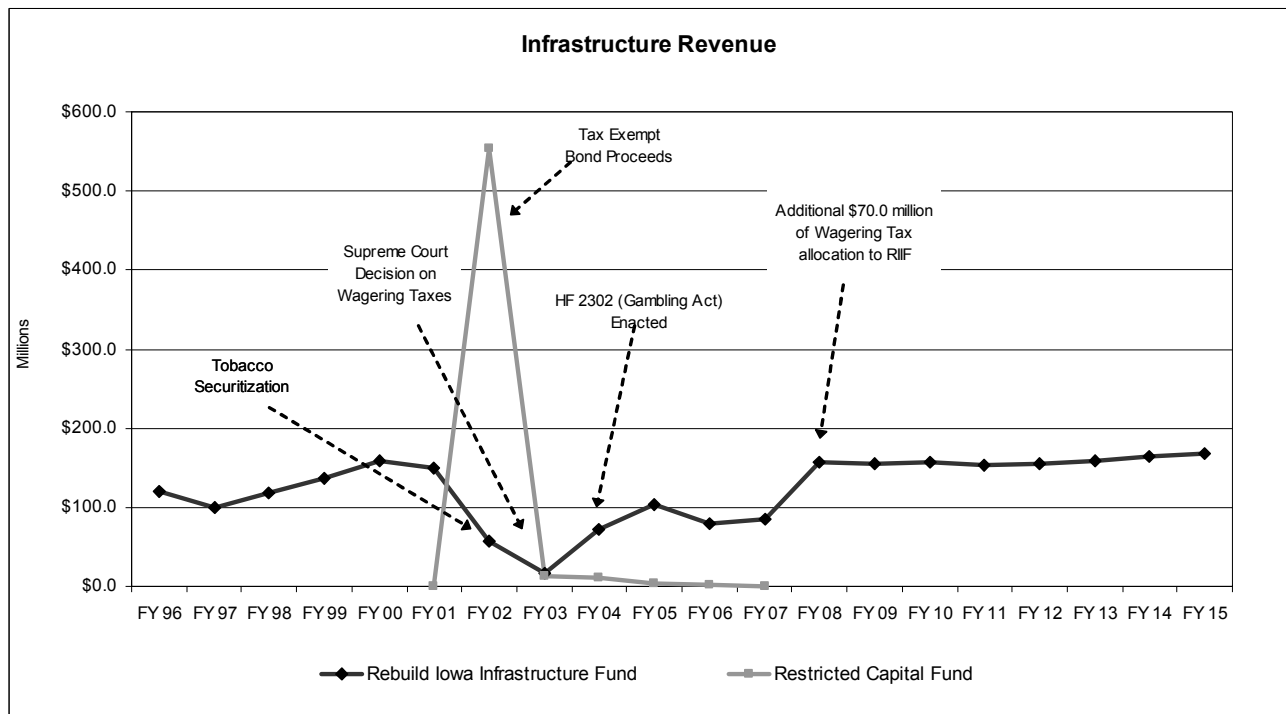
In subsequent years, the revenues are projected to remain at the FY 2008 level until FY 2014. The projections are based on adjusted gross receipts at casinos increasing by 1.0% annually beginning in FY 2007. Beginning in FY 2014, revenues will start to increase somewhat faster due to the expiration of the wagering tax credits for racetrack table game licenses and riverboat special assessments enacted in HF 2302 (Gambling Act).

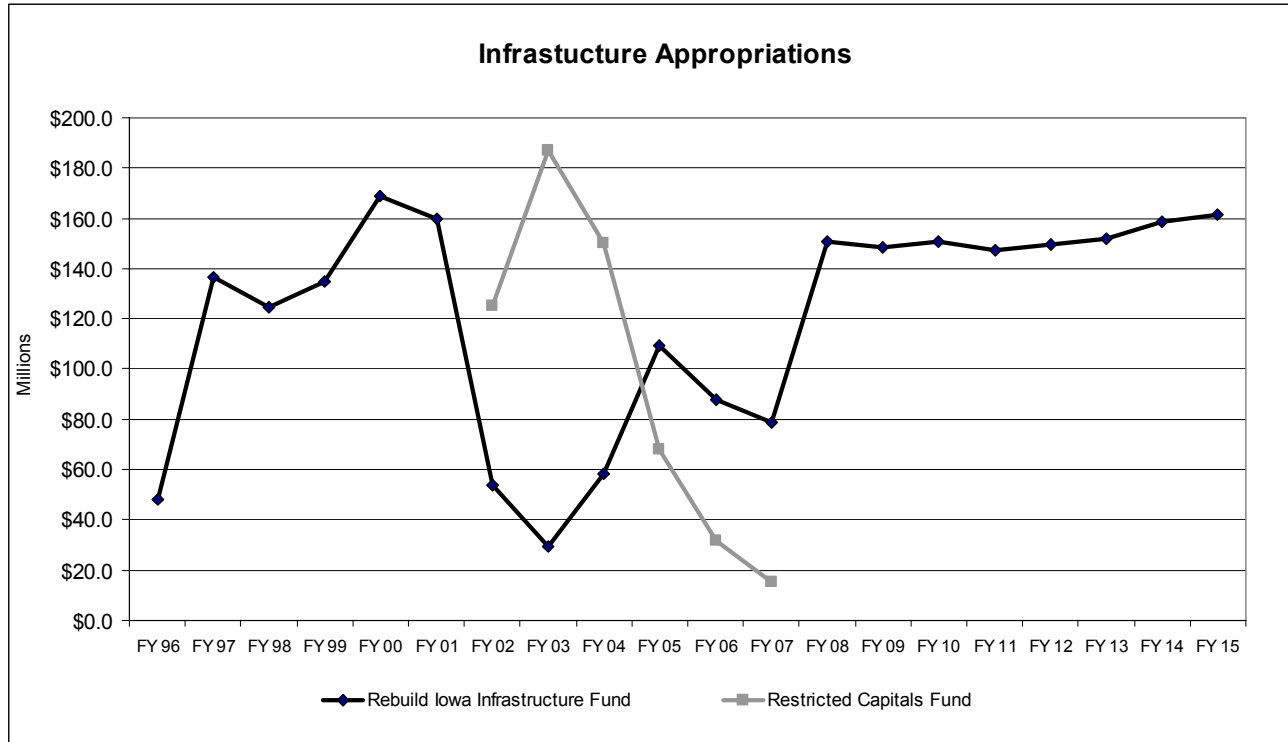
Restricted Capital Funds Account of the Tobacco Settlement Trust Fund

The RCF was established in FY 2002 to receive \$540.0 million in tax-exempt bond proceeds that resulted from the securitization of Iowa's tobacco settlement payments. The \$540.0 million and the interest earned is one-time money that is required to be expended by FY 2007. These bond proceeds helped offset declines in RIIF revenues for FY 2002 through FY 2007.

Although the bond proceeds provided increased infrastructure funding, the securitization agreement required the bond proceeds to fund a total of \$127.4 million in debt service costs associated with bonds that were previously funded from the General Fund. The net benefit to infrastructure funding was approximately \$450.9 million.

The following charts show revenue and appropriation trends for the Rebuild Iowa Infrastructure Fund and the Restricted Capitals Fund.





BUDGET IMPACT

The budget impacts discussed below assume no re-allocation of State Wagering Tax revenue from the RIIF.

Rebuild Iowa Infrastructure Fund

There have been several standing appropriations and multi-year appropriations enacted from the RIIF that reduce the amount of funding available for future appropriations. The most significant standing appropriations include \$35.0 million for the Environment First Fund and \$10.0 million for the Secure and Advance Vision for Education Fund. Other significant appropriations enacted include a six-year appropriation to the Community Attraction and Tourism Fund, and a three-year appropriation to Iowa Public Television for digital broadcast conversion. The appropriations are included in the table provided in **Attachment A**.

For FY 2006 and FY 2007, appropriations currently enacted total \$81.5 million and \$55.7 million, respectively. Of the \$81.5 million appropriated for FY 2006, \$15.0 million was appropriated to the newly established Vertical Infrastructure Fund. The \$15.0 million will need to be appropriated for specific projects during the 2005 Legislative Session. In addition to the \$15.0 million, there will be an estimated \$7.1 million available for new appropriations in FY 2006 and \$28.6 million available for FY 2007.

Beginning in FY 2008, there will be an estimated \$100.7 million available for new appropriations as a result of the re-allocation of the \$70.0 million of State Wagering Taxes currently deposited into the Endowment for Iowa Health Account. This amount is estimated to increase annually to \$116.2 million by FY 2015.

Restricted Capital Funds Account of the Tobacco Settlement Trust Fund

All of the projected revenues in the Restricted Capital Fund, except for an estimated \$5.4 million, have either been appropriated or are considered obligated through FY 2007. For FY 2006, \$14.2 million is currently appropriated, while \$17.8 million is obligated for debt service on existing bonds. For FY 2007, there are no appropriations currently enacted; however, \$15.4 million is obligated for debt service. **Attachment B** shows the revenues and expenditures for the RCF.

STAFF CONTACT: David Reynolds (Ext. 16934)

Rebuild Iowa Infrastructure Fund Projections

(Dollars in Millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Resources															
Balance Forward	\$ 20.3	\$ 10.2	\$ 13.9	\$ 1.0	\$ 14.9	\$ 8.9	\$ 0.0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue															
Gaming Revenues	111.4	50.0	27.6	79.7	89.3	76.4	80.0	152.4	150.1	152.5	148.9	151.3	153.7	160.8	163.4
Endowment Transfer					11.0										
Other	38.4	7.3	4.6	2.6	3.3	3.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Wagering Tax Transfer to GF			-15.5	-10.0											
Total Annual Revenue	149.8	57.3	16.7	72.3	103.6	79.7	84.3	156.7	154.4	156.8	153.2	155.6	158.0	165.1	167.7
Total Resources	\$ 170.1	\$ 67.5	\$ 30.6	\$ 73.3	\$ 118.5	\$ 88.6	\$ 84.3	\$ 156.7	\$ 154.4	\$ 156.8	\$ 153.2	\$ 155.6	\$ 158.0	\$ 165.1	\$ 167.7
Appropriations															
Environment First Fund	\$ 0.0	\$ 35.0	\$ 18.4	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0
Vertical Infrastructure Fund						15.0									
Community Attraction & Tourism					12.0	5.0	5.0	5.0	5.0	5.0					
SAVE Fund					10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
IPTV Conversion					8.0	8.0	2.3								
Davenport CBC					3.0	3.8	3.4								
Records & Property Bldg					5.0	4.7									
Other Appropriations	165.2	19.0	11.2	23.6	36.6										
Total Enacted Appropriations	165.2	54.0	29.6	58.6	109.6	81.5	55.7	50.0	50.0	50.0	45.0	45.0	45.0	45.0	45.0
Available for Future Appropriations						7.1	28.6	106.7	104.4	106.8	108.2	110.6	113.0	120.1	122.7
Total	\$ 165.2	\$ 54.0	\$ 29.6	\$ 58.6	\$ 109.6	\$ 88.6	\$ 84.3	\$ 156.7	\$ 154.4	\$ 156.8	\$ 153.2	\$ 155.6	\$ 158.0	\$ 165.1	\$ 167.7
Deappropriations	-5.2	-0.2													
Reversions	-0.1	-0.2		-0.2											
Ending Balance	\$ 10.2	\$ 13.9	\$ 1.0	\$ 14.9	\$ 8.9	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0

**Restricted Capital Fund
of the Tobacco Settlement Trust Fund**

(Dollars in Millions)

	<u>Actual FY 2002</u>	<u>Actual FY 2003</u>	<u>Actual FY 2004</u>	<u>Est. FY 2005</u>	<u>Est. FY 2006</u>	<u>Est. FY 2007</u>
Resources						
Balance Forward	\$ 0.0	\$ 427.7	\$ 253.2	\$ 114.9	\$ 50.7	\$ 20.4
Tax-Exempt Bond Proceeds	540.0					
Interest	13.2	12.8	11.3	4.0	1.8	0.6
TSA Operations & Enforcement	-0.1	-0.4	0.1	-0.2	-0.2	-0.2
Total Available Resources	\$ 553.1	\$ 440.1	\$ 264.6	\$ 118.7	\$ 52.3	\$ 20.8
Expenditures						
Enacted Appropriations	\$ 118.2	\$ 158.2	\$ 121.1	\$ 39.1	\$ 14.2	\$ 0.0
Debt Service Payments	7.2	29.0	29.1	28.9	17.8	15.4
Total Expenditures	\$ 125.4	\$ 187.2	\$ 150.1	\$ 68.0	\$ 32.0	\$ 15.4
Reversions		-0.3	-0.5			
Ending Balance	\$ 427.7	\$ 253.2	\$ 114.9	\$ 50.7	\$ 20.4	\$ 5.4

TSA = Tobacco Settlement Authority