Last Action:

House Appropriations Committee

May 8, 2013

Bond Repayment and Supplemental Appropriations Bill
House File 648

Executive Summary Only

An Act relating to state and local finances by making transfers and appropriations and including effective date and applicability provisions.

Fiscal Services Division
Legislative Services Agency

NOTES ON BILLS AND AMENDMENTS (NOBA)

Available on line at http://www.legis.iowa.gov/LSAReports/noba.aspx

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FUNDING SUMMARY

FY 2014: Transfers $113.8 million to a new State Bond Repayment Fund from the excess monies after the Economic Emergency Fund reaches its maximum balance and the first $60.0 million transfers to the Taxpayers Trust Fund. Transfers any remaining excess monies from the Economic Emergency Fund to the Taxpayers Trust Fund.

FY 2014: Appropriates $113.8 million from the State Bond Repayment Fund to the Treasurer of State for purposes of defeasance of outstanding revenue bonds, including the School Infrastructure bonds, I-JOBS 2010 Taxable Series bonds, 2002 Prison Infrastructure bonds, and Honey Creek Premier Destination Park bonds.

FY 2013: Appropriates $146.8 million in supplemental appropriations from the General Fund for various purposes. Of the total, $110.2 million is appropriated for retirement systems and $36.6 million for miscellaneous agency appropriations.

DIVISION I – ECONOMIC EMERGENCY FUND TRANSFERS

FISCAL IMPACT:
Under current law, the estimated total transferring from excess monies of the Economic Emergency Fund to the General Fund for FY 2014 is $797.0 million, and the current law expenditure limitation is estimated at $7,431.9 million. Also, under current law, the Taxpayers Trust Fund receives the first $60.0 million of the excess monies.

With the changes in HF 648, including the $146.8 million in supplemental appropriations, the expenditure limitation is reduced to $6,634.9 million for FY 2014. An estimated $596.4 million will transfer to the Taxpayers Trust Fund for FY 2014.

DIVISION I – 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. The Treasurer of State, working with the Honey Creek Authority and the Iowa Finance Authority, will defease the bonds in FY 2014, setting up escrow accounts to pay the debt service as necessary. Two of the bond issuances slated for defeasance are callable, the IJOBS 2010 Taxable and the Honey Creek bonds, while the 2002 prison infrastructure bonds and the school infrastructure bonds are not.

BACKGROUND:

- **Honey Creek Bonds**: The bonds were issued by the Honey Creek Authority in 2007. Final maturity date is FY 2036. The bonds are callable on June 1, 2016. The bonds were secured with park revenues, but due to insufficient park revenues, the Department of Natural Resources (DNR) has been paying debt service with funds from the Resource Enhancement and Protection (REAP) Fund and operating monies. For FY 2013, the debt service is approximately $2.0 million, but debt service ranges up to $2.3 million in later years. As of June 30, 2012, total principal and interest remaining is $54.6 million through FY 2036. It is anticipated that $33.7 million from the State Bond Repayment Fund will be used to defease these bonds. According to a December 17, 2012, analysis by Public Financial Management, Inc., defeasance will result in a present value (PV) savings of approximately $4.2 million.
- **I-JOBS 2010 Taxable Bonds**: A small portion of the 2010 I-JOBS bonds issuance was taxable. The taxable bonds were issued in 2010 and have a final maturity date of FY 2026. (The tax-exempt portion of the 2010 issuance has a final maturity date of FY 2038). The debt service on these bonds is included in the wagering tax allocation of $55.0 million that pays debt service on all of the I-JOBS bonds, in accordance with Iowa Code section 8.57. Debt service for the taxable portion is an estimated $2.3 million annually. As of June 30, 2012, total principal and interest remaining is $31.8 million through FY 2026. The Treasurer of State's Office advises that the taxable bonds are redeemable on any date, but the bonds have a "make whole" provision. So once the call date is chosen, the bonds will be redeemed, at a price equal to 100.0% of the principal plus accrued interest to the date of redemption, plus the make-whole call premium. A "make-whole premium" is a lump sum payment derived from a formula based on the net present value (NPV) of future coupon payments that will not be paid because of the redemption. Effectively, for these bonds, the make whole provision means that the State will pay the same amount as paying the debt service on the bonds through maturity.
- **School Infrastructure Bonds:** The school infrastructure bonds were refunded in April 2012 and are not callable, so they must be paid through maturity. Final maturity date is FY 2021. As of June 30, 2012, total principal and interest remaining is $24.5 million. Debt service is paid by a $5.0 million wagering tax allocation, in accordance with Iowa Code section 8.57. Debt service is approximately $2.7 million. Unneeded debt service funds are transferred back to the Rebuild Iowa Infrastructure Fund (RIIF), so approximately $2.3 million currently transfers back at the end of the fiscal year.
- **2002 Prison Infrastructure Bonds:** The 2002 prison infrastructure bond issuance was a refunding that paid off the 1994, 1995, and 1996 revenue bonds that were issued for prisons and Community-Based Corrections (CBC) facilities. The 1994, 1995, and 1996 bonds were issued for the Clarinda, Newton, and Fort Dodge prisons, and for the CBCs in Cedar Rapids and Marshalltown. The 2002 prison bonds are not callable and must be paid through maturity in FY 2016. As of June 30, 2012, total principal and interest remaining is $26.1 million. The debt service on the 2002 prison infrastructure bonds is paid by judicial revenue deposited in the Prison Infrastructure Fund, before the judicial revenue deposits in the General Fund. The remaining debt service amounts for the bonds include $8.4 million in FY 2013 and FY 2014, $6.2 million in FY 2015, and $3.1 million in FY 2016. When the 2010 prison bonds were issued for the Fort Madison prison project, the debt service was structured so that total payments for both 2002 and 2010 prison bonds were approximately $14.9 million from judicial revenue annually. As the 2002 prison bonds are paid down, the debt service amount for the 2010 prison bonds increases. And, after the 2002 prison bonds reach maturity in FY 2016, the 2010 prison bonds will maintain the $14.9 million in debt service through their maturity date in FY 2027.

NOTE: The anticipated amounts needed for defeasance are estimates based on the amount of principal and interest to pay debt service through either the call date or the maturity date, as needed. The estimates were made using the debt service amounts remaining as of June 30, 2012 and do not reflect additional payments on debt service made during FY 2013, nor the release of the debt service reserve funds. Actual costs cannot be determined until the defeasance takes place, as the amount needed for escrow will vary depending on market rates. In addition, the final transactions for defeasance will include various fees and other costs. Once the bonds are defeased, the Legislative Services Agency will provide an update to the General Assembly on final costs for the transactions.

FISCAL IMPACT:

- **Honey Creek Bonds**: As mentioned above, the DNR has been paying the debt service with REAP and operating monies, until the Honey Creek Resort Park revenues are sufficient to pay the debt service. Defeasance of the Honey Creek Bonds will eliminate the cost of an estimated $2.1 million for FY 2014 to the REAP and the DNR operating budget.
- **I-JOBS 2010 Taxable Bonds**: Under the wagering tax allocation, anything unneeded from the $55.0 million for debt service on all the I-JOBS bonds issuances, transfers back to the RIIF before the end of the fiscal year. With the defeasance of the 2010 taxable portion of the I-JOBS bonds, an additional $2.3 million will transfer to the RIIF annually beginning in FY 2014, rather than after the FY 2026 maturity date.
- **School Infrastructure Bonds:** Unneeded debt service funds from the $5.0 million allocation for the school infrastructure bonds are transferred back to the RIIF. As mentioned above, that amount is currently $2.3 million. With the defeasance of the school infrastructure bonds, the additional $2.7 million will transfer back to the RIIF beginning in FY 2014.
- **2002 Prison Infrastructure Bonds:** With the defeasance of the 2002 prison bonds, the judicial revenue needed for debt service on prisons bonds will be reduced and the amount deposited in the General Fund will be increased by $8.4 million in FY 2014, $6.2 million in FY 2015, and $3.1 million in FY 2016. Beginning in FY 2017, the amount of judicial revenue needed for the 2010 prison bonds will return to the current level of $14.9 million.

CODE CHANGE: Establishes a new State Bond Repayment Fund in Iowa Code section 8.57F. Monies in the fund must only be used for defeasance or redemption of outstanding obligations of State-issued revenue bonds that have a debt service paid by a dedicated revenue source.

DIVISION II – RETIREMENT SYSTEMS SUPPLEMENTAL APPROPRIATIONS

Judicial Retirement Fund:

Appropriates $18.9 million from the General Fund for FY 2013 to the Judicial Retirement Fund. The last time the Judicial Retirement Fund received an appropriation was $3.5 million from the General Fund in FY 2009. With the supplemental funding, it is anticipated the funded ratio will be 80.0%. The calendar year 2012 funded ratio was 68.9%. The Senate version of SF 452 (FY 2014 Standings Appropriations Bill) appropriates $5.0 million from the General Fund for both FY 2014 and FY 2015 to the Judicial Retirement Fund. The House version of SF 452 does not make those appropriations.

Public Safety Peace Officers' Retirement System (PORS):
Appropriates $91.3 million from the General Fund for FY 2013 for the PORS. With the supplemental funding, it is anticipated the funded ratio will be 80.0%. The calendar year 2012 funded ratio was 61.0%. During the 2010 Legislative Session, HF 2518 (Public Pension Retirement Act) established a standing appropriation of $5.0 million annually for the PORS beginning in FY 2013 and continuing until the funded ratio reaches 85.0%. During the 2012 Legislative Session, HF 2465 (FY 2013 Standings Appropriations Act) delayed the start of the standing appropriation until FY 2014.

Under current law, the PORS is slated to begin receiving $5.0 million from the General Fund in FY 2014, in accordance with Iowa Code section 97A.11A. The House version of SF 452 delays the start of the $5.0 million standing appropriation until FY 2016. The Senate version of SF 452 does not make this change. Instead, the Senate version of SF 452 amends Iowa Code section 97A.11A and begins the standing appropriation in FY 2013, providing a $5.0 million supplemental appropriation from the General Fund for FY 2013.

DIVISION III – MISCELLANEOUS SUPPLEMENTAL APPROPRIATIONS

Appropriates the following for FY 2013 from the General Fund:

- $1.0 million to the University of Northern Iowa (UNI) for advanced manufacturing equipment. Funds will be used in collaboration with the Advanced Manufacturing Center in the Cedar Valley TechWorks for the UNI Metal Casting Center (MCC), so the MCC will use state-of-the-art three dimensional printing to fabricate printed on-demand molds for cast components.
- $10.0 million to the UNI for funding issues related to high enrollment by resident students. During the 2012 Legislative Session, the UNI requested an increase of $4.0 million annually for three fiscal years to address the impact of a higher resident student enrollment paying lower tuition. The UNI received the first installment of $4.0 million for FY 2013, above the percentage increase provided to the three universities. That amount became part of the base to calculate the FY 2014 general percentage increase for the UNI. In HF 604 (FY 2014 Education Appropriations Bill), the UNI receives the second year installment of $4.0 million for the resident enrollment funding issue for FY 2014. The $4.0 million is in addition to the 2.6% general increase in the funding for the universities, and is the second installment of the three-year request from the UNI. It is anticipated that the $10.0 million in HF 648 is in lieu of the additional funding provided in HF 604 and is intended to provide an amount sufficient for the second and third installment for the resident student enrollment funding. The second and third installments of the UNI request total $8.0 million. The funding in HF 648 provides $2.0 million more than the $8.0 million request by the UNI.
- $7.5 million to Iowa State University (ISU) for a bioeconomy initiative. Funds will be used to support existing programs, establish and support new laboratories for biorenewables and biosciences research, and support interdisciplinary graduate education in those fields. The Senate version of SF 430 (FY 2014 Economic Development Appropriations Bill) appropriates $3.8 million from the General Fund for

the bioeconomy initiative in FY 2014. The House version of SF 430 does not make that appropriation. The appropriation in HF 648 is in lieu of funding provided in SF 430.

- $12.0 million to ISU for construction of a new economic development core facility at the ISU Research Park. The facility will provide one core location for business experts to assist small business owners, clients, entrepreneurs, and others. The ISU Research Park has grown in the number of tenants and currently houses 57 tenants with 1,200 employees.
- $1.0 million to the University of Iowa for renovation and expansion at the State Hygienic Laboratory to add a multipurpose training facility. Funds will be used to renovate shelled space and construct biosafety level 2 and level 3 laboratories, and make upgrades to the classroom. The Senate version of HF 638 (FY 2014 Infrastructure Appropriations Bill) appropriates $1.0 million for FY 2014 from the RIIF. The House version of HF 638 does not make that appropriation. The appropriation in HF 648 is in lieu of funding provided in HF 638.
- $1.0 million to the Department of Public Safety (DPS) for equipment. The DPS will use the funds to purchase equipment for the Division of Criminal Investigation and Iowa State Patrol, as well as other DPS divisions.
- $1.6 million to the Department of Agriculture and Land Stewardship for the Agricultural Drainage Well Water Quality Assistance Program for continued efforts for the closure of all agricultural drainage wells. The Program received $1.0 million from the RIIF and $550,000 from the Environment First Fund (EFF) in FY 2013. The Senate version of SF 435 (FY 2014 Agriculture and Natural Resources Appropriations Bill) appropriates $550,000 from the EFF in FY 2014. The House version of SF 435 appropriates $1.6 million from the EFF. The appropriation in HF 648 is in lieu of funding provided in SF 435.
- $2.5 million to the Department of Administrative Services (DAS) for major maintenance. The DAS received $10.3 million for major maintenance from the RIIF in FY 2013. The DAS uses major maintenance funds to correct deficiencies in State buildings and make a wide range of repairs. Twelve state agencies and divisions participate in the DAS Vertical Infrastructure Program, including approximately 900 buildings at more than 70 locations across Iowa. The Senate version of HF 638 (FY 2014 Infrastructure Appropriations Bill) appropriates a total of $25.3 million from the RIIF for FY 2014 for major maintenance. The House version of HF 638 appropriates $15.3 million in FY 2014 and $14.0 million in FY 2015 from the RIIF.

REVERSION: All of the appropriations in Division III, except one, have a two-year reversion, and will be available for expenditure through FY 2014. The one exception is the appropriation to help funding issues at the UNI due to high resident student enrollment. That UNI appropriation does not revert until the end of FY 2015.

EFFECTIVE DATE

All of the divisions in the Bill are effective on enactment.