

LEGISLATIVE SERVICES AGENCY

STATE OF IOWA NET TAX-SUPPORTED DEBT

REPORT TO THE LEGISLATIVE FISCAL COMMITTEE

NOVEMBER 17, 2003

State of Iowa Report on Net Tax-Supported Debt

The State of Iowa has issued debt to pay for a variety of programs and projects that the State otherwise would not have been able to afford within a given fiscal year. This report provides information on the State's debt that is directly related to the amount of resources that the General Assembly has available to appropriate from year to year.

The State of Iowa has also created numerous authorities that are authorized to issue self-supporting debt for the purpose of implementing specific programs to benefit the public. The revenues used to pay down this debt are from independent revenue sources and do not constitute a debt of the State. Therefore, information concerning the debt of state authorities is not included in this report.

Net Tax-Supported Debt

Net Tax Supported Debt includes debt which the General Assembly and the Governor have authorized and committed specific revenues to retire the debt. The debt includes revenue bonds, certificates of participation (COP), and certain lease purchase agreements entered into by state agencies. 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 the lease purchase agreements is typically paid from funds appropriated to various agencies' operating budgets.

Outstanding principal for Net Tax Supported Debt as of June 30, 2003, was \$592.8 million. Based on the current debt service schedules, the amount of interest to be paid on this debt, assuming no refinancing, will be \$267.6 million. The total amount of outstanding principal and interest is \$860.4 million.

State of Iowa Debt For the Fiscal Year Ending June 30, 2003 (Dollars in Millions)

	Principal	Interest	Total
Net Tax Supported Debt			
Vision Iowa Bonds	\$ 182.1	\$ 104.1	\$ 286.2
Prison Construction Bonds	73.3	27.2	100.5
Underground Storage Tank Bonds	68.8	19.7	88.5
School Infrastructure Bonds	41.6	21.3	62.9
Iowa Communications Network Bond	47.2	6.2	53.4
State Agency Lease Purchases	6.9	1.6	8.5
Judicial Districts COPs	3.1	0.5	3.6
Subtotal	423.0	180.6	603.6
Regents Academic Revenue Bonds ¹	169.8	87.0	256.8
Total	<u>\$ 592.8</u>	<u>\$ 267.6</u>	<u>\$ 860.4</u>

¹ Regents Academic Revenue Bonds are backed by student tuition fees and, therefore, are not a part of the Net Tax Supported Debt. However, the General Assembly annually appropriates funds to the Board of Regents to reimburse the universities for tuition fees used for debt service on the bonds.

Below is a summary of the debt types listed on the above table.

- **Vision Iowa Bonds** – This 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. In FY 2002, the Vision Iowa Board issued \$196.4 million in bonds to fund the Program that is also matched with local funds. The Vision Iowa Fund annually receives a \$15.0 million allocation from the State Wagering Tax to pay the debt service on the bonds.
- **Prison Construction Bonds** – The General Assembly authorized the issuance of bonds for the construction of prison facilities in FY 1994, FY 1995, and FY 1996. These bonds were issued through the Iowa Finance Authority to construct prisons in Clarinda, Newton, and Fort Dodge. The General Assembly has earmarked the first \$9.5 million in court fines for the Prison Infrastructure Fund for debt service payments. The portion of the \$9.5 million not used for debt service is transferred to the General Fund. In FY 2002 through FY 2007, approximately \$5.5 million of the annual debt service will be appropriated from the Restricted Capital Funds Account of the Tobacco Settlement Trust Fund. As a result, a greater portion of the court fines and fees will revert to the General Fund during this six-year period.
- **Underground Storage Tank Bonds** – These bonds were issued through the Iowa Finance Authority to provide funds for the clean up of underground fuel storage tanks. The General Assembly created a standing appropriation of \$17.0 million from the Motor Vehicle Use Tax in FY 1991 for the Underground Storage Tank Program, a portion of which are used to pay the debt service on the bonds.
- **School Infrastructure Bonds** – In FY 2002, the State issued \$48.6 million in bonds to fund the School Infrastructure Program. This Program was created to provide state financial assistance to local school districts for the construction and renovation of school buildings. The School Infrastructure Fund annually receives a \$5.0 million allocation from the State Wagering Tax to pay the debt service on the bonds.
- **Iowa Communications Network (ICN) Bonds** – This debt was issued to finance construction of Parts I and II of the ICN. The General Assembly annually appropriates funds for repayment of the debt. Funds are appropriated directly to the Treasurer of State for payment of the debt service. Prior to FY 2002, the ICN debt service was appropriated primarily from the General Fund. However, in FY 2002 through FY 2006 (the year the bonds will be retired) funding for the annual debt service will be appropriated from the Restricted Capital Funds Account of the Tobacco Settlement Trust Fund.
- **Lease Purchase and Installment Acquisitions** – State agencies have the authority to enter into lease purchase agreements for the purchase of public property. Lease purchases generally constitute shorter-term debt (3 to 10 years) than bonds and certificates of participation. The agreements are primarily used by State agencies for the purchase of equipment or facility improvements. The debt service payments are paid from State agencies' operating appropriations. Section 12.28, Code of Iowa, gives the Treasurer of State the authority to enter into lease purchase agreements on behalf of the State agencies. The lease purchase debt information within this report is based on information from the FY 2002 Iowa Comprehensive Annual Financial Report.
- **Judicial Districts Certificates of Participation (COP)** – The General Assembly and the Governor authorized the Department of Corrections to issue certificates of participation in the late eighties and early nineties for construction of Community-Based Correctional (CBC) facilities throughout the State. Certificates of participation

differ from bonds in that the title of ownership of the capital purchase is transferred upon final payment of the debt (similar to a lease purchase arrangement). However, to the investor, certificates of participation possess all of the attributes of tax-exempt bonds. The General Assembly annually appropriates funds from the General Fund to the CBC District Departments for repayment of the debt.

- **Board of Regents Academic Revenue Bonds** – These bonds are used for construction, reconstruction, and renovation of facilities and are backed by student tuition fees. The Board must receive authorization from the General Assembly in order to issue Academic Revenue Bonds. In turn, the General Assembly annually appropriates funds to the Board of Regents to reimburse the universities for tuition fees used to pay the debt service on the bonds.

In FY 2004, the State will pay a total of \$75.4 million in debt service for the bonds and lease purchases. The following table lists the annual debt service payments by debt type for the next three fiscal years. It should be noted that the amount of debt service listed is not necessarily the amount that the General Assembly will be required to appropriate. In certain instances a portion of the debt service is paid from the interest earnings of the debt service reserve funds. For example, in FY 2004, the debt service on the Regent's Academic Revenue Bonds is \$27.3 million. Of this, the General Assembly appropriated \$24.3 million for tuition replacement. The remainder was funded from reserve fund interest.

State of Iowa Debt Annual Debt Service Payments

(Dollars in Millions)

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Regents Academic Revenue Bonds	\$ 27.3	\$ 27.9	\$ 24.2
Vision Iowa Bonds	15.8	15.8	15.8
Prison Construction Bonds	8.1	8.1	7.4
Underground Storage Tank Bonds	9.6	9.6	9.6
School Infrastructure Bonds	4.0	3.5	3.5
Iowa Communications Network Bonds	13.4	13.4	13.3
State Agency Lease Purchases	1.9	1.5	1.0
Judicial Districts COPs	0.8	0.6	0.6
Total	<u>\$ 80.9</u>	<u>\$ 80.4</u>	<u>\$ 75.4</u>