

FILED FEB 27 2002

SENATE FILE 2306

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SF 148)

Passed Senate, Date _____ Passed House, Date _____

Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

1 An Act making interest on bonds and notes issued for school
2 infrastructure purposes exempt from state income tax.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

SF 2306

4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

SENATE FILE 2306

S-5151

1 Amend Senate File 2306 as follows:
2 1. Page 1, line 2, by inserting after the word
3 "issued" the following: "on or after July 1, 2002".

By KITTY REHBERG

S-5151 FILED MARCH 12, 2002

1 Section 1. NEW SECTION. 296.8 TAX EXEMPTION.

2 Interest on any bonds or notes issued by a school district
3 for school infrastructure purposes is exempt from state income
4 tax. For the purposes of this section, school infrastructure
5 purposes refers to the purposes for which funds may be
6 provided as specified in section 296.1.

7 Sec. 2. Section 422.7, Code Supplement 2001, is amended by
8 adding the following new subsection:

9 NEW SUBSECTION. 38. Subtract interest earned on bonds and
10 notes issued by a school district for school infrastructure
11 purposes as provided in section 296.8.

12 Sec. 3. Section 422.35, Code Supplement 2001, is amended
13 by adding the following new subsection:

14 NEW SUBSECTION. 19. Subtract interest earned on bonds and
15 notes issued by a school district for school infrastructure
16 purposes as provided in section 296.8.

17 EXPLANATION

18 This bill provides that interest on any bonds or notes
19 issued by a school district for school infrastructure purposes
20 is exempt from state personal and corporate income tax. The
21 bill provides that school infrastructure purposes refers to
22 the purposes for which funds may be provided as specified in
23 Code section 296.1. These purposes include the cost of
24 purchasing, building, furnishing, reconstructing, repairing,
25 improving or remodeling a schoolhouse or schoolhouses and
26 additions thereto, a gymnasium, stadium, field house, school
27 bus garage, teachers' or superintendent's home or homes, and
28 procuring a site or sites therefore, or purchasing land to add
29 to a site already owned, or procuring and improving a site for
30 an athletic field, or improving a site already owned for an
31 athletic field.

32
33
34
35

Legislative Fiscal Bureau

Fiscal Note

SF 2306 - School Bonds Tax Exempt (LSB 7054 SV)

Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)

Fiscal Note Version - New

Description

Senate File 2306 exempts interest earned on bonds and notes issued for school district infrastructure purposes from Iowa individual and corporate income tax.

Assumptions

1. In calendar year 2002, \$215.0 million in bonds and notes will be issued by Iowa school districts for infrastructure purposes and the amount will increase by 3.0% per year.
2. The bonds will have an average maturity of 15 years.
3. The annual interest rate for the bonds will be 5.20% (exempt from State and federal taxes).
4. The average effective State tax rate will be 5.42%.
5. The change will first impact FY 2003 tax receipts.
6. This fiscal estimate assumes the tax status of interest on bonds issued prior to the effective date of the Bill will not change. If an additional effect of the Bill is to make interest from previously issued bonds tax exempt, the fiscal impact would be significantly higher.

Fiscal Impact

The tax exemption provisions of SF 2306 will reduce Iowa tax revenues by \$7.0 million per year by FY 2017. The impact for each of the next five fiscal years is projected to be:

- FY 2003 - \$0.6 million
- FY 2004 - \$1.2 million
- FY 2005 - \$1.8 million
- FY 2006 - \$2.3 million
- FY 2007 - \$2.8 million

Exempting school district bond issues from State taxes will reduce the interest rate required by investors to make the bonds marketable. The reduced interest rate (approximately one-tenth of one percent) will reduce the interest expenses paid by Iowa school districts. Depending on market conditions, the reduced interest costs should equal or nearly equal the cost to the State in lost income tax revenue.

Sources

Iowa Association of School Boards (Bond Counsel)
Legislative Fiscal Bureau Analysis

/s/ Dennis C Prouty

March 18, 2002

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.
