



The Subprime Prison: Governor Culver Proposes New Prison at Fort Madison using Interest Only Revenue Bonds

UNDER CULVER'S PLAN, STATE WOULD REPAY INTEREST ONLY ON ABOUT HALF OF THE \$275 MILLION OF REVENUE BONDS FOR THE FIRST FOUR OR FIVE YEARS:

The budget proposal for Fiscal Year 2009 put forward by Governor Culver calls for the "...issuance of revenue bonds for approximately \$260 million in **net** proceeds..." to fund a variety of prison construction programs (and the Iowa Veterans Home), the largest of which is the building of a new state penitentiary in Fort Madison. (The actual amount of new revenue bonds to be issued would be \$275.3 million.)

The Governor calls for five specific prison projects and one project at the Iowa Veterans Home:

- 1. New Iowa State Penitentiary:** Replace the existing facility in Fort Madison (built in 1839) with an entirely new facility at the cost of \$130.7 million. **The construction would be financed by the issuance of a new series of prison revenue bonds secured by current court fines and fees.**
- 2. Iowa Correctional Institution for Women:** Upgrade the Correctional Institution for Women in Mitchellville by adding a new medical facility, making improvements to the existing dining hall, expanding laundry facilities, and adding a female residential facility at a cost of \$68 million. **The construction would be financed by the issuance of new tobacco revenue bonds.**
- 3. Mt. Pleasant and Rockwell City Correctional Institutions:** Upgrade dining facilities at both the Mt. Pleasant and Rockwell City Correctional Institutions at a cost of \$12.5 million. **The construction would be financed by the issuance of new tobacco revenue bonds.**
- 4. Community-Based Correctional Facilities:** Add bed space at four Community-Based Correctional Facilities in Ottumwa, Sioux City, Waterloo, and Des Moines at a cost of \$33.5 million. **The construction would be financed by the issuance of new tobacco revenue bonds.**
- 5. Community Treatment Resource Centers:** Create new Community Treatment Resource Centers in Des Moines and Waterloo to provide new re-entry programs for low-risk parolees at a cost of \$10 million. **The construction would be financed by the issuance of new tobacco revenue bonds.**
- 6. Iowa Veterans Home:** Various upgrades to the Iowa Veterans Home at a cost of \$20.6 million (the federal government is expected to pick up 65% of the total program cost and the \$20.6 million appropriated here is the state's share of matching funds to complete the project). **The construction would be financed by the issuance of new tobacco revenue bonds.**

Iowans for Tax Relief takes no position on whether or not these projects are necessary. However, we do have serious concerns over the financing mechanisms proposed to pay for the construction costs.

\$130.7 MILLION IN NEW PRISON REVENUE BONDS

The \$130.7 million in new prison revenue bonds to be used to fund the construction of a new state penitentiary in Fort Madison are scheduled to be repaid by current court fines and fees. However, those fees and fines are currently dedicated to repay principal and interest on revenue bonds for the construction of prison facilities in Newton, Clarinda, and Fort Dodge.

There is not enough additional revenue from these sources to allow repayment of both interest and principal on the new bonds proposed by the Governor for the Fort Madison prison. Thus, the Governor is borrowing a financing

SUBPRIME PRISON, continued ...

technique from those in the subprime lending industry and suggests **paying interest only** on the new revenue bonds for at least four or five years, or until there are sufficient resources from the court fine and fee fund to begin actual repayment of the principal.

Interest only mortgages are one of the many methods associated with subprime lending practices that have bankrupted home owners and are credited with the collapse of the real estate market. The ripple effects on the various U.S. stock markets and the massive losses sustained in those markets have adversely effected virtually all Iowans, particularly retirees who depend on 401k earnings to maintain their life styles.

Thus, knowing the damage such lending practices have had on Iowa families and Iowa investors, why would the state sanction such practices by using the same methods to finance any construction projects?

Just like Iowa families, if the price tag is too high and you cannot afford the principal and interest repayment schedule, state government has no business using risky financing schemes to purchase facilities that are currently not affordable.

Iowans for Tax Relief OPPOSES the use of interest only revenue bonds for ANY purposes. In fact, we strongly support efforts to fund these construction projects on a pay-as-you-go basis. If the prison in Fort Madison is a high priority, then perhaps the Governor and Legislature can use some or all of the \$50 million annual appropriation to the ill conceived Iowa Values Fund to pay for this project.

Or, perhaps the Governor can trim the excessive spending in his proposed FY 09 budget and use the \$90 million he is taking from the Rebuild Iowa Infrastructure Fund (a fund supported by gambling revenue that is supposed to be used for vertical infrastructure projects, and a new prison would certainly qualify as such) to prop up the general fund and use those resources to pay for this prison.

Regardless, not every project or program can be a priority. Unfortunately, rather than making a difficult choice, the Governor wants it all and is willing to risk state (meaning OUR) resources on a risky financing scheme that simply increases the cost to Iowans and shoves the ultimate repayment burden down the road.

We can do better.

\$144.6 MILLION IN NEW TOBACCO REVENUE BONDS

The question we ask in regards to this funding stream is this: "Do we ever use tobacco revenue for tobacco related programs and services?" This is not intended as a silly question, but points to a serious problem with any earmarked revenue source or pool of funds.

State government has a horrible history in regards to protecting earmarked revenue sources or funding pools. The lottery fund, originally slated for one time economic development expenses, has been redefined repeatedly and its resources put to multiple uses (much of which now goes directly to the state general fund).

The Senior Living Trust Fund has been repeatedly raided to pay for a variety of general fund purposes.

Now, once again, the Governor is asking to use new tobacco revenue bonds for purposes that have absolutely no connection to tobacco related issues or programs.

This is yet another reason why **Iowans for Tax Relief STRONGLY OPPOSES making the local option tax for school infrastructure a permanent statewide tax.** This proposed legislation (see the January 25, 2008 *Watchdog* http://www.taxrelief.org/reports/30/watchdog_01-25-08.pdf) would create a \$400 million state fund for the purpose of redistributing these dollars to school districts on a per pupil basis.

Given our state's history, again evidenced by the Governor's proposed new tobacco bonds for prison construction, there is **zero chance the school infrastructure fund could be protected from those who would choose to use those funds for other purposes.**

The Watchdog is a weekly update of issues which are being considered by the Iowa Legislature.
It is a service to members of Iowans for Tax Relief. Permission is granted to forward this to any interested individuals.

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