

AN ACT RELATING TO THE CREATION OF THE IOWA FUND, PROVIDING FOR SEED CAPITAL FROM SPECIFIED SOURCES, ESTABLISHING A BOARD OF FIDUCIARIES, PROVIDING FOR THE PHASE-OUT OF PROPERTY TAXES, REDUCTIONS IN STATE INCOME TAX RATES, LIMITATIONS ON GOVERNMENT EXPENDITURES, SUNSET PROVISIONS FOR SALES AND OTHER TAXES, DIVIDEND PAYMENTS TO IOWA CITIZENS, AND RELATED MATTERS.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. NEW SECTION. 8A.1 The Iowa Fund — creation and purpose.

1. A fund to be known as the Iowa Fund is created in the state treasury under the control of the board of fiduciaries established in section 8A.2. The Iowa Fund shall consist of moneys appropriated or transferred to the fund, including seed capital as provided in section 8A.3, and any other moneys credited to the fund, including investment earnings and proceeds.
2. The purpose of the Iowa Fund is to provide a sustainable source of revenue for state and local government operations through prudent investments targeting an average annual return of seven percent, to facilitate the reduction and eventual elimination of certain taxes, and to support dividend payments to Iowa citizens as provided in this chapter.
3. Moneys in the Iowa Fund shall be invested by the board of fiduciaries in accordance with chapter 12B and other applicable law, with the goal of achieving an average annual return of seven percent while maximizing long-term returns and minimizing risk.

Section 2. NEW SECTION. 8A.2 Board of fiduciaries — membership — terms — duties.

1. The Iowa Fund shall be governed by a board of fiduciaries consisting of the following members:
 - a. The state treasurer, who shall serve as chairperson.
 - b. The state auditor.
 - c. Seven members appointed by the governor, subject to confirmation by the senate. The appointed members shall have expertise in finance, investment management, or related fields. At least one of the appointed members shall be a Registered Investment Advisor, Stockbroker, or Registered Representative.
2. The appointed members shall serve staggered four-year terms, with initial terms as follows: two members for one year, two members for two years, two members for three years, and one member for four years, as designated by the governor.

Thereafter, all terms shall be four years. A vacancy shall be filled in the same manner as the original appointment for the remainder of the unexpired term.

3. The board shall meet at least quarterly and shall have the following duties:
 - a. To oversee the investment of moneys in the Iowa Fund.
 - b. To determine the allocation of annual proceeds as provided in section 8A.4.
 - c. To certify the annual proceeds of the Iowa Fund relative to the certified budgetary needs of all state and local governmental bodies for purposes of tax sunset provisions and dividend payments under sections 8A.8, 8A.9, and 8A.10.
 - d. To adopt rules pursuant to chapter 17A as necessary to administer this chapter.
4. Members of the board shall serve without compensation but may be reimbursed for actual and necessary expenses incurred in the performance of their duties.

Section 3. NEW SECTION. 8A.3 Seed capital — sources.

1. The following shall constitute seed capital for the Iowa Fund and shall be transferred or appropriated to the fund as provided in this section:
 - a. All moneys in the taxpayer relief fund created in section 8.57E, which shall be transferred to the Iowa Fund on the effective date of this Act.
 - b. The proceeds from the issuance of twenty-five billion dollars in ten-year revenue bonds by the state, which bonds shall be repaid solely from the proceeds of the Iowa Fund. The bonds shall be issued pursuant to chapter 12A and shall not constitute a general obligation of the state.
 - c. All revenues from the state income tax imposed under chapter 422, which shall be deposited into the Iowa Fund beginning in the first fiscal year commencing after the effective date of this Act, notwithstanding any other provision of law to the contrary.
 - d. All revenues from an eight percent sales and services tax imposed under chapter 423, which shall be deposited into the Iowa Fund beginning in the first fiscal year commencing after the effective date of this Act, notwithstanding any other provision of law to the contrary. If the current sales and services tax rate is less than eight percent, the rate shall be increased to eight percent effective on the effective date of this Act. The only exemptions from this tax shall be for groceries and medicines.
2. For purposes of this chapter, "year one" means the first full fiscal year beginning after the effective date of this Act, and subsequent years are numbered accordingly.

Section 4. NEW SECTION. 8A.4 Allocation of annual proceeds.

1. The board of fiduciaries shall annually determine the net proceeds of the Iowa Fund after payment of administrative expenses and any bond obligations.
2. Fifty percent of the annual proceeds shall be retained in the Iowa Fund for continued investment.
3. The remaining fifty percent of the annual proceeds shall be distributed as follows:

- a. Fifty percent to the general fund of the state.
- b. Twenty percent to school districts, to be distributed on a per-pupil basis in accordance with formulas established by the department of education.
- c. Twenty percent to cities, to be distributed in accordance with formulas established by the department of management based on population and prior property tax reliance.
- d. Ten percent to counties, to be distributed in accordance with formulas established by the department of management based on population, road mileage, and prior property tax reliance.

4. The departments of education and management shall adopt rules pursuant to chapter 17A to implement the distributions required under subsection 3.

Section 5. NEW SECTION. 8A.5 Property tax phase-out.

1. Notwithstanding any other provision of law, property taxes levied by all taxing authorities in the state shall be phased out as follows:
 - a. In years one and two, property tax levies shall be frozen at the levels certified for the prior fiscal year, with no growth permitted.
 - b. Beginning in year three and each year thereafter, property tax levies shall be reduced by five percent per year from the prior year's level until the board of fiduciaries certifies that the annual proceeds of the Iowa Fund have achieved one hundred fifty percent of the total property tax revenue collected in the prior fiscal year, at which point property tax levies shall be reduced to zero.
2. The department of revenue shall adopt rules to implement the phase-out, including adjustments to assessment limitations and rollback provisions under chapter 441.
3. Political subdivisions may request a temporary override of the phase-out reductions for a period not to exceed three years, subject to annual review for necessity by the state treasurer. The treasurer shall adopt rules pursuant to chapter 17A to administer such requests.

Section 6. NEW SECTION. 8A.6 State income tax rate reductions.

Notwithstanding section 422.5 or any other provision of law, the state income tax imposed under chapter 422 shall be a flat rate reduced as follows:

1. In year one, to two point five percent.
2. Beginning in year two and each year thereafter, the rate shall be reduced by point two five percentage points per year until it reaches zero.

Section 7. NEW SECTION. 8A.7 Government expenditure limitations.

1. Total expenditures by all state and local governmental bodies, including appropriations from the general fund and other funds, shall be limited as follows:
 - a. In years one through three, expenditures shall be frozen at the prior fiscal year's levels, with no growth permitted.
 - b. In years four through six, expenditures shall be reduced by two point five percent per year from the prior fiscal year's level.

- c. In years seven through ten, expenditures shall be reduced by five percent per year from the prior fiscal year's level.
2. The reductions under subsection 1 shall be temporarily frozen if the board of fiduciaries certifies that the annual proceeds of the Iowa Fund have fallen below one hundred ten percent of the certified budgetary needs of all state and local governmental bodies for the upcoming fiscal year. The reductions shall resume once the annual proceeds are certified to have returned to or exceeded one hundred ten percent of the certified budgetary needs.
3. The legislative services agency shall certify the prior year's expenditure levels and monitor compliance. Any expenditures exceeding the limits shall be void.

Section 8. NEW SECTION. 8A.8 Sales tax sunset.

1. When the board of fiduciaries certifies that the annual proceeds of the Iowa Fund have achieved one hundred twenty-five percent of the certified budgetary needs of all state and local governmental bodies for the upcoming fiscal year, the sales and services tax rate imposed under chapter 423 shall begin to sunset.
2. The tax rate shall be reduced by one percentage point each fiscal year until it reaches zero.
3. "Certified budgetary needs" means the total amount of appropriations and expenditures certified by the legislative services agency as necessary for the operations of all state agencies, departments, and local governments, excluding any tax revenues phased out under this chapter.

Section 9. NEW SECTION. 8A.9 Abolition of other taxes.

Upon the sales and services tax rate reaching zero under section 8A.8, all other state and local taxes, surcharges, and fees, except as necessary for federal compliance or interstate compacts, shall be abolished. Thereafter, all government operations shall be funded entirely by proceeds from the Iowa Fund.

Section 10. NEW SECTION. 8A.10 Dividend payments to Iowa citizens.

1. Beginning in year ten, ten percent of the annual proceeds of the Iowa Fund shall be divested and distributed as dividend payments on a per capita basis to all Iowa citizens with income less than one hundred fifty percent of the statewide poverty level.
2. Beginning in year fifteen, dividends shall be distributed on a per capita basis to all Iowa citizens with income less than two hundred percent of the statewide poverty level.
3. Beginning in year twenty and thereafter, dividends shall be distributed on a per capita basis to all Iowa citizens, regardless of income.
4. "Iowa citizen" means a person who has resided in the state of Iowa for at least one hundred eighty-three consecutive days immediately preceding the distribution date.
5. Dividends payable to minor Iowa citizens under the age of eighteen shall be held in interest-bearing accounts administered by the state treasurer and paid out upon the minor reaching the age of eighteen.

6. The department of revenue shall adopt rules for verifying residency, income eligibility, and administering distributions. The statewide poverty level shall be determined annually based on federal guidelines adjusted for Iowa.

Section 11. NEW SECTION. 8A.11 Annual transparency report.

1. The state treasurer shall prepare and submit an annual report on the Iowa Fund to the governor, the general assembly, and the legislative services agency no later than December 31 of each year.
2. The report shall include, at a minimum:
 - a. The current balance of the Iowa Fund as of the end of the prior fiscal year.
 - b. The actual net proceeds of the Iowa Fund for the prior fiscal year.
 - c. Projected net proceeds of the Iowa Fund for the current and upcoming fiscal years, based on reasonable investment assumptions approved by the board of fiduciaries.
 - d. Any projected fiscal year in which the annual proceeds are expected to achieve one hundred twenty-five percent of certified budgetary needs (triggering the sales tax sunset under section 8A.8) or two hundred fifty percent of certified budgetary needs (triggering dividend payments under section 8A.10).
 - e. Such other information as the treasurer deems relevant to the financial status and performance of the Iowa Fund.
3. The report shall be made publicly available on the state treasurer's official website.

Section 12. NEW SECTION. 8A.12 Sales tax sunset freeze and reinstatement.

1. If, after the sales and services tax sunset has commenced under section 8A.8, the board of fiduciaries certifies that the annual proceeds of the Iowa Fund have fallen below one hundred fifty percent of the certified budgetary needs of all state and local governmental bodies for the upcoming fiscal year, further reductions in the sales and services tax rate shall be frozen until the annual proceeds are certified to have returned to or exceeded one hundred fifty percent of the certified budgetary needs.
2. If the sales and services tax rate has reached zero and the board of fiduciaries certifies that the annual proceeds of the Iowa Fund have fallen below one hundred fifty percent of the certified budgetary needs of all state and local governmental bodies for the upcoming fiscal year, the sales and services tax rate may be reinstated at the minimum percentage projected by the department of revenue to cover the certified budgetary needs, but not to exceed the original eight percent rate.
3. Upon certification by the board of fiduciaries that the annual proceeds have returned to or exceeded one hundred fifty percent of the certified budgetary needs, the sales tax sunset under section 8A.8 shall resume from the rate in effect at the time of the freeze or reinstatement.

4. The department of revenue and the board of fiduciaries shall adopt rules pursuant to chapter 17A to implement this section, including projections for reinstatement rates.

Section 13. NEW SECTION. 8A.13 Annual independent audits and oversight hearings.

1. The Iowa Fund shall be subject to annual independent audits conducted by a certified public accounting firm selected by the board of fiduciaries. The audit reports shall be submitted to the general assembly no later than March 1 of each year.
2. The house of representatives and the senate shall conduct annual public oversight hearings relating to the structure, function, and performance of the Iowa Fund.

Section 14. This Act shall take effect on July 1 of the year following its enactment.