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STATE OF IOWA

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State Auditor Vaudt Reviews Governor's Fiscal Year 2011 Budget Proposal

(Des Moines, Iowa) – Continuing in his role as the “Taxpayers’ Watchdog” and his duty to report directly to the people of Iowa on the condition of the State’s finances, State Auditor David A. Vaudt has completed his review of the Governor’s proposed Fiscal Year 2011 budget. Vaudt said, “Not only does this proposed budget continue to follow the poor budgeting practices of past years, it is the first budget I’ve reviewed that exceeds the statutory 99% expenditure limitation.”

Budget Proposal Does not Meet the Statutory Requirement for a Balanced Budget

While the Governor’s budget proposal claims to be more than \$60 million under the 99% expenditure limitation required by law, the numbers on which this claim is based do not withstand scrutiny. The budget relies on \$341 million in “savings” to be produced by implementing the recommendations of a report authored by Public Works LLC, a consulting firm hired by the Governor to identify savings in state government. After studying the consultant’s report and the Legislative Services Agency’s (LSA’s) analysis of many of the report’s recommendations, Vaudt agreed with LSA’s conclusion the General Fund savings will be far less than the \$341 million included in the Governor’s budget proposal.

Even if all of the consultant’s recommendations were implemented, \$83 million—almost 25%—of the Governor’s \$341 million projected General Fund savings will not be realized because several of the savings amounts included by the Governor have no impact on the General Fund. This results in the proposed budget being \$25 million above, not \$60 million below, the expenditure limitation—meaning the Governor’s proposed budget for Fiscal Year 2011 does not comply with state law.

Furthermore, the feasibility and timing of some of the other savings included by the Governor are questionable. For example, the consultant recommended the State modernize unclaimed property search capabilities and projected first year revenues would be \$40 million. As Auditor Vaudt has already communicated, these assets belong to taxpayers and must be returned to them instead of being retained by the State to fund its programs. In addition, the consultant’s specific

strategy has yet to be successfully implemented by any other state we are aware of, and legal hurdles could impact the amount and feasibility of any revenues in Fiscal Year 2011.

Short Changing the Schools – and the Taxpayers

In his Condition of the State address and his proposed budget transmittal letter, Governor Culver committed to fully fund the 2% allowable growth in school spending, plus provide an additional \$100 million of funding for schools from the State's cash reserves. Based upon LSA's analysis of the Governor's budget proposal, however, the Governor provides \$270 million less than the 2% allowable growth approved last year. The Governor's budget proposal does not fully restore the 10% across-the-board reduction in foundation aid ordered by the Governor this year. In addition, absent a change in allowable growth (to a rate of less than zero) school districts will have the authority to make up all but \$100 million of the shortfall in total state funding by raising property taxes. Therefore, the Governor's budget could have the effect of raising property taxes on Iowans by as much as \$170 million while still falling \$100 million short of the level of school funding promised by the Governor. Auditor Vaudt noted, "This is a bad deal for taxpayers and for schools. Taxpayers could get a property tax hike, while school districts would not only have to bear the responsibility for raising property taxes, but also receive \$100 million less funding than what was promised by the Governor."

Other Budget Concerns

Auditor Vaudt identified two other concerns regarding the Governor's budget proposal. First, the budget for the current fiscal year was balanced via furloughs and "mandatory unpaid leave" days—a short-term fix for a long-term problem. Under LSA's analysis, without at least \$13 million of additional funding for union employees, plus millions more for non-contract employees, these unpaid leave and furlough days will need to be repeated in Fiscal Year 2011.

Second, the proposed budget does not fund \$86 million of General Fund salary increases negotiated as a result of collective bargaining. Without funding for increased salary costs or concessions in Fiscal Year 2011, additional layoffs and/or "mandatory unpaid leave" will need to occur.

Auditor Vaudt concluded, "This proposed budget is out of balance by as much as \$400 million. Why? The Governor's proposed budget exceeds the statutory expenditure limitation by \$25 million, underfunds education allowable growth by \$270 million, and ignores collective bargaining costs and furlough impacts of over \$100 million. Even considering these unfunded costs, the budget still uses a charge card approach to the state's budget by shifting nearly \$450 million in General Fund costs to other funds and special accounts. The taxpayers of Iowa deserve better."

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**Auditor of State
David A. Vaudt**

**Comments on
Governor Culver's & Lt. Governor Judge's
Fiscal Year 2011 Proposed Budget**

February 10, 2010

State of Iowa FY11 General Fund Budget

Remarks today will focus on—

- **Balanced Budget**
- **Education – “The Real Surprise”**
- **Other Budget Concerns**
- **“Apples-to-Apples” Spending Comparisons**
- **FY12 Outlook**

**State of Iowa
FY11 General Fund Budget
Balanced Budget**

Iowa Code section 8.54(7):

“The Governor shall transmit to the general assembly, in accordance with section 8.21, a budget which does **not** exceed the state general fund expenditure limitation.” (emphasis added)

**State of Iowa
FY11 General Fund Budget
Balanced Budget
(\$ in Millions)**

Expenditure Limitation:

	<u>As Presented</u>	<u>Properly Calculated</u>
Revenues:		
REC estimate	\$5,403	\$5,403
Adjustments	35	35
Efficiency Review Report	—	85 (A)
Total revenues	<u>\$5,438</u>	<u>\$5,523</u>
Expenditure limitation	<u>\$5,382</u>	<u>\$5,463</u>

(A) As reported by Legislative Services Agency

**State of Iowa
FY11 General Fund Budget
Balanced Budget
(\$ in Millions)**

Appropriations vs. Expenditure Limitation:

	<u>As Presented</u>	<u>Properly Calculated</u>
Expenditure limitation	\$5,382	\$5,463
Expenditures:		
Appropriations	5,662	5,662
Efficiency Review Report savings	<u>(341)</u>	<u>(174) (A)</u>
	<u>5,321</u>	<u>5,488</u>
Below (above) expenditure limit	<u>\$ 61</u>	<u>\$ (25)</u>

When properly calculated, this budget proposal does not comply with Iowa Code section 8.54(7).

(A) As reported by Legislative Services Agency

**State of Iowa
FY11 General Fund Budget
Balanced Budget**

Efficiency Review Report – Errors in Application:

- Non-General Fund savings included
Example: early retirement savings
(\$31 million relates to other funds)
- Revised report amounts not utilized
Example: real estate portfolio sales
(\$30 million revised to \$14 million)
- New revenues vs. expenditure savings impact ignored
Example – improved debt collections
(expenditure limitation applies to revenues)

**State of Iowa
FY11 General Fund Budget
Balanced Budget**

Efficiency Review Report – Other Concerns Noted:

Some savings are included, however—

- feasibility/timing is questionable
(modernize unclaimed property search capabilities – \$40 million)
- insufficient information was available to fully calculate
(Board of Regents participation - \$25 million)
- further research and analysis is required in order to assess
(various - \$6 million)

**State of Iowa
FY11 General Fund Budget
Education – “The Real Surprise”**

Governor’s transmittal letter:

“We are also proposing a \$2.4 billion appropriation for school districts – funding the 2 percent allowable growth formula approved last session for FY2011 and spending an additional \$100 million from the reserve funds for K-12 schools.” (emphasis added)

**State of Iowa
FY11 General Fund Budget
Education – “The Real Surprise”
(\$ in Millions)**

FY11 fully-funded state school aid	\$2,664	(A)
FY11 funding proposed:		
General Fund	\$2,346	
Federal stimulus	48	2,394
<u>Underfunded</u> state school aid		\$ 270

Even if you include the Governor’s “additional \$100 million” spending for schools from the Cash Reserve Fund, the 2% allowable growth is underfunded by \$170 million.

(A) As reported by Legislative Services Agency

**State of Iowa
FY11 General Fund Budget
Other Budget Concerns**

- If not repeated in FY11, FY10 savings from mandatory unpaid leave/furlough days will increase costs (\$13 million unpaid leave, furlough estimate not available)
- General Fund collective bargaining costs for FY11 are not funded (\$86 million)
- Bonding authorized by Senate File 477 is increased from \$119 million to \$171 million (\$52 million more debt)

State of Iowa
FY11 General Fund Budget
Balanced Budget – The Challenges
(\$ in Millions)

Spending above expenditure limit	\$ 25	
Underfunded state school aid	<u>270</u>	
	<u>295</u>	
Unfunded collective bargaining costs	86	
Unfunded FY10 unpaid leave days (furlough estimate not available)	<u>13</u>	
	<u>\$394</u>	

Even if all the Efficiency Review Report revenue/savings proposals for the General Fund were adopted and realized, the Legislature has significant challenges to address the nearly \$400 million of costs the Governor failed to address.

State of Iowa
FY11 General Fund Budget
Apples-to-Apples Spending Comparisons
(\$ in Millions)

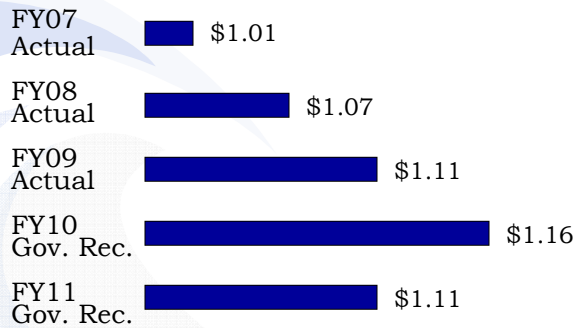
“True total expenditures”:

	<u>Amount</u>	<u>Annual % Inc.(Dec.)</u>	<u>Cumm.% Increase</u>
FY07 actual	<u>\$5,713</u>		
FY08 actual	<u>\$6,372</u>	<u>11.5%</u>	<u>11.5%</u>
FY09 actual	<u>\$6,496</u>	<u>1.9%</u>	<u>13.7%</u>
FY10 Governor recommended	<u>\$6,216</u>	<u>(4.3%)</u>	<u>8.8%</u>
FY11 Governor recommended	<u>\$6,089(A)</u>	<u>(2.1%)</u>	<u>6.6%</u>

(A) As properly calculated

**State of Iowa
FY11 General Fund Budget
Apples-to-Apples Spending Comparisons**

For every \$1.00 of on-going available revenue, we somehow think we can spend:



**State of Iowa
FY11 General Fund Budget
The FY12 Outlook
(\$ in Millions)**

		<u>Spending Gap</u>	
		<u>Amount</u>	<u>%</u>
FY11 available revenues (A)	<u>\$5,455</u>		
FY11 "true total expenditures"	<u>\$6,089</u>	<u>634</u>	<u>12%</u>
FY11 "true total expenditures" including underfunded school aid and collective bargaining/furlough costs	<u>\$6,458</u>	<u>1,003</u>	<u>18%</u>

(A) Reflects 99% expenditure limitation