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State Auditor Vaudt Reviews House Republicans' Fiscal Year 2007 Budget Proposal
Comparison of House Republicans' and Governor's Proposed Budgets; Significant Steps in the Right Direction; Recommendations Noted

(Des Moines, Iowa) – Continuing in his role as the "Taxpayers' Watchdog" and in 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 House Republicans' proposed Fiscal Year 2007 budget. Some of his findings include—

Comparison of House Republicans' and Governor's Proposed Budgets

"If one looks at the House Republicans' General Fund budget proposal, it first appears almost identical to the Governor's proposed budget," noted Auditor Vaudt. Once shifted expenditures and other necessary adjustments are factored in, however, the House Republicans' proposed spending for Fiscal Year 2007 totals $5,521.5 million while the Governor's spending proposal totals $5,723.8 million—that's $202.3 million, or 3.5%, less than the Governor's. "That's why it is so important to make apples-to-apples comparisons when trying to evaluate proposals and make good budgeting decisions," stressed Auditor Vaudt.

Significant Steps in the Right Direction

"It is refreshing to see a proposed budget that addresses several significant concerns I have expressed about Iowa's finances," remarked Auditor Vaudt. This Fiscal Year 2007 budget proposal takes positive steps by—

- focusing on "true total expenditures"
- controlling the growth of "true total expenditures" to 3.2% over Fiscal Year 2006
- reducing the spending gap by $126.5 million compared to Fiscal Year 2006
- providing for a $50 million balance in the Senior Living Trust Fund at the end of Fiscal Year 2007

"Adoption of the House Republicans' proposed budget would provide a solid foundation for the progress Iowa needs to make in bringing expenditures in line with revenues," added Auditor Vaudt. "That's what I'm looking for—progress—steps in the right direction."

Recommendations Noted

"While the House Republicans' proposed budget shows improvements I have been calling for, I do have some recommendations," remarked Auditor Vaudt. Those recommendations include—

- eliminating dependence on the current year's projected surplus to balance next year's budget
- funding Medicaid at levels equal to the best cost estimates available
- considering the potential impact on programs of not funding salary and benefit increases
- developing longer-range plans to address the impacts of built-in expenditure increases and revenue reductions

"While I am pleased with a number of aspects of the House Republicans' Fiscal Year 2007 proposed budget, it's never too early to start looking ahead to Fiscal Year 2008 and beyond. This proposed budget makes steps in the right direction, but there are more to be made. I don't expect all the necessary steps will be made in any one year, but we have to maintain the progress that has begun. That is why we must constantly consider the long-term impacts of the budget decisions we make today," stressed Auditor Vaudt.

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Auditor of State
David A. Vaudt

Comments on
House Republicans'
Fiscal Year 2007
Budget Recommendations

February 20, 2006

Press Briefing

State of Iowa
House Republicans'
FY07 General Fund Budget

Remarks today will focus on three areas:

- The numbers – comparison of the House Republicans' and Governor's proposed budgets
- Significant steps in the right direction:
  - Focuses on and controls "true total expenditures" growth
  - Reduces the spending gap
  - Makes an initial repayment to Senior Living Trust Fund

State of Iowa
House Republicans'
FY07 General Fund Budget

- Concerns:
  - Reliance on FY06 projected surplus
  - Under-funds estimated costs
  - Increases in salaries and benefits not funded
  - Looking Ahead – revenue growth needed for FY08

State of Iowa
House Republicans'
FY07 General Fund Budget
($ in Millions)

As presented:	House Republicans'	Governor's
Revenues	$ 5,301.9	5,361.7
Expenditures	5,247.9	5,306.3
Budgeted surplus	$ 54.0	55.4
Surplus as a % of revenues	1.0%	1.0%

State of Iowa
House Republicans'
FY07 General Fund Budget
Revenue Adjustment
($ in Millions)

	House Republicans'	Governor's
As presented	$5,301.9	5,361.7
Cigarette and tobacco tax increase shifted to and spent from other funds	-	129.9
Total revenues	$5,301.9	5,491.6

State of Iowa
House Republicans'
FY07 General Fund Budget
Expenditure Adjustments
($ in Millions)

	FY07 House Republicans'		FY07 Governor's		FY06 Budget	
As presented	$5,247.9		5,306.3		4,938.6	
▪ Repayment to SLTF (A)	(25.0)		-		-	
▪ FY07 new ongoing revenues - Cigarette and tobacco tax increase shifted to and spent from other funds	-		129.9		-	
▪ Non-General Fund resources - Expenditures shifted to other funds	257.6		227.6		367.7	
▪ Under-funded costs – likely supplemental appropriation	41.0		60.0		30.0	
Total adjustments	273.6	5.2%	417.5	7.9%	397.7	8.1%
"True total expenditures"	$ 5,521.5		5,723.8		5,336.3	

(A) Senior Living Trust Fund

State of Iowa
House Republicans'
FY07 General Fund Budget
Shifted Expenditures
($ in Millions)

	FY07		
	House Republicans'	Governor's	FY06 Budget
Non-General Fund resources:			
Other expenditures shifted to:			
FY06/FY05 Surplus	$102.7	119.8	159.6
Cash Reserve Fund	57.0	-	-
Tobacco Related Funds	35.3	32.8	68.5
Senior Living Trust Fund	40.0	40.8	108.7
Hospital Trust Fund	-	-	22.9
Rebuild Iowa Infrastructure Fund	15.1	22.1	.5
Environment First Fund	7.5	7.5	7.5
Vertical Infrastructure Fund	-	4.6	-
	$257.6	227.6	367.7

State of Iowa
House Republicans'
FY07 General Fund Budget
Additional Expenditures
($ in Millions)

	FY07		
	House Republicans'	Governor's	FY06 Budget
Under-funded costs:			
Likely supplemental:			
Medicaid	$ 38.0	57.0	30.0*
State Appeal Board	3.0	3.0	-
	$ 41.0	60.0	30.0

*Originally adopted FY06 budget

State of Iowa
House Republicans'
FY07 General Fund Budget
Growth of "True Total Expenditures"
($ in Millions)

	House Republicans'		Governor's
FY06:			
Enacted budget	$ 4,938.6		4,938.6
Shifted expenditures	367.7		367.7
Proposed supplemental	46.4		57.5
Estimated "true total expenditures"	$5,352.7		5,363.8
FY07:			
Estimated "true total expenditures"	$5,521.5		5,723.8
FY07 increase over FY06:			
Amount	$ 168.8		360.0
Percentage	3.2%		6.7%
Budgeted FY06 increase over FY05		7.0%	

State of Iowa
House Republicans'
FY07 General Fund Budget
Reduces the Spending Gap
($ in Millions)

	FY07		
	House Republicans'	Governor's	FY06 Budget
As adjusted for all resources:			
Total revenues	$5,301.9	5,491.6	4,990.2
"True total expenditures"	5,521.5	5,723.8	5,336.3
Gap - spending in excess of revenues	$ [219.6]	[232.2]	[346.1]
Spending gap as % of total revenues	[4.1%]	[4.2%]	[6.9%]

State of Iowa
House Republicans'
FY07 General Fund Budget
Initial Repayment to
Senior Living Trust Fund

- General Fund appropriation to repay $25 million - included within calculated spending limitation
- Tobacco Related Funds appropriation to repay $25 million – from refunding bond proceeds
- The 6/30/07 Senior Living Trust Fund balance projected by the House Republicans is $50 million while the Governor's projected balance is only $380,000

State of Iowa
House Republicans'
FY07 General Fund Budget
Concerns

- Reliance on FY06 Projected Surplus:
  - Utilizes $102.7 million of projected FY06 surplus to fund property tax credits for FY07 budget
  - Leaves essentially no "cushion" for either FY06 or FY07 budget years
  - Continues dependence on balancing next year's budget with current year's projected unspent revenues
- Under-funds estimated costs:
  - Medicaid
    - Under-funded FY07 estimated costs by $38 million:
      - DHS, DOM, and LSA cost estimate $837 million
      - Budget proposal provides $799 million

State of Iowa
House Republicans'
FY07 General Fund Budget
Concerns, Continued

- Other costs
  - Under-funded by $3.0 million:
    - ◊ State Appeal Board

- <u>Salaries and benefits</u>:
  - Regents salaries and benefits to increase $25 million, not funded
  - Non-Regent salaries and benefits to increase $57 million, not funded

State of Iowa
House Republicans'
FY07 General Fund Budget
Concerns, Continued
($ in Millions)

Looking ahead revenue growth needed for FY08:	House Republicans'	Governor's
LSA estimated revenue decreases built-in	$ 50	50
Social security and pension tax revenue reduction phase-in	60	-
Student achievement/teacher quality and high quality preschool spending increases	-	45
Allowable growth of 4% for K-12 education	103	103
Full year vs. 3 months operations for Corrections Oakdale expansion	15	15
	228	213
FY07 shifted expenditures	258	228
Revenue growth needed	$ 486	441
Revenue growth needed – as a percentage of estimated revenues	4.3%-9.2%	3.9%-8.0%

[FY07 estimated revenue – House Republicans' $5,302, Governor's $5,492]