



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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**State Auditor Vaudt Reviews Governor Branstad's  
Fiscal Year 2012 and 2013 Budget Proposals**

(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 2012 and 2013 budgets. Vaudt said, “While there are still concerns to be addressed, these budget proposals make huge progress in the areas of fiscal sustainability, transparency, and long-term planning.”

**Budget Proposals Dramatically Reduce Reliance on One-Time Resources**

The Fiscal Year 2011 budget shifted over \$800 million of General Fund costs to one-time resources, creating a huge spending gap for Fiscal Year 2012 when many of the one-time resources go away. This spending gap is often referred to as a “cliff” by experts because of the severity and suddenness of the drop in resources which are expected to be available. The Governor’s Fiscal Year 2012 and 2013 proposed budgets close this gap through a combination of spending cuts in selected areas and higher revenues than previously anticipated by the Revenue Estimating Conference.

Auditor Vaudt noted there are still almost \$100 million of annual expenditure shifts occurring in Fiscal Years 2012 and 2013. However, Vaudt pointed out, “The practice of shifting General Fund costs to one-time or limited-time sources has been significantly reduced in these budget proposals.”

**Budget Increases Transparency**

While the Fiscal Year 2011 budget presented less than 85% of the true total cost of providing General Fund services, the Governor’s proposed budgets present over 98% of the true General Fund costs. Vaudt said, “There is room for improvement in the presentation of the budget to make it more transparent and user-friendly, but the content is largely there.” Vaudt also noted Medicaid savings

included in the proposed budgets were supported by specific proposals which appear feasible under current laws and regulations, as opposed to the “wishful thinking” used in recent budgets.

### Two-Year Budget Proposal Increases Focus on Long-Term Planning

The Governor’s budget proposal includes a two-year budget, plus a summary 5-year financial plan. Vaudt said, “I have long advocated for multi-year budgeting because we make different decisions when we look at the long-term impact instead of only thinking about next year’s budget.” Vaudt added that while projections farther into the future are subject to more variability, there is a significant benefit to testing the sustainability of government programs through long-term financial planning.

### Concerns and Challenges

Auditor Vaudt noted three primary areas of concerns and challenges in Governor Branstad’s budget proposals and 5-year financial plan. First, \$89 million in General Fund salary cost increases approved by former Governor Culver are not funded in the Fiscal Year 2012 and 2013 proposed budgets. Absent increased funding, the salary increases will have to be funded through unpaid leave days and/or layoffs.

Second, projected revenues appear optimistic – maybe too optimistic. Fiscal Year 2011 and Fiscal Year 2012 revenues are projected to grow 4.6% and 5.9%, respectively. Vaudt commented, “I sincerely hope revenues grow at the pace projected by the Revenue Estimating Conference. But a more than 10% revenue growth projection over the next two years may be optimistic – especially when other states are predicting continued revenue issues. Iowa’s annual revenue growth in the last 20 years through Fiscal Year 2010 has averaged 3.6%. If our revenue growth falls short of projections, it could require budget cuts.”

Third, the 5-year projections show the longer-term fiscal sustainability of the state budget will still be very challenging. Vaudt said, “Cost growth in the three biggest areas of spending – education, Medicaid and salaries – is projected to be nearly \$300 million per year. Meanwhile, a 4% revenue growth translates to only approximately \$250 million of additional revenue annually. Absent meaningful cost efficiencies and/or additional revenue growth, we simply can’t sustain this level of spending growth in the long run. As a state government, we must rethink both the services we deliver and the way we deliver them in order to remain viable on a long-term basis.”

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**Auditor of State  
David A. Vaudt**

**Comments on  
Governor Branstad's & Lt. Governor Reynolds'  
Fiscal Year 2012 and 2013 Proposed Budgets**

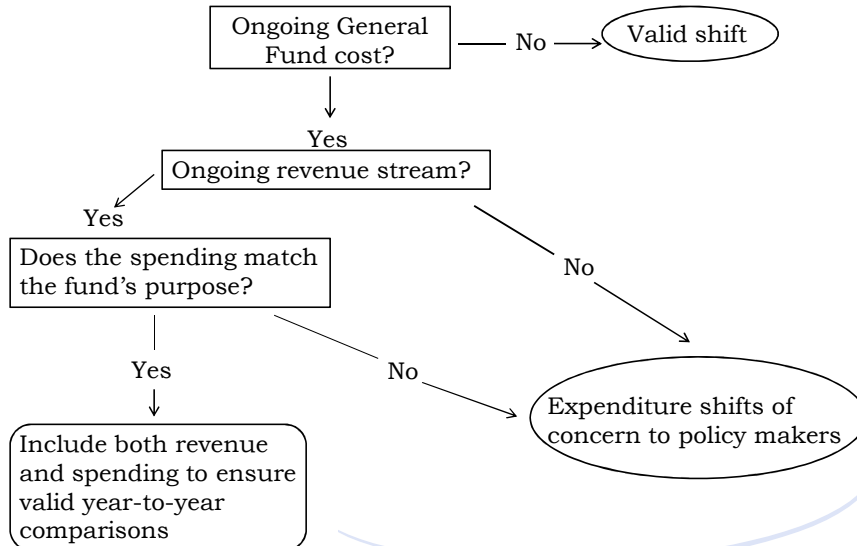
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**State of Iowa  
FY12 & FY13 General Fund Budgets**

Remarks today will focus on—

- “Expenditure Shifts 101”
- Governor’s Proposal
  - ◆ Addressing historical shortcomings
  - ◆ Clarity
  - ◆ Sustainability
  - ◆ Longer-range Focus
- Areas of Concern

## State of Iowa “Expenditure Shifts 101”



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## State of Iowa Expenditure Shifts of Concern Family Example: Your Utility Bill

Your utility bill is an ongoing cost in your personal family budget. What if you shift that cost to—

- Your Emergency Home Repair Account?
  - Is it an ongoing revenue stream? No.
  - Conclusion: This cost shift is concerning because when this account is depleted the cost comes back into your checking account – plus the emergency account is no longer available for home repairs.
- Your Child’s College Savings Account?
  - Is it an ongoing revenue stream? Yes.
  - Does the spending match the account’s purpose? No.
  - Conclusion: This cost shift is concerning because it takes away dollars from the account’s original purpose and creates a longer-term problem – funding future college costs.

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**State of Iowa  
Expenditure Shifts of Concern  
Family Example: Your Utility Bill, Cont'd.**

- Your Spouse's Checking Account Set Up to Pay Utilities?
  - Is it an ongoing revenue stream? Yes. (Your spouse's part-time job funds this account.)
  - Does the spending match the account's purpose? Yes.
  - Conclusion: This cost shift is OK, but it should be included to ensure valid comparisons with prior years.

**State of Iowa  
Expenditure Shifts of Concern  
General Fund Example: Medicaid\***

Medicaid is an ongoing General Fund cost. What if we shift Medicaid costs to—

- Senior Living Trust Fund
  - Is it an ongoing revenue stream? No.
  - Conclusion: The costs shifted should concern lawmakers because these one-time monies will be depleted, but the Medicaid costs are ongoing.
- Rebuild Iowa Infrastructure Fund
  - Is it an ongoing revenue stream? Yes.
  - Does the spending match the fund's purpose? No.
  - Conclusion: This shifted spending should concern lawmakers because the use is inconsistent with the fund's purpose and creates a longer-term problem – funding infrastructure needs.

\*Hypothetical expenditure shifts.

## State of Iowa Expenditure Shifts of Concern General Fund Example: Medicaid\*, Cont'd.

- Hospital Health Care Access Trust Fund
  - Is it an ongoing revenue stream? Yes.
  - Does the spending match the fund's purpose? Yes.
  - Conclusion: Both revenues and spending should be included (grossed up) to ensure apples-to-apples comparisons with prior years.

\*Hypothetical expenditure shifts.

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## State of Iowa Historical Budget Shortcomings

Three good budgeting principles Iowa has consistently failed to implement:

- **Clarity/Transparency** – present “true total expenditures” for General Fund services
- **Sustainability** – avoid reliance on one-time monies to pay ongoing costs
- **Longer-range Focus** – consider long-term impacts, not just short-term impacts

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**State of Iowa  
FY12 & FY13 General Fund Budgets  
Budget Addresses Historical Shortcomings**

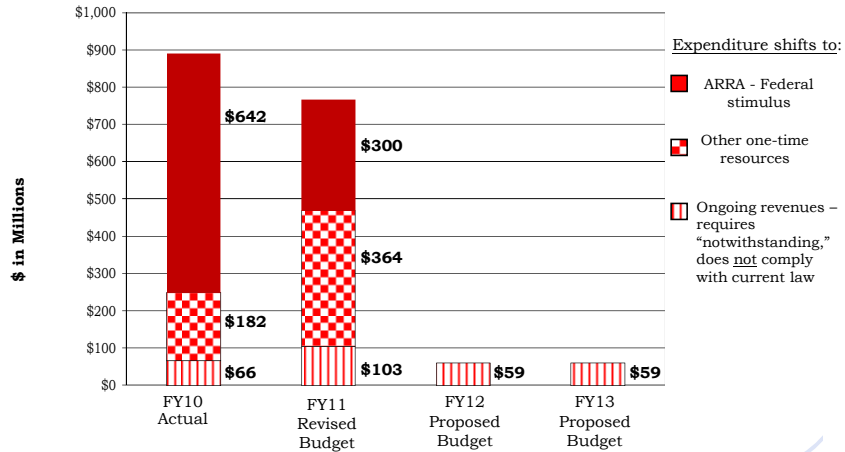
Governor Branstad’s FY12 & FY13 budget proposals take significant steps in the right direction:

- **Clarity** – substantially all of the cost of General Fund services included in the General Fund
- **Sustainability** – substantially reduces reliance on one-time monies and significantly limits overall spending growth
- **Longer-range Focus** – proposes FY12 & FY13 budgets, plus provides a 5-year summary financial plan

**State of Iowa  
FY12 & FY13 General Fund Budgets  
Clarity – Expenditures  
(\$ in Millions)**

	FY11 Revised Budget	FY12 Proposed Budget	FY13 Proposed Budget
General Fund expenditures:			
As presented	<u>\$5,279</u>	<u>\$6,162</u>	<u>\$6,275</u>
“True total expenditures”:	<u>\$6,232</u>	<u>\$6,266</u>	<u>\$6,377</u>
As presented as a % of “true total expenditures”:	<u>84.7%</u>	<u>98.3%</u>	<u>98.4%</u>

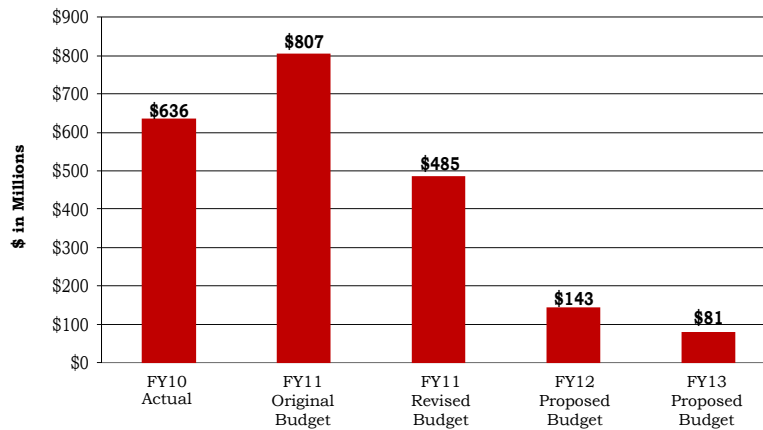
### State of Iowa FY12 & FY 13 General Fund Budgets Sustainability – Expenditure Shifts of Concern (\$ in Millions)



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### State of Iowa FY12 & FY 13 General Fund Budgets Sustainability – Spending Gap (\$ in Millions)

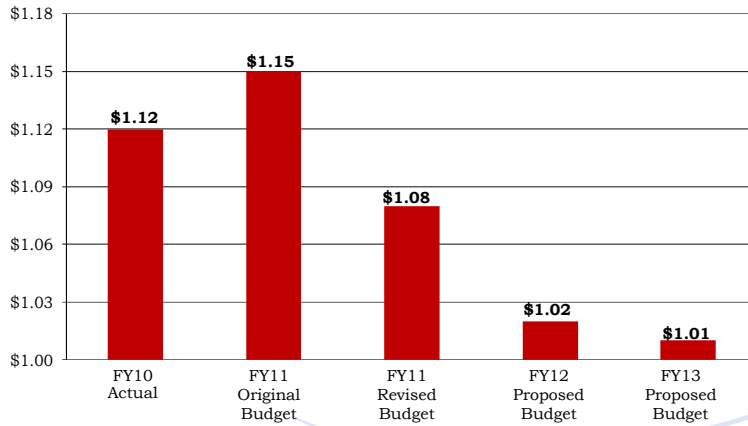


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**State of Iowa  
FY12 & FY 13 General Fund Budgets  
Sustainability – Spending Gap**

*For every dollar of on-going available revenue, we are spending:*



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**State of Iowa  
FY12 & FY13 General Fund Budgets  
Longer-range Focus – 2-year Budget Proposal  
(\$ in Millions)**

Governor Branstad proposed both a FY12 and a FY13 budget.

	FY11 Original Budget	FY11 Revised Budget	FY12 Proposed Budget	FY13 Proposed Budget
“True total expenditures”	<u>\$6,210</u>	<u>\$6,232</u>	<u>\$6,266</u>	<u>\$6,377</u>
Spending increase over the prior year:				
\$ amount	<u>\$70</u>	<u>\$92</u>	<u>\$34</u>	<u>\$111</u>
Percentage	<u>1.1%</u>	<u>1.5%</u>	<u>0.5%</u>	<u>1.8%</u>
Spending gap:				
\$ amount	<u>\$807</u>	<u>\$485</u>	<u>\$143</u>	<u>\$81</u>
As a % of ongoing available revenues	<u>14.9%</u>	<u>8.4%</u>	<u>2.3%</u>	<u>1.3%</u>

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## **State of Iowa FY12 & FY13 General Fund Budgets Longer-range Focus – 5-year Plan**

Governor Branstad includes a 5-year summary financial plan encompassing FY11 Revised through FY15.

- Provides outlook for FY14 & FY15
- Provides major assumptions used to develop revenue and expenditure estimates

## **State of Iowa FY12 & FY13 General Fund Budgets Concerns Noted**

- FY12 & FY13 budget proposals provide no funding for salary increases approved by former Governor Culver.
- REC revenue estimates project fairly significant revenue growth\* – FY11 at 4.6% and FY12 at 5.9% – FY12 surpassing FY08 pre-recession revenues.
- FY14 & FY15 2-year spending increases outpace 2-year revenue growth available – \$560 million versus \$420 million, respectively.

REC = Revenue Estimating Conference  
\* - after adjustment for Federal Tax Relief Act and FY10 one-time transfers.

**State of Iowa  
FY12 & FY13 General Fund Budgets  
Concerns Noted, Cont'd.**

- During FY12 through FY15, \$250 million of excess monies in the “rainy day” funds are reduced to about \$60 million – one-time monies.
- \$59 million of annual RIF expenditure shifts of concern continue through FY15.

“Rainy day” funds = Cash Reserve Fund & Economic Emergency Fund  
RIF = Rebuild Iowa Infrastructure Fund