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For Immediate Release

April 16, 2010

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State Auditor Vaudt Reviews Fiscal Year 2011 Budget

(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 Legislature’s Fiscal Year 2011 budget. Vaudt said, “This budget should be evaluated not only by what it does in Fiscal Year 2011, but also by how it sets Iowa up for Fiscal Year 2012.” Vaudt noted the budget shifts an increased percentage of General Fund expenditures to one-time and limited-time funding sources when compared to prior years. Vaudt said, “One out of every five dollars of General Fund costs is shifted to and paid for by other sources. That’s why it’s so important to track the true costs of providing General Fund services as opposed to just the reported spending from the General Fund. It’s the only way we can get an accurate picture of the true costs of General Fund services.”

Government Reorganization and Efficiencies Fail to Yield Needed Results

One of the most publicized highlights of the recently completed legislative session was finding savings from government reorganization and efficiencies. This effort was successful in finding an estimated \$108 million of General Fund savings. While this is significant, it represents less than 2% of the true cost of providing General Fund services. Also, true total spending actually increases \$140 million in Fiscal Year 2011—meaning the Legislature approved \$248 million of additional spending to offset the estimated \$108 million of savings. Vaudt said, “It’s like a family with a \$250 weekly grocery bill finding \$4 per week in savings on cereal so they decide to celebrate by having a \$9 steak each week—increasing the grocery bill by a net of \$5 per week. Would any Iowa family consider this to be ‘savings,’ or is it just Iowa government which does?”

Budget Creates Budgetary “Cliff” with Reliance on One-Time Resources

The Legislature’s Fiscal Year 2011 budget relies on over \$700 million of one-time resources which will not be available for Fiscal Year 2012. In addition, nearly \$90 million of General Fund costs are shifted to other funds. This creates a huge spending gap in the General Fund budget for Fiscal Year 2012 when the one-time monies 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.

Status of the Rainy Day Funds

Over the past few years, Governor Culver and others have often touted the “Rainy Day” funds as the shield against difficult budgetary times. Vaudt has continually cautioned the “Rainy Day” funds would not last long in the face of a true fiscal crisis. Vaudt’s advice has proven to be correct. The balance of the “Rainy Day” funds is projected to be less than \$200 million at the end of Fiscal Year 2011 – down nearly \$400 million from the beginning of Fiscal Year 2009. Vaudt said, “Reduced ‘Rainy Day’ funds create cash flow challenges and severely limit Iowa’s ability to deal with the continuing fiscal challenges looming ahead.”

Bumps in the Road for Fiscal Year 2011

Vaudt noted two challenges for Fiscal Year 2011 he previously identified in his analysis of the Governor’s proposed budget. Neither of these challenges was addressed in the Legislature’s budget. First, unfunded state school aid totals \$162 million. Schools can deal with this by cutting costs, or they can replace the unfunded state school aid by increasing property taxes. “The Legislature chose to push the tough decisions to the school districts,” said Vaudt.

Also, nearly \$50 million in collective bargaining costs and unpaid leave days are unaccounted for in the Fiscal Year 2011 budget. This means additional unpaid leave days and/or layoffs are inevitable. Vaudt said, “The Legislature’s choice could result in several hundred layoffs, or require equivalent savings through significantly increased unpaid leave/furlough days. Once the Governor signs all the budget bills, two things must happen. First, ensure the unpaid leave/furlough days and/or layoffs commence at the beginning of the fiscal year so agencies can absorb the impact over the entire fiscal year. Second, let state employees know what they face immediately so they can plan appropriately. Both the public and state employees deserve to know in advance.” Vaudt noted there will be a temptation to wait until after the November election to implement furloughs and/or layoffs so the public is not alerted to any problems. Delaying the inevitable would simply double the negative impact to services in the second half of the fiscal year.

Final Thoughts on the Budget

Vaudt concluded, “Thanks to this budget, next year’s Legislature again faces a spending gap of nearly \$1 billion. That means revenues would have to grow over 13% just to match this year’s true total spending for General Fund services. As was the case for Fiscal Year 2011, we face a huge gap in the next fiscal year. Iowa is, however, essentially out of ‘easy’ options for dealing with the spending gap. The taxpayers of Iowa deserve better than this continual ‘kick the can down the road’ approach.”

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Auditor of State
David A. Vaudt
Comments on
Fiscal Year 2011 Budget
Legislative Action
April 16, 2010

State of Iowa
FY11 General Fund Budget
Expenditures Presented – the “Spin”
(\$ in Millions)

	<u>FY09 Actual</u>	<u>FY10 Revised</u>	<u>FY11 Budget</u>
General Fund expenditures as presented	<u>\$5,959</u>	<u>\$5,302</u>	<u>\$5,279</u>
General Fund “true total expenditures”	<u>\$6,456</u>	<u>\$6,229</u>	<u>\$6,369</u>
Costs not presented:			
Amount	<u>\$ 497</u>	<u>\$ 927</u>	<u>\$1,090</u>
Percentage	<u>8.3%</u>	<u>17.5%</u>	<u>20.6%</u>

The trend is very concerning—

Iowa’s reliance on one-time and limited-time monies for General Fund services continues to grow—now \$1 out of every \$5.

State of Iowa
FY11 General Fund Budget
“Savings” – More Talk than Dollars
(\$ in Millions)

Reorganization and efficiencies included:

Revenue enhancements	\$ 22
Cost savings:	
Executive order	17
Legislative:	
Retirement incentives	26
Other	50
Appropriation for contingencies/tracking	(7)
	<u>\$108</u>

Savings as a % of General Fund “true total expenditures” (\$6,369)

1.7%

Let’s put “savings” in perspective—

It’s like a family with a \$250 weekly grocery budget reducing its weekly grocery costs by \$4.

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3

State of Iowa
FY11 General Fund Budget
The “Cliff” for FY12
(\$ in Millions)

One-time monies in FY11:

Federal stimulus	\$325		
Non-General Funds:			
Cash Reserve Fund	265		
Senior Living Trust Fund	48		
Underground Storage Tank Fund	24		
School Infrastructure Fund	8		
Carryforward balances	56		
Other	10	\$736	<u>11.6%</u> (A)

Expenditure shifts (B):

Rebuild Iowa Infrastructure Fund	\$ 77		
Other funds	12	\$ 89	<u>1.4%</u> (A)

This demonstrates a very short-term vision—

Look at the built-in FY12 “cliff” Iowa will face absent any spending increase.

(A) % of “true total expenditures” - \$6,369

(B) Excludes IowaCare Account and Health Care Trust Fund with revenues and expenditures shifted

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4

**State of Iowa
FY11 General Fund Budget
Medicaid – The Hole is Deep
(\$ in Millions)**

	FY08 Actual	FY09 Actual	FY10 Revised	FY11 Budget
Medicaid costs	\$849	\$908	\$974	\$1,048
Annual increase - amount	\$ 88	\$ 59	\$ 66	\$ 74
- percent	11.5%	6.9%	7.3%	7.6%
Resources used:				
General Fund (A)	\$731	\$710	\$698	\$ 556
One-time monies: (B)				
Federal stimulus	-	112	229	217
CRF, SLTF & other funds	118	86	47	275
- amount	\$118	\$198	\$276	\$ 492
- percent	13.9%	21.8%	28.3%	46.9%

We have dug a deep Medicaid hole—

In FY11 almost 50% of Medicaid costs are paid with one-time monies, creating nearly a \$500 Medicaid hole to “climb out of” in FY12.

(A) Health Care Trust Fund and hospital provider tax included as General Fund resource.
(B) CRF – Cash Reserve Fund; SLTF – Senior Living Trust Fund.

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5

**State of Iowa
FY11 General Fund Budget
Federal Stimulus – Medicaid Extension**

Expiration date – December 31, 2010

FY11 budget – assumes extension through June 30, 2011

Additional Federal stimulus monies provided if extension is approved – \$125 million

Ironic—

Legislative “talk” was all about FY11 savings from reorganization and efficiencies of \$108 million; however, nothing highlighted this yet to be approved \$125 million of additional Federal one-time monies used to “balance” the budget.

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6

State of Iowa
FY11 General Fund Budget
What's the Status of "Rainy Day Funds?"
(\$ in Millions)

	<u>FY09</u> <u>Actual</u>	<u>FY10</u> <u>Revised</u>	<u>FY11</u> <u>Budget</u>	<u>Total</u>
Beginning balance				\$ 592
<u>Withdrawals:</u> Flood recovery	\$ (56)	\$ -	\$ (7)	
General Fund deficit	(45)	-	-	
Transfer to General Fund	-	(65)	-	
Appropriations for General Fund	-	(81)	(265)	
Excess transfer	(20)	-	-	
	<u>(121)</u>	<u>(146)</u>	<u>(272)</u>	(539)
<u>Deposits:</u> General Fund repayment	\$ -	\$ 45	\$ -	
General Fund surplus	48	-	53	
	<u>\$ 48</u>	<u>\$ 45</u>	<u>\$ 53</u>	146
Ending balance				<u>\$199</u>

Remember hearing "the largest Rainy Day Funds ever?"—

By next year, two-thirds of these reserves will be drained, and the balance will be nearly \$350 below the required amount.

"Rainy Day Funds"—Cash Reserve and Economic Emergency Funds

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7

State of Iowa
FY11 General Fund Budget
Bumps in the Road for FY11
(\$ in Millions)

Unfunded state school aid	\$162
Unfunded FY10 unpaid leave days and FY11 collective bargaining costs	<u>50 ^(A)</u>
	<u>\$212</u>

These bumps in the road for FY11 raise very significant questions—

- *State school aid – what's the impact to property taxes?*
- *Salary costs – what are the plans for FY11 furlough/unpaid leave days and layoffs?*

(A) Excludes furloughs, estimate not available

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8

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>\$5,614</u>		
FY11 "true total expenditures"	<u>\$6,369</u>	<u>\$ 755</u>	<u>13.4%</u>
FY11 "true total expenditures" including unfunded school aid and collective bargaining/ furlough costs	<u>\$6,581</u>	<u>\$ 967</u>	<u>17.2%</u>

Continues to "kick the can down the road"—

*When will elected officials recognize it only makes solving the
problem that much more difficult?*

(A) Reflects 99% expenditure limitation