



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

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**State Auditor Vaudt Reviews Adopted Fiscal Year 2010 Budget  
Budget leverages stimulus money to push budget challenges to FY 2011**

(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 adopted Fiscal Year 2010 budget.

Iowans heard many times during the legislative session about all the difficult choices to be made in order to “cut the budget.” Ironically, the adopted budget responds to the difficult fiscal challenge caused by a 2.7% decline in revenues with a 1% spending increase. Once again, the adopted Fiscal Year 2010 budget continues poor budgeting practices while pushing tough decisions to the next fiscal year. Some of the reasons Auditor Vaudt cited to support this include:

Stimulus moneys used to solve “revenue problem”

“There’s no question many departments have taken deep cuts in their appropriations—typically from 10% to as high as 27%. With all those spending cuts it’s disappointing to see an increase in total spending for General Fund services,” Auditor Vaudt said. Elected officials used the financial challenge facing Iowa to justify significant spending cuts in many programs while they used the Federal stimulus monies to protect or even increase, spending in other programs. However, the remaining Federal stimulus monies available to fund on-going spending in the Fiscal Year 2011 budget will be \$325 million, or 61%, less than appropriated in the Fiscal Year 2010 budget. Once again, current year considerations took precedence over longer-term budget planning.

Foundation of the budget is seriously flawed

Auditor Vaudt said while on-going revenues available are declining, total on-going spending is increasing. Vaudt explained “true total expenditures” are the true costs of providing General Fund services – no matter the source of the funds to pay those costs. Under the adopted Fiscal Year 2010 budget, true total expenditures will increase \$68 million (1%) in Fiscal Year 2010, while on-going revenues will decrease \$166 million (2.7%) in the same fiscal year. This spending increase in a time of declining revenues is possible because the legislature appropriated \$529 million of one-time Federal stimulus monies to cover the shortfall.

Auditor Vaudt said, “Instead of using stimulus money to simply offset revenue losses, our elected officials are using these one-time monies to go on a spending spree. This decision continues the technique of delaying tough decisions to tomorrow instead of solving problems today.”

## Short-term focus creates huge problem for FY 2011

Compared to Fiscal Year 2007, in which there was a revenue shortfall of just 1%, the Fiscal Year 2010 revenue shortfall is 13%. While \$529 million of Federal stimulus monies was used to help cover the Fiscal Year 2010 shortfall, just \$204 million of stimulus monies will remain to deal with a spending gap of over \$1 billion in Fiscal Year 2011. Even using the remaining stimulus dollars to offset the spending gap leaves the State with an \$858 million shortfall to address. Auditor Vaudt said, “This shortfall for Fiscal Year 2011 means state revenues would have to grow nearly 15% to cover the shortfall—an unlikely scenario, at best.”

Vaudt added the Fiscal Year 2011 outlook would have looked much different if elected officials had kept spending increases in line with inflation over the past few years. Vaudt said, “Instead of facing a 15% shortfall going into the next fiscal year, we would have had a small surplus of almost 2%. Which position would you rather be in? It’s time our elected officials address the true structural problem that exists in Iowa—on-going spending far exceeds the on-going revenues available to pay for that spending.”

## Bonding—the high cost of short-term thinking

The Fiscal Year 2010 adopted budget authorized the issuance of \$890 million of bonds, resulting in just \$765 million in net proceeds. The proceeds will be used over the next two years for infrastructure projects throughout the state. “Over a 25-year period, every \$1.00 of new construction undertaken with the proceeds of the bonds will cost the taxpayers \$2.18,” said Auditor Vaudt. “People should know there’s an opportunity cost to taking on this kind of debt.” Vaudt noted that \$248 million was diverted from an infrastructure fund for non-infrastructure purposes in Fiscal Years 2009 and 2010. Had the money been used as intended—for infrastructure projects—the bond offering could have been reduced, saving taxpayers over \$250 million in interest and other costs. Vaudt said, “That kind of money could have made a difference to Iowans. This is a prime example of the huge cost of short-term thinking.”

Vaudt stated, “I have told elected officials for years that while they can’t change history, they can learn from history, and by doing so they can begin to positively *impact* the future. Instead, year after year our elected officials choose the easy road, rather than the best road, for Iowa’s financial future. This nonsense has to stop—we are severely damaging our financial stability.”

The decisions of our elected officials can be influenced by the actions and communications of Iowans. Taxpayers should not be content to accept the short-term, band-aid approach to “balancing” each year’s budget. That short-term approach has placed the sustainability of government services into question—at a time when Iowan’s need them most. “It’s time to demand a longer-term vision for Iowa’s future and a road map for accomplishing that vision. Iowans need to ‘jump into the driver’s seat’ to help steer our elected officials to fiscal responsibility. The future of Iowa is at stake—and, the involvement of Iowans is crucial. Become involved and help get the financial future of our great State back on track,” Vaudt said.

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**Auditor of State  
David A. Vaudt**

**Comments on Fiscal Year 2010  
General Fund Budget  
Legislative Action**

**May 18, 2009**

**Press Briefing**

**State of Iowa  
FY10 General Fund Budget**

**Remarks today will focus on—**

- Snapshot of the numbers
- The “revenue problem” and the Federal stimulus monies
- “Budget foundation” seriously flawed
- Looking ahead to FY11:
  - A “flood of red ink”
  - What could have been
- Bonding — self-inflicted “need”
- Stop this short-term nonsense—build a solid “budget foundation” for the future

**State of Iowa  
FY10 General Fund Budget  
FY09 & FY10 – A Snapshot of the Numbers  
(\$ in Millions)**

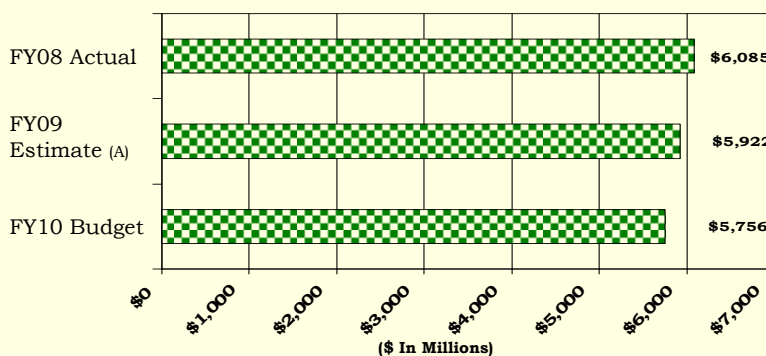
General Fund revenues available and true total expenditures are as follows:

	FY09 <u>Estimate</u>	FY10 <u>Budget</u>	Increase <u>(Decrease)</u>
Revenues available (A)	<u>\$5,938</u>	<u>\$5,792</u>	<u>\$(146)</u> <u>(2.5%)</u>
“True total expenditures”:			
General Fund appropriations	\$5,961	\$5,768	
Shifted expenditures	435	317	
Federal stimulus expenditures	<u>150</u>	<u>529</u>	
	<u>\$6,546</u>	<u>\$6,614</u>	<u>\$ 68</u> <u>1.0%</u>
Spending gap	<u>\$ (608)</u>	<u>\$ (822)</u>	

(A) Revenues available includes IowaCare Account and reflects 99% expenditure limitation.

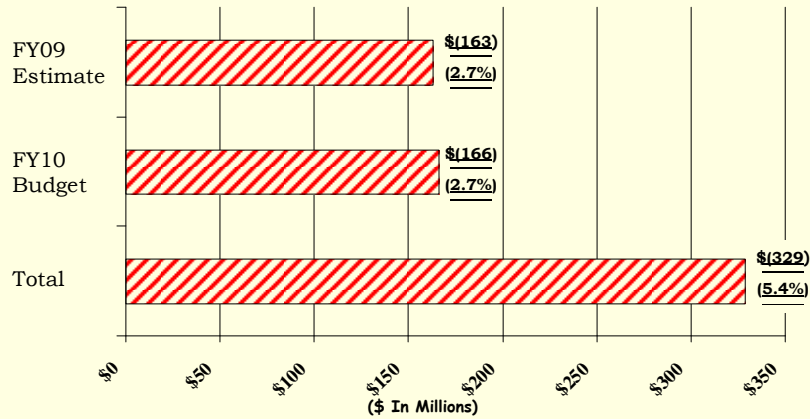
**State of Iowa  
FY10 General Fund Budget  
The REC Estimates**

Following are the revenue numbers released by the Revenue Estimating Conference (REC) on March 20, 2009:



(A) FY09 excludes \$48 million of nonrecurring Legislative transfers as of 3/20/09.

### State of Iowa FY10 General Fund Budget The REC Revenue Declines



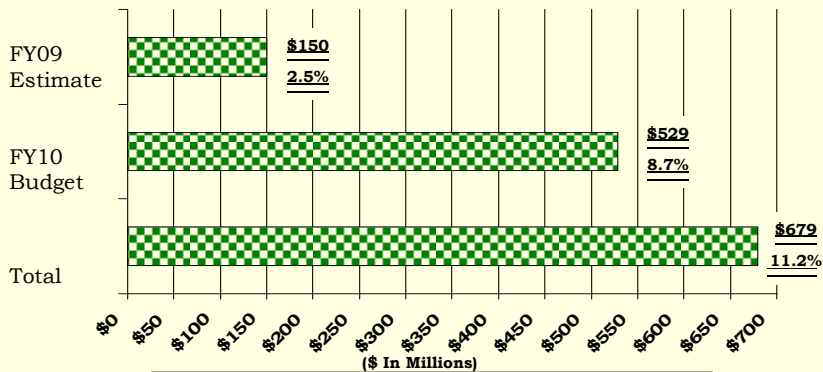
Note - % declines based on FY08 actual revenues of \$6.085 billion.

The REC revenue declines are less than 3% per year.

David A. Vaudt, Auditor of State, May 18, 2009

### State of Iowa FY10 General Fund Budget The Federal Stimulus Monies

The budget passed by the Legislature utilizes the following Federal stimulus monies:

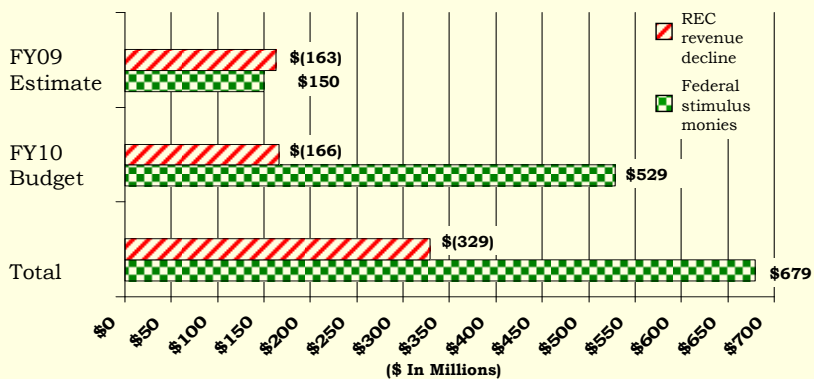


Note - % amounts based on FY08 actual revenues of \$6.085 billion.

Federal stimulus monies totaling more than 11% of revenues were used to offset the 5% revenue decline.

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**State of Iowa  
FY10 General Fund Budget  
REC Revenue Declines vs. Federal Stimulus Monies**



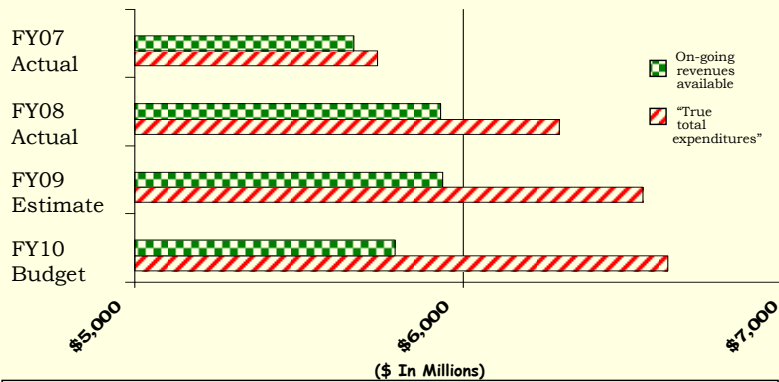
The Federal stimulus monies in FY09 and FY10 are more than double the revenue declines. This illustration simply begs the question: “What is the REAL budget problem?”

David A. Vaudt, Auditor of State, May 18, 2009

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**State of Iowa  
FY10 General Fund Budget  
Budget Foundation Seriously Flawed**

The on-going revenues available are declining while total on-going spending is increasing—a very poor financial sustainability trend!



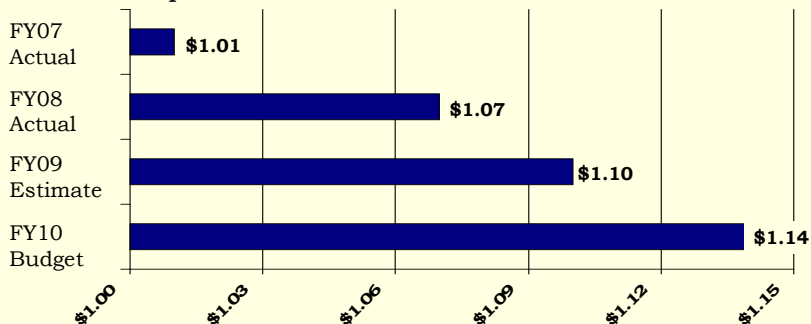
On-going revenues available includes IowaCare Account and reflects 99% expenditure limitation.

David A. Vaudt, Auditor of State, May 18, 2009

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### State of Iowa FY10 General Fund Budget On-going Revenues vs. On-going Spending

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



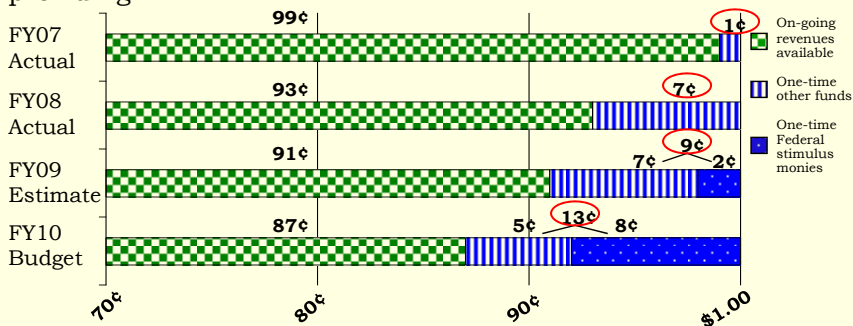
This trend line is definitely going in the wrong direction! It is a direct result of our growing addiction to using one-time monies, including the Federal stimulus monies.

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### State of Iowa FY10 General Fund Budget On-going Spending Supported by One-time Monies

For every dollar of on-going spending, one-time monies are providing—



With one-time monies growing to 13¢ of every \$1.00 of on-going spending in FY10, the disaster is just around the corner—FY11.

David A. Vaudt, Auditor of State, May 18, 2009

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**State of Iowa  
FY10 General Fund Budget  
The FY11 Outlook  
(\$ in Millions)**

FY10 revenues		\$5,851
Less FY11 impacts of enacted revenue reductions and tax credit increases		<u>( 50)</u>
FY11 <u>on-going</u> revenues		<u>\$5,801</u>
FY11 <u>on-going</u> revenues available (A)		<u>\$5,743</u>
FY10 true total expenditures	\$6,614	
FY11—Fully-funded/allowable growth/cost increases:		
Preschool & K-12	105	
Medicaid and hawk-i	<u>86</u>	<u>6,805</u>
FY11 spending gap before revenue and other spending changes		<u>\$(1,062)</u>
FY11 revenue growth needed just to fill the existing spending gap		<u>18.5%</u>
FY11 spending gap after using Federal stimulus monies - \$204 million remaining for FY11		<u>\$ (858)</u>
FY11 revenue growth needed after using remaining Federal stimulus monies		<u>14.9%</u>

(A) Reflects 99% expenditure limitation.

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**State of Iowa  
FY10 General Fund Budget  
The FY11 Outlook - What Could Have Been  
(\$ in Millions)**

FY10 revenues		\$5,851
Less FY11 impacts of enacted revenue reductions and tax credit increases		<u>( 50)</u>
FY11 <u>on-going</u> revenues		<u>\$5,801</u>
FY11 <u>on-going</u> revenues available (A)		<u>\$5,743</u>
FY10 true total expenditures <u>(FY07 inflation adjusted) (B)</u>	<u>\$6,134</u>	
FY11—Fully-funded/allowable growth/cost increases:		
Preschool & K-12	105	
Medicaid and hawk-i	<u>86</u>	<u>6,325</u>
FY11 spending gap before revenue and other spending changes		<u>\$ (582)</u>
FY11 revenue growth needed just to fill the existing spending gap		<u>10.1%</u>
FY11 <u>revenue surplus</u> after using Federal stimulus monies - <u>\$684 million remaining for FY11 (C)</u>		<u>\$ 102</u>
FY11 revenue <u>decline tolerable (without spending cuts)</u> after using remaining Federal stimulus monies		<u>(1.8%)</u>

(A) Reflects 99% expenditure limitation.

(B) Inflation: 3.3%--Actual 2007; 2.9%--Actual 2008; 1.0%--Assumed 2009.

(C) Federal stimulus monies remaining assuming inflationary spending: (\$204+(\$6,614-\$6,134)).

David A. Vaudt, Auditor of State, May 18, 2009

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**State of Iowa  
FY10 General Fund Budget  
Bonding — Self-inflicted “Need”  
(\$ in Millions)**

**Rebuild Iowa Infrastructure Fund (RIIF):**

Resources available:	FY09	FY10	
	<u>Estimate</u>	<u>Budget</u>	<u>Total</u>
Gaming revenues	\$ 202	\$ 205	
Interest	18	12	
Tobacco MSA payments	22	17	
Riverboat license fees	8	-	
Beginning balance and other, net	<u>37</u>	<u>(2)</u>	
	<u>\$ 287</u>	<u>\$ 232</u>	<u>\$ 519</u>
<b>Non-RIIF uses:</b>			
Transfers to General Fund	\$ (59)	\$ -	
Expenditure shifts	<u>(101)</u>	<u>(88)</u>	
	<u>\$(160)</u>	<u>\$ (88)</u>	<u>\$(248)</u>
Amount remaining for RIIF purposes	<u>\$ 127</u>	<u>\$ 144</u>	

Nearly ½ of the RIIF monies have been diverted from infrastructure to pay for General Fund services in FY09 and FY10. Now we “need” to borrow.

**State of Iowa  
FY10 General Fund Budget  
Bonds Authorized  
(\$ in Millions)**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Net Proceeds</u>
Revenue Bonds	\$ 636	\$ 563	\$1,199	\$ 545
Appropriation Bonds	117	96	213	105
Regents Bonds	<u>137</u>	<u>115</u>	<u>252</u>	<u>115</u>
	<u>\$ 890</u>	<u>\$ 774</u>	<u>\$1,664</u>	<u>\$ 765</u>

If the \$248 million diverted from RIIF in FY09 and FY10 had been used for infrastructure projects instead of General Fund costs, we would have saved Iowa taxpayers \$250 million dollars in interest—the huge cost of short-term thinking!

For every \$1.00 of construction in the next 2 years, it will eventually cost the taxpayers \$2.18 over the next 25 years!

**State of Iowa  
FY10 General Fund Budget  
Stop the Nonsense – Build a  
Solid Budget Foundation**

Get involved and communicate with your elected officials—demand fiscal responsibility. Tell them to stop this short-term nonsense and insist they—

- (1) Bring clarity to the budgeting process;
- (2) Bring spending back in line with revenues; and
- (3) Show us where they are leading us—by planning longer-term.

Hold them accountable when they aren't fiscally responsible. We must stop the fiscal train wreck they are creating for our children and grandchildren.

State of Iowa  
 FY09 & FY10 General Fund Budget  
 (\$ in Millions)

	F09	FY10
Revenues:		
REC estimate (A)	\$5,922	\$5,756
IowaCare Account	75	80
Adjustments, net (court fee increases, etc.)	<u>1</u>	<u>15</u>
Total	<u>\$5,998</u>	<u>\$5,851</u>
"True total expenditures":		
General Fund appropriations	\$5,961	\$5,768
Shifted expenditures (B)	444	318
Federal stimulus expenditures (C)	150	529
Other, net	<u>(9)</u>	<u>(1)</u>
Total	<u>\$6,546</u>	<u>\$6,614</u>

(A) FY09 excludes non-recurring Legislative transfers as of 3/20/09 as follows:

	FY09	FY10
Rebuild Iowa Infrastructure Fund	\$ 37	-
Underground Storage Tank Fund	6	-
Innovation Funds	<u>5</u>	<u>-</u>
	<u>\$ 48</u>	<u>-</u>

(B) Non-General Fund resources include:

	FY09	FY10
Rebuild Iowa Infrastructure Fund	\$101	\$ 89
Senior Living Trust Fund	122	49
Property Tax Credit Fund	116	4
IowaCare Account	78	80
Healthy Iowans Tobacco Trust Fund	18	-
Environment First Fund	9	9
Cash Reserve Fund	-	80
Revenue Bond Capitals Fund	<u>-</u>	<u>7</u>
	<u>\$444</u>	<u>\$318</u>

(C) Federal stimulus monies used for:

	FY09	FY10	FY11
Medicaid	\$110	\$145	\$156
Education stabilization	40	321	25
Government stabilization	<u>-</u>	<u>63</u>	<u>23</u>
	<u>\$150</u>	<u>\$529</u>	<u>\$204</u>

REC = Revenue Estimating Conference