



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

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**For Immediate Release**

May 28, 2008

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**State Auditor Vaudt Reviews Adopted Fiscal Year 2009 Budget**  
**Budget hides spending in Fiscal Year 2009, creates challenges for Fiscal Year 2010**

(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 2009 General Fund budget as signed by Governor Culver.

While the adopted Fiscal Year 2009 budget spends somewhat less than the Governor’s proposed Fiscal Year 2009 budget, it represents a significant step backward in terms of transparency and fiscal responsibility. In addition, the adopted Fiscal Year 2009 budget sets Iowa up for some difficult challenges in the following fiscal year. Some of the reasons Auditor Vaudt cited for this include:

**Poor Financial Practices Continue**

Auditor Vaudt stressed, “The key to responsible budgeting is to bring expenditures in line with revenues.” He noted total spending in the adopted Fiscal Year 2009 budget exceeds total available revenues by over \$370 million. Despite almost 10% revenue growth over a two-year period, expenditure growth outpaced revenue growth by 52%. “If we can’t make ends meet with nearly 5% average annual revenue growth, how will we make it if revenues flatten out or decline, as they do in a recession?”

While the Fiscal Year 2009 budget calls for a 4.7% increase in spending, it creates at least a 9.3% spending gap, \$569.3 million, which the next legislature will have to address following the election this fall. Auditor Vaudt noted, “Iowans should ask lawmakers how they plan to bridge that gap. Will it be through tax and fee increases, or will they find areas to reduce spending? Iowans deserve to know where their leaders are taking them.”

**General Fund Budget Only Tells Half the Story**

The Fiscal Year 2009 budget shifts a record \$443.7 million in General Fund expenditures to other funds and special accounts. Auditor Vaudt said, “Using this technique allows the Governor and the legislature to get around our statutory expenditure limitation because that limitation only applies to the General Fund budget.”

Shifting expenditures out of the General Fund budget also allows the Governor and the legislature to manipulate the size of the General Fund budget, which is the most widely used measure of state spending. For the Fiscal Year 2009 budget, the legislature claims to spend \$266.6 million less than the Governor proposed. However, when the record-breaking expenditure shifts are included, the final budget only spends \$25.3 million less than the Governor proposed. “Shifting General Fund expenditures off-budget allows our lawmakers to have their cake and eat it too. In the case of Fiscal Year 2009, the legislature claimed credit for passing a fiscally responsible budget while hiding record levels of shifted spending. If the taxpayers are only told half the story, how can they make informed judgments regarding budget issues? This technique represents a poor budgeting practice as well as creating a false sense of security, which is why I strongly oppose it.”

### Iowa’s Maxed Out “Charge Cards” Create Problems for Iowans

The Fiscal Year 2009 budget “maxes out” Iowa’s charge cards – the funds used the past several years to balance the budget. These funds include the Senior Living Trust Fund, various tobacco related funds, and the Property Tax Credit Fund.

Of particular concern to Auditor Vaudt is the Senior Living Trust Fund, a fund established with limited federal dollars for the purpose of helping senior citizens stay at home longer and avoid institutional care. Rather than serving this purpose, nearly \$600 million has been diverted from the fund to pay for General Fund expenditures. After an outcry by senior citizens across the state, a law was passed requiring only \$300 million to be repaid to that fund. While legislative leaders trumpet the fact \$263 million will be repaid into the fund by the end of Fiscal Year 2009, Auditor Vaudt said, “Ask them what the balance will be. At the end of Fiscal Year 2009 there will be only \$37 million left in the Senior Living Trust Fund.” Vaudt explained the language of the bill requiring repayment does not prohibit withdrawal of repaid dollars or require repayment of the funds withdrawn again. Auditor Vaudt added, “I’d love to have this kind of revolving loan with my bank. If I pay the money back once, it satisfies my obligation to repay. If I withdraw the money again, I don’t have to repay it a second time. Techniques such as this only serve to reinforce the public’s lack of trust in government.”

### Iowa’s “New” Charge Cards?

Auditor Vaudt expressed concern about two other pools of money. Referring to the Rebuild Iowa Infrastructure Fund, Auditor Vaudt noted, “The Fiscal Year 2009 budget diverts \$101 million worth of expenditures from the General Fund to the Rebuild Iowa Infrastructure Fund in Fiscal Year 2009. An additional \$92 million is diverted in Fiscal Year 2010. With the depletion of Iowa’s other funds, expect this trend to continue.” Vaudt also expressed concern about the funds generated from the new statewide sales tax. “After what we’ve seen happen to the Senior Living Trust Fund and what we’re seeing with the Rebuild Iowa Infrastructure Fund, it is all too easy to see a scenario where funds from the newly enacted statewide sales tax get diverted to pay for General Fund services rather than for school infrastructure.”

### Rainy Day Funds Provide False Sense of Security

“With \$620 million sitting in the “Rainy Day” funds, it’s easy to get a false sense of security,” Auditor Vaudt cautioned. Considering the \$569.3 million spending gap built into the Fiscal Year 2010 budget, even a small revenue shortfall could wipe out the “Rainy Day” funds in just one year, Auditor Vaudt warned. “With a looming threat of recession, such a scenario is increasingly likely.”

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**Auditor of State  
David A. Vaudt**

**Comments on  
Fiscal Year 2009  
General Fund Budget**

**May 28, 2008**

**Press Briefing**

# State of Iowa FY09 General Fund Budget

## Remarks today will focus on—

- Revenues, Expenditures & Spending Gap
- FY10 Outlook
- Expenditure Shifts - "Charge Cards"
- The Senior Living Trust Fund Story
- Iowa's New "Charge Card"
- Isn't This a Time to Be Fiscally Conservative?

**State of Iowa  
FY09 General Fund Budget  
Revenue & Expenditure Growth (A)  
(\$ in Millions)**

	<u>Actual FY07</u>	<u>Budget</u>		
		<u>FY08</u>	<u>FY09</u>	<u>2-year</u>
Revenues	<u>\$5,722.9</u>	<u>\$5,989.8</u>	<u>\$6,281.5</u>	
Revenue growth		<u>\$266.9</u>	<u>\$291.7</u>	<u>\$558.6</u>
		<u>4.7%</u>	<u>4.9%</u>	<u>9.8%</u>
True total expenditures	<u>\$5,739.8</u>	<u>\$6,291.0</u>	<u>\$6,588.8</u>	
Expenditure growth		<u>\$551.2</u>	<u>\$297.8</u>	<u>\$849.0</u>
		<u>9.6%</u>	<u>4.7%</u>	<u>14.8%</u>
2-year expenditure growth as % of revenue growth				<u>152.0%</u>

**(A) Adjusted for all resources.**

**State of Iowa  
FY09 General Fund Budget  
Spending Gap (A)  
(\$ in Millions)**

	<b>Budget</b>	
	<u>FY08</u>	<u>FY09</u>
<b>Revenues</b>	<u><u>\$5,989.8</u></u>	<u><u>\$6,281.5</u></u>
<b>Revenues available (B)</b>	5,925.2	6,218.1
<b>True total expenditures</b>	<u><u>6,291.0</u></u>	<u><u>6,588.8</u></u>
<b>Spending gap</b>	<u><u>\$(365.8)</u></u>	<u><u>\$(370.7)</u></u>

**(A) Adjusted for all resources**

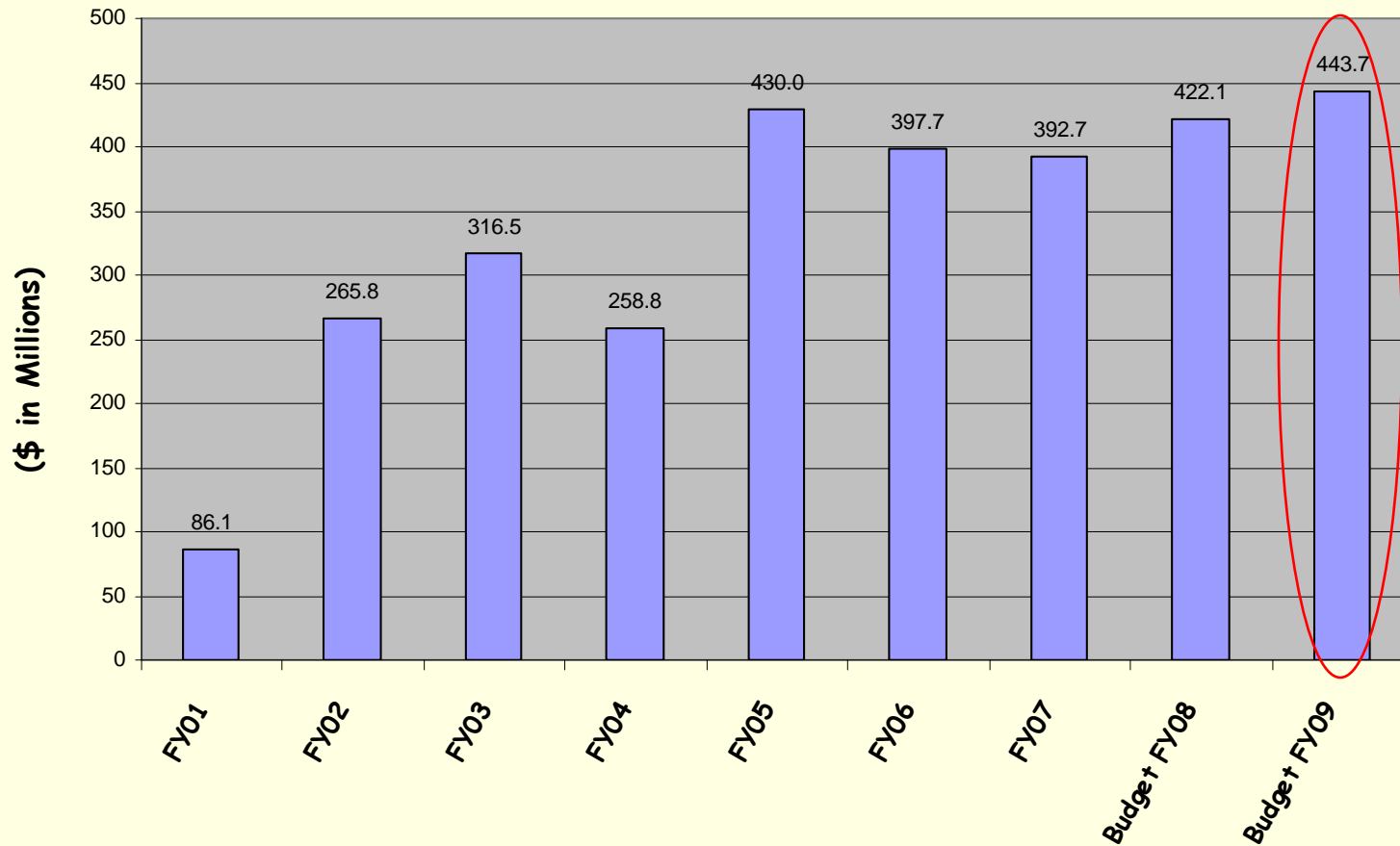
**(B) Reflects 99% expenditure limitation (95% for new revenues)**

# State of Iowa FY09 General Fund Budget The FY10 Outlook (\$ in Millions)

FY09 revenues		\$6,281.5
Less FY10 impacts of enacted revenue reductions and tax credit increases		<u>(87.5)</u>
FY09 <u>ongoing</u> revenues		<u>\$6,194.0</u>
FY09 <u>ongoing</u> revenues available (A)		\$6,132.1
FY09 true total expenditures	6,588.8	
FY10 Preschool & K-12 4% allowable growth	<u>112.6</u>	<u>6,701.4</u>
Spending gap for FY10 before revenue and other spending changes		<u><u>\$ (569.3)</u></u>
FY10 revenue growth needed just to fill the existing spending gap		<u><u>9.3%</u></u>

(A) Reflects 99% expenditure limitation

# State of Iowa FY09 General Fund Budget Expenditure Shifts (\$ in Millions)



**Record setting expenditure shifts in FY09!**

# State of Iowa FY09 General Fund Budget Expenditure Shifts Impact Comparisons (\$ in Millions)

This is what taxpayers are told.

	<u>Governor's Proposal</u>	<u>Adopted Budget</u>	<u>Reduction by Legislature</u>	
General Fund expenditures as presented to taxpayers	<u>\$6,399.6</u>	<u>\$6,133.0</u>	<u>\$266.6</u>	<u>4.2%</u>

Would the real numbers please step forward?

General Fund true total expenditures	<u>\$6,614.1</u>	<u>\$6,588.8</u>	<u>\$ 25.3</u>	<u>0.4%</u>
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# State of Iowa FY09 General Fund Budget Iowa's "Charge Cards" Maxed Out

Iowa's "charge cards" (except for "Rainy Day" funds) are essentially "maxed out" under this budget.

- Senior Living Trust Fund
- Tobacco Related Funds:
  - Endowment for Iowa's Health Account
  - Restricted Capital Fund
  - Healthy Iowans Tobacco Trust Fund
  - Endowment for Iowa's Health Restricted Capitals Fund
- Property Tax Credit Fund

**Impact:** Over \$225 million of resources used in FY09 "disappear" in FY10. However, the expenditures are ongoing.

# State of Iowa FY09 General Fund Budget The Senior Living Trust Fund Story (\$ in Millions)

Taxpayers are frequently informed about the status of the \$300 million required to be repaid from the nearly \$600 million diverted from the Senior Living Trust Fund.

	<u>Governor's Proposal</u>	<u>Adopted Budget</u>
Cumulative repayments through FY09	<u>\$183.1</u>	<u>\$263.2</u>
 <b>Key question - ask what's the balance at the end of FY09. No one talks about this!</b>		
Balance at end of FY09	<u>\$2.5</u>	<u>\$37.7</u>
Balance as a % of cumulative repayments	<u>1.4%</u>	<u>14.3%</u>

# State of Iowa FY09 General Fund Budget Iowa's New "Charge Card"

A new "charge card" has been opened - Rebuild Iowa Infrastructure Fund (RIIF).

- Notwithstanding used 32 times!
- Appropriated \$101.4 million in FY09 and \$91.8 million in FY10 for General Fund services.

**Diverting RIIF funds means:**

- Over \$300 million of bonds to cover corrections infrastructure.

**What's the next new "charge card?"**

- New statewide sales tax intended for school infrastructure?

# State of Iowa FY09 General Fund Budget Isn't This a Time to be Fiscally Conservative?

**Today, here's what the experts are saying:**

- "If the current downturn follows the path of previous recessions, 35 to 40 states could face budget cuts in 2009. That's largely because of a lag before economic effects show up in state's revenues." (National Governors' Association Executive Director Raymond Scheppach)

**Contrary to what the economists and experts are saying:**

- FY09 budget notwithstanding Iowa law to utilize higher April 2008 REC revenue estimate (\$49.1 million)
- Built-in FY10 spending gap at \$569.3 million
- Sense of security with \$620 million in "Rainy Day" funds? Recession could wipe out in one year!

State of Iowa  
 FY08 & FY09 General Fund Budget  
 (\$ in Millions)

	FY08 Budget(A)	FY09	
		Governor's Proposal(B)	Adopted Budget
<b>Revenues:</b>			
General Fund budget	\$5,925.3	\$6,472.6	\$6,203.2
IowaCare Account	67.5	75.4	78.3
Other	<u>(3.0)</u>	<u>(6.6)</u>	<u>-</u>
Total	<u>\$5,989.8</u>	<u>\$6,541.4</u>	<u>\$6,281.5</u>
<b>True total expenditures:</b>			
General Fund budget	\$5,856.3	\$6,399.6	\$6,133.0
Shifted expenditures (C)	422.1	241.2	443.7
Underfunded costs	<u>12.6</u>	<u>13.5</u>	<u>12.1</u>
Total	<u>\$6,291.0</u>	<u>\$6,654.3</u>	<u>\$6,588.8</u>
Revenues available (D)	\$5,925.2	\$6,475.3	\$6,218.1
True total expenditures	<u>6,291.0</u>	<u>6,654.3</u>	<u>6,588.8</u>
Spending gap	<u>\$ (365.8)</u>	<u>\$ (179.0)</u>	<u>\$ (370.7)</u>

- (A) Before supplemental appropriations
- (B) Includes \$40.2 million for REAP lakes restoration, watershed improvement, etc. included in General Fund by Governor (along with new revenues) but appropriated from other funds in prior years and adopted FY09 budget.
- (C) Non-General Fund resources
- (D) Reflects 99% expenditure limitation (95% for new revenues)