



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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State Auditor Vaudt Reviews Final Action Fiscal Year 2012 Budget

(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 completed his review of the final-action Fiscal Year 2012 budget. Vaudt said, “While there are still concerns to be addressed, this budget makes huge progress in the area of fiscal sustainability. I commend the Governor and Legislators of both parties for moving Iowa closer to a fiscally sustainable path. While the budget process took a significant amount of time, the result is clearly a win for the taxpayers of Iowa.”

Sustainability – Budget Dramatically Reduces Reliance on One-Time Resources

Auditor Vaudt noted there is only \$53 million of one-time resource expenditure shifts occurring in Fiscal Year 2012. Vaudt pointed out, “The practice of shifting General Fund costs to one-time or limited-time resources has been significantly reduced in this budget. This represents a huge move toward fiscal sustainability – an encouraging sign.” In contrast, the prior year budget shifted over \$600 million of General Fund costs – 12 times more cost-shifting than this year’s final-action budget.

Concerns and Challenges Remain for Elected Officials to Address in Future Years

While the final-action Fiscal Year 2012 budget makes dramatic strides toward long-term sustainability, Auditor Vaudt noted some items for elected officials to address in future years.

First, unlike the Governor’s proposed two-year budgets for Fiscal Years 2012 and 2013, the final action budget does not accomplish the goal of longer-range planning. Auditor Vaudt said, “Yes, it is a two-year budget, but it is incomplete. With many departments funded at 50% in the second year, and with \$1.2 billion available to appropriate, there are too many unanswered questions to draw any meaningful conclusions from the second budget year.”

Second, Auditor Vaudt identified an issue with existing law, in which carry-forward balances are included in the spending limitation calculation used to determine how much the State can spend in a given year. Vaudt said, “The danger is in how you use carry-forward balances, which are one-time moneys. Using one-time moneys for one-time expenses is fine. However, if you build ongoing spending on these monies, the spending carries forward to the next year, but the resources do not.” For example, recent current-year property tax credits were funded with the previous year’s surplus. This worked well until the most recent recession erased the predicted surplus, which in turn pushed the funding of property tax credits back into the General Fund at a time when ongoing revenues were declining. “We don’t want to repeat history,” Vaudt said. Vaudt suggested the Governor and the Legislature consider alternatives to prevent the consequences of using carry-forward balances for ongoing expenditures.

Third, shifting expenditures and revenues out of the General Fund reduces transparency. For example, the Health Care Trust Fund (HCTF) was previously funded by a revenue stream that flowed into the General Fund. The final action budget moves both the revenue stream and the spending for the HCTF outside of the General Fund – \$106 million in total. Vaudt said, “The issue here is not sustainability because the ongoing programs are covered by ongoing resources. Instead, the issue is transparency and comparability. It is hard to make an apples-to-apples comparison of the State’s ongoing operating costs when we keep moving costs off the books.”

Fourth, while the practice of shifting ongoing spending to one-time resources has dramatically decreased from \$638 million just one year ago, the budget still shifts \$53 million of ongoing spending to one-time resources. “It is very encouraging to see the huge stride made in this area, but we have a little more work to do,” said Auditor Vaudt.

A Looming Issue – Decreased Federal Funding

Vaudt warned the State’s dependence on Federal funds to provide services to Iowans presents a huge, looming challenge. The state spent a total of \$8.3 billion of Federal funds in Fiscal Year 2010. This represents a 69% increase versus Fiscal Year 2006, thanks in large part to the Federal stimulus package of 2009 and assistance related to the 2008 floods. Vaudt said, “The Federal government has its own fiscal challenges, so it is both prudent and necessary for us to start planning for the inevitable Federal funding decrease we will see in the coming years.”

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**Auditor of State
David A. Vaudt**

**Comments on the
Final-Action Fiscal Year 2012 Budget**

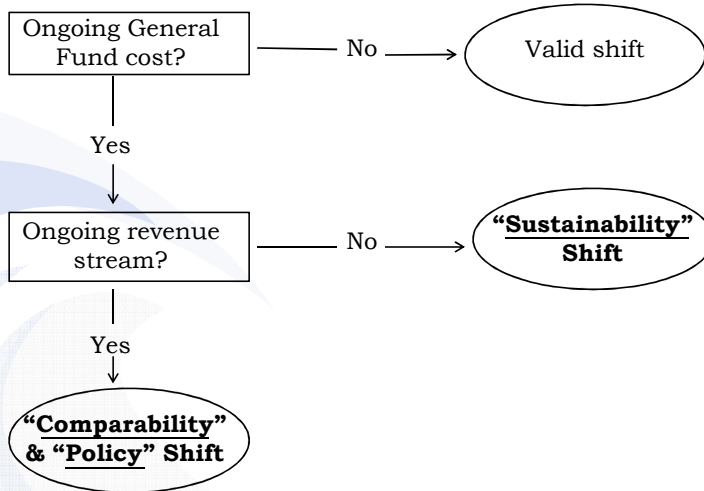
August 29, 2011

**State of Iowa
FY12 General Fund Budget**

Remarks today will focus on—

- Expenditure Shifts – Sustainability vs. Comparability
- Sustainability Addressed in Final-Action Budget
- Some Concerns and Challenges Remain for Next Year
- Looming Issue in Near Future

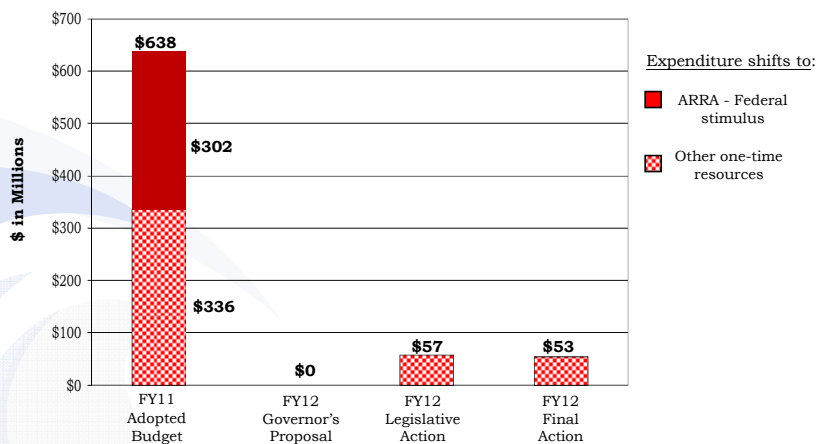
State of Iowa Expenditure Shifts



David A. Vaudt, Auditor of State, August 29, 2011

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State of Iowa FY12 General Fund Budget Expenditures – Sustainability Shifts

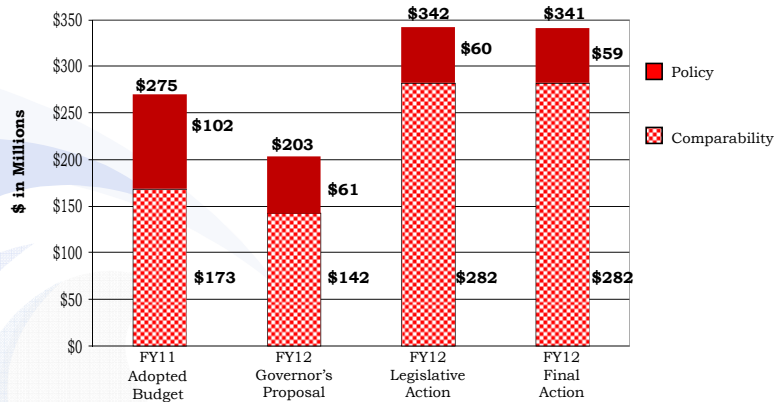


The Governor and Legislators of both parties very appropriately addressed Iowa's #1 fiscal health issue—sustainability—by significantly reducing reliance on one-time monies by \$585 million, or 92%.

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State of Iowa FY12 General Fund Budget Expenditures – Comparability and Policy Shifts



On the comparability front—transparency/clarity—progress was not made. Instead, Iowa experienced a small step backwards.

David A. Vaudt, Auditor of State, August 29, 2011

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State of Iowa FY12 General Fund Budget A Comparison of the Numbers (\$ in Millions)

	FY11 Adopted Budget	FY12 Governor's Proposal	FY12 Legislative Action	FY12 Final Action
Available ongoing revenues	\$5,533	\$6,262	\$6,188	\$6,202
True total expenditures	<u>6,293</u>	<u>6,397</u>	<u>6,431</u>	<u>6,426</u>
Spending gap	<u>\$ (760)</u>	<u>\$ (135)</u>	<u>\$ (243)</u>	<u>\$ (224)</u>
Spending gap as a % of available ongoing revenues	<u>13.7%</u>	<u>2.2%</u>	<u>3.9%</u>	<u>3.6%</u>

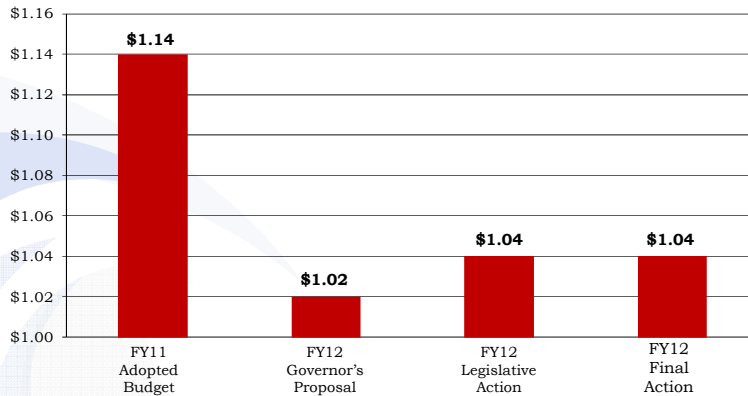
The reduction in reliance on one-time monies resulted in a large decrease in the spending gap—\$536 million, or a 70% reduction.

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State of Iowa FY12 General Fund Budget Spending Sustainability

For every dollar of available ongoing revenues, Iowa is spending:



By decreasing Iowa's reliance on one-time monies, Iowa's spending decreased from \$1.14 to \$1.04 per \$1.00 of available ongoing revenues in just one year—a dramatic improvement and a very significant step in the right direction to address sustainability.

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State of Iowa FY12 General Fund Budget Longer-range Focus Missing

As presented:

	FY12 Final Action	FY13 Adopted Budget
Revenue estimate	\$5,978	\$6,213
Excess monies from Economic Emergency Fund	284	160
Total resources	<u>6,262</u>	<u>6,373</u>
Appropriations	6,000	5,156
Reversions	(2)	(2)
Net appropriations	<u>5,998</u>	<u>5,154</u>
Ending surplus	<u>\$ 264</u>	<u>\$1,219</u>

It's safe to bet Iowa won't end FY13 with a \$1.2 billion surplus. By failing to address realistic FY13 budgets for all General Fund services, many of the advantages of longer-range budgeting were forfeited.

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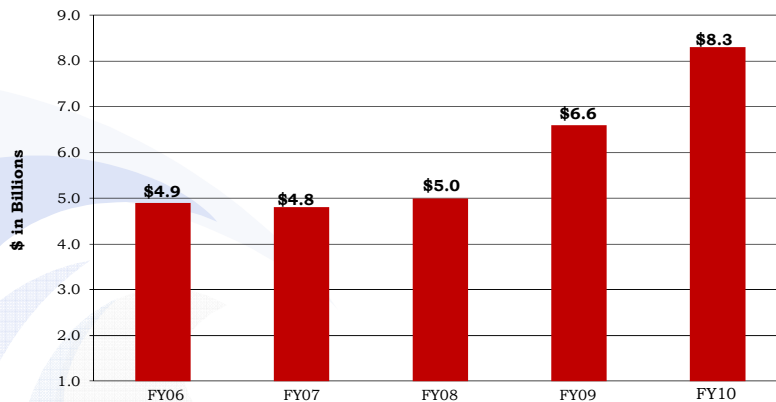
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State of Iowa FY12 General Fund Budget Carry-forward Balances – One-time Monies and the Risk

	FY12 Final <u>Action</u>	FY13 Adopted <u>Budget</u>
Excess monies from Economic Emergency Fund	<u>\$284</u>	<u>\$160</u>

One-time monies should be used for one-time expenditures. Considering these carry-forward balances, which are one-time monies, as a resource to pay ongoing General Fund expenditures, creates the risk of repeating Iowa's past mistakes.

State of Iowa FY12 General Fund Budget Looming Issue – Federal Monies



Iowa relies heavily on Federal monies to support many of our General Fund services, like Medicaid (\$2.3 billion in FY10 compared to \$1.7 billion in FY06). As the Federal government addresses its fiscal imbalance, Iowa can anticipate a decline in Federal support.