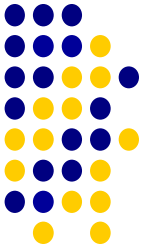


**Auditor of State  
David A. Vaudt**

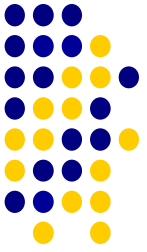
***“Rotary’s 4-Way Test & Iowa Finances”***

**August 13, 2009**





- Rotary 4-Way Test
- Confused about the July 2009 receipts?
  - Example facts – you decide
  - Iowa’s July 2009 numbers
- Glimpse of the FY2011 budget outlook
- Questions

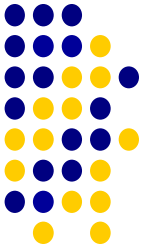


# **Rotary 4-Way Test**

**(Developed by Herbert J. Taylor)**

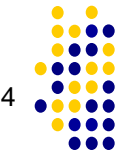
1. Is it the TRUTH?
2. Is it FAIR to all concerned?
3. Will it build GOODWILL & BETTER  
RELATIONSHIPS?
4. Will it be BENEFICIAL to all concerned?

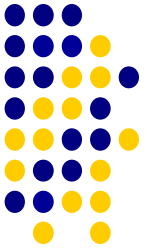




# State Auditor Vaudt's Experience in Government Environment

- Vast majority meet TRUTH test
- Many fail the FAIR, GOODWILL & BETTER RELATIONSHIPS, and BENEFICIAL tests



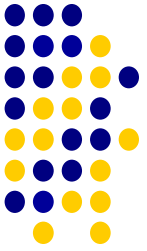


# The Facts – You Decide

Facts:

| <u>Sales Person</u> | <u>Receipts</u> |
|---------------------|-----------------|
| Annie               | \$100           |
| Bob                 | \$ 50           |

Question: Which sales person had a better sales performance?

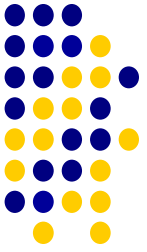


## More Facts – You Decide

Facts:

|       | <u>Gross Receipts</u> | <u>Change Provided</u> | <u>Net Receipts</u> |
|-------|-----------------------|------------------------|---------------------|
| Annie | <u>\$100</u>          | <u>\$(75)</u>          | <u>\$25</u>         |
| Bob   | <u>\$ 50</u>          | <u>\$(-)</u>           | <u>\$50</u>         |

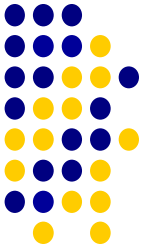
Question: Now which sales person had a better sales performance?



If you get all the facts, your judgment can be right; if you don't get all the facts, it can't be right.

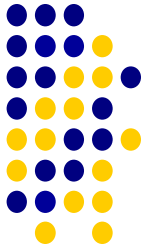
—Bernard M. Baruch





# Do You Have the Relevant Facts?

- In reaching conclusions—some facts are meaningless, while others are meaningful
- Extra steps must be taken to ensure facts communicated to the public are meaningful and not misleading
- Bottom line for July 2009—General Fund budget is based upon net receipts—therefore, meaningful fact is net receipts



# Applying Lessons Learned To July 2009 Receipts As Presented by LSA

(\$ in millions)

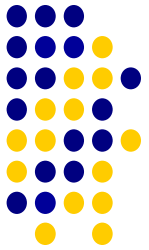
|   | July           |                |  |               | FY10<br>Budget<br>Inc./ (Dec.) |
|---|----------------|----------------|--|---------------|--------------------------------|
|   | <u>FY09</u>    | <u>FY10</u>    | <u>Inc. / (Dec.)</u><br><u>Amt.    %</u> |               |                                |
| Personal Income Tax   | \$209.1        | \$196.3        | \$(12.8)                                 | ( 6.1)%       | (0.7)%                         |
| Sales/Use Tax   | 99.0           | 139.5          | 40.5                                     | 40.9%         | 3.0%                           |
| <i>(additional line items omitted due to space limitations)</i> |                |                |  |               |                                |
| Gross Receipts  | 407.4          | 412.1          | 4.7                                      | 1.2%          | (0.1)%                         |
| Less Refunds  | <u>30.0</u>    | <u>57.8</u>    | <u>27.8</u>                              |               |                                |
| <b>Net Receipts</b>   | <u>\$377.4</u> | <u>\$354.3</u> | <u>\$(23.1)</u>                          | <b>(6.1)%</b> | (0.7)%                         |

**Passes 4-Way Test!**

LSA = Legislative Services Agency

David A. Vaudt, Auditor of State, August 13, 2009





# Applying Lessons Learned To July 2009 Receipts As Presented by DOM

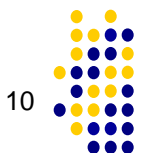
(\$ in millions)

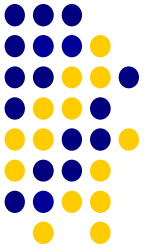
|                         | July  |                           |                               |                   | FY10<br>Budget<br>Inc./ (Dec.) |
|-------------------------|---|---------------------------|-------------------------------|-------------------|--------------------------------|
|                         | <u>FY09</u>   | <u>FY10</u>               | <u>Inc. / (Dec.)<br/>Amt.</u> | <u>%</u>          |                                |
| Personal Income Tax     | \$209.1   | \$196.3                   | \$(12.8)                      | ( 6.1)%           | (0.7)%                         |
| Sales/Use Tax           | 99.0  | 139.5                     | 40.5                          | 40.9%             | 3.0%                           |
|                         | (additional line items omitted due to space limitation) |                           |                               |                   |                                |
| <b>Gross Receipts</b>   | 407.4   | 412.1                     | 4.7                           | <b>1.2%</b>       | (0.1)%                         |
| Less Refunds            | <u>30.0</u>   | <u>57.8</u>               | <u>27.8</u>                   |                   |                                |
| <del>Net Receipts</del> | <del><u>\$377.4</u></del>                               | <del><u>\$354.3</u></del> | <del><u>\$(23.1)</u></del>    | <del>(6.1)%</del> | <del>(0.7)%</del>              |

**Fails 4-Way Test – net receipts never presented!**

DOM = Department of Management

David A. Vaudt, Auditor of State, August 13, 2009

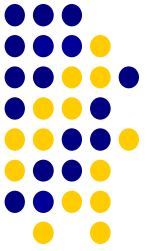




Get your facts first, and then  
you can distort them as much  
as you please.

—Mark Twain





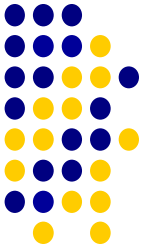
# “Apples-to-Apples?” – You Decide

Facts:

|       | <u>Receipts</u> |              |
|-------|-----------------|--------------|
|       | <u>FY09</u>     | <u>FY10</u>  |
| Annie | <u>\$50</u>     | <u>\$100</u> |
| Bob   | <u>\$40</u>     | <u>\$ 50</u> |

Question: Which sales person most improved performance in FY10?





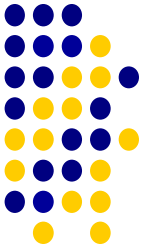
# More Facts – You Decide

## Facts:

|       | FY09                  |                        |                     | FY10                  |                        |                     |
|-------|-----------------------|------------------------|---------------------|-----------------------|------------------------|---------------------|
|       | <u>Gross Receipts</u> | <u>Change Provided</u> | <u>Net Receipts</u> | <u>Gross Receipts</u> | <u>Change Provided</u> | <u>Net Receipts</u> |
| Annie | <u>\$125</u>          | <u>\$(75)</u>          | <u>\$50</u>         | <u>\$100</u>          | <u>\$(75)</u>          | <u>\$25</u>         |
| Bob   | <u>\$ 70</u>          | <u>\$(30)</u>          | <u>\$40</u>         | <u>\$ 50</u>          | <u>\$ ( - )</u>        | <u>\$50</u>         |

Question: Now, which sales person most improved performance in FY10?



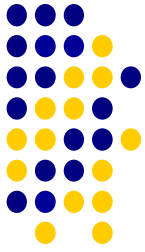


# Facts Must Be Consistently Measured

- Need “apples-to-apples” comparisons
- Bottom line for July 2009—FY10 gross SILO sales/use tax receipts is compared to FY09 net receipts—a meaningless comparison.

SILO = School Infrastructure Local Option



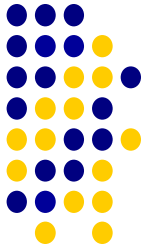


# Applying Lessons Learned To July 2009 Receipts

(\$ in millions)

|                     | July   |                |                               |          | FY10<br>Budget<br>Inc./ (Dec.) |
|---------------------|--|----------------|-------------------------------|----------|--------------------------------|
|                     | <u>FY09</u>  | <u>FY10</u>    | <u>Inc. / (Dec.)<br/>Amt.</u> | <u>%</u> |                                |
| Personal Income Tax | \$209.1  | \$196.3        | \$(12.8)                      | ( 6.1)%  | (0.7)%                         |
| Sales/Use Tax       | 99.0   | 139.5          | 40.5                          | 40.9%    | 3.0%                           |
|                     | <u>(additional line items omitted due to space limitation)</u> |                |                               |          |                                |
| Gross Receipts      | 407.4  | 412.1          | 4.7                           | 1.2%     | (0.1)%                         |
| Less Refunds        | <u>30.0</u>  | <u>57.8</u>    | <u>27.8</u>                   |          |                                |
| Net Receipts        | <u>\$377.4</u>   | <u>\$354.3</u> | <u>\$(23.1)</u>               | (6.1)%   | (0.7)%                         |



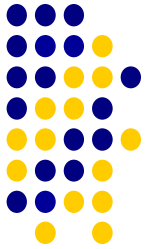


# Comparing “Apples-to-Apples”

(\$ in millions)

|                            | July           |                |                               |          | FY10<br>Budget<br>Inc./ (Dec.) |
|----------------------------|----------------|----------------|-------------------------------|----------|--------------------------------|
|                            | <u>FY09</u>    | <u>FY10</u>    | <u>Inc. / (Dec.)<br/>Amt.</u> | <u>%</u> |                                |
| Gross Receipts As Reported | \$407.4        | \$412.1        | \$ 4.7                        | 1.2%     | (0.1)                          |
| SILO Refunds Offset        | <u>42.4</u>    | <u>-</u>       |                               |          |                                |
| Gross Receipts As Adjusted | <u>\$449.8</u> | <u>\$412.1</u> | \$(37.7)                      | (8.4)%   | (0.1)%                         |

**As reported, fails 4-Way Test**  
**As adjusted, passes 4-Way Test**

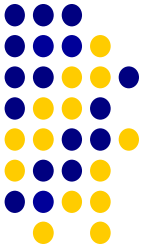


**State of Iowa**  
**FY10 General Fund Budget**  
**The FY11 Outlook**  
**(\$ in Millions)**

|  |           |                  |
|--|-----------|------------------|
| FY10 revenues  |           | \$5,851          |
| Less FY11 impacts of enacted revenue reductions and tax credit increases                 |           | ( 50)            |
| 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.





Facts do not cease to exist  
because they are ignored.

—Aldous Huxley

