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Vaudt Discusses Current State Revenue Picture

(Des Moines, Iowa)— In nearly seven years as your State Auditor, I have delivered countless analyses of budget proposals, revenue estimates, and other news-making financial stories. While a few people have inaccurately questioned my motives, none have disputed the numbers.

The Governor and others recently touted a 1.2% increase in gross receipts for July 2009 as a sign Iowa's economy may have turned the corner. This "increase" was the result of a bookkeeping change that did not produce any additional tax dollars, but did distort the year-to-year comparison by over \$40 million. Comparing last year's numbers to July 2009 on an apples-to-apples basis, you find gross receipts did not increase, but actually decreased more than 8%.

Furthermore, this focus on gross receipts directs your attention to the wrong numbers. It's like a store owner who is focused on the \$100 received from a customer and ignores the \$25 in change provided to the customer. The \$75 net receipt is the only meaningful number because those are the dollars the store owner gets to keep and spend. Just like the change provided by the store owner to the customer, the State's gross receipts must be reduced for the infrastructure sales tax received on behalf of schools and income tax refunds to taxpayers. Again, those are the dollars the State gets to keep and spend—also known as net receipts. That's why the State's budgets are built on net receipts, not gross receipts.

The State of Iowa has now experienced four consecutive months (April, May, June, and July 2009) of net receipts being less than projected to balance its budget. This trend should concern all Iowa taxpayers. Yet despite this mounting evidence of a net receipts shortfall, State officials have not reconvened the group (which last met in March 2009) to reproject the State's net receipts.

The longer the Governor and Legislature wait to determine what action is warranted to adjust the State budget, the more severe the impact will be on public services. If declining net receipts require, for example, a 3% spending cut for the year and the Governor waits 6 months to implement that cut, it will require a 6% cut for the remaining year because agencies would need to implement the 3% cut in the six months remaining in the fiscal year.

My question is, why not take action now (rather than wait until October as the Governor proposes) to reconvene the group to reproject net receipts? What's the downside to updating our estimate, which was off by more than \$180 million in the last 4 months? While I explained the downside of inaction—amplifying Iowans' pain by

compressing a year's worth of budget cuts into 6 months or less—I don't see a downside in taking action now to update our estimates.

Regretfully, when I focus on the meaningful facts (i.e., net receipts), some accuse me of being “politically motivated.” As I have noted on several occasions, numbers are facts and they have no political party affiliation. Taxpayers' money and government spending do not have “republican,” “democrat” or “no-party” stamped on them. The first step in overcoming any problem is to recognize that a problem exists—a problem that is only identifiable when elected officials focus on the meaningful numbers, net receipts. The longer our elected officials ignore the facts that truly matter, the greater the negative impact for all Iowans. Only with meaningful facts will our elected officials and the public make informed decisions as they navigate the treacherous waters of these tough economic times.

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