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State Auditor Vaudt Reviews Governor's Fiscal Year 2007 Budget
Concerns: Spending gap; multi-year spending proposals; avoiding spending limitation

(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 has completed his review of the Governor's proposed Fiscal Year 2007 budget. Some of his findings include—

Spending Gap

The Revenue Estimating Conference projects Fiscal Year 2007 revenues will grow by $239 million or 4.7% over Fiscal Year 2006. The Governor proposes an additional $177 million or 3.5% of increased taxes and revenues in his Fiscal Year 2007 budget. "Even with this 8.2% revenue increase, however, spending from all resources for General Fund services in the Governor's Fiscal Year 2007 budget still exceeds General Fund revenues—creating a spending gap of more than $230 million," commented Auditor Vaudt. "The good news is this proposed spending gap is smaller than the spending gap in Fiscal Year 2006. To put it in perspective, however," added Auditor Vaudt, "General Fund revenues would have to increase by almost 14% in order to fund the Governor's proposed Fiscal Year 2007 level of spending (without shifting expenditures) and comply with the 99% General Fund expenditure limitation."

Multi-year Spending Proposals

The Governor's budget proposes a five-year, $45 million per year spending increase for two of his budget initiatives. This is contrary to a fundamental sound budgeting principle endorsed by the Iowa Taxpayers Association—avoiding multi-year accelerating commitments. "As we struggle to implement sound budgeting principles, it is very disappointing to see a proposed budget that would further distance Iowa from these fundamental sound budgeting principles," stressed Auditor Vaudt. "Multi-year accelerating commitments simply create more built-in spending increases when Iowa's budget is already overwhelmed trying to accommodate inflationary growth and prior years' shifted expenditures."

Avoiding Spending Limitation

The Governor's budget proposal for Fiscal Year 2007 incorporates two ingredients which impact the General Fund expenditure limitation: (1) it shifts the additional revenues (and related expenditures) which would be generated by increasing the cigarette and tobacco tax outside of the General Fund, and (2) it under-funds by $57 million, almost 7%, the estimated Medicaid costs as jointly agreed upon by staff of the Department of Human Services, Department of Management, and Legislative Services Agency.

"Regardless of whether this proposed budget technically meets the legal expenditure limitation requirements of the Code of Iowa, it definitely begs the question—does this budget proposal meet the spirit of the law?" remarked Auditor Vaudt. "Using best estimates available – for both revenues and expenditures – is absolutely critical to realizing the intended financial benefits of Iowa's expenditure limitation."

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Auditor of State
David A. Vaudt

Comments on
Governor Vilsack's & Lt. Governor Pederson's
Fiscal Year 2007 Budget Recommendations

February 2, 2006

Press Briefing

State of Iowa
FY07 General Fund Budget

Remarks today will focus on these areas:

- The numbers
- Concerns:
  - Spending gap
  - Multi-year spending proposals
  - General Fund spending limitation
  - Other

State of Iowa
FY07 General Fund Budget
($ in Millions)

As presented by the Governor:

Revenues	$ 5,361.7
Expenditures	5,306.3
Budgeted surplus	$ 55.4
Surplus as a % of revenues	1.0%

State of Iowa
FY07 General Fund Budget
($ in Millions)

As adjusted for all resources:

Total revenues	$5,491.6
"True total expenditures"	5,723.8
Gap - spending in excess of revenues	$ [232.2]
Spending gap as % of total revenues	[4.2%]

State of Iowa
FY07 General Fund Budget
Revenues Reconciliation
($ in Millions)

As presented by the Governor	$5,361.7
Cigarette and tobacco tax increase shifted to and spent from other funds	129.9
Total revenues	$5,491.6

State of Iowa
FY07 General Fund Budget
Expenditures Reconciliation
($ in Millions)

As presented by the Governor	$5,306.3
Additional expenditures:	
▪ FY07 new ongoing revenues – Cigarette and tobacco tax increase shifted to and spent from other funds	129.9
▪ Non-General Fund resources – Expenditures shifted to other funds	227.6
▪ Under-funded costs – likely supplemental appropriation	60.0
"True total expenditures"	$5,723.8

State of Iowa
FY07 General Fund Budget
Additional Expenditures
($ in Millions)

FY07 new on-going revenues:

Cigarette and tobacco tax increased revenue shifted to and spent from:

Senior Living Trust Fund [Medicaid]	$ 73.4
Tobacco Related Funds [Medicaid]	56.5
	$129.9

State of Iowa
FY07 General Fund Budget
Additional Expenditures, Continued
($ in Millions)

Non-General Fund resources:

Other expenditures shifted to:

FY06 Surplus – Cash Reserve Fund/Senior Living Trust Fund [Property tax credits]	$ 119.8
Tobacco Related Funds [Reinsurance program ($30.0), Medicaid ($2.8)]	32.8
Senior Living Trust Fund [Medicaid]	40.8
Rebuild Iowa Infrastructure Fund [Debt service ($15.1), community attraction and tourism ($7.0)]	22.1
Environment First Fund [Soil conservation ($5.5), park operations ($2.0)]	7.5
Vertical Infrastructure Fund [Routine maintenance ($2.8), relocation and leasing ($1.8)]	4.6
	$227.6

State of Iowa
FY07 General Fund Budget
Additional Expenditures, Continued
($ in Millions)

Under-funded costs:

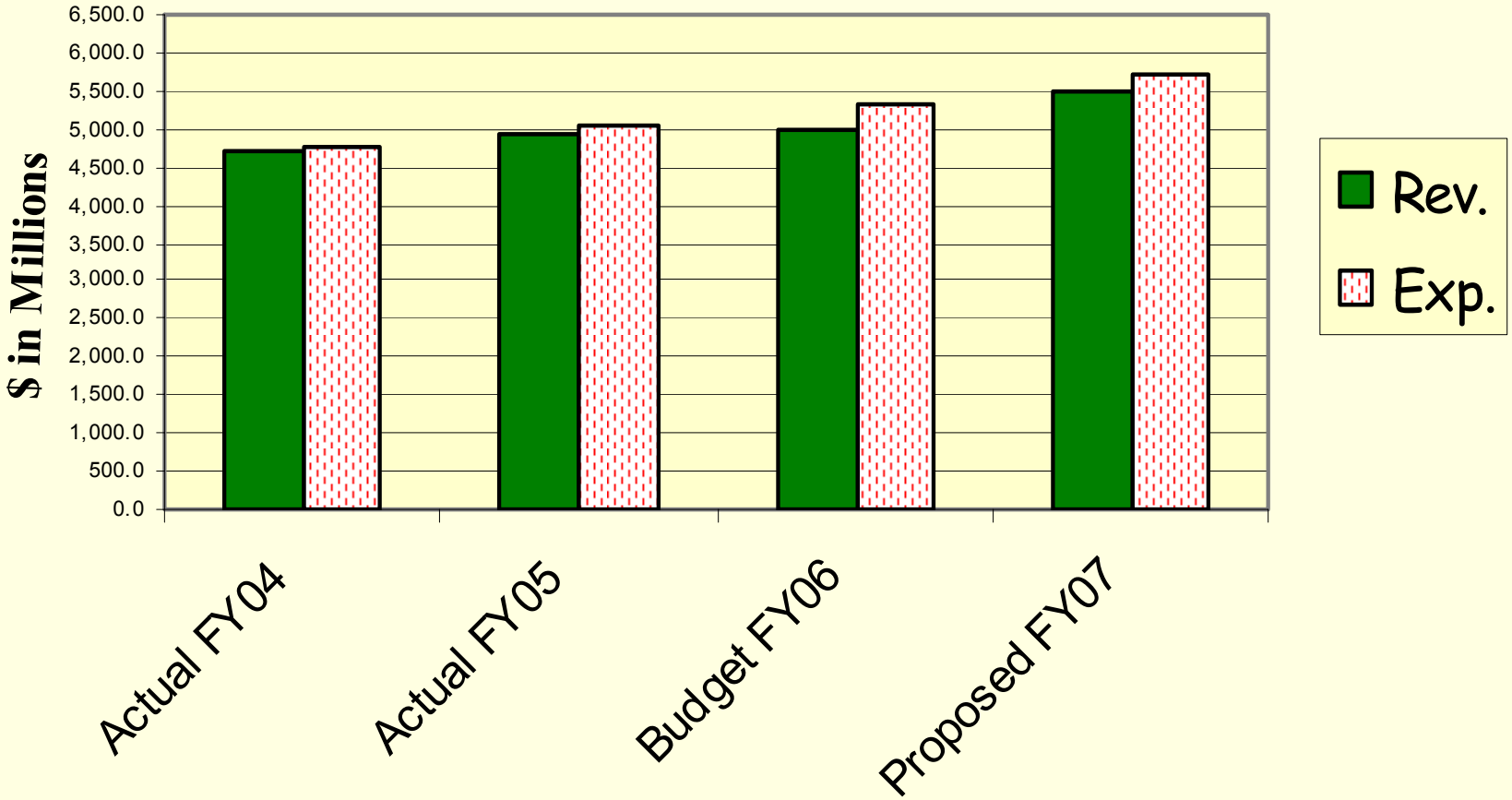
Likely supplemental:

Medicaid	$57.0
State Appeal Board	3.0
	$60.0

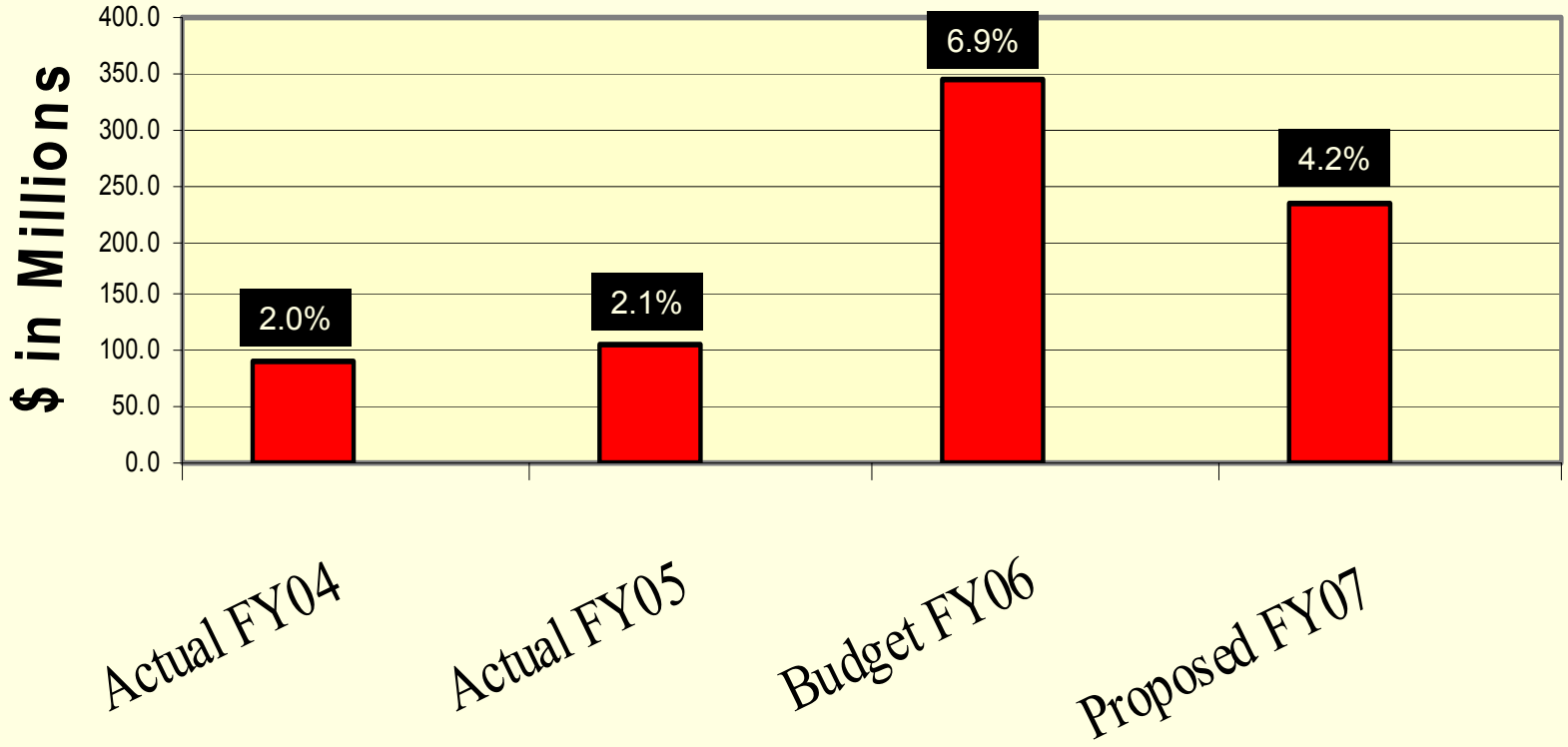
State of Iowa
FY07 Spending Increase
($ in Millions)

FY06:	
Enacted budget	$4,938.5
Shifted expenditures	367.7
Proposed supplemental	57.5
Estimated "true total expenditures"	$5,363.7
FY07:	
Estimated "true total expenditures"	$5,723.8
FY07 increase over FY06:	
Amount	$ 360.1
Percentage	6.7%

State of Iowa
FY07 General Fund Budget
Total Revenues and True Total Expenditures



State of Iowa
FY07 General Fund Budget
Spending Gap



Percentages reflect spending gap compared to revenues

State of Iowa
FY07 General Fund Budget
Revenue Growth Needed
($ in Millions)

FY07 revenue growth:
[FY06 estimated revenue $5,075.8]

REC estimate	$238.9	4.7%
Proposed revenue adjustments	176.9	3.5
Total	$ 415.8	8.2%
FY07 spending gap	$232.2	4.2%(1)

8.2% revenue growth is very significant; however, this budget proposal would actually need **13.8%** General Fund revenue growth to fund this level of spending (without shifting expenditures) and comply with the 99% spending limitation.

(1) Based upon FY07 revenues (4.6% based upon FY06 revenues)

State of Iowa
FY07 General Fund Budget
Multi-Year Spending Proposals
($ in Millions)

General Fund:	FY07	FY08	FY09	FY10	FY11
Student achievement/ teacher quality	$30	60	90	120	150
High quality preschool	15	30	45	60	75
	$45	90	135	180	225

State of Iowa
FY07 General Fund Budget
Multi-Year Spending Proposals, Continued
($ in Millions)

	FY07	FY08	FY09
Rebuild Iowa Infrastructure Fund:			
Battelle studies implementation	$10	10	5
Water quality programs	10	10	5
	$20	20	10
Tobacco Related Funds:			
Battelle studies implementation	$10	10	5
Water quality programs	10	10	5
	$20	20	10

State of Iowa
Looking Ahead - FY08 General Fund Budget
Revenue Growth Needed
($ in Millions)

Built-in increases for FY08:

[FY07 estimated revenue $5,491.6]

LSA estimated revenue decreases built-in ($50)	.9%
Student achievement/teacher quality and high quality preschool spending increases ($45)	.8
Allowable growth of 4% for K-12 education ($103.2)	1.9
FY07 shifted expenditures ($227.6)	4.1
Full year vs. 3 months operations for Corrections Oakdale expansion ($15.3)	.3
Revenue growth needed	8.0%

State of Iowa
FY07 General Fund Budget
Spending Limitation - Avoidance

- Avoided General Fund spending limitation by shifting $129.9 million increased cigarette and tobacco tax to other funds
  - "New revenues" under 8.54 of Code of Iowa and subject to 95% General Fund expenditure limitation
  - 5% nonspendable portion ($6.5 million) avoided

State of Iowa
FY07 General Fund Budget
Spending Limitation - Avoidance

- Medicaid
  - Under-funded FY07 estimated costs by $57 million:
    - DHS, DOM, and LSA cost estimate $837 million
    - Governor's budget proposal provides $780 million
  - Senior Living Trust Fund depleted of remaining $41 million
- Other costs
  - Under-funded by $3.0 million:
    - State Appeal Board

State of Iowa
FY07 General Fund Budget
Spending Limitation – Avoidance
($ in Millions)

Expenditure limitation:	Governor's	Adjusted
Governor's calculation	$5,306.5	$5,306.5
Cigarette and tobacco tax increase [$129.9 @ 95%]		123.4
		5,429.9
Proposed expenditures:		
Governor's recommended appropriations	5,306.3	5,306.3
Cigarette and tobacco tax increase – revenues and spending shifted outside of General Fund		129.9
Under-funded expenditures:		
Medicaid		57.0
State Appeal Board		3.0
		5,496.2
Surplus (gap)	$ .2	$ [66.3]
Surplus (gap) as % of expenditure limitation	0.0%	[1.2%]

State of Iowa
FY07 General Fund Budget
Other Concerns

- Salaries and benefits:
  - Regents salaries and benefits to increase $25 million, while proposed total Regents funding increased only $30 million
  - Funds only 70% of non-Regent increases in salaries and benefits ($17.4 million)
- Tobacco Refunding Proceeds:
  - $150 million of tobacco refunding bond proceeds - spending of these dollars are outside the General Fund

State of Iowa
FY07 General Fund Budget
Other Concerns, Continued

- FY06 Projected Surplus:
  - Utilizes $119.8 million of projected FY06 surplus to fund property tax credits for FY07 budget
  - Leaves only $5 million "cushion" for FY06 budget year
  - Like $50 "cushion" on $50,000 annual family budget
  - Proposes Vanguard School Grants from future budget surpluses

State of Iowa
FY07 General Fund Budget
Other Concerns, Continued

- Repayment of Other Funds:
  - How will dollars ever get repaid to:
    - Senior Living Trust Fund?
    - Cash Reserve Fund?
    - Economic Emergency Fund?
  - What about any of the other funds?
- Multi-year Spending Proposals:
  - Proposed multi-year spending proposals – makes decisions for balancing future budgets even more difficult