

**Auditor of State
David A. Vaudt**

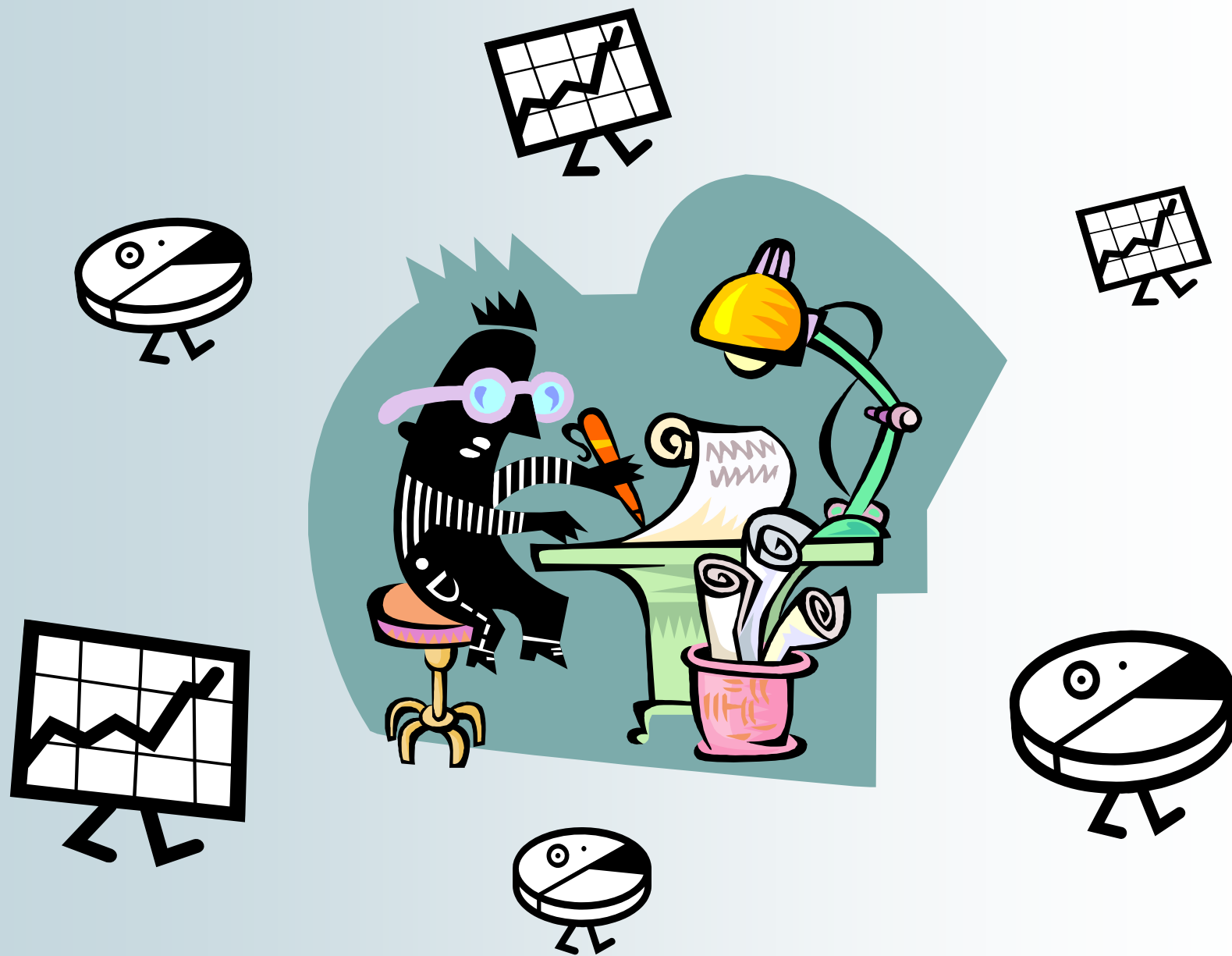
"Budgeting — Iowa's Future"

January 2009

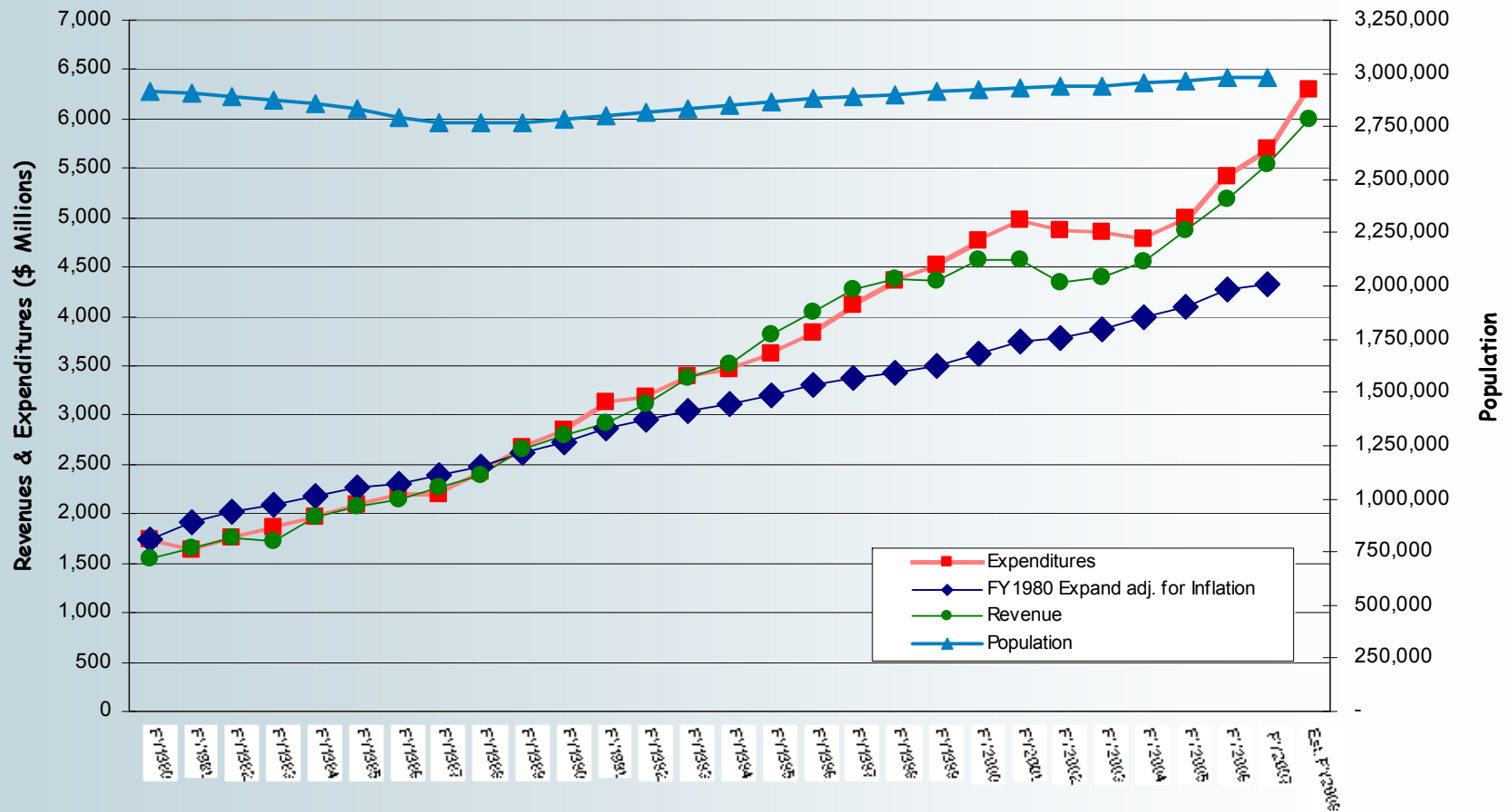
State of Iowa - General Fund Budget

Remarks today will focus on—

- General Fund budget - brief historical perspective
- General Fund budgets adopted for FY2008 and FY2009:
 - Revenue and expenditure growth
 - Tax and fee increases
 - Spending gap
 - Expenditure shifts
 - The Senior Living Trust Fund story
 - Iowa's new "charge card"
 - Wasn't this a time to be fiscally conservative?
- Looking ahead:
 - Where we are today
 - What could have been
- The road to meaningful, sustainable budgets—the issues and solutions
- Questions



State of Iowa - General Fund Budget Historical Perspective - Population, Expenditures*, and Revenues



*Adjusted for all resources

State of Iowa - General Fund Budget Historical Perspective - Lack of Clarity (\$ in Millions)

	<u>Reported Expenditures</u>	<u>Expenditures Shifted</u>		<u>"True Total Expenditures"</u>
		<u>Amount</u>	<u>%</u>	
FY2000	\$ 4,763.6	-	-	\$ 4,763.6
FY2001	\$ 4,886.9	\$ 86.1	1.8	\$ 4,973.0
FY2002	\$ 4,607.5	\$ 265.8	5.8	\$ 4,873.3
FY2003	\$ 4,534.4	\$ 316.5	7.0	\$ 4,850.9
FY2004	\$ 4,517.4	\$ 258.8	5.7	\$ 4,776.2
FY2005	\$ 4,557.5 (A)	\$ 430.0	9.4	\$ 4,987.5
FY2006	\$ 5,027.6	\$ 397.0	7.9	\$ 5,424.6
FY2007	\$ 5,347.1	\$ 392.7	7.3	\$ 5,739.8
Estimate FY2008	\$ 5,875.5	\$ 422.1	7.2	\$ 6,297.6

(A) Excludes \$45.6 million Cash Reserve Fund repayment.

**State of Iowa - General Fund Budget
Historical Perspective - Lack of Clarity
(\$ in Millions)**

	<u>Reported Expenditures</u>	<u>"True Total Expenditures"</u>
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FY2007 vs. FY2000 Increase:

Dollars	<u>\$ 583.5</u>	<u>\$ 976.2</u>
Percentage	<u>12.2%</u>	<u>20.5%</u>

State of Iowa - General Fund Budget Historical Perspective - Lack of Clarity (\$ in Millions)

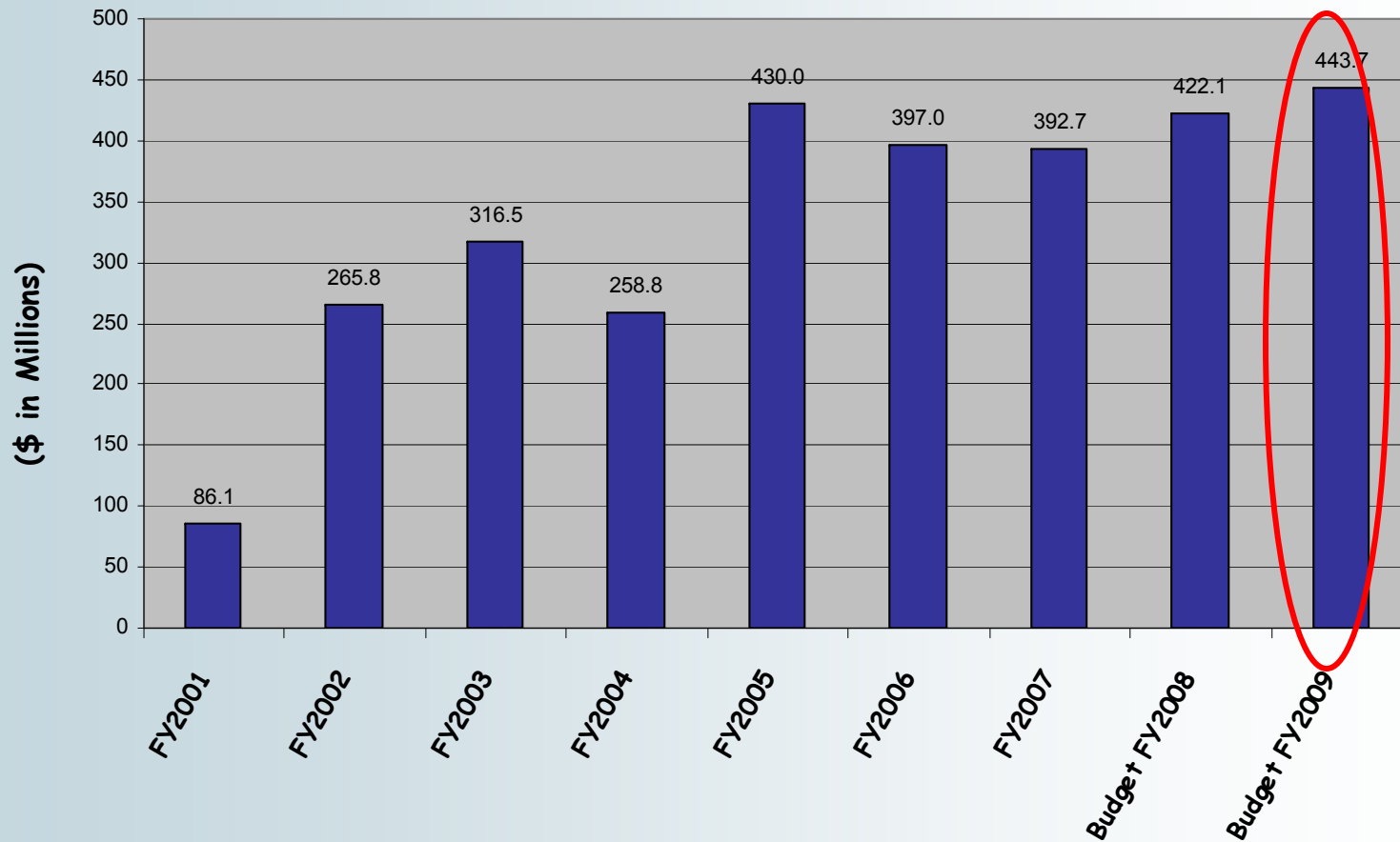
This is what taxpayers were told about the FY2009 budget.

	<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 for the FY2009 budget?

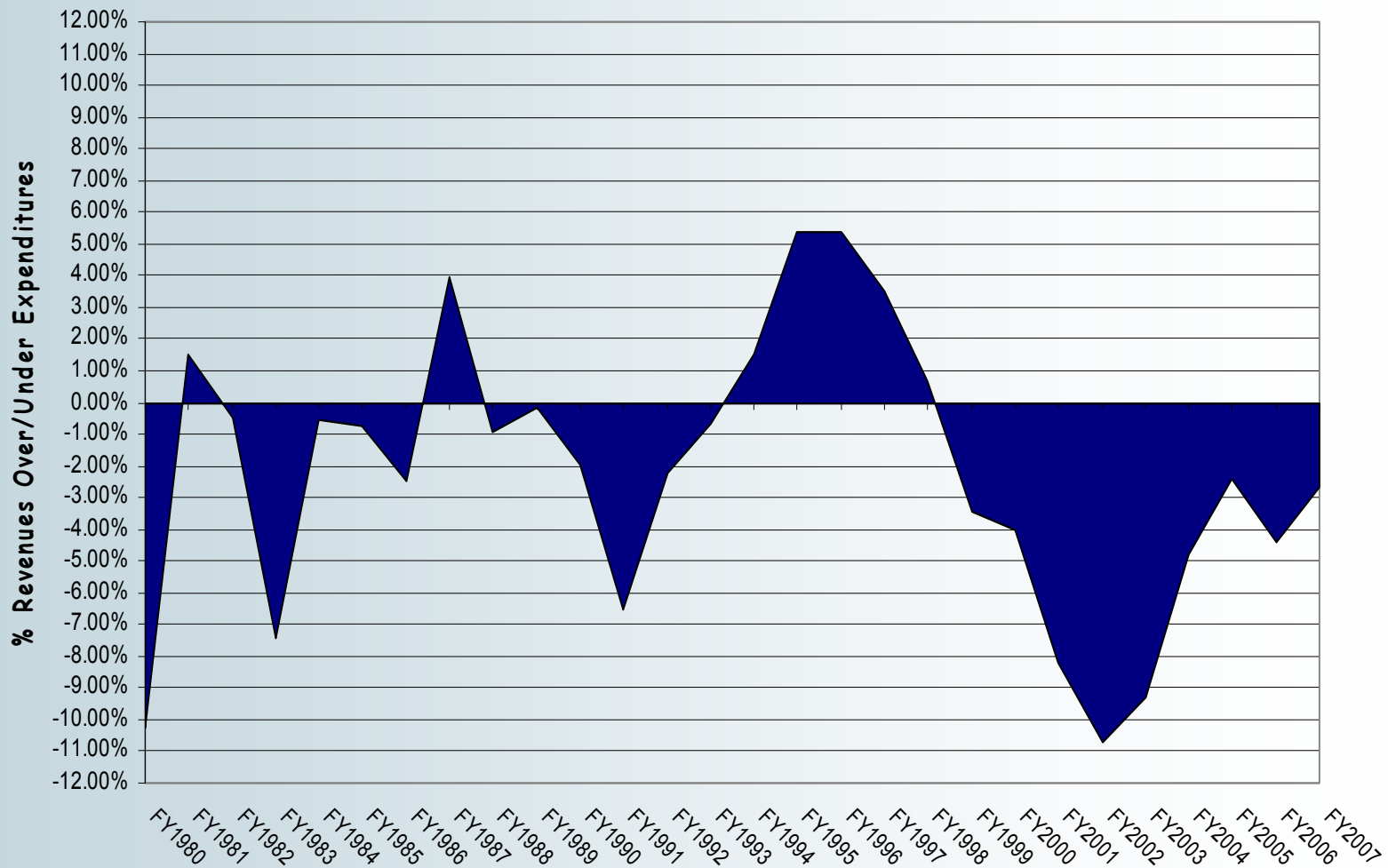
General Fund true total expenditures	<u>\$6,614.1</u>	<u>\$6,588.8</u>	<u>\$ 25.3</u> <u>0.4%</u>
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State of Iowa - General Fund Budget Historical Perspective - Expenditure Shifts (\$ in Millions)



Record setting expenditure shifts in FY2009!

State of Iowa - General Fund Budget Historical Perspective - Revenue vs. Expenditures*



*Adjusted for all resources

State of Iowa - General Fund Budget Historical Perspective Summary

- Lack of clarity - "charge card" costs excluded; distorts year-to-year comparisons
- Spending gap - ongoing expenditures continually exceed ongoing revenues
- Unsustainable spending growth - i.e., FY2008 of 10%


State of Iowa - General Fund Budget Revenue Growth vs. Expenditure Growth (\$ in Millions)

	Actual	Budget		2-year
	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</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>

*Adjusted for all resources

State of Iowa - General Fund Budget Tax & Fee Increases – Impact on Revenue Growth (\$ in Millions)

Tax and fee increases account for 62.6% of the \$558.6 million revenue growth in the FY2008 and FY2009 two-year period.

	<u>Total Revenues</u>	<u>Newly Enacted Revenues</u>	<u>% Newly Enacted Revenues</u>
FY2008 growth	\$266.9	\$181.9	<u>68.2%</u>
FY2009 growth	291.7	167.7	<u>57.5%</u>
Total revenue growth	558.6	349.6	<u>62.6%</u>
Less one-time revenues	<u>(28.3)</u>	<u>(28.3)</u>	
Ongoing revenue growth	<u>\$530.3</u>	<u>\$321.3</u>	
Two-year % increase (A)	<u>9.3%</u>	<u>5.6%</u>	
			
	<u>3.7%</u>		

(A) Based upon FY2007 revenues (\$5,722.9)

State of Iowa - General Fund Budget Spending Gap - Generated by Expenditure Shifts (\$ in Millions)

	Budget	
	FY2008	FY2009
Revenues	<u>\$5,989.8</u>	<u>\$6,281.5</u>
Revenues available (A)	5,925.2	6,218.1
True total expenditures*	6,291.0	6,588.8
Spending gap	<u>\$ (365.8)</u>	<u>\$ (370.7)</u>

(A) Reflects 99% expenditure limitation (95% for new revenues)

*Adjusted for all resources

State of Iowa - General Fund Budget Expenditure Shifts - Iowa's "Charge Cards" Maxed Out

Iowa's "charge cards" (except for "Rainy Day" funds) are essentially "maxed out" under the FY2009 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 FY2009 "disappear" in FY2010. However, the expenditures are ongoing.

State of Iowa - 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>Adopted Budget</u>
Cumulative repayments planned through FY2009	<u>\$263.2</u>

Key question - What will the balance at the end of FY2009?

Projected balance at end of FY2009	<u>\$37.7</u>
Projected balance as a % of cumulative repayments	<u>14.3%</u>

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

A new "charge card" has been opened in FY2009 - Rebuild Iowa Infrastructure Fund (RIIF).

- "Notwithstanding" used 32 times!
- Appropriated \$101.4 million in FY2009 and \$91.8 million in FY2010 for General Fund services.

Diverting RIIF funds means:

- Over \$300 million of bonds to cover corrections infrastructure.
- Impact on future vertical infrastructure projects.

What's the next new "charge card"?

- New statewide sales tax intended for school infrastructure?

State of Iowa - General Fund Budget Wasn't This a Time to be Fiscally Conservative?

Here's what the experts were saying during development of the FY2009 budget:

- 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 states' revenues. (National Governors' Association, Executive Director Raymond Scheppach, March 2008)
- I'm beginning to think this (downturn) is going to be long and deep. (Center on Budget and Policy Priorities, Deputy Director Iris J. Lav, March 2008)

State of Iowa - General Fund Budget Wasn't This a Time to be Fiscally Conservative?

Here's what Iowa did:

- Notwithstanding Iowa law to utilize higher April 2008 REC revenue estimate for FY2009 budget (\$49.1 million more revenue to spend!).
- Created a false sense of security—we have \$620 million in “Rainy Day” funds, the largest ever.
- Diverted millions from RIIF (infrastructure) spending to General Fund spending during a time of rising infrastructure needs—needs further increased by the 2008 floods.
- Continued the one-year budget focus—“kick the can down the road” approach.

State of Iowa - General Fund Budget

The FY2010 Outlook

(\$ in Millions)

FY2009 budgeted revenues	\$6,281.5	
Less 12/12/08 REC FY2009 revenue reduction	(137.1)	(163.3)
Less 12/12/08 REC FY2010 revenue reduction	<u>(26.2)</u>	
FY2010 <u>estimated</u> revenues	<u>\$6,118.2</u>	
FY2010 <u>estimated</u> revenues available (A)	\$6,057.0	
FY2009 true total expenditures	\$6,588.8	
FY2009 Governor spending reductions	(119.4)	
FY2010 Preschool & K-12 4% allowable growth	<u>112.6</u>	<u>6,582.0</u>
FY2010 revenue <u>shortfall</u> —		
spending gap before revenue and other spending changes		<u>\$ (525.0)</u>
Spending gap as % of revenues available		<u>8.7%</u>

REC - Revenue Estimating Conference
(A) Reflects 99% expenditure limitation

State of Iowa - General Fund Budget The Impact of the Economic Downturn (\$ in Millions)

FY2010 revenue <u>shortfall</u>	<u>\$(525.0)</u>
Impacts of economic downturn:	
Revenue reduction	\$(163.3)
Less Governor spending reductions	<u>119.4</u>
Net	<u>\$(43.9)</u>

The economic downturn represents only 8.4% of the shortfall—91.6% existed absent the economic downturn, caused by ongoing spending exceeding on going revenues.

State of Iowa - General Fund Budget
Assume Inflationary Expenditure Growth -
What Could Have Been
 (\$ in Millions)

	Actual	Budget		2-year
	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</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>\$5,929.2</u>	<u>\$6,101.2</u>	
Expenditure growth	<u>\$189.4</u>	<u>\$172.0</u>		<u>\$361.4</u>
Inflation	<u>3.3%</u>	<u>2.9%</u>		<u>6.3%</u>
2-year expenditure growth as % of revenue growth				<u>64.7%</u>

*Adjusted for all resources

State of Iowa - General Fund Budget

The FY2010 Outlook - What Could Have Been

(\$ in Millions)

FY2009 budgeted revenues		\$ 6,281.5
Less 12/12/08 REC FY2009 revenue reduction		(137.1)
Less 12/12/08 REC FY2010 revenue reduction		<u>(26.2)</u>
FY2010 <u>estimated</u> revenues		<u>\$ 6,118.2</u>
FY2010 <u>estimated</u> revenues available (A)		\$ 6,057.0
FY2009 <u>inflation adjusted</u> expenditures	\$ 6,101.2	
FY2009 Governor spending reductions	(119.4)	
FY2010 Preschool & K-12 4% allowable growth	<u>112.6</u>	<u>6,094.4</u>
FY2010 revenue <u>shortfall</u> —		
before revenue and spending changes		<u>\$ (37.4)</u>

Shortfall as % of revenues available 0.6%

REC - Revenue Estimating Conference
 (A) Reflects 99% expenditure limitation

State of Iowa - General Fund Budget Expenditure Shifts - What Could Have Been (\$ in Millions)

	<u>FY2008</u>	<u>FY2009</u>	<u>Total</u>
Revenues	<u>\$5,989.8</u>	<u>\$6,281.5</u>	
Revenues available (A)	\$5,925.2	\$6,218.1	
<u>Inflation adjusted expenditures</u>	<u>5,929.2</u>	<u>6,101.2</u>	
Maximum expenditure shifts needed	<u>\$ (4.0)</u>	<u>\$ N/A</u>	<u>\$ (4.0)</u>
Budgeted expenditure shifts	\$ 422.1	\$ 443.7	
Maximum expenditure shifts needed	<u>(4.0)</u>	<u>—</u>	
Reduction	<u>\$ 418.1</u>	<u>\$ 443.7</u>	<u>\$ 861.8</u>

(A) Reflects 99% expenditure limitation (95% for new revenues)

N/A = not applicable

State of Iowa - General Fund Budget Cash Reserves & Other Fund Balances (\$ in Millions)

	Today	What Could Have Been
"Rainy Day" Funds	620.3	620.3
Senior Living Trust Fund	37.7	
Property Tax Credit Fund	0.0	55.8
Rebuild Iowa Infrastructure Fund	18.1	
Tobacco related funds	0.0	
Reduction in expenditure shifts	N/A	861.8
	676.1	1,537.9

\$1.5 billion would provide significantly more flexibility - use to: truly rebuild SLTF monies; provide FY2010 education allowable growth and inflationary expenditure growth; fund state share of flood costs; retain necessary reserves for cash flow purposes; fund corrections infrastructure costs to reduce or eliminate borrowings; etc.

N/A = not applicable

State of Iowa - General Fund Budget

The Road to Meaningful, Sustainable Budgets - The Issues Iowa Faces & Solutions Needed

(\$ in Millions)

Issue 1:

Need to present budget in understandable format to eliminate the lack of clarity (intentional confusion?).

Solution 1:

Present cost of General Fund services with clarity in the budget document by including non-General Fund resources being used to pay for General Fund services so meaningful year-to-year comparisons can be made.

True costs for General Fund services:

	<u>General Fund</u>	<u>Expenditures Shifted to Other Funds</u>				<u>True Total Expenditures</u>
		<u>SLTF</u>	<u>PTCF</u>	<u>RIIF</u>	<u>Others</u>	
FY2008	<u>\$5,856.3</u>	<u>74.1</u>	<u>131.9</u>	<u>29.8</u>	<u>198.9</u>	<u>6,291.0</u>
FY2009	<u>\$6,133.0</u>	<u>121.4</u>	<u>115.5</u>	<u>101.4</u>	<u>117.5</u>	<u>6,588.8</u>

State of Iowa - General Fund Budget The Road to Meaningful, Sustainable Budgets - The Issues Iowa Faces & Solutions Needed (\$ in Millions)

Issue 2:

Need to align ongoing expenditures and ongoing revenues to create long-term budget sustainability:

- (a) eliminate reliance on one-time/limited time resources
- (b) eliminate spending gap

Solution 2:

Present the spending gap created by the budget and future plans for reduction/elimination in the budget document.

	<u>FY2008</u>	<u>FY2009</u>
On-going revenues available	\$5,925.2	\$6,218.1
True costs for General Fund services	<u>6,291.0</u>	<u>6,588.8</u>
Spending gap	<u>\$ (365.8)</u>	<u>\$ (370.7)</u>

Plan to eliminate: Spending gap reduction of \$XXX in 2010, \$XXX in 2011 and \$XXX in 2012 by (state action plan).

State of Iowa - General Fund Budget The Road to Meaningful, Sustainable Budgets - The Issues Iowa Faces & Solutions Needed (\$ in Millions)

Issue 3:

Need to move from a short-term, one-year budget approach to a longer-term focus.

Solution 3:

Within the budget document present, at a minimum, the budget projection for the immediately following fiscal year—i.e., in FY2010 budget document also present FY2011 projection.

FY2010 budget document:

<u>Actual FY2008</u>	<u>Estimated FY2009</u>	<u>Budget FY2010</u>	<u>Projected FY2011</u>	<u>Projected FY2012</u>
\$XXX	XXX	XXX	XXX	XXX

State of Iowa - General Fund Budget The Road to Meaningful, Sustainable Budgets - The Issues Iowa Faces & Solutions Needed (\$ in Millions)

Issue 4:

Need to timely reassess for significant changes—i.e., impacts of the 2008 floods.

Solution 4:

Develop an all-encompassing estimate of the flood damages and prevention costs, with a range for Iowa's share of the costs. Include estimates by fiscal year for incorporating the costs in the FY2009 budget—and the FY2010 and future budgets, if needed.

State of Iowa - General Fund Budget

The Road to Meaningful, Sustainable Budgets - The Issues Iowa Faces & Solutions Needed

Solution 4, Cont'd.

(\$ in Millions)

	Estimated				
	<u>Total Cost</u>	<u>Federal Share</u>		<u>State Share</u>	
Type of damage:		<u>Maximum</u>	<u>Minimum</u>	<u>Minimum</u>	<u>Maximum</u>
XXX	\$XXX	\$XXX	\$XXX	\$XXX	\$XXX
XXX	XXX	XXX	XXX	XXX	XXX
Type of prevention:					
XXX	XXX	XXX	XXX	XXX	XXX
XXX	XXX	XXX	XXX	XXX	XXX
Grand total	<u>\$XXX</u>	<u>\$XXX</u>	<u>\$XXX</u>	<u>\$XXX</u>	<u>\$XXX</u>
Costs by fiscal year:					
2009				\$XXX	\$XXX
2010				XXX	XXX
2011				XXX	XXX
Total				<u>\$XXX</u>	<u>\$XXX</u>

State of Iowa - General Fund Budget

Yes, challenges exist —

These are financial facts that quickly become history - we cannot change history, but we can impact the future.

Keys to solving challenges —

Recognize the problem and implement the necessary changes—remember, challenges met can provide real opportunities to improve.

State of Iowa What Can You Do?

- Stay informed
- Communicate with the Governor and your Legislators:

Governor	515-281-5211
House	515-281-3221
Senate	515-281-3371

State of Iowa Auditor Contact Information

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Questions

