



# The Watchdog

A Legislative Update from Iowans for Tax Relief



Friday, February 23, 2007

7th Week of Session

## BUDGET IMBALANCE!!: State Auditor David Vaudt Says Governor Culver's Budget Out Spends State Revenue by Nearly \$300 Million

### BUDGET SHIFTS OVER \$400 MILLION OF GENERAL FUND COSTS TO OTHER FUNDS AND SPECIAL ACCOUNTS:

State Auditor David Vaudt this week released his annual review of the Governor's proposed budget for the next fiscal year. In his self-described role as the "Taxpayers' Watchdog", Auditor Vaudt has completed his review of Governor Culver's proposed Fiscal Year 2008 budget.

**The news is not good for Iowa taxpayers.**

According to Auditor Vaudt:

**1. True total expenditures grow at a rate of almost 10% above Fiscal Year 2007 levels.**

If the Governor's budget is adopted in full, this increase would be the largest annual spending increase in the history of Iowa government.

Here are the actual dollar and percentage increases in state true total expenditures since FY04 (\$ in millions):

	<u>Amount</u>	<u>%</u>
FY05 vs. FY04	\$211.3	4.4%
FY06 vs. FY05	\$437.1	8.8%
FY07 vs. FY06	\$319.7	5.9%
<b>FY08 vs. FY07</b>	<b>\$556.9</b>	<b>9.7%</b>

FY04 - FY06 Actual, FY07 Estimate, FY08 Proposed Budget. Source: David A. Vaudt, Auditor of State, 2-22-07.

**2. State spending exceeds state revenue by nearly \$300 million.**

Auditor Vaudt said: "The key to responsible budgeting is to keep expenditures in line with revenues. Even with the proposed cigarette tax increase, the growth in state spending outpaces the growth in revenues by a significant margin."

### As adjusted for all resources:

(\$ in millions)

Total revenues	\$6,015.3
True total expenditures	<u>\$6,301.2</u>
Gap -- spending in excess of revenues	(\$285.9)
	=====
Spending gap as a % of total revenues	(4.8%)
	=====

**3. Over \$400 million of Fiscal Year 2008 General Fund costs are shifted to other funds and special accounts.**

The proposed shifts include:

\$219 million from the Senior Living Trust Fund; \$58.2 million from Tobacco Related Funds; \$63.2 million from Iowa Care Account; \$37.5 million from Rebuild Iowa Infrastructure Fund; \$9.9 million from Environment First Fund and \$17 million from Judicial Fees.

In total \$404.8 million are taken from these non general fund sources and spent on general fund expenditures.



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## **BUDGET IMBALANCE!!, continued...**

### **4. Proposed budget does not account for \$142 million in under-funded costs.**

According to Auditor Vaudt, the Governor's budget does not account for expenditures in two key areas: (1) state salary increases -- \$112.1 million, and (2) a likely supplemental appropriation for Medicaid and the State Appeal Board -- \$29.9 million.

### **5. Cost shifts out of the Senior Living Trust Fund exceed repayments by more than \$60 million.**

The Legislative Services Agency said this about the Senior Living Trust Fund in response to the Governor's budget proposal: "The balance could be depleted at the end of FY2008."

Source: David A. Vaudt, Auditor of State, 2-11-07.

### **6. The \$180 million in proposed tax increases in the Governor's budget are still \$300 million short of what is needed to balance the state budget.**

The simple fact remains, if this budget is adopted in full (or even close to full), there will be tremendous pressure to raise additional taxes on Iowans next year.

**Once you get done taxing the few (meaning taxes on tobacco users and big business) and come up short, you are going to have to tax the many.**

The only sources of tax revenue sufficient to fill the gap created by this proposed budget

are increases in either the sales tax or the personal income tax or both. Lacking great fiscal discipline by the Legislature over the next two months, Iowans will be faced with a major tax increase in 2008.

## **HOUSE REPUBLICAN LEADERS PROPOSE 99% SPENDING LIMIT CONSTITUTIONAL AMENDMENT:**

This week, Republican leaders in the Iowa House proposed House Joint Resolution 5, a proposed amendment to the Iowa Constitution which would limit state spending to 99% of anticipated revenue.

HJR 5 is the same proposed constitutional amendment that received legislative approval in 1998 and 1999, but failed to win voter approval in a July 1999 special election (it received 49% of the vote).

Opponents of the proposed 99% Amendment argued the language was not needed in the Iowa Constitution because there already existed a state law requiring the same limit.

However, since 1999 the Legislature and Governor have repeatedly ignored state law and have authorized state spending far in excess of the the legal limitation.

House Republican leaders recognize the reality that only the Iowa Constitution has the power to ensure enforcement of this common sense spending limit which simply says the state should never spend more than it receives in any given fiscal year.

Sponsors of HJR 5: Reps. Christopher Rants, Kraig Paulsen, Jeff Kaufmann, Rod Roberts, Doug Struyk, and Linda Upmeyer.

**The Watchdog** is a weekly update of issues which are being considered by the Iowa Legislature.

It is a service to members of Iowans for Tax Relief. Permission is granted to forward this to any interested individuals.

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