



## State Auditor David Vaudt Says Governor Culver's Proposed State Budget "Maxes Out" Iowa's Charge Cards: Predicts Tough Times Ahead.

### AUDITOR SAYS PROPOSED BUDGET ENHANCES CLARITY, BUT SETS IOWA UP FOR DIFFICULT CHALLENGES IN FISCAL YEAR 2010:

State Auditor David Vaudt takes seriously his charge to serve as the "Taxpayers' Watchdog" (a title we are happy to share with him). In that capacity, he annually reviews the budget proposals put forth by our state's Governor in January and provides a similar review of the actual budget adopted by the Legislature in late spring.

Recently, Auditor Vaudt released his assessment of Governor Culver's proposed spending recommendations for Fiscal Year 2009 (the budget year begins on July 1, 2008 and ends on June 30, 2009). His report indicates progress in three specific areas: 1) the FY09 budget enhances clarity in that there is a reduction in expenditures shifted from the general fund to other special funds; 2) the FY09 budget reduces the spending gap -- the gap between true total expenditures and total revenue; and 3) the FY09 budget reports a lower growth rate in true total expenditures than in FY08.

It is often a confusing exercise to reconcile the various numbers reported by the Governor, the partisan staffs employed by the four legislative caucuses, and agencies like the nonpartisan Legislative Services Agency in regards to the level of state spending growth. However, Auditor Vaudt brings great clarity to this process with his calculation and use of a consistent measure of "true total expenditures."

Using the Auditor's measures, Iowans get an honest picture of the state budget and an honest assessment of what is actually happening with their money.

**1. ENHANCED CLARITY:** the Governor's FY09 budget contains a \$180.9 million reduction in expenditures shifted to other special funds and accounts with minimal under-funded costs. In the FY08 budget adopted by the Legislature and approved by the Governor, \$422.1 million of costs were shifted from the general fund to other funds. In his proposed budget for FY09, \$241.2 million of costs are shifted in the same manner.

However, while this is certainly progress, no one should be pleased with a budget that still contains nearly \$250 million in general fund expenditures that are shifted to other funds. **This is exactly the kind of behavior that convinces us the proposed new state fund for school infrastructure will be impossible to protect over time.**

**2. REDUCED SPENDING GAP:** true total expenditures in the Governor's FY09 budget exceed total available revenue by \$179 million. However, in FY08 the adopted budget true total expenditures exceeded total available revenue by \$368.1 million.

The Auditor correctly notes the progress made in the FY09 budget in regards to reducing the gap between expenditures and revenue. However, there is little to praise in a budget where spending still outstrips revenue by nearly \$180 million (**particularly in light of the fact this spending gap reduction is only made possible when you include the revenue from a variety of tax increases proposed by the Governor in his budget**).

**3. LOWERED SPENDING GROWTH:** the growth in true total expenditures in the Governor's FY09 budget is 5.7% (\$356.7 million) over FY08. This is four percentage points less than the 9.7% (\$557.8 million) spending growth actually adopted in the FY08 budget over FY07.

Again, no one should be doing jumping jacks of joy. **In just two years as Governor, if adopted as proposed, the state budget would have grown by over \$900 million and by nearly 16%.**

## Auditor Vaudt says Iowa's Charge Cards are "Maxed Out", continued...

While crediting the Governor for the progress made in these three areas, Auditor Vaudt also outlines "the rest of the story" with six specific concerns.

**1. IOWA'S CHARGE CARDS ARE "MAXED OUT":** the Auditor raises concern that the various special funds (excluding the "rainy day" reserves) that have been used to shift expenses out of the general fund are "maxed out". These funds include the Senior Living Trust Fund (\$74.6 million), various tobacco related funds (\$36.3 million), and the Property Tax Credit Fund (\$81.8 million).

According to Auditor Vaudt: "The depletion of these funds in Fiscal Year 2009 creates a \$193 million hole for Fiscal Year 2010." This will occur because these resources are gone in FY10, but the expenses for which they will pay are on going.

**2. BONDING FOR CURRENT EXPENSES:** the Governor's FY09 budget contains \$67 million in revenue from one-time bond proceeds to pay current operating expenditures. Auditor Vaudt said, "This is contrary to good budgeting principles because this practice leaves future generations to pay for current year operating expenditures."

**3. SPENDING CONTINUES TO EXCEED REVENUE:** as noted before, the adopted FY08 budget and the Governor's proposed FY09 budget combine to increase true total expenditures by 16% over a two year period. Revenue growth for the same period is projected at 12% (and this growth is only made possible by tax and fee increases adopted for FY08 and additional tax and fee increases proposed for FY09).

**The Auditor notes that 80% of all the anticipated revenue growth during this two year period comes through various tax and fee increases.** And yet, even with these massive revenue increases, true total expenditures continue to outpace revenue.

**4. RAINY DAY FUNDS PROVIDE FALSE SENSE OF SECURITY:** according to projections in the Governor's budget, Iowa's rainy day reserve funds will end FY09 with a balance of \$600 million. Auditor Vaudt is concerned this budget cushion provides a false sense of security in that, due to massive spending increases in the proposed budget, there is a \$361 million spending gap built into the FY10 budget.

This is no different than the false sense of security a consumer might have when bragging about a substantial balance in their savings account while holding credit card debt for more than half that amount. It only takes a small income shortfall to bring this house of cards to the ground.

A substantial revenue shortfall for state government could wipe out the rainy day reserve funds in just one year. Auditor Vaudt warned, "With a looming threat of recession, such a scenario is entirely possible."

**5. INFRASTRUCTURE FUNDS RAIDED:** the Governor proposes in his FY09 budget to divert \$90 million from the Rebuild Iowa Infrastructure Fund to the general fund for various general fund expenses. As we have repeatedly warned in regards to the proposed school infrastructure fund, it is nearly impossible to protect these funds from raids to spend the money elsewhere. Once this money is used for general fund expenditures in one year, it will be nearly impossible to put those funds back where they belong in future years (to do so requires finding another \$90 million to replace them in the general fund).

**6. SHORT TERM FOCUS CONTINUES:** "Longer-term planning will allow us to assess how today's decisions will impact tomorrow's budgets," said Auditor Vaudt. "The Governor's budget proposal calls for a 5.7% increase in spending next year, but it also sets Iowa up with at least a 5.7% spending gap, \$361 million, the following year. It's appropriate to ask the Governor how he plans to bridge that gap. Will it be through tax and fee increases, or will he find areas to reduce spending? Iowans want to know where the Governor is leading them," concluded Vaudt.

To find this and other important information from State Auditor David Vaudt, please visit his website at: [www.auditor.iowa.gov](http://www.auditor.iowa.gov).

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