



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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Contact: Bernardo Granwehr, Auditor's Office, 515-242-5949

**State Auditor Vaudt Reviews Final Action Fiscal Year 2013 Budget**

(Des Moines, Iowa) – Continuing in his role as the “Taxpayers’ Watchdog” and fulfilling 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 Final Action Fiscal Year 2013 budget. Vaudt said, “I commend the Governor and Legislature for building on last year’s improvements in the areas of fiscal sustainability, transparency, and long-term planning.”

**Final Action Budget Continues to Reduce Reliance on One-Time Monies**

Auditor Vaudt has continually criticized the practice of shifting General Fund costs to one-time or limited-time monies because services are not sustainable when the one-time monies are depleted. The Fiscal Year 2011 adopted budget shifted nearly \$700 million of General Fund costs, creating a huge spending gap for Fiscal Year 2012 when many of the one-time monies were no longer available. The Fiscal Year 2012 adopted budget reduced the reliance on one-time monies by \$544 million, or 71%.

Auditor Vaudt noted the Final Action budget for Fiscal Year 2013 contains \$71 million of expenditure shifts to one-time monies, but this represents a substantial reduction in the reliance on one-time monies. Vaudt added, “The practice of shifting General Fund costs to one-time or limited-time monies has been nearly eliminated in this budget. We’re not quite where we need to be, but I am encouraged by the progress we are making.”

**Improved Revenues and Fiscal Discipline Contribute to Reduced Spending Gap**

The Final Action Fiscal Year 2013 budget reduces the spending gap from \$764 million in Fiscal Year 2011 to \$161 million in Fiscal Year 2013 – a 79% reduction. Vaudt said two factors led to the

dramatic, two-year reduction in the spending gap—8.8% annual revenue growth with modest, 1.7% average annual spending growth. Vaudt said, “The Final Action budget reflects a continued focus on long-term sustainability of services instead of only thinking about the next year.”

### Concerns and Challenges Ahead

Vaudt noted the Final Action budget underfunds Medicaid by \$41 million. The Final Action budget also transfers \$26 million of General Fund revenues to other funds and increases reliance on one-time monies by authorizing almost \$31 million of General Fund carry forwards. Vaudt said, “These practices seriously impact year-to-year comparability.” Vaudt noted Governor Branstad also criticized the practices of underfunding Medicaid and authorizing General Fund carry forwards in this year’s bill signing statements.

Salary and benefit cost increases are not funded in the Final Action budget, which means agencies will have to absorb the increased costs. This will be the fourth consecutive year salary and benefit cost increases are unfunded. Auditor Vaudt said, “If this practice continues without offsetting agency efficiencies, these unfunded salary and benefit cost increases will significantly impact the level of service agencies can provide.”

There will be considerable pressure on revenues and spending in Fiscal Year 2014 and beyond as a result of Federal actions. Vaudt noted, “If the Federal tax code remains unchanged, Iowa will feel the impact of expired Federal income tax cuts and other scheduled policy changes, collectively referred to by the media as the ‘fiscal cliff.’ As the Federal government addresses its fiscal imbalance, Iowa can expect a decline in Federal support.”

In addition, Iowa’s primary pension system, IPERS, has seen its unfunded actuarial liability grow from \$327 million at the end of Fiscal Year 2000 to \$5.7 billion at the end of Fiscal Year 2011 – a 1,643% increase. Vaudt said, “IPERS is only 80% funded today, versus 98% funded in 2000. This is something we can’t lose sight of as we look to the future.”

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David A. Vaudt**

***Comments on the  
Final Action Fiscal Year 2013 Budget***

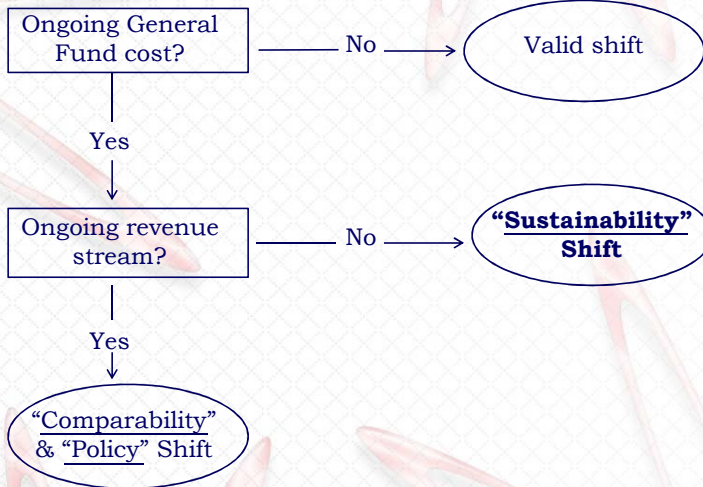
**July 9, 2012**

**State of Iowa  
FY13 General Fund Budget**

Remarks today will focus on—

- Expenditure Shifts – A Refresher and Fiscal Year Comparisons
- A Review of the Numbers – Sustainability Improvement Continues
- Concerns Noted
- FY14 and Beyond Challenges

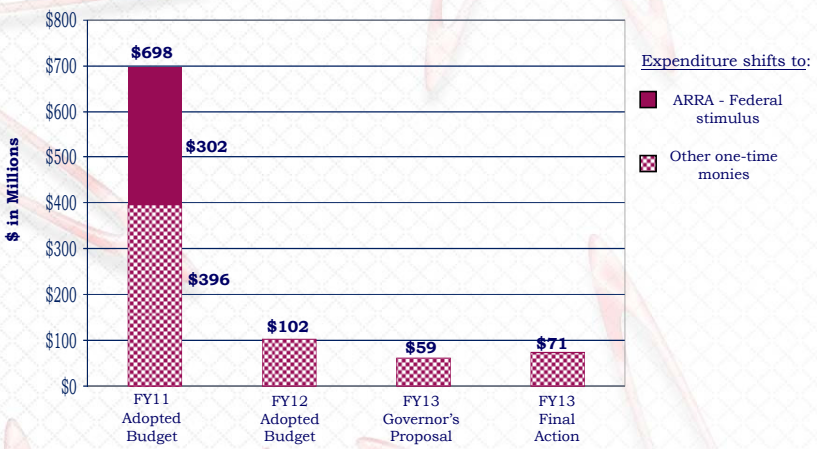
## State of Iowa Expenditure Shifts



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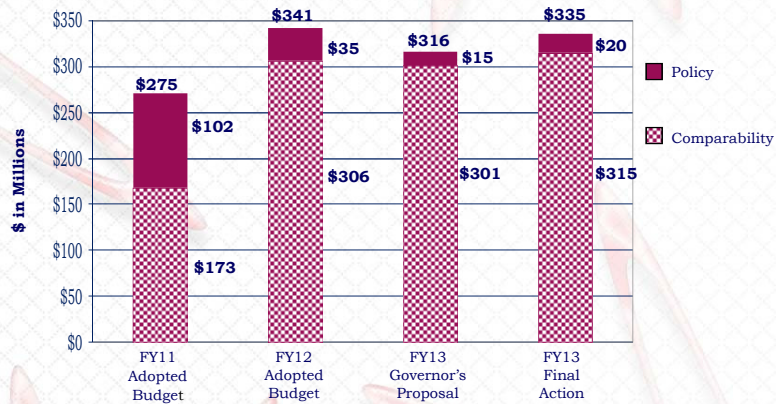
## State of Iowa FY13 General Fund Budget Expenditures – Sustainability Shifts



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## State of Iowa FY13 General Fund Budget Expenditures – Comparability and Policy Shifts



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## State of Iowa FY13 General Fund Budget A Review of the Numbers (\$ in Millions)

	FY11 Adopted Budget	FY12 Adopted Budget	FY13 Governor's Proposal	FY13 Final Action
Available ongoing revenues	\$5,533	\$6,226	\$6,510	\$6,508
True total expenditures	<u>6,297</u>	<u>6,446</u>	<u>6,620</u>	<u>6,669</u>
Spending gap	<u>\$ (764)</u>	<u>\$ (220)</u>	<u>\$ (110)</u>	<u>\$ (161)</u>
Spending gap as a % of available ongoing revenues	<u>13.8%</u>	<u>3.5%</u>	<u>1.7%</u>	<u>2.5%</u>

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**State of Iowa  
FY13 General Fund Budget  
A Review of the Numbers - Revenues**  
(\$ in Millions)

	FY11 Adopted <u>Budget</u>	FY12 Adopted <u>Budget</u>	FY13 Governor's <u>Proposal</u>	FY13 Final <u>Action</u>
Available ongoing revenues	<u>\$5,533</u>	<u>\$6,226</u>	<u>\$6,510</u>	<u>\$6,508</u>
Revenue increase comparison:				
Amount	<u>\$ 29</u>	<u>\$ 693</u>	<u>\$ 284</u>	<u>\$ 282</u>
Percentage	<u>0.5%</u>	<u>12.5%</u>	<u>4.6%</u>	<u>4.5%</u>
Average annual percentage increase for FY12 and FY13				<u>8.8%</u>

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**State of Iowa  
FY13 General Fund Budget  
A Review of the Numbers - Expenditures**  
(\$ in Millions)

	FY11 Adopted <u>Budget</u>	FY12 Adopted <u>Budget</u>	FY13 Governor's <u>Proposal</u>	FY13 Final <u>Action</u>
True total expenditures	\$6,297	\$6,446	\$6,620	\$6,669
Underfunded school aid	<u>156</u>	<u>—</u>	<u>—</u>	<u>—</u>
Adjusted expenditures	<u>\$6,453</u>	<u>\$6,446</u>	<u>\$6,620</u>	<u>\$6,669</u>
Spending increase (decrease)—adjusted expenditures:				
Amount	<u>\$ 313</u>	<u>\$ (7)</u>	<u>\$ 174</u>	<u>\$ 223</u>
Percentage	<u>5.1%</u>	<u>(0.1)%</u>	<u>2.7%</u>	<u>3.5%</u>
Average annual percentage increase for FY12 and FY13				<u>1.7%</u>

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## State of Iowa FY13 General Fund Budget A Review of the Numbers – Spending Gap (\$ in Millions)

### FY11 Spending Gap

FY12: Available ongoing revenues increase	693	} 71% reduction
FY11 School aid not funded	(156)	
True total expenditures <u>decrease</u>	7	

### FY12 Spending Gap

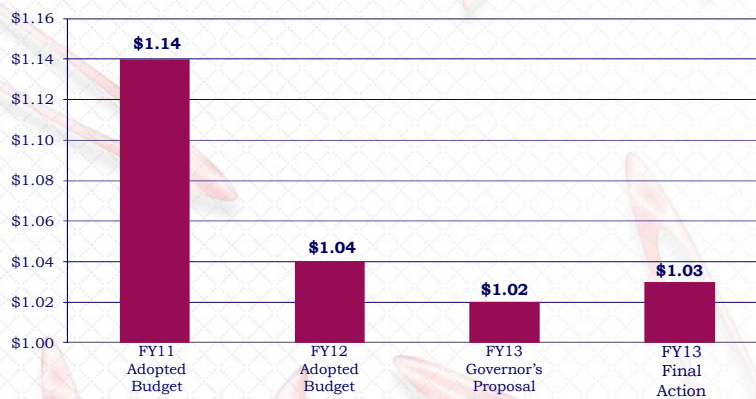
FY13: Available ongoing revenues increase	282	} 27% reduction
True total expenditures increase	(223)	

### FY13 Final Action Spending Gap

\$(161)

## State of Iowa FY13 General Fund Budget Spending Sustainability

*For every dollar of available ongoing revenues, Iowa is spending:*



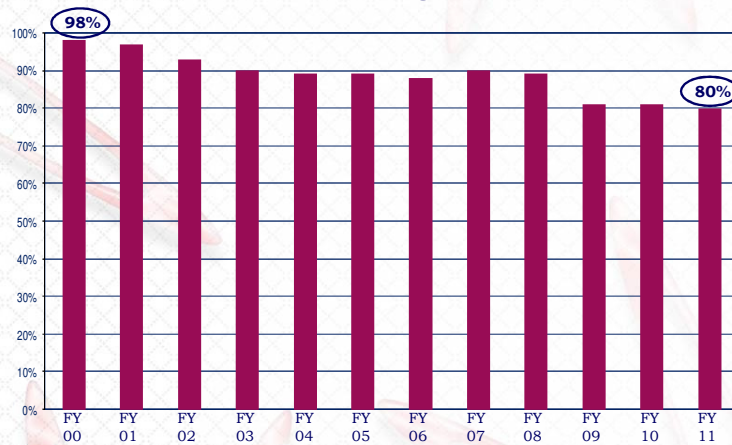
## State of Iowa FY13 General Fund Budget Concerns Noted

- Violations of good budgeting practices:
  - Underfunds Medicaid by at least \$41 million
  - Transfers \$26 million of General Fund revenues and expenditures to other funds
  - Increases reliance on one-time monies by authorizing General Fund carry forwards
- Salary and benefit cost increases are not funded – 4<sup>th</sup> consecutive year agencies have had to absorb increased costs

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## State of Iowa FY13 General Fund Budget Challenges Ahead - Pensions IPERS Percentage Funded 2000 through 2011

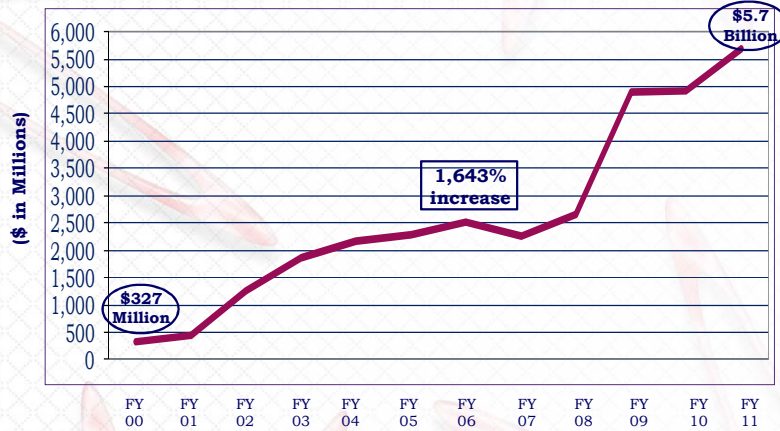


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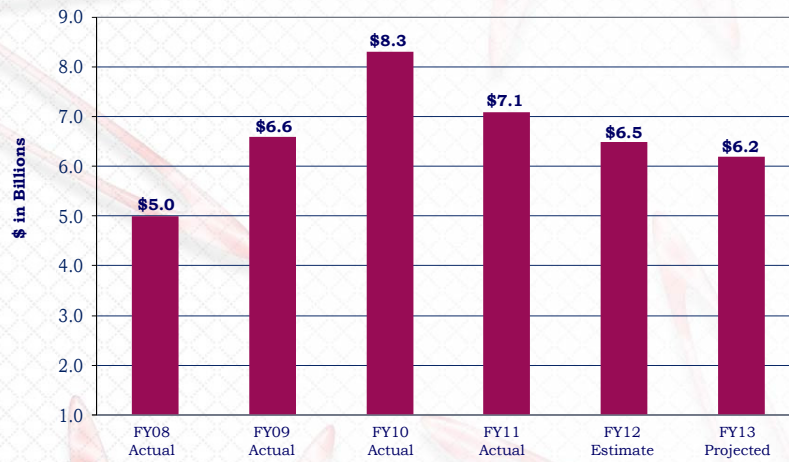
**State of Iowa  
FY13 General Fund Budget  
Challenges Ahead - Pensions  
IPERS Unfunded Actuarial Liability  
2000 through 2011**



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**State of Iowa  
FY13 General Fund Budget  
Challenges Ahead - Reliance on Federal Monies**



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## **State of Iowa FY13 General Fund Budget Other Challenges Ahead**

- If the Federal income tax cuts expire, it will negatively impact Iowa tax revenues for FY14.
- If Iowa elects to participate in the Medicaid expansion, it is estimated an additional 150,000 Iowans will become Medicaid eligible (current enrollment is 400,000), and the State will gradually take on 10% of the cost of these new Medicaid recipients.