



STATE OF IOWA

THOMAS J. VILSACK, GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

MEMORANDUM

December 5, 2003

To: Ron Robinson, Legislative Services Agency

 Fr: David Vaudt, Auditor, State of Iowa
 Michael Fitzgerald, Treasurer, State of Iowa
 Cynthia Eisenhauer, Director, Department of Management

Re: 2003 Comprehensive Annual Financial Report (CAFR)

Thank you for the opportunity to respond to questions from the Fiscal Committee concerning this year's CAFR. We have collaborated on the following responses and will be represented at the December 17 Fiscal Committee meeting to answer any questions from committee members.

1. *What is the CAFR going to say about the FY03 revenue shortfall?*

The fact that a deficit occurred because authorized expenditures exceeded actual revenues is a budget compliance violation that must be reported in the CAFR. This financial statement disclosure would be similar to the treatment of the General Fund deficit that occurred in fiscal year 2001 with disclosure in the CAFR.

2. *What was the final, audited shortfall amount?*

It is expected that the final FY 03 shortfall will be \$45,828,000.

3. *What is the Governor's plan for the FY03 revenue shortfall?*

Last month, the Governor wrote to legislative leaders with his recommendation that the Legislature transfer the amount necessary to eliminate the shortfall from the Cash Reserve Fund. He wrote that this should be the first priority of the 2004 legislative session.

4. *How does the FY03 revenue shortfall impact Iowa's credit rating?*

In September, as part of our regular updates with Standard and Poor's and Moody's Investors Service, we explained the nature of the FY 2003 shortfall. To date, neither rating agency has changed Iowa's rating, which is AA+ and Aa1 respectively. Both also list Iowa's outlook as stable.

In recent weeks, several states have been downgraded or put on negative outlook, including Michigan, New Hampshire and Alabama. In these cases, the lack of revenue growth was cited as a key factor. If Iowa's rating were to change, it is likely that lack of revenue growth will be a more important factor going forward than the FY 03 budget resolution.

If additional information would be helpful, we will happily respond.