

Trends in General Fund Appropriations

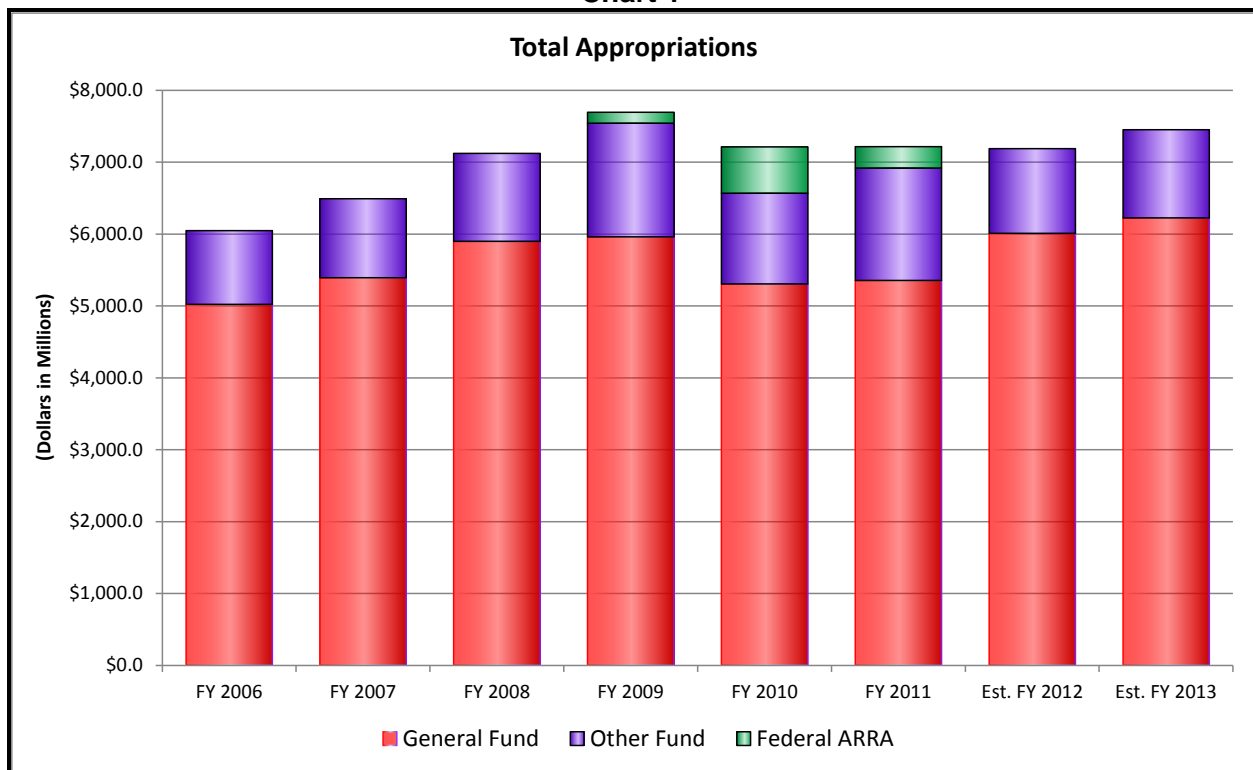
ISSUE

An examination of the broad historical trends in appropriations from the State General Fund.

BACKGROUND

In FY 2013, appropriations by the General Assembly totaled \$7.5 billion. Over the past eight years, appropriations from the General Fund have made up approximately 80.0% of all appropriated funds. **Chart 1** shows the amounts appropriated between FY 2006 and FY 2013.

Chart 1

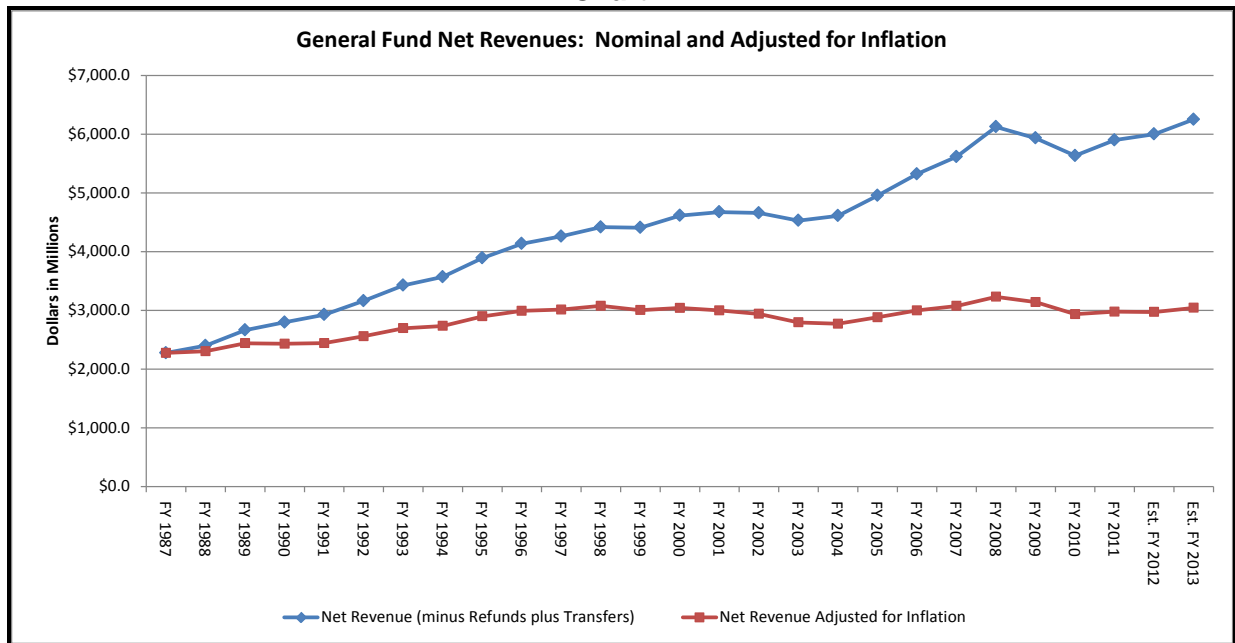


The federal American Recovery and Reinvestment Act of 2009 (ARRA) funding maintained State appropriations above the \$7.0 billion level in FY 2010 and FY 2011.

The State General Fund is the primary focus of the appropriations process, and spending targets are set by leadership for budget subcommittees in terms of General Fund appropriations. The remainder of this examination will focus on the General Fund portion of the budget.

Chart 2 shows that General Fund revenues, net of refunds and transfers, have grown from \$2.3 billion in FY 1987 to an estimated \$6.3 billion in FY 2013. When these amounts are adjusted for inflation using the Consumer Price Index (CPI) and stated in 1987 dollars, there is a real increase of \$767.6 million (33.7%) bringing the FY 2013 adjusted total to \$3.0 billion.

Chart 2



Historically, the proportion of General Fund revenues coming from the different sources has remained relatively constant with individual income tax growing from 45.2% of revenues in FY 1987 to 50.3% in FY 2013 and sales and use tax growing from 29.7% of revenues to 34.1%. Corporate taxes have consistently provided less than 10.0% of the General Fund revenues. The proportions for the other taxes fluctuated and decreased slightly. (See **Chart 3**.)

Chart 3

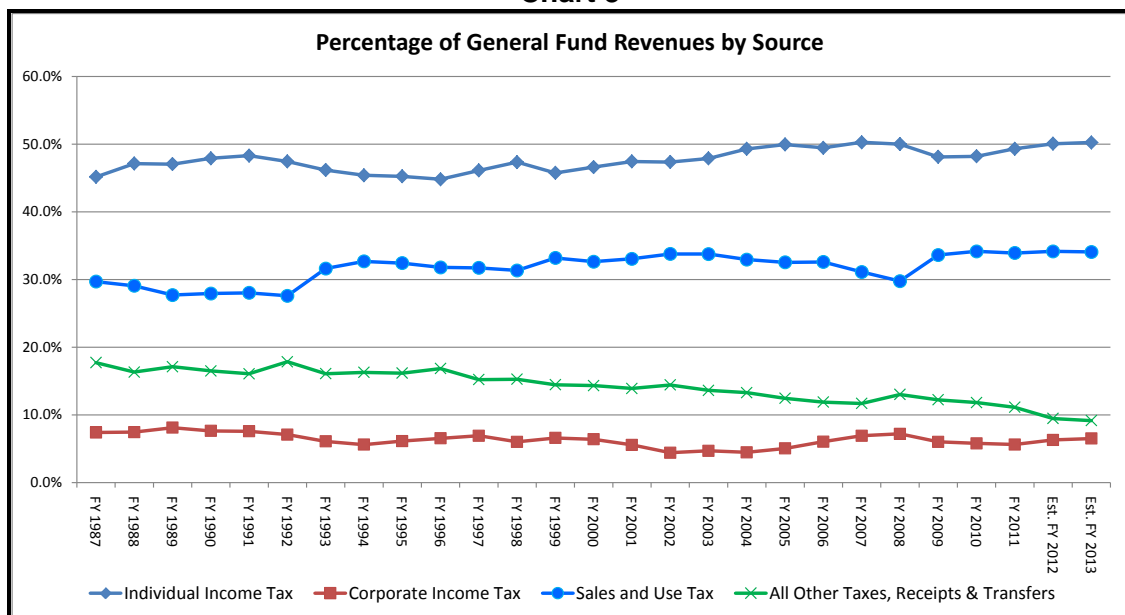
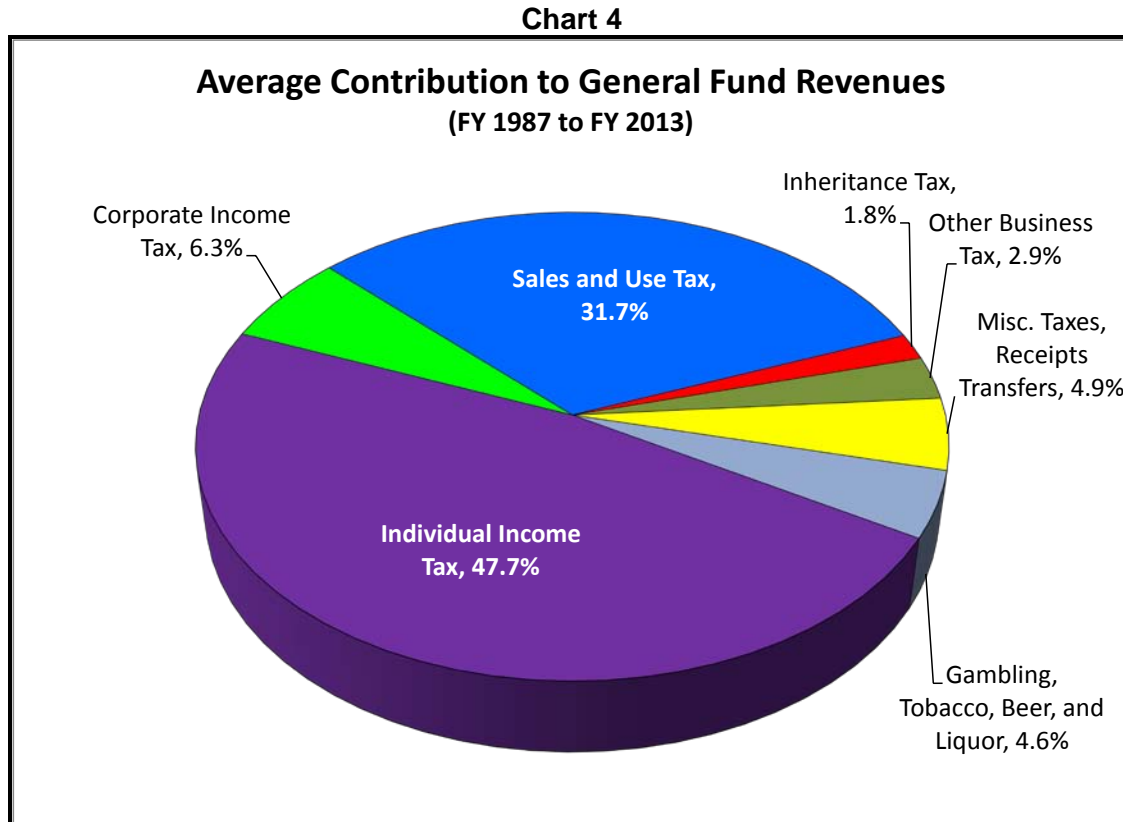


Chart 4 shows the revenue sources for the General Fund averaged over the last 27 years. Almost half the General Fund revenue has come from individual income tax; a little less than one-third came from sales and use tax; and 6.3% came from corporate income tax. The other sources averaged less than 5.0%.



APPROPRIATION TRENDS

In order to examine the broad trends, the General Fund appropriations were grouped by subject. These groupings are similar to appropriation subcommittee assignments of departments with some variation. For example, the Department of Public Defense is considered a State Government function, not Justice, and Vocational Rehabilitation is grouped with Human Services. Standing appropriations were distributed to the corresponding departments. The Commerce Revolving Fund appropriations to the Department of Commerce were added to State Government for FY 2010 through FY 2013, because those funds were previously deposited in the General Fund and then appropriated to the divisions in that Department.

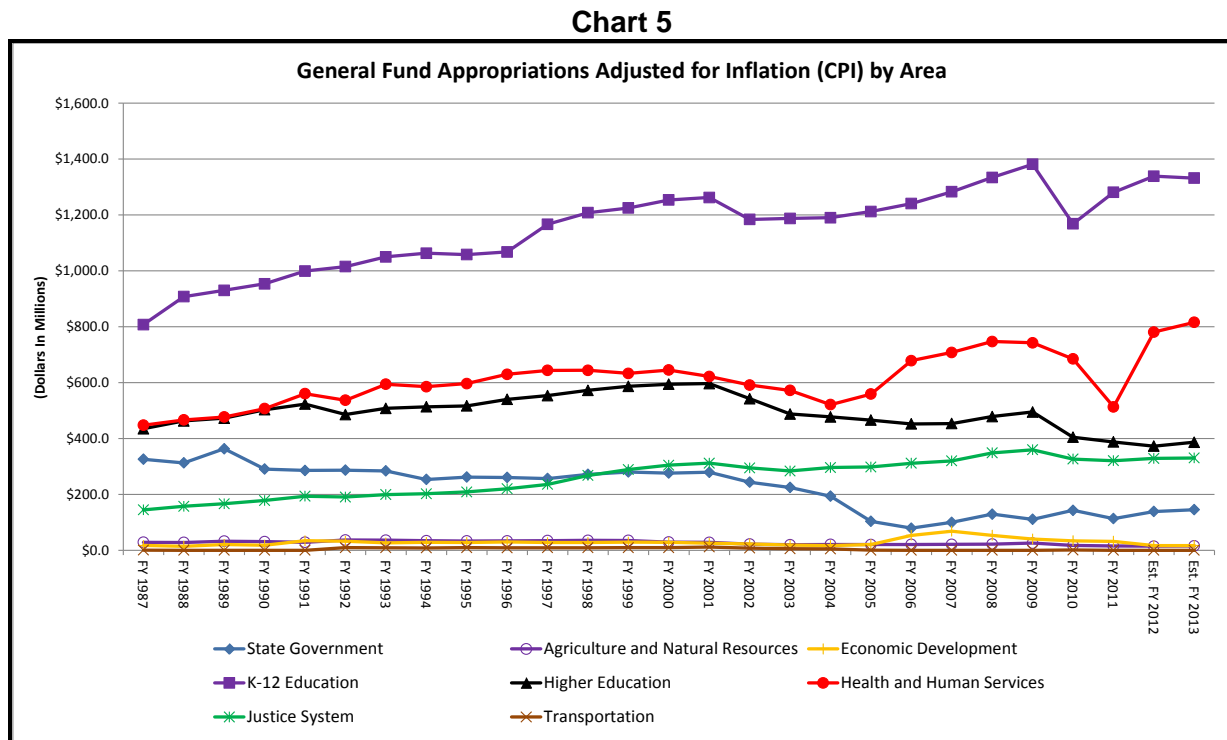
The groupings for this analysis are as follows:

- **State Government** includes central government functions: Departments of Administrative Services, Commerce, Human Rights, Inspections and Appeals (except Public Defender), Management, Revenue, Public Defense, Ethics and Campaign Finance Disclosure Board, Consumer Advocate, Governor, Auditor, Treasurer, Secretary of State, Executive Council, Legislature, IPERS, Public Employment Relations Board, State Fair Authority, and the Iowa Communications Network. Property tax credits have passed through the Department of Management and the Department of Revenue over the years and are included here. Performance of Duty appropriations and Court Costs fall within the Executive Council and are in this grouping.

- **Agriculture and Natural Resources** includes the Department of Agriculture and Land Stewardship and the Department of Natural Resources.
- **Economic Development and Tourism** includes the Economic Development Authority, Iowa Workforce Development, Department of Cultural Affairs, Iowa Finance Authority, and the Racing and Gaming Commission.
- **K-12 Education** includes the Department of Education (except community colleges and Vocational Rehabilitation), State Aid to Schools (formula-driven), Iowa Public Television, and the Regional Telecommunication Councils.
- **Higher Education** includes the Regents universities, community colleges, and the College Student Aid Commission.
- **Health and Human Services** includes the Departments of Human Services, **Blind, Aging, Public Health, Veterans Affairs, and Vocational Rehabilitation.**
- **Justice System** includes the Departments of Justice (except Consumer Advocate), Corrections, Civil Rights, Public Safety, the Public Defender, Judicial Branch, Iowa Law Enforcement Academy, Parole Board, and the Office of Drug Control Policy.

In the past, some General Fund appropriations have been shifted to other funds. No attempt is made to account for this shifting in this analysis.¹

Chart 5 shows the General Fund appropriations since FY 1987 adjusted for inflation using the Consumer Price Index (CPI). This somewhat understates the effects of inflation for Higher Education, but the CPI was used, rather than the Higher Education Price Index (HEPI), to maintain consistency across all appropriations.



General Fund appropriations have grown in three areas after correcting for inflation with FY 1987 as the base year:

- K-12 education increased by \$524.1 million (64.9%).

¹ For a discussion of revenue transfers and appropriation shifts see: <https://www.legis.iowa.gov/DOCS/LSA/IssReview/2010/IRDLR002.PDF>.

- Health and Human Services increased by \$368.2 million (82.3%).
- Justice System increased by \$185.6 million (128.4%).

The other areas showed reductions in funding:

- State Government decreased by \$180.6 million (55.4%).
- Higher Education decreased by \$48.4 million (11.1%).
- Agriculture and Natural Resources decreased by \$12.8 million (45.0%).
- Economic Development decreased by \$350,000 (2.1%).
- Transportation is funded from other funds and is no longer funded by the General Fund, a decrease of \$620,000.

Between FY 1987 and estimated FY 2013, there have been increases and decreases in funding for each of the areas. Higher Education is the only area that shows a reversal in its trend. Higher Education funding, after correcting for inflation, increased from \$435.0 million in FY 1987 to \$596.4 million in FY 2001. After that, funding began to decline reaching \$386.7 million in FY 2013, well below the FY 1987 funding level.

Another way to examine spending emphasis is to observe how the “total pie” is divided. **Table 1** shows the proportional distribution of General Fund appropriations in FY 1987 and estimated FY 2013.

Table 1

Distribution of General Fund Appropriations			
	<u>FY 1987</u>	<u>Est. FY 2013</u>	<u>Change</u>
State Government	14.76%	4.78%	-9.99%
Agriculture and Natural Resources	1.29%	0.51%	-0.78%
Economic Development	0.78%	0.55%	-0.22%
K-12 Education	36.60%	43.78%	7.18%
Higher Education	19.71%	12.71%	-7.00%
Health and Human Services	20.28%	26.82%	6.54%
Justice System	6.55%	10.85%	4.30%
Transportation	0.03%	0.00%	-0.03%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>0.00%</u>

In FY 1987, 76.9% of the General Fund appropriations went to K-12 education, higher education, and health and human services. The remaining quarter of the General Fund appropriations was distributed across the other areas.

By FY 2013, the picture has changed. K-12 Education and Health and Human Services have grown significantly, consuming 70.6% of all General Fund appropriations. Higher Education still ranks third, but its share has decreased from 19.7% to 12.7% of the General Fund appropriations, a little less than two thirds of its previous share of the pie. State Government showed the largest decrease going from 14.8% to 4.8%, about one third of its previous share. The Justice System experienced the most rapid growth, increasing from 6.6% of the total General Fund appropriations to 10.9% in FY 2013.

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