

Shared Investment

Tax Day Reflects Our Commitment to Iowa's Prosperity

Our tax dollars work for us. They represent a shared commitment to investing in Iowa's present and future prosperity.

The many services funded by taxes promote public trust: we rely on safe roads that connect us for personal and business purposes; we need drinking water that is safe; we eat in restaurants without worrying about the safety of the food; our children's future productivity and success relies very much on quality schools and qualified teachers; Iowa's businesses require a well-educated and well-trained workforce to remain competitive in a global business environment.

This reality is all too often neglected in discussions about "Tax Day."

Where Do Taxes Go? Education

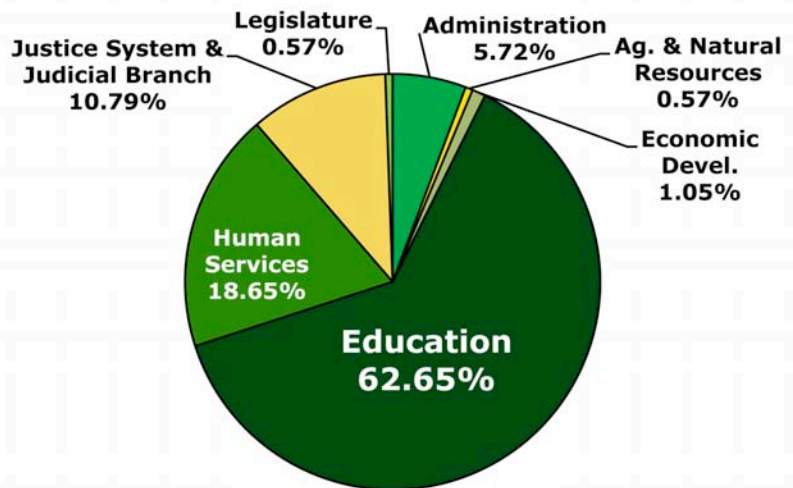
When state personal and corporate income taxes and sales and use taxes are collected, they go into Iowa's General Fund. The General Fund is the main financial source for the state's activity — from maintaining state parks to keeping our court system working.

Education — including our regents institutions, community colleges, tuition aid to students at all colleges in Iowa, and state aid to local school districts — is by far the largest category in the budget.

Figure 1 illustrates that education services comprised over 62 percent of the state's budget in state fiscal year 2011. Aid to local school districts alone comprises just over 50 percent of Iowa's \$5.2 billion FY11 budget.¹

While the civic value of public education has long been recognized, research confirms that investment in education, from the earliest ages on up, has economic value, too.² While much recent literature has focused on the long-term returns to public investment in public education, research also confirms that such investment can have more immediate economic benefits, too.³

**Figure 1. Most Iowa Tax Dollars Finance Education
Shares of FY2011 General Fund**



Source: Iowa Legislative Services Agency, Fiscal Bureau, 2010 Fiscal Report

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Where Do Taxes Go? Medical Assistance

The second-largest part of Iowa's budget covers human services — a broad category that includes the Department of Public Health and Department on Aging, as well as Iowa's mental health institutions. However, by far the largest program in the Human Services category is Medical Assistance, comprising Medicaid and the Children's Health Insurance Program (CHIP). Both Medicaid and CHIP are jointly funded by the states and the federal government. Medicaid provides health coverage to persons with disabilities, pregnant women and children, and certain low-income populations; in Iowa, CHIP serves children in families with income below 300 percent of the federal poverty level (\$67,050 for a family of four).⁴ In FY11, Iowa committed \$706.7 million to medical assistance.⁵

In Iowa, over 262,630 children are covered by either Medicaid or Iowa's CHIP program.⁶ In June 2010, about 216,500 Iowa adults utilized Medicaid.⁷

Medicaid is typically and incorrectly thought of as a program only for the poor. However, in 2007, about 79,000 Iowa seniors and Iowans with disabilities relied on Medicaid in addition to receiving Medicare.⁸ Medicaid covered these "dual eligibles" for services not covered by Medicare, such as long-term care and to help cover the cost of Medicare premiums and cost-sharing. In 2007 coverage for Iowa's dual eligibles had a price of \$1.2 billion⁹; because Iowa paid about 38 percent of its Medicaid costs in FY07, Iowans' taxes covered about \$480 million in medical costs of some of Iowa's most vulnerable citizens.¹⁰

Conclusion

In the midst of tax return preparation, it's easy to forget what our tax dollars do. Taxes represent a shared investment in Iowa's prosperity — both now and in the future. They are an expression of our shared needs and values.

¹ Iowa Legislative Services Agency, Fiscal Bureau. 2010 Fiscal Report (Graybook), Appropriations Tracking. <<http://www.legis.iowa.gov/DOCS/IsaReports/graybook/tracking.pdf>>.

² For instance, see James J. Heckman and Dimitriy V. Masterov, "The Productivity Argument for Investing in Young Children," Working Paper 5, Invest in Kids Working Group, Committee for Economic Development, October 4, 2004. <http://jenni.uchicago.edu/human-inequality/papers/Heckman_final_all_wp_2007-03-22c_jsb.pdf>.

³ Ronald C. Fisher, "The Effects of State and Local Public Services on Economic Development," *New England Economic Review*, March/April 1997. Paul Evans and Georgios Karras, "Are Government Activities Productive? Evidence from a Panel of U.S. States," *The Review of Economics and Statistics*, Vol. 76, No.1 (February 1994) 1-11.

⁴ "Annual Update of the HHS Poverty Guidelines," *Federal Register*, Vol. 76, No. 13 (January 20, 2011). <<http://aspe.hhs.gov/poverty/11fedreg.shtml>>.

⁵ Iowa Legislative Services Agency, Fiscal Bureau.

⁶ Charles Bruner and Carrie Fitzgerald, "Covering Children Better: The Increasing Role — and Success — of Public Health Coverage," Iowa Fiscal Partnership, July 27, 2010. <<http://www.iowafiscal.org/2010docs/100727-IFP-HCR-chip-bgd.pdf>>.

⁷ The Kaiser Family Foundation, *statehealthfacts.org*. Data source: Iowa: Monthly Medicaid Enrollment for Adults (in thousands). Accessed April 6, 2011. <<http://www.statehealthfacts.org/profileind.jsp?ind=613&cat=4&rgn=17&cmprgn=1>>.

⁸ David Rousseau, Lisa Clemans-Cope, Emily Lawton, Jessica Langston, John Connolly, and Jhmirah Howard, "Dual Eligibles: Medicaid Enrollment and Spending for Medicare Beneficiaries in 2007," Kaiser Commission on Medicaid and the Uninsured, December 2010. <<http://kff.org/medicaid/upload/7846-02.pdf>>.

⁹ Rousseau, Clemans-Cope, et al.

¹⁰ Author's calculations, based on Rousseau, Clemans-Cope, et al. and U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. "Federal Medical Assistance Percentages or Federal Financial Participation in State Assistance Expenditures: Fiscal Year 2007 Table," Accessed April 4, 2011. <<http://aspe.hhs.gov/health/fmap07.htm>>.

Iowa Fiscal Partnership

The Iowa Fiscal Partnership is a joint budget and tax policy initiative of two nonpartisan, Iowa-based organizations, the Iowa Policy Project in Iowa City and the Child & Family Policy Center in Des Moines. Find IFP on the web at www.iowafiscal.org.