Purdue’s Appropriation in the Indiana State Budget, 1998-2013

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Purdue University is a state-supported institution. The university receives revenue from the state of Indiana each year, based on an appropriation in the state budget. An appropriation is a legal authorization to spend. Indiana’s budgets are biennial, so they include appropriations for two fiscal years at a time. State fiscal years run from July through June. The current state budget is for fiscal years 2012 and 2013 (July 2011 to June 2012 and July 2012 to June 2013). The budget was passed in April 2011. Consideration of the budget for the 2014-15 biennium will begin in the Fall of 2012, and the budget will be passed in 2013.

Purdue’s state appropriation in fiscal year 2012 is $372 million. Table 1 shows the appropriations included in the fiscal 2012 state budget. Almost 93% of the appropriation is for operation of the West Lafayette campus and the three regional campuses. The remainder is for eight specific line items, including statewide programs operated by Purdue.

Table 1.

<table>
<thead>
<tr>
<th>State Appropriation, Fiscal Year 2012</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purdue University Total</td>
<td>371,796,817</td>
<td>100.00%</td>
</tr>
<tr>
<td>West Lafayette Campus</td>
<td>258,993,586</td>
<td>69.66%</td>
</tr>
<tr>
<td>Calumet Campus</td>
<td>28,334,998</td>
<td>7.62%</td>
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<tr>
<td>North Central Campus</td>
<td>13,073,588</td>
<td>3.52%</td>
</tr>
<tr>
<td>IUPU Ft. Wayne Campus</td>
<td>43,975,214</td>
<td>11.83%</td>
</tr>
<tr>
<td>Animal Disease Diagnostic Laboratory System</td>
<td>3,449,706</td>
<td>0.93%</td>
</tr>
<tr>
<td>Statewide Technology</td>
<td>6,468,848</td>
<td>1.74%</td>
</tr>
<tr>
<td>County Agricultural Extension Educators</td>
<td>7,234,605</td>
<td>1.95%</td>
</tr>
<tr>
<td>Agricultural Research and Extension Crossroads</td>
<td>7,238,961</td>
<td>1.95%</td>
</tr>
<tr>
<td>Center for Paralysis Research</td>
<td>522,558</td>
<td>0.14%</td>
</tr>
<tr>
<td>University-Based Business Assistance</td>
<td>1,889,039</td>
<td>0.51%</td>
</tr>
<tr>
<td>Veterinary Research</td>
<td>150,000</td>
<td>0.04%</td>
</tr>
<tr>
<td>Wine Grape Market Fund</td>
<td>465,714</td>
<td>0.13%</td>
</tr>
</tbody>
</table>

Purdue's state appropriation is the second largest source of revenue for the university's general fund, after student fees. For fiscal year 2012, including all campuses, state appropriations are 27% of the general fund budget of $1.2 billion. Student fees comprise 61% of the university's general fund budget.

Purdue’s total appropriation in the state budget increased from $321 million in 1998 to $372 million in the 2013 budget. However, as shown in Figure 1, the appropriation was $423 million in 2009, and has decreased since then. The current appropriation is nearly unchanged from $375 million in 2003. Figure 1 also shows the appropriation adjusted for inflation using the higher education price index (HEPI). In 1998 dollars, the appropriation has fallen from $321 million in 1998 to $223 million in 2013. The 16% increase in the appropriation was more than offset by the 66% increase in higher education costs. Purdue’s state appropriation has lost 30% of its purchasing power in the past 15 years.
And, Figure 1 shows two periods when the university did not receive its full appropriation. In 2002 and 2003 payments were delayed from one fiscal year to the next. The amounts were eventually repaid in 2008 and 2009. In 2009, 2010 and 2011 spending was cut below appropriations. These amounts were not made up. Both of these episodes resulted from revenue declines due to recession.

*Figure 1.*

![Graph showing Indiana State Budget Appropriation for Purdue University, All Funds, Nominal and Real Dollars, 1998-2013](image)

The reasons for this decline in state support include:

- the slow growth of the Indiana economy in the 2000’s and the severe effects of the Great Recession, which has restrained budget growth;
- the rising cost of Medicaid, which has taken up an ever greater share of the state’s budget;
- the growth of Ivy Tech as a community college, taking up a larger share of the state’s higher education appropriation;
- the growth of the State Student Assistance Corporation as a share of the higher education appropriation; and,
- generally, the decisions by voters and elected officials to respond to these events with spending restraint rather than tax increases.

*The Indiana Economy.* During 1998-2010 Indiana personal income had the third slowest growth rate in the nation. United States personal income growth averaged 5.0% per year; Indiana averaged 3.8% per year. This slow growth was not unique to Indiana, but included the entire Great Lakes region. The six slowest growing states in the U.S. were Michigan, Ohio, Indiana, Illinois, Pennsylvania and Wisconsin. Slow growth was not just the result of the two recessions during this period, in 2001 and 2007-2009. During the expansion from 2001 to 2007 Indiana was the third slowest growing state. The four slowest growing states were Michigan, Ohio, Indiana and Wisconsin. Pennsylvania ranked 38th and Illinois 44th highest. The Great Lakes region was the slowest growing.
An important reason for the slow growth of the Great Lakes region was the decline in manufacturing employment. U.S. manufacturing employment dropped by 1.8 million from the beginning of 1998 to the end of the 2001 recession. Another 2.1 million jobs were lost during the 2000’s expansion, and a further 2 million during the Great Recession. At the beginning of 2012 the U.S. had 33% fewer manufacturing jobs than it had in 1998.

Indiana was the most manufacturing dependent state in the nation as of December 2011. A greater share of Indiana employment was in manufacturing than any other state. Indiana has lost 202,000 manufacturing jobs since 1998, a 31% loss. All of the Great Lakes region states had above average manufacturing shares, and all had large losses of manufacturing jobs.

The decline of manufacturing employment is partly due to global shifts in manufacturing industry, to China in particular. A more important reason is the advance of manufacturing technology. U.S. manufacturing output rose to record levels in the 2000’s, even as employment was falling by millions. The U.S. produces more goods with fewer workers. Manufacturing productivity has improved, but the number of workers earning incomes from manufacturing has declined. States like Indiana saw slower growth partly because they are particularly dependent on manufacturing incomes.

The State Budget. The two recessions and the slow growth of the Indiana economy since 1998 have contributed to restrained growth in the Indiana budget. A measure of the condition of the state budget is the year-end state general fund balance as a share of the budget (figure 2). The figure shows the “prudent range” of balances, defined by the State Budget Agency as 10% to 12%. It also shows the “rule-of-thumb minimum” of 5%, identified in the public finance field as the level necessary to maintain cash flow.

**Figure 2.**

The 2001 recession was relatively mild for the nation, but severe for state governments. Total revenues in Indiana fell for two straight years, 2001 and 2002. By the end of fiscal 2004 balances were reduced to 4.9%, just below the 5% minimum.
Balances recovered slowly from 2004 through 2009. By 2009 balances had reached 10.9% of the budget, well below the levels reached in the past three recoveries. This slow recovery of balances was partly due to the slow growth of the Indiana economy during the 2000’s. The recovery of balances was accomplished partly by restraining growth in appropriations, below growth rates usually seen during expansions.

Balances fell again in 2010, as a result of the Great Recession. Indiana revenues again fell two years in a row, in 2009 and 2010, by greater amounts than in the previous recession. A combination of appropriations restraint, spending cuts below appropriations, and Federal stimulus aid kept balances from falling as much as after the previous recession. The projected recovery in 2012 and 2013 is the result of continued appropriations restraint, more rapid revenue growth, and the discovery of some corporate tax revenue that had been unaccounted for in previous years. Balances will be reduced in 2013 partly due to an automatic distribution of “excess” general fund balances to pension funds and tax rebates.

The average balance percentage over this 38-year period is 13.6%. The state has been below this percentage in every year since fiscal 2000. Budgets have been tight.

Medicaid. Medicaid is the joint Federal-state health care program for lower income people. Medicaid is an entitlement program, so the state must increase its appropriation when health care costs rise or when more people become eligible. Both health care costs and the number of beneficiaries have risen in the past decade. As a result, since 1998 Medicaid has been the fastest growing category of the Indiana state budget (see Figure 3).

Figure 3.

Since 1998, Medicaid appropriations have increased by an average of 5.3% per year, considerably more than any other major category of appropriations in Indiana’s budget. Higher education is one of the two slowest growing appropriation categories over this period. (Note that K-12 education and property tax
relief are combined in Figure 3. This is because property tax relief appropriations were largely shifted to education funding when the property tax for the local school general funds was eliminated with the tax reform of 2008.)

In 1998, Medicaid was 11% of the operating budget, and higher education was 14%. In 2013, Medicaid will be 14% of the budget, and higher education 12%. Medicaid appropriations first exceeded higher education appropriations in fiscal 2010.

The Higher Education Appropriation. Purdue University’s share of the total higher education appropriation has fallen since 1998 (see Figures 4 and 5). In 1998 Purdue University’s West Lafayette campus, regional campuses, and line items (listed in Table 1) comprised 25% of the total higher education appropriation. In 2013 this share will be 22%. In fact, the appropriation shares of Indiana University, Ball State University, Indiana State University and Vincennes University all fell during this period. The share of the University of Southern Indiana increased slightly. The share of these six universities was 82% in 1998, and will be 69% in 2013.

The share of appropriations for Ivy Tech State College and the State Student Assistance Commission (SSAC) have increased substantially. Ivy Tech’s share of the appropriation will nearly double, from 7% in 1998 to 13% in 2013. Growth in Ivy Tech’s total appropriation will average 6.2% per year from 1998 to 2013.

Ivy Tech began in 1963 as a system of vocational-technical schools. It was re-chartered in 2005 as a community college system. Full time equivalent enrollment grew from 34,000 to 77,000 in the nine years from 2002 to 2011, a 127% increase.

The growth of Ivy Tech State College is partly a result of Indiana’s changing economy. Post-secondary education is ever more important for earning income, especially as manufacturing employment has declined. Ivy Tech provides employment-oriented and adult education, as well as serving as an accessible entry to the four-year universities.

The State Student Assistance Commission (SSAC) is the other category of the higher education appropriation that has seen large increases since 1998. The SSAC comprised 8% of the appropriation in 1998, and will comprise 17% in 2013.

The SSAC provides financial aid directly to students for post-secondary education. Its two biggest programs are the Higher Education Award Program and the Freedom of Choice Grants. These two programs comprise about two-thirds of total SSAC grants, and have seen average annual growth of 6.8% since 1998. Other programs have seen more rapid growth. The 21st Century Scholars program grew from $4.9 million to $29.1 million between 1998 and 2013. The Tuition and Fee Exemption for Children of Veterans and Public Safety Officers did not exist in 1998, and received $26.6 million in 2013. In total, the SSAC appropriation will grow 7.6% per year, on average, from 1998 to 2013.

The rapid growth of SSAC grants compared to the appropriations of the state’s universities represents a shift in the way higher education is funded in Indiana, from direct funding of public institutions to support of individual students. Although much of the SSAC revenue ultimately funds Indiana public universities, some goes to Indiana private colleges, and a small amount goes to a few institutions in the Cincinnati, Ohio region.
Figure 4.

Indiana Higher Education Appropriation, All Funds, 1998

- Indiana University: 36%
- Purdue University: 25%
- Indiana State University: 6%
- University of Southern Indiana: 2%
- Ball State University: 10%
- Ivy Tech State College: 7%
- Vincennes University: 3%
- State Student Assistance Commission: 8%
- All Other: 3%

Figure 5.

Indiana Higher Education Appropriation, All Funds, 2013

- Indiana University: 30%
- Purdue University: 22%
- Indiana State University: 4%
- University of Southern Indiana: 3%
- Ball State University: 8%
- Ivy Tech State College: 13%
- Vincennes University: 2%
- State Student Assistance Commission: 17%
- All Other: 1%
Conclusion
The slow growth of Purdue’s state appropriation since 1998, and its decline in inflation-adjusted terms, is the result of large economic and social trends and the result of Indiana policy choices.

The Great Lakes region has seen slow growth since 1998. This is partly due to the large decline in manufacturing employment, which resulted from global shifts in manufacturing industry, and improving manufacturing technology. Slow growth in Indiana income has helped keep budgets tight. Rising costs of medical care have increased the state’s Medicaid expenditures, squeezing the rest of the state’s budget.

Indiana elected officials, taxpayers and voters have responded to slow economic growth and rising medical costs by restraining state spending, rather than raising taxes. Indiana has responded to declining manufacturing employment and the increasing importance of post-secondary education for earnings by increasing the size of Ivy Tech State College. The state effectively has shifted funding from the university campuses to direct aid to students as well.

The economy grew slowly, and so did the budget. The higher education appropriation share of the budget declined. Purdue’s share of the higher education appropriation declined. Purdue has had a smaller share of a smaller share of a slow-growing budget. A large reduction in inflation-adjusted state aid is the result.
Sources

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