



MINUTES

Sustainable Funding for Natural Resources Study Committee

November 1-2, 2007

MEMBERS PRESENT:

Senator Dick Dearden, Co-chairperson
Senator Dennis H. Black
Senator David Johnson
Senator Mary A. Lundby
Senator Joe M. Seng (first day only)

Representative Paul Bell, Co-chairperson
Representative McKinley Bailey
Representative Dan Rasmussen
Representative Dick Taylor

MEETING IN BRIEF

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Thursday, November 1, 2007:

- I. Procedural Business
- II. Funding Options Analysis
- III. Sustainable Funding Sources in Other States
- IV. Needs Panel Discussion
- V. Conservation Tax Credits

Friday, November 2, 2007:

- VI. Sustainable Funding Study Preliminary Report
- VII. Taxation Issues, Legislative Services Agency, Fiscal Division
- VIII. Infrastructure Funding Issues
- IX. The North Carolina Experience
- X. The Missouri Experience
- XI. The Minnesota Experience
- XII. The Michigan Experience
- XIII. Committee Discussion
- XIV. Materials Filed With the Legislative Services Agency



Sustainable Funding for Natural Resources Study Committee

I. Procedural Business

November 1. Co-chairperson Dearden called the Sustainable Funding for Natural Resources Study Committee to order at 10:02 a.m. on November 1, 2007, in the Supreme Court Consultation Room, Room 102 of the State Capitol. The minutes of the August 13, 2007, meeting were approved as distributed. The Committee temporarily recessed for lunch at 11:45 a.m. and reconvened at 1:00 p.m. The Committee recessed for the day at 2:58 p.m.

November 2. The Committee reconvened at 9:30 a.m. on November 2, 2007. The Committee temporarily recessed for lunch at 11:39 a.m. and reconvened at 12:30 p.m. The Committee adjourned at 3:28 p.m.

II. Funding Options Analysis

Public Support. Co-chairperson Dearden recognized Mr. Dan Cohen, Director of the Buchanan County Conservation Board and member of the Sustainable Natural Resource Funding Advisory Committee (advisory committee), which submitted recommendations to the General Assembly during the 2007 Legislative Session. Mr. Cohen believes the State of Iowa must promise to every Iowan that there will be a healthy habitat for fish and wildlife populations, clean water and protected soils, and an accessible and well managed park and trail system. Because all Iowans will benefit from sustainable funding for natural resources, Mr. Cohen stated that funding should be supported by all Iowans. He cited polling data showing that 66 percent of Iowans either strongly or somewhat agree with financing supported by all Iowa residents. Mr. Cohen stressed that any funding source proposed should have statewide appeal and be politically viable. He stated that according to polling, 77 percent of Iowans strongly or somewhat support dedicating additional public funding to support programs that protect Iowa's land, water, and natural habitat.

Characteristics of Additional Funding. Mr. Cohen recommends that new sources of funding be easy to administer and not require significant additional staff. He cited the Resource Enhancement and Protection (REAP) Program (see Code chapter 455A) as a good example because REAP only requires 1 percent of funding for administrative costs. Mr. Cohen also suggested that a funding mechanism be capable of leveraging moneys from other sources, including governmental entities or conservation organizations. Mr. Cohen also believes that each funding source must have the ability to raise at least \$5 million annually, conform to all state and federal commerce regulations, and unite conservation agencies and organizations. Additionally, the funding sources should be used to generate additional moneys rather than replace existing moneys. He emphasized that the funding sources should generate a stable flow of income, be dedicated to natural resources, and be protected from other uses.

Funding Sources. Mr. Cohen discussed the ongoing work of the advisory committee. He acknowledged that billions of dollars would be needed to address Iowa's total natural resources needs. However, he believes the advisory committee's proposal to raise \$150 million each year would go a long way to meeting the immediate needs. The advisory committee evaluated a broad range of sustainable funding mechanisms to reach the \$150 million level. Based on that evaluation, the list of funding sources was pared down to those which are most viable. Gaming



revenues, increasing the state sales tax, and dedicating profits from the state lottery were the mechanisms that met most of the criteria set by the advisory committee. Mr. Cohen expressed confidence that some sources could fund the entire \$150 million objective, while others would need to be combined. Mr. Cohen described some of the funding sources in detail including the following:

- An admission fee to casinos. He noted that it would be up to the individual casinos to determine how to collect an admission fee. Based on 2007 revenues, a \$6.33 per person admission fee would raise \$150 million.
- A statewide 3/8 of 1 cent increase in the state's sales tax would raise \$150 million. According to Mr. Cohen, an increase in the state's sales tax should be accompanied by a constitutional amendment providing that all revenue generated from the increase would be dedicated only to support natural resources.
- The use of lottery proceeds. Mr. Cohen believes that tying additional natural resource funding to revenues generated from the lottery provides an excellent marketing tool and a reliable funding source. Based on 2007 lottery revenues, this source would raise about \$55 million.
- Conservation tax credits. The advisory committee believed this source would be a viable supplement to natural resources funding in Iowa. These tax credits would reward practices that promote wildlife habitat, soil and water conservation, and increase public access to public lands. The tax credits would also provide incentives for specific practices such as conservation easements and selling land below market value to public or private conservation agencies. This source is both stable and sustainable because no annual appropriation is required.
- Bonds. The issuance of bonds which would assure that money is quickly available for projects. By having the funding up front, inflation might be mitigated, particularly in light of increasing real estate prices. Mr. Cohen also stated that bonding would provide an opportunity to benefit from cost-share arrangements.
- Real estate transfer tax. A real estate transfer tax which has been used in other states for land protection. The tax is proportionate to real estate value. It was estimated that 1.1 percent of valuation would raise \$150 million.
- Utility tax. Reallocating the current water utility tax for watershed improvement and protection which would raise \$18 million.
- Minor sources. Other minor sources, including an excise tax on outdoor recreation equipment, an additional \$0.38 sales tax on all bottled water sold in Iowa, and a \$0.14 per gallon biofuel severance tax on crops used to produce ethanol exported from Iowa.

Committee Questions. Co-chairperson Dearden recognized Committee members for questions. Committee members questioned what standard was employed to determine that there is statewide support for some of the funding proposals outlined by Mr. Cohen. Mr. Cohen acknowledged that the characterization of support was somewhat subjective and determined based on polling data and general feedback received by the advisory committee. Committee members also discussed the likelihood of gamblers paying a fee to enter or utilize gambling facilities. Mr. Cohen explained that the collection method had not been finalized so the fee could be paid directly by the individual or could be assessed against the casino.



Sustainable Funding for Natural Resources Study Committee

Committee members also discussed the possibility of a referendum asking voters to ratify a constitutional amendment increasing the state sales tax and the likelihood of such a measure passing. Committee members discussed recent experiences of tax measures being rejected by the public which might indicate an unwillingness by the electorate to support any additional tax increase. Many Committee members believe that public support for a sales tax increase depends upon the unanimous support of advocacy groups in the natural resources community. Committee members also indicated that public support for the additional \$150 million would not exist if the money was not dedicated to natural resources and constitutionally protected to ensure that it would not be diverted. Members acknowledged that a constitutional amendment would take additional time and the immediate natural resource funding requirements might need to be addressed prior to the completion of the constitutional amendment process. Members emphasized that providing detailed information to the public on why the additional money is needed and how it would be spent is vital to the success of any proposal.

III. Sustainable Funding Sources in Other States

Mr. Duane Sand, a special projects consultant with the Iowa Natural Heritage Foundation presented information pertaining to sustainable funding sources in other states, including bonds, real estate transfer taxes, gaming or lottery revenues, severance taxes, sales tax revenues, user fees and dedicated sources like bonds, and revenues derived from voluntary sources like income tax checkoffs, tax credits, and specialty license plates. Mr. Sand noted that it is difficult to compare natural resource funding among states because each state has unique characteristics (the amount of federal funding received or the efforts of local governments). In states with large amounts of federal land, which Iowa does not have, federal funding can constitute a large portion of overall natural resource funding. He noted that a state's total natural resource spending may be misleading and that per capita spending is sometimes more demonstrative of a state's commitment to natural resource funding.

Analysis. According to Mr. Sand, states' funding sources often depend on the state's characteristics and resources. Severance taxes provide revenue for a variety of states that are rich in natural resources. For example, Wisconsin receives significant revenues from severance taxes imposed on timber exports. For states without a readily exportable resource, severance taxes are not a legitimate option. In Iowa, a comparable resource would be corn used to produce ethanol. Proponents of this mechanism say that it is equitable based on the soil loss rates in Iowa and that ethanol production is essentially mining a natural resource. However, Mr. Sand does not believe a severance tax on ethanol would have public support in Iowa.

Mr. Sand noted that approximately half of the states are utilizing bonding as part of their approach to natural resource funding. Bonding has been used primarily as a hedge against inflation. However, it is sometimes difficult to convince the public that bonding is appropriate. Real estate transfer taxes are used in the vast majority of states. However, the tax rate imposed in most other states is higher than what would be needed in Iowa to fully fund the \$150 million proposal. He noted that utilizing real estate transfer tax revenue would allow revenues to adjust with property values.



According to Mr. Sand, gaming revenues are used in a number of states to fund natural resources. Gaming revenues are generated voluntarily. Another voluntary funding source is the use of conservation tax credits which is becoming more popular across the country.

Mr. Sand explained that most obvious funding sources are being used to support other priorities. Mr. Sand suggested that the Committee consider a number of funding options for 2008, including tax reform measures and shifting economic incentives from businesses to programs that encourage persons to move to or remain in the state. Mr. Sand questioned the benefit of continuing to subsidize ethanol production. He suggested that the General Assembly reexamine Iowa's tax laws, including tax increment financing and the agricultural land tax credit.

Mr. Sand spoke briefly on a variety of other funding sources used across the country. Sales taxes are frequently used, but vary across the states. Some states target a portion of sales taxes from particular items like cigarettes, while others impose additional sales or excise taxes on items like recreational equipment. Some states continue to increase permit fees because they are directly linked to environmental and conservation problems. States like New Jersey have very high fees, particularly environmental permit fees. Mr. Sand noted that in Iowa there are currently no water use fees imposed. Mr. Sand cautioned that any new funding source or mechanism will create competition for the money unless it is constitutionally protected.

Committee Questions. Co-chairperson Dearden recognized Committee members for questions. Senator Lundby discussed the benefits of tax credits in the acquisition of land. In response to a question, Mr. Sand agreed that tax credits are not a full substitute for actual funding, but they would reduce the need for appropriated funds.

IV. Needs Panel Discussion

Mr. Bill Northey, Secretary of Agriculture. According to Secretary Northey, \$30 million of the proposed \$150 million would be allocated to conservation efforts within the Department of Agriculture and Land Stewardship. Half of the department's allocation would be devoted to supplementing existing programs supported by the Environment First Fund (See Code section 8.57A). The remaining \$15 million would fund new programs, including increased technical assistance for soil and water conservation districts. Currently, the department has 20 fewer technicians than at previous times in its history. Other funding efforts would include stream bank stabilization, soil nutrient water contamination control, and the establishment of a state Conservation Reserve Program. Secretary Northey also cited the need for further research due to possible soil erosion after harvesting corn stalks used in cellulose ethanol production.

Ms. Barbara Finch, Iowa Farm Bureau Federation. Ms. Finch believes there is widespread public support for increased funding for natural resources. She noted that the General Assembly has not fully funded REAP (see Code section 8.57A), with only one out of every five REAP applications being funded. She described natural resources as a band which encompasses and touches all other areas of governmental work. Because natural resources has been underfunded, Ms. Finch believes that other areas have suffered as well. She stated that constitutional protection for any new funding source is important to prevent competing needs from utilizing the funds.



Sustainable Funding for Natural Resources Study Committee

Additionally, Ms. Finch indicated that Iowa is losing a large amount of federal matching funds by failing to provide sufficient statewide or local funding. Federal matching funds are essentially Iowa's money that the state is trying to recoup from the federal government.

Committee members expressed support for funding efforts that would leverage other funding sources and cooperation. In response to Committee questions, Ms. Finch acknowledged that there are obstacles to overcome amongst the various agencies and organizations, and that it would be important to learn from approaches employed in other states.

Committee members discussed the need to attract persons to Iowa, the use of state and federal moneys to acquire or preserve unique land or develop recreational infrastructure such as bike trails.

Mr. Dave Van Waus, Pheasants Forever. Mr. Van Waus is a wildlife biologist associated with Pheasants Forever. He noted that Iowa is the only state to have county conservation boards and cited them as vital entities in conservation activities. Mr. Van Waus indicated that only one in six habitat restoration projects is being funded. The funding being requested will be devoted primarily toward achieving long-term objectives. He also believes that natural resource funding reaches beyond conservation and into providing a better quality of life that will attract and retain young people, thereby promoting economic development. Mr. Van Waus stated that 87 percent of sportsmen are in favor of a 1 percent increase in the sales tax if the revenue is devoted to natural resources. Iowans are utilizing the current parks and water systems, but patronage would increase if more land were available for public use.

Pheasants Forever, along with other organizations, has partnered with state and local governments to fund and develop conservation projects. Mr. Van Waus believes that continued cooperation on projects will increase the effect of any additional natural resource funding. Mr. Van Waus also believes that interested organizations would promote the passage of a constitutional amendment to increase the state sales tax for dedicated natural resources funding. Mr. Van Waus described Pheasants Forever's current membership lists and organization that could be quickly mobilized if a public measure were placed on the ballot.

Committee members discussed the need to involve groups beyond sportsmen and indicated that county conservation boards would serve as an important resource to educate the public regarding sustainable funding. The Committee discussed what additional agency resources might be needed to administer any new funding mechanism. Committee members expressed concern over the possibility of creating a new bureaucracy which would divert funds.

Several Committee members agreed with Mr. Van Waus that increased access to public lands is an important goal for any conservation funding effort.

Mr. John Kruse, Ducks Unlimited. Mr. Kruse represents Ducks Unlimited and serves as a mayor of Storm Lake. He spoke about the benefits of lake restoration, including current projects and successes. Storm Lake has undergone a restoration over recent years that has not only resulted in environmental and conservation benefits, but economic development as well. Cleaner water in lakes results in increased recreational use, including fishing, boating, and bird watching. Mr. Kruse noted that watershed work needs to be completed before the lake restoration because otherwise the lake's problems will redevelop. Of the 132 major lakes in Iowa, 35 have been designated as



priority for restoration at a total cost of \$200 million. Restoration at those 35 lakes will take 11 years at the current rate. The proposed funding before the Committee would allow that work to be completed in seven years.

Mr. Kruse described the process of restoring Storm Lake. Seventy percent of the surrounding watershed is now under control and over 200 acres of the lake has been dredged. The project was a collaborative effort by local governments, community groups, and conservation organizations, with funding contributed by a number of sources. The lake's improved quality has converted the area into a tourist destination, with recreational facilities, lodging, and a beach. Sixty percent of people traveling to the lake reside outside of Buena Vista County. Storm Lake's development has already created growth in the local retail sales, employment opportunities, and housing markets. There has been 27 new commercial establishments located in the city and 690 jobs created due directly to the lake restoration project.

Mr. Kruse noted that Ducks Unlimited works throughout North America because of the migratory nature of water fowl. According to Mr. Kruse, the United States loses 80,000 acres of wetlands each year. Mr. Kruse believes that the proposed funding would enhance the collaboration Ducks Unlimited has with the Iowa Department of Natural Resources. Ducks Unlimited also plans on placing a regional biologist within Iowa in the near future.

Committee Questions. In response to a Committee question, Mr. Kruse discussed the need to preserve wetlands. In response to another question, it was noted that Iowa's wetland area is increasing.

V. Conservation Tax Credits

General. Co-chairperson Dearden recognized Mr. Mark Ackelson, President of the Iowa Natural Heritage Foundation, who spoke about the potential for using conservation tax credits as a sustainable natural resources funding mechanism. Currently, the price for recreational land is rising so dramatically that conservation budgets cannot keep up. To counteract inflation, incentives are being developed to benefit private landowners. One such incentive involves state income tax credits for land owners who donate land or public easements. The state income tax credits are leveraged with federal tax deductions for charitable contributions. It is estimated that income tax credits stimulate a threefold to fourfold increase in charitable conservation gifts by landowners. In addition, the incentives self-adjust to inflation, while appropriations do not. Mr. Ackelson believes that the wealthiest households are most likely to gift conservation lands and utilize a tax credit or tax deduction. However, state income tax credits would allow the middle class to participate in conservation philanthropy. Farmers who traditionally invest in land might also use these tax credits. Fee title interests, permanent conservation easements, and contributed value of bargain sales of conservation lands would all be eligible for the tax credits. The tax credits would be available to individuals, partnerships, and corporations.

Proposed Legislation. Mr. Ackelson discussed House File 902 which provides for individual and corporate income tax credits for the charitable conveyance of real property for conservation purposes. The bill has been referred to the House Ways and Means Committee. (Senate File 587 is similar legislation referred to the same committee.) Under the proposal, a 50 percent credit for a



Sustainable Funding for Natural Resources Study Committee

gift would be applied toward state income tax obligations. Tax credit recipients would have up to 20 years to carry over and use the credit. An upper limit of \$100,000 would be placed on all credits. Additionally, donations must meet the criteria of the Internal Revenue Code for tax-deductible gifts. There would, however, be no annual limit on the tax credits available statewide. Mr. Ackelson urged the General Assembly to pass the bill.

Soil and Water Conservation. Mr. Ackelson also addressed the possibility of creating soil and water conservation tax credits. He believes a proactive relationship between the state and the biofuel industry would encourage a sustainable biomass production at the community level. A 50 percent tax credit for corporate contributions applied to approved programs could effectively double conservation investment as compared to direct appropriations to state agencies. Some of the proposed eligible program activities include improved management practices for sustainable corn production, development of dedicated biomass energy crops, manure management practices, sustainable grass-based livestock production, and efforts to reduce greenhouse gas emissions.

Committee Questions. Co-chairperson Dearden recognized Committee members who asked Mr. Ackelson questions. In response to Committee questions, Mr. Ackelson discussed the bill's projected fiscal impact which by FY 2011-2012 and beyond is anticipated to be \$1.4 million.

VI. Sustainable Funding Study Preliminary Report

Study Overview. Co-chairperson Bell recognized Dr. Daniel Otto who is a professor associated with Iowa State University's College of Liberal Arts and Sciences, Department of Economics, and the Center for Agricultural and Rural Development. Dr. Otto presented preliminary results of the study requested during the Committee's meeting of August 13, 2007. The study's objectives are to study Iowa's outdoor recreational amenities and current usage levels, estimate the economic value of these resources, and estimate the benefits of new investments in those amenities, using existing data and research.

Demographic Impact. Dr. Otto discussed demographic trends and their impact upon funding decisions. Iowa only has about 2.2 percent public land and 88.7 percent of the state is privately owned farmland. The urbanization of the state will impact the benefit and use of natural resource amenities. Dr. Otto cited research studies which support the conclusion that young educated workers prefer to reside in locations with natural resource amenities.

Iowa's Lakes. Dr. Otto described Iowa Lakes Valuation Project as a collaborative project involving economists and ecologists studying Iowa's lakes. The project uses information compiled by a five-year study of the ecological conditions of Iowa's 132 lakes. Survey responses were collected to provide data on actual trip behavior and future expected trips, willingness to pay for water quality improvements, and knowledge and perceptions of lake quality. Surveys were taken before and after improvements were made to certain lakes. Survey participants were asked how much they spent on their trips to Iowa's lakes. These results allowed researchers to estimate demand for and value of improved water quality in Iowa's lakes. Observed lake use patterns were used to infer citizens' willingness to pay for water quality.

Results of the survey show that 60 percent of Iowans make at least one visit to an Iowa lake per year. Survey responses indicate that proximity and water quality are the two most important



factors in choosing a lake for recreation. Overall, Iowa's lakes have approximately 11.16 million visits per year. Of those, 9.35 million are day visits, while 1.8 million are overnight visits. Dr. Otto estimates that \$977 million is spent annually on visits to Iowa's lakes. On average, \$48 is spent on each day visit, while over \$100 per day is spent on overnight visits. Dr. Otto also provided some economic impact data for recreational activities on or near the Mississippi River. Iowa, however, does not have much data for activities on interior rivers.

State and County Parks. Dr. Otto stated that Iowa's 85 state parks include 89,318 acres and receive 14.1 million visits per year, which includes 701,000 campers. Dr. Otto estimates that \$747.9 million is spent per year during visits to Iowa's state parks. There are 1,722 county parks in Iowa. Dr. Otto estimated that 23.6 million visits are made to those parks each year totaling \$897.1 million in expenditures.

Trail Systems. Dr. Otto stated that Iowa's multipurpose trail system has approximately 890 miles of trails used by an estimated 1.4 million users. Trail system users spend about \$10.9 million per year. The figures provided do not include local or municipal bike trails.

Benefits and Economic Impact. Dr. Otto stated that determining the economic impact and overall benefits can be accomplished by examining total expenditure impact, net economic benefits, economic development, and recruitment and retention of skilled workers. He used expenditures at Iowa's lakes as an example of economic impact, estimating \$1.5 billion in economic impact. Models generated from the data translate into number of jobs and labor income figures as well. Dr. Otto also presented economic data based on the type of recreational activity. Expenditures for hunters (\$296 million), anglers (\$313 million), and wildlife watchers (\$304 million) were calculated from a survey.

Analysis was also conducted on what "consumer surplus" exists within the population. These estimates are not what individuals actually pay for certain recreational activities; instead, it is a measure of what they would be willing to pay beyond their current expenditures to enjoy the same activities. The amounts presented by Dr. Otto are based on intermountain and northern town regions measuring averages of additional dollars per day that individuals would be willing to spend. The amounts varied significantly based on the recreational activity, ranging from \$23.13 for swimming to \$163.97 for mountain biking. Dr. Otto also provided net economic benefit estimates based on studies of consumer surplus data conducted in other regions of the country. The activities included in the net economic benefit estimates were camping (\$51-54 million), fishing (\$226-340 million), hunting (\$204-209 million), trail use (\$41.5 million), wildlife viewing (\$138-164 million), and park use (\$892 million - \$1.1 billion).

Dr. Otto discussed the impact of water quality improvements, by discussing the rate of siltation of the Saylorville Reservoir between 1990 and 2005. Finally, Dr. Otto provided detailed cost and benefit analyses for lake restoration and preservation projects on 14 lakes in Iowa including Hickory Grove, Red Haw, Kent Park, Lake Anita, Springbrook, Lake Ahquabi, Hennen, Lake of the Hills, Central Park, Lake Geode, Big Creek, Viking, McBride, and Brushy Creek. The value assigned to total benefits from each project only included the recreational benefits. Dr. Otto ranked the various projects by benefit/cost ratio and used Storm Lake as an example of what kind of benefits are possible.



Sustainable Funding for Natural Resources Study Committee

Committee Questions. Members of the Committee questioned Dr. Otto on the cause-and-effect relationship of amenities and worker retention. Dr. Otto acknowledged that in some situations it is the population base which creates amenities rather than amenities attracting workers. Nevertheless, existing research supports the conclusion that amenities are an essential part of a human capital strategy for economic growth. Committee members agreed that there should be a priority for connecting existing trail systems and segments.

VII. Taxation Issues, Legislative Services Agency, Fiscal Division

Sales and Use Tax. Co-chairperson Bell recognized Mr. Jeff Robinson, Legislative Services Agency, Fiscal Division, who provided data on the latest 12 months of net taxes collected by the Department of Revenue and listed them by tax source. He also provided figures on local option taxes remitted to the state and distributed to local governments during the 12-month period ending in September 2007. Mr. Robinson discussed the FY 2009-2010 estimate for net revenues from sales and use tax. It was estimated that \$1.947 billion would be collected during FY 2009-2010. According to Mr. Robinson, a 3/8 cent increase in the tax rate would raise approximately \$146 million in revenue.

Real Estate Transfer Tax. According to Mr. Robinson, currently, Iowa's real estate transfer tax is equal to \$0.80 per \$500 (0.16 percent) of the consideration paid for transferred property. The real estate transfer tax is collected at the local level, with 17.5 percent being retained by the county and the remainder remitted to the state. The state allocates 95 percent of the remitted amount to the General Fund and 5 percent to the Shelter Assistance Fund (see Code section 15.349). In FY 2007-2008, \$21.7 million dollars was raised in state and county revenue. That revenue represents the tax on \$13.6 billion in taxed transferred property value. Mr. Robinson stated that the total value of transferred property may be lower in the next few fiscal years, based on the current state of the real estate market.

Lottery Revenue. Mr. Robinson stated that currently, a small portion of lottery revenue is deposited in the Gambling Treatment Fund (see Code section 135.150). The remainder of lottery revenue is deposited in the General Fund. It is estimated that \$59-60 million per fiscal year will be transferred to the General Fund. Mr. Robinson noted that any lottery revenue used for a specified purpose would reduce the amount transferred to the General Fund and reduce the amount available for other departments or programs.

Committee Questions. Committee members and Mr. Robinson discussed the possibility of imposing an excise tax on certain recreational equipment and products. Currently, the federal government imposes an excise tax on certain hunting supplies like ammunition. Some members expressed concern that a similar tax encompassing other recreational equipment would be difficult to administer and place a burden on retailers. In response to Committee questions, Mr. Robinson indicated that revenue generated from voluntary income tax checkoffs is low and declining.

VIII. Infrastructure Funding Issues

Co-chairperson Bell recognized Ms. Marcia Tannian and Mr. Dave Reynolds of the Legislative Services Agency's Fiscal Services Division. Ms. Tannian stated that the Rebuild Iowa



Infrastructure Fund (RIIF) (see Code section 8.57) was established in 1995 with a \$50 million General Fund appropriation. The RIIF's revenue sources include interest from Iowa's "rainy day funds" (see Code section 8.55 establishing the Iowa Economic Emergency Fund and Code section 8.56 establishing the Cash Reserve Fund), a portion of state wagering taxes (see Code section 99F.4A providing for taxes imposed upon gambling at pari-mutuel racetracks, and Code section 99F.10 imposing taxes upon persons licensed to conduct gambling activities), and interest from moneys in RIIF and the Environment First Fund (see Code section 8.57A).

They discussed allocations from the state wagering tax including to the General Fund, the Vision Iowa Fund (see Code section 12.72), the School Infrastructure Fund (see Code section 12.82), with the remainder deposited in RIIF. They also discussed direct expenditures from RIIF for a number of projects. Ms. Tannian estimates that in FY 2009-2010, RIIF will have total revenues of \$251 million. The RIIF's revenues consist of 80 percent from the state's wagering tax, 12 percent from interest generated by the fund, and 8 percent from the beginning balance of RIIF. Ms. Tannian discussed other funds with moneys available for FY 2009-2010, including the Vertical Infrastructure Fund (VIF) (see Code section 8.57B), and the Restricted Capital Account of the Tobacco Settlement Fund (see Code section 12E.12). The VIF receives appropriations from RIIF until FY 2009-2010. In FY 2009-2010, VIF is scheduled to receive \$50 million, \$40 million of which is already appropriated. The Restricted Capital Account of the Tobacco Settlement Trust Fund already has most of the money appropriated. However, \$7.6 million is available for FY 2009-2010. Between RIIF, VIF, and Restricted Capital Account funds, \$105.5 million is available for infrastructure funding (in FY 2009-2010, \$79.5 million in RIIF, \$18.4 million in VIF, and \$7.6 million in Restricted Capital Account funds).

Ms. Tannian noted that RIIF revenues may be affected when annual tax credits begin for racetracks (\$4.6 million) and riverboats (\$6 million). Departmental requests for FY 2009-2010 total \$595.3 million from RIIF.

Committee Questions. In response to questioning by Committee members, Mr. Reynolds estimated that if the state were to bond for the \$400 million, \$30 million would have to be annually committed from RIIF for 20 years. Senator Black questioned relying on a strategy that is contingent on expansion of gaming profits because the state may not experience the growth exhibited in the past. Senator Black believes increasing the number of casinos may not generate the revenue necessary to fund all natural resources needs. Mr. Reynolds acknowledged that while gaming revenues are still increasing, the rate of growth has decreased.

IX. The North Carolina Experience

Co-chairperson Bell recognized state Representative Lucy Allen, Chairperson of the North Carolina House Environment and Natural Resources Committee. Representative Allen believes issues and concerns before the Committee are similar to those faced by North Carolina when it began to address natural resources funding. The North Carolina General Assembly established four trust funds during the 1980s and 1990s. She acknowledged, however, that the funds are still underfunded and indicated that two out of every five grant requests are rejected.



Sustainable Funding for Natural Resources Study Committee

Clean Water Management Trust Fund. This fund was established in 1996 to clean up pollution in surface waters and to protect unpolluted waters. The fund makes grants to local governments, nonprofit conservation organizations, and state agencies to acquire land for easements that protect forests along rivers, improve wastewater treatment and storm water management, restore damaged wetlands and streams, and develop plans to protect water quality. The fund receives general appropriations and was funded at \$100 million in FY 2005-2006. The fund is managed by a 21-member board appointed by the Governor and General Assembly.

Agricultural Development and Farmland Preservation Trust Fund. This fund was established in 1986 to promote the development and sustainability of farming and assist in the transition of existing farms to new farm families. The trust fund can make grants to counties and nonprofit conservation organizations to purchase agricultural conservation easements and to fund private and public enterprise programs that promote profitable family farms. The fund received \$50,000 in FY 2005-2006 from general appropriations. The fund has a 19-member advisory committee, of which three members are practicing farmers.

Natural Heritage Trust Fund. This fund was established in 1987 to acquire and protect land with outstanding natural and cultural heritage value and to inventory special natural areas in North Carolina. State agencies are provided grants to purchase significant lands for state parks, forests, historic sites, coastal waters, game lands, and natural areas. The fund received \$19 million in FY 2005-2006 and is funded by 25 percent of the North Carolina's deed excise stamp tax and a portion of personalized license plate sales. The fund is managed by a 12-member board.

Parks and Recreation Trust Fund. This fund was established in 1994 to expand and improve state and local parks and to increase public beach access. Sixty-five percent of funds are used to purchase land and improve facilities in North Carolina's state parks; 30 percent are given as grants to local governments for local park improvements; and 5 percent are used to increase access to beaches and estuaries. The fund received \$45 million in FY 2005-2006 and is funded by 75 percent of the state's portion of the deed excise stamp tax. The fund is managed by an 11-member board.

North Carolina Bond Proposal. Representative Allen stated that a study commission was established to examine land and water conservation in North Carolina. The commission is currently recommending the public approval of a \$1 billion bond initiative. However, the commission did not make recommendations on funding sources for repayment of the bonds. Representative Allen believes the initiative may succeed because land and water conservation is an important issue to North Carolinians. Representative Allen also believes that the citizens of North Carolina appreciate the socioeconomic, tourism, and environmental benefits of the proposal. She believes that there is greater support for the bond initiative by the general public than by members of the North Carolina General Assembly.

Other North Carolina Initiatives. Representative Allen briefly discussed other issues in North Carolina, including a campaign to promote travel within the state. Citizens of North Carolina are encouraged to plan trips and activities in regions other than where they live. Residents are also encouraged to donate land and sell development rights in order to preserve their land. Representative Allen acknowledged that she has done this to ensure that her 500-acre farm would not be developed.



X. The Missouri Experience

Missouri Conservation Funding. Co-chairperson Bell recognized Missouri State Representative Jason Brown. Representative Brown provided the Committee an overview of Missouri's natural resources funding system. He explained that in 1972, Missouri approved a constitutional amendment to create a permanent 1/8 percent statewide sales tax dedicated for conservation. Missouri's constitutional amendment provides a comprehensive structure for the collection, use, and administration of the revenue generated from the state's sales tax for use by the Missouri Department of Conservation (MDC).

The first year of the tax increase generated \$25 million in revenue. Last year, the sales tax raised \$100 million. During the 30 years since its passage, the tax has allowed MDC to make strategic acquisitions to ensure ready access to public lands in all 114 Missouri counties. The revenue generated has also funded nature centers, education programs, increased staff, boat ramps, and visitor parking lots. Indirectly, tax revenues have also allowed funds from license fees and excise taxes to be entirely focused on stewardship of game species in Missouri.

According to Representative Brown, the MDC is oriented toward game and wildlife habitat, and water quality and soil conservation activities are not funded from the 1/8 percent sales tax. The economic impact of hunting, fishing, wildlife watching, and forestry will surpass \$8 billion in Missouri this year. The MDC currently has a budget of \$160 million. Since 1977, no general fund moneys have been appropriated to MDC for conservation. Representative Brown noted that Missouri has served as a model for other states' conservation funding efforts. He discussed some of the advantages of Missouri's funding system. He believes that the Missouri sales tax system is effective because it is controlled by professionals within MDC charged to establish and meet the state's conservation needs.

Committee Questions. Co-chairperson Bell recognized members for questions. Committee members expressed concern over the lack of recreation and conservation areas in Iowa. According to Representative Brown, the dedicated funding source in Missouri has increased the amount of public lands and public access to conservation lands. Representative Brown believes increased acquisition of access to public land can be accomplished in Iowa as well.

Representative Brown discussed the fees for Iowa hunting licenses for nonresidents and noted that the dedicated funding might allow fees to be lowered and attract more out-of-state hunters and visitors. While Representative Brown acknowledged that Iowans should have lower fees than nonresidents, he stated that it is important to look at the money spent by visitors.

Committee members asked Representative Brown if he foresaw any downside to putting a measure on the ballot in Iowa. Representative Brown indicated that if the measure does fail through a public vote, it may create a hurdle for later action. He believed, however, that passage would not be a problem if the proper groundwork and education is completed prior to a vote. Representative Brown noted that a tax increase is more palatable to the electorate if they know it is directed for a particular program or purpose. Establishing the tax through constitutional amendment also places the power with the electorate.



Sustainable Funding for Natural Resources Study Committee

XI. The Minnesota Experience

Funding Mechanisms in Minnesota. Co-chairperson Bell recognized Minnesota state Senator Dennis Frederickson, who described in detail the various revenue sources for natural resources funding in Minnesota. Revenue is derived from wildlife checkoffs on tax forms, specialty license plate sales, various hunting and fishing stamps, and a lottery "in-lieu-of-sales" tax. In 1990, the Minnesota State Legislature imposed an "in-lieu-of-sales" tax on lottery tickets of 6.5 percent. The tax is paid directly by the lottery to the state treasury and is part of the regular lottery ticket purchase price.

Environment and Natural Resources Trust Fund. Senator Frederickson explained that the Minnesota constitution establishes a permanent Environment and Natural Resources Trust Fund (see Art. XI, sec. 14). The assets of the fund are appropriated by law for the public purpose of protection, conservation, preservation, and enhancement of the state's air, water, land, fish, wildlife, and other natural resources. No more than 5.5 percent of the fund may be appropriated each year. Currently, 5.5 percent of the fund represents over \$22 million. The constitutional provision also requires that not less than 40 percent of the net proceeds from the state lottery be credited to the fund until 2025.

Legislative-Citizen Commission on Minnesota Resources (LCCMR). According to Senator Frederickson, the LCCMR makes trust fund funding recommendations to the Minnesota State Legislature on an annual basis. The LCCMR includes seven citizens with technical backgrounds in natural resources, five state representatives, and five state senators. Recommendations are made after presentations are made to the LCCMR detailing the various proposals. Senator Frederickson indicated that the LCCMR gives preferences to projects that will leverage funds either through federal assistance or money from private organizations. The LCCMR will fund some purely research-based projects, but only after peer review is conducted.

Minnesota Sales Tax Initiative. Senator Frederickson stated that there is a sales tax increase proposal pending in Minnesota. Under the proposal, the state sales tax would be increased $\frac{3}{8}$ of 1 cent. The revenue generated would be allocated to habitat conservation, clean water initiatives, and cultural legacy projects. Public support is highest for the clean water portion of the proposal, with less support for the habitat conservation and cultural legacy portions. The proposal is estimated to raise over \$291 million in revenue.

XII. The Michigan Experience

Michigan Natural Resources Trust Fund. Co-chairperson Bell recognized Mr. Bob Garner, Chairperson of the Michigan Natural Resources Trust Fund (MNRTF). Mr. Garner stated that the MNRTF was established in 1976 in the state constitution (see Art. 9, sec. 35) and by statute pursuant to the Natural Resources and Environmental Protection Act (Michigan Code section 324.1901, et seq.). Mr. Garner began by stating that even though Michigan has a trust fund, it does not address all natural resources funding for the state. Michigan's constitution and statute authorizes the MNRTF to provide for the acquisition of land or rights in lands for recreational uses or protection of the land because of its environmental importance or scenic beauty, and for the development of public recreation facilities. Under this authority, the five-member MNRTF Board of



Trustees administers the program through the Michigan Department of Natural Resources (MDNR).

MNRTF Funding. Mr. Garner stated that Michigan has a few moneys from deposits of oil and gas, primarily located in the northern part of the state. The MNRTF is funded by revenues from leases for the extraction of nonrenewable resources on state-owned land. The principle of the constitutional proposal is to use nonrenewable resources to finance renewable projects. The fund was initially capped at \$100 million and the Michigan State Legislature has borrowed money from it on a regular basis. The MNRTF cap was increased to \$500 million in 2002.

MNRTF Expenditures and Grant Requirements. The MDNR may expend the fund's interest and earnings, as well as one-third of the revenue received in a given year. The MNRTF has approximately \$20-25 million available for grants each year. The MNRTF provides grants to state agencies and local governments for land acquisition. However, any individual, group, or organization may nominate land for MDNR acquisition. Local units of governments must provide at least 25 percent of the total project cost as a match and must have an MDNR-approved recreation plan prior to applying for an MNRTF grant. Since 1976, more than \$600 million in MNRTF appropriations have supported over 1,200 state and local acquisition and development projects. Grants are awarded after review by the MDNR. The projects are ranked and then submitted to the board of trustees. The board of trustees' recommendations are sent to the governor and included in the governor's proposal to the legislature for approval and appropriation.

Proposals can also receive points if they involve endangered or threatened species or features identified as "significant" by the Michigan Natural Features Inventory (MNFI). Projects can also receive points for providing quality hunting, fishing, or other wildlife-related opportunities, such as wildlife viewing or habitat protection. Mr. Garner believes that public access is an important aspect to Michigan's conservation efforts. The MNRTF does not provide funding for management, monitoring, or stewardship of protected land. However, the board assesses each applicant's stewardship within the existing parks and recreation system and may deny funding to an application with poor stewardship history. Additionally, MNRTF Board policies state that properties acquired with MNRTF assistance may not be wholly or partially converted to other than outdoor recreation use without approval from the MDNR and the MNRTF Board of Trustees.

XIII. Committee Discussion

Co-chairperson Bell invited members to discuss the Committee's direction at the next meeting. Committee members requested that the agencies who would receive the additional funding return during the next meeting to clarify how the money will be spent. Senator Black expressed that he would like to see REAP fully funded because it is a program that is successful and effective. Committee members also noted that the money being requested will supplement existing funding, unlike other states like Missouri where the Missouri Department of Conservation receives all its money exclusively from the 1/8 cent sales tax. Members of the Committee discussed the benefits of involving the public in deciding whether to raise the sales tax and how that additional revenue is spent.



Sustainable Funding for Natural Resources Study Committee

XIV. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the <Additional Information> link on the Committee's Internet Webpage:

<http://www.legis.state.ia.us/asp/Committees/Committee.aspx?id=212>

1. Tentative Agenda
2. Sustainable Funding for Natural Resources Presentation, Submitted by Mr. Dan Cohen
3. Materials on Sustainable Funding in Other States, Submitted by Mr. Duane Sand
4. Written Testimony of Secretary of Agriculture Bill Northey
5. Sustainable Natural Resource Advisory Committee Funding Vehicle Summary, Submitted by Ms. Barbara Finch
6. Sustainable Funding for Natural Resources Presentation, Submitted by Mr. Mark Ackelson
7. Economic Value of Iowa's Natural Resource Amenities, Submitted by Dr. Dan Otto
8. Taxation Issues, Submitted by Mr. Jeff Robinson of the Legislative Services Agency
9. Infrastructure Funding Sources, Submitted by Ms. Marcia Tannian and Mr. Dave Reynolds of the Legislative Services Agency
10. Materials on Natural Resources Funding in North Carolina, Submitted by North Carolina State Representative Lucy Allen
11. Design for Conservation Sales Tax Summary, Submitted by Missouri State Representative Jason Brown
12. Information for the Iowa Sustainable Funding for Natural Resources Study Committee, Submitted by Minnesota State Senator Dennis Frederickson
13. Materials on Natural Resource Funding in Michigan, Submitted by Mr. Bob Garner