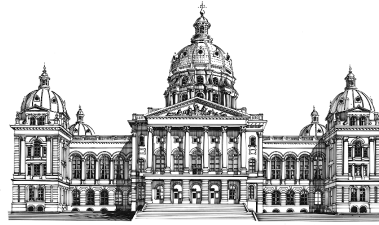


Iowa Legislative Fiscal Bureau

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August 30, 2002

Overview of the State Forest Nursery

ISSUE

This *Issue Review* provides an overview of the State Forest Nursery operations. The Department of Natural Resources (DNR) operates a State Forest Nursery in Ames, that sells conservation trees and shrubs grown from native seeds. The seedlings, which are six to 24 inches in length, are sold to private and public Iowa landowners for conservation purposes.

AFFECTED AGENCIES

Department of Natural Resources

CODE AUTHORITY

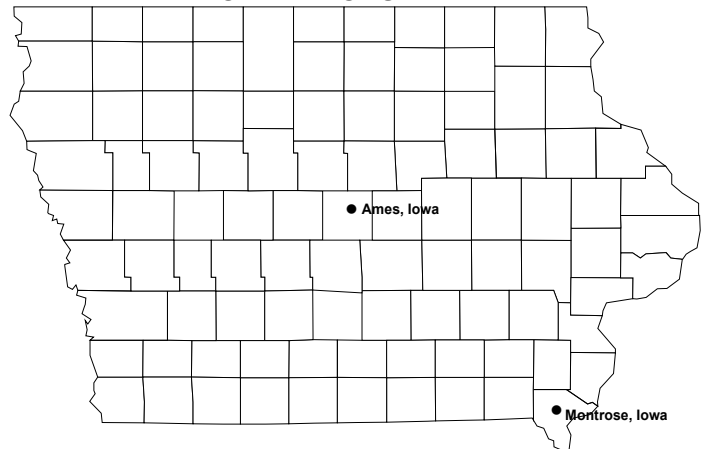
Sections 455A.13, 456A.21, and 904.705,
Code of Iowa

BACKGROUND

The State Forest Nursery consists of 98 acres of land in Ames, Iowa, and was established in the 1930's. Since 1982, the Nursery has leased 84 acres of land from the Department of Corrections at Montrose, Iowa, for approximately \$8,000 per year. The Montrose facility provides employment and training for 60 inmates.

Section 455A.13, Code of Iowa, requires the DNR to set the selling price for trees and shrubs so the cost of production is covered. In addition, the 1999 General Assembly established the Forestry Management and Enhancement Fund with the passage of HF 746 (FY 1999 Agriculture and Natural Resources Appropriations Act) to fund 5.00 FTE positions in the Forestry Bureau to provide technical assistance to private and public landowners.

LOCATION OF STATE FOREST NURSERY OPERATIONS



State Forest Nursery in Ames, Iowa

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CURRENT SITUATION

The State Forest Nursery sells bareroot seedlings in quantities of 500 or more to Iowa landowners. Since 1990, the Department has sold between three and five million trees and shrubs each year for erosion control, reforestation, wildlife habitat enhancement, and water quality protection. The following table summarizes the number of trees and shrubs sold over the past four fiscal years:

| Fiscal Year | Hardwood Trees | Conifer Trees | Shrubs | Total |
|--------------------|-----------------------|----------------------|---------------|--------------|
| 1999 | 2,559,000 | 627,000 | 480,000 | 3,666,000 |
| 2000 | 1,494,000 | 618,000 | 1,589,000 | 3,701,000 |
| 2001 | 1,957,000 | 691,000 | 1,125,000 | 3,773,000 |
| 2002 | 3,483,000 | 829,000 | 1,220,000 | 5,532,000 |

The State Forest Nursery generated \$1.7 million in revenue for FY 2002. The following is a summary of the revenue received by the Forestry Bureau during the past four years:

| Revenue Source | FY 1999 | FY 2000 | FY 2001 | FY 2002 |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
| General Fund Appropriation | \$1,683,000 | \$1,742,000 | \$1,785,000 | \$1,706,000 |
| Federal Funds | 461,000 | 617,000 | 410,000 | 597,000 |
| Nursery Sales | 1,036,000 | 1,010,000 | 1,270,000 | 1,262,000 |
| Forestry Fund -- Nursery | 0 | 252,000 | 293,000 | 411,000 |
| Total Revenue | \$3,180,000 | \$3,621,000 | \$3,758,000 | \$3,976,000 |
| Nursery Sales % To Total | 32.6% | 34.9% | 41.6% | 42.1% |

The State Forest Nursery employs nine full-time employees and employs 60 to 80 seasonal employees each year. The seasonal employees sort the seedlings by size and quality at the Ames location and package the seedlings for shipment.

The DNR requested a price increase for trees and shrubs at the May 15, 2002, meeting of the Administrative Rules Review Committee. The Committee requested the DNR meet with private nursery owners to evaluate the demand, capacity, and pricing of nursery stock in Iowa. The DNR met with various forestry stakeholders and prepared a summary report for the Committee dated June 11, 2002.



Sorting room at State Forest Nursery

The DNR estimates the annual demand for conservation trees and shrubs for the next five years is between 10.0 million and 15.0 million per year. This demand will be met with the State Forest Nursery selling five million, private nurseries selling three to four million, and out-of-state nurseries selling two million each year. Currently, there is only one private conservation nursery in Iowa that can produce between two and three million trees and shrubs each year.

The following table summarizes the pricing of various conservation trees and shrubs in Iowa:

| Tree Description | Private Nursery Average Price | Prior Iowa State Forest Nursery Average Price | New Iowa State Forest Nursery Average Price | Missouri State Forest Nursery Average Price |
|------------------|-------------------------------|---|---|---|
| Hardwood | \$ 0.56 | \$ 0.38 | \$ 0.42 | \$ 0.24 |
| Conifer* | 1.43 | 0.20 | 0.28 | 0.20 |
| Shrub | 0.73 | 0.38 | 0.42 | No Stock |

*Private nurseries are selling four-year old plants and the State Forest Nursery is selling two-year old seedlings.

CONSERVATION PROGRAMS:

Reforestation efforts have increased through a partnership between the DNR and the Iowa Nursery and Landscape Association. The partnership has developed educational programs such as *Trees For Kids*, the community grant program *Million More for 2004*, and other promotional efforts to increase the planting of native trees. The DNR's District Foresters also work with public and private landowners to promote the planting of native trees and shrubs to increase reforestation in Iowa. The DNR estimates that the cooperative tree planting and care promotion efforts have benefited Iowa's private nurseries with \$5.8 million dollars in sales over the last three years.

Federal and State cost-share programs provide financial incentives to landowners to implement conservation efforts. The Conservation Reserve Program (CRP), the Environmental Quality Incentives Program (EQIP), and the Resource Enhancement and Protection Fund (REAP) all have components that provide cost share funds for tree planting. For example, the Conservation Reserve Program offers up to a 90.0% reimbursement for the planting of conservation trees and shrubs. The demand for cost share funds always exceeds the amount of funds available, and the Department estimates that four to seven million trees were planted from 1997 to 2002 due to the cost share programs.

The federal Farm Security and Rural Investment Act was enacted on May 13, 2002. The Act will increase cost-share funding for tree planting for current conservation programs and creates a new Forest Land Enhancement Program (FLEP). This new Program provides cost share funding to states that have an approved State Priority Plan that is a summary of all individual landowner forestry management plans. The summary will include the number of forested acres, forestry practices, and other required information.

ALTERNATIVES

During the 2002 Legislative Session, there were discussions regarding the sale of the State Forest Nursery in Ames. The DNR estimated the market value for the State Forest Nursery at between \$2.0 million and \$3.0 million for sale of the entire operation. If the State Forest Nursery was moved, the cost would be approximately \$2.8 million to relocate and reestablish the windbreaks, roads and other related infrastructure expenditures.

BUDGET IMPACT

Sales from the State Forest Nursery generated revenue of \$1.7 million in FY 2002, accounted for approximately 42.1% of the Forestry Bureau's budget, and accounted for 100.0% of the State Forest Nursery's budget. If the State Forest Nursery were sold, there would be a decline in revenue of approximately \$1.5 million per year, and there would not be enough nursery stock in Iowa to meet the demand for conservation projects. If the State Forest Nursery was sold and relocated, there would be an additional investment of \$2.8 million for the reestablishment of the operation.

The price increase, as approved by the Administrative Rules Review Committee on August 13, 2002, is estimated to generate an additional \$233,000 in revenue for FY 2003.

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