

# Gambling with Iowa's Soil and Water

## The Budget of the Division of Soil Conservation

Teresa Galluzzo

November 2007

### **The Iowa Policy Project**

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## **Author and Acknowledgements**

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# The Iowa Policy Project

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## Gambling with Iowa's Soil and Water

By Teresa Galluzzo

When people across the nation and indeed people across the world think of Iowa, they likely think about corn, beans and pigs. If they think a little longer about our state they probably think about the dark, rich soil and plentiful water that allow Iowa to be a farming state. Even though our state has made its name, and to a large part its economy, on its agricultural prowess, as a state we have not adequately protected these resources.

Almost 99 percent of our land is privately owned.<sup>1</sup> Thus, to protect Iowa's natural resources, the state must educate and assist private landowners. Further, 88 percent of the state's land is working agricultural land. So, particular attention is necessary to ensure agricultural land is managed with the health of the broader environment in mind.

The Division of Soil Conservation (DSC) in the Iowa Department of Agriculture and Land Stewardship oversees many of these efforts. DSC "is responsible for state leadership in the protection and management of soil, water and mineral resources, assisting soil and water conservation districts and private landowners to meet their agricultural and environmental protection needs."<sup>2</sup>

Given the dominance of agriculture in Iowa, the unsustainable loss of soil, continued soil quality degradation, and the large and increasing number of impaired waters in the state, DSC's leadership role is very important. This report addresses how DSC has been funded over the last decade. Looking from fiscal year 1998 (FY98) to fiscal year 2008 (FY08) provides enough time to make funding trends apparent. What follows is a description of DSC, its overall budget and a look at each of the major programs it administers.\*

### The Iowa Division of Soil Conservation

DSC manages a variety of programs to improve water quality and reduce soil erosion. These programs provide financial assistance in the form of annual payments, cost sharing or loans to landowners who change their management practices or their land's physical characteristics. DSC provides technical assistance and information on its financial services to landowners through staff in its Des Moines office and field staff in soil and water conservation district (SWCD) offices.

DSC has about 220 full time equivalent (FTE) employees. Less than 0.5 percent of all state FTEs work in the Division. About 20 DSC employees work in the central office in Des Moines. Most of the Des Moines-based employees oversee programs and assist field-office employees.

The large majority of DSC employees work in the 100 SWCD offices located in every Iowa county. These offices are overseen by a board of five local commissioners, many of whom are farmers and all of whom are familiar with the conditions in the county. Commissioners help set the district's priorities.

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\*This report follows our December 2006 report that analyzed the budgets of the Iowa Department of Natural Resources and a sample of Iowa's county conservation boards and thus completes the picture of how Iowa funds environmental protection.

Funding and staff for the offices are a partnership between federal (Natural Resources Conservation Service), state and county governments. DSC provides a secretary for every office and in most cases provides a conservation technician and/or a watershed coordinator as well.

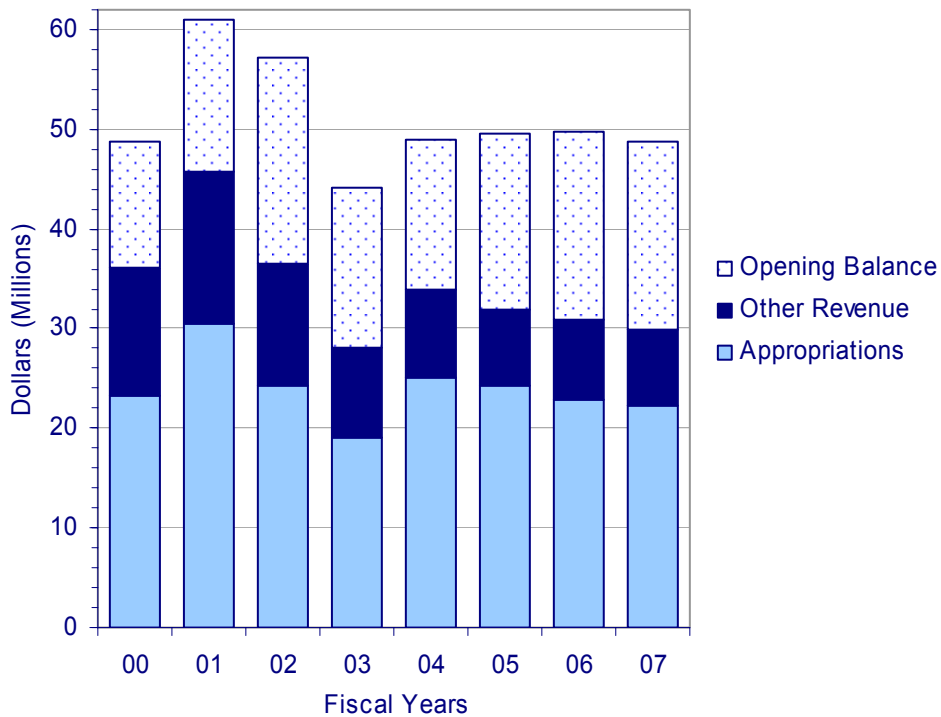
In addition to the agriculture-related assistance DSC provides, it also has a Mines and Minerals Bureau, which is responsible for reclamation of abandoned coal mines. Coal mining stopped in Iowa in 1995, but over 12,000 acres of land were once mined and are eligible for reclamation under federal law. About 97 percent of the federal funding DSC receives – an average of \$1.68 million annually – is used for Mines and Minerals Bureau activities. The Division also oversees current mining in the state for minerals such as limestone, sand, gravel, gypsum and clay. Although this bureau receives a small portion of DSC's overall budget and staff, reclaiming abandoned coal mines and regulating existing mining are important parts of the Division's responsibility for protecting Iowa's water.

## Division of Soil Conservation Financial Resources

Over the period for which data are available, FY00 to FY07, DSC had between \$44.2 million and \$61 million dollars available (see Figure 1). These values, as all other values in this report, are adjusted for inflation using the Bureau of Economic Analysis' Index for State and Local Government Consumption Expenditures and presented as FY07 dollars.<sup>3</sup> Using constant dollars reveals trends in actual purchasing power.

DSC's financial resources remained fairly constant over the period. The largest one-year change was the big revenue drop in FY03. DSC's resources includes three primary components the opening balance, outside revenue sources and state appropriations. The opening balance is money carried over from previous years, not new revenue. These fairly consistent dollars account for 33 percent of DSC's average annual budget. The two categories of new revenue are addressed in the following paragraphs.

**Figure 1. DSC Financial Resources Fairly Constant**

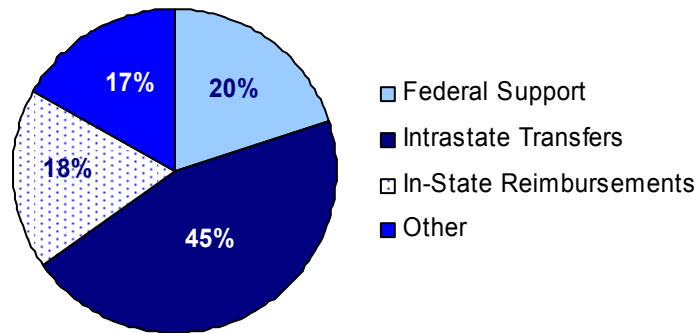


Source: Iowa Division of Soil Conservation. All years are actual fiscal year values, except FY07 which are estimated values. All dollar values are adjusted for inflation using the Bureau of Economic Analysis' Index for State and Local Government Consumption Expenditures and presented as FY08 dollars.

## Other Revenue

DSC receives revenue from several sources besides direct state appropriations. These other sources provide between \$7.6 million and \$15.3 million annually. Included in this category are federal funds, intrastate transfers, reimbursements from other state agencies and various other funding sources (see Figure 2). Federal support accounts for about 20 percent of the other revenue received. As previously mentioned, about 97 percent of federal support is used by the Mines and Minerals Bureau for abandoned mine reclamation.

**Figure 2. In State Reimbursements Lead Other Sources of DSC Revenue**

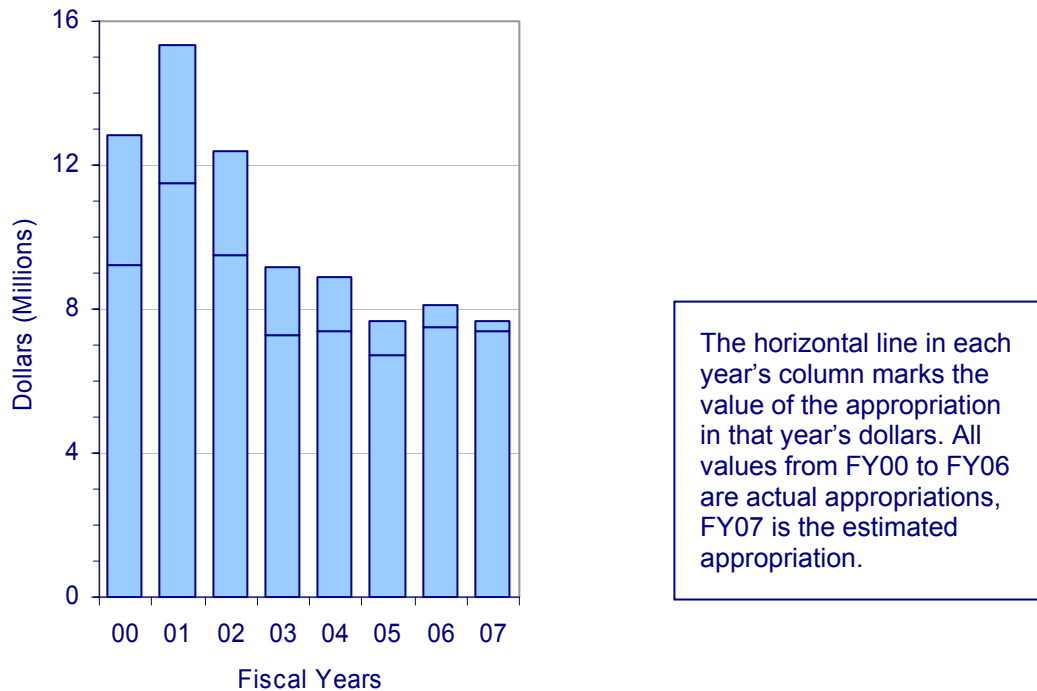


Source: Iowa Division of Soil Conservation.

Most other revenue for the Division comes from intrastate transfers. The biggest amount of this money is a transfer of Resource Enhancement and Protection Program (REAP) from the Department of Natural Resources (DNR) for soil and water enhancement. REAP money is administered by the DNR, but 20 percent of it is designated to be used by DSC for soil and water enhancement. Ninety percent of in-state reimbursements are made to the Division's EPA non-point source program. The other category of revenue includes things like interest and refunds, which constitute 17 percent of this category annually.

Figure 3 shows the inflation-adjusted other revenue from FY00 to FY07. In each year's bar the area below the horizontal line marks the funding that was received in that year's dollars. These sources of income have dropped in real terms nearly every year over the period, but on average accounted for about 20 percent of the Division's budget. Furthermore, the level of revenue from other sources in the past five years is well below the average for 2000-02, in current as well as constant dollars.

Figure 3. Other DSC Revenue Declines from 2000 to 2007

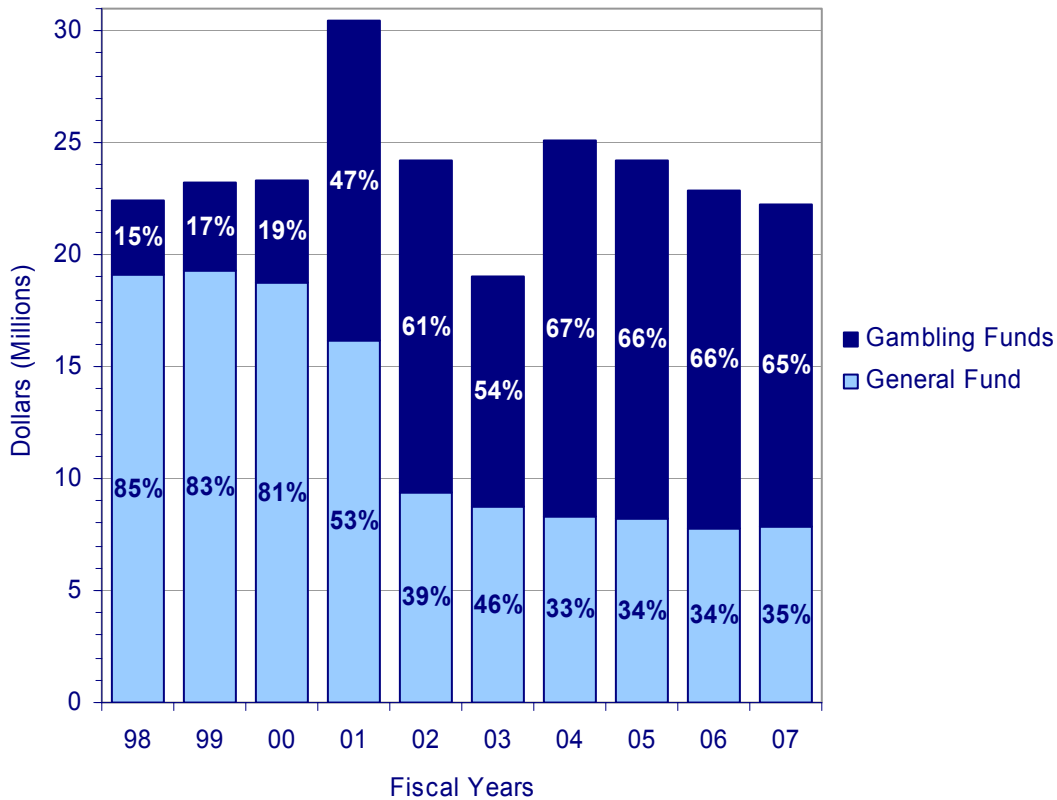


Source: Iowa Division of Soil Conservation. All years are actual fiscal year values, except FY07 which are estimated values. All dollar values are adjusted for inflation using the Bureau of Economic Analysis' Index for State and Local Government Consumption Expenditures and presented as FY08 dollars.

### State Appropriations

The state has appropriated between \$19 million and \$30.5 million to DSC annually over the last decade (see Figure 4). These direct appropriations make up the biggest portion of DSC's budget, about 47 percent. The state appropriates money to DSC from the General Fund (tax receipts) and from racing and gaming receipts. Over the study period, state appropriations grew from FY98 to FY01. They fell off sharply in FY02 and FY03 and recovered in FY04, but have slowly declined every year since. FY07 appropriations were the lowest of the study period with the exception of FY98 and FY03.

Figure 4. State Appropriations to DSC on Decline



Source: Iowa Division of Soil Conservation and Iowa Legislative Services Agency, Fiscal Services Division. All years are actual fiscal year values, except FY07 which are estimated values. All dollar values are adjusted for inflation using the Bureau of Economic Analysis' Index for State and Local Government Consumption Expenditures and presented as FY08 dollars.

Historically, the General Fund was DSC's most significant source of revenue. Yet the Division receives a very small portion of the state's total general fund appropriations. On average over the last 10 years DSC has received only 0.2 percent of total state appropriations.

Beginning in FY02 gambling money became the most significant source of revenue for DSC. Racing and gaming receipts used to be appropriated through the Rebuild Iowa Infrastructure Fund but are now appropriated from the Environment First Fund (EFF). Since FY02 gambling money has accounted for an average of 63 percent of state appropriations. This percentage has remained fairly consistent except for FY03 when gambling appropriations fell drastically.

The reduction in EFF appropriations in FY03 was due to two things. First there was a reduction in overall state spending due to a drop in revenues caused by tax cuts passed in the late 1990s and the economic downturn in 2001. Due to this downturn \$18.5 million (unadjusted) was diverted from the EFF to pay for General Fund activities in FY03. The second reason for a smaller appropriation from EFF in FY03 was an Iowa Supreme Court decision ruling it unconstitutional to tax racetrack casinos at a higher rate than riverboat casinos. This meant a big drop in revenue for the state from racing and gaming receipts.

Overall DSC's financial resources have remained fairly stable over the period, other than a big drop in FY03.



## Major Division of Soil Conservation Programs

The following sections describe the specific programs the Division uses to protect soil and water.

### *Iowa Financial Incentive Program (IFIP)*

In 1973 Iowa established the Conservation Cost Share Program, which is now called the Iowa Financial Incentive Program (IFIP). Iowa was the first state in the nation to provide funding for cost-share for permanent conservation practices. Such practices include buffer strips, grassed waterways, ponds, wetlands, no-till farming and terraces.

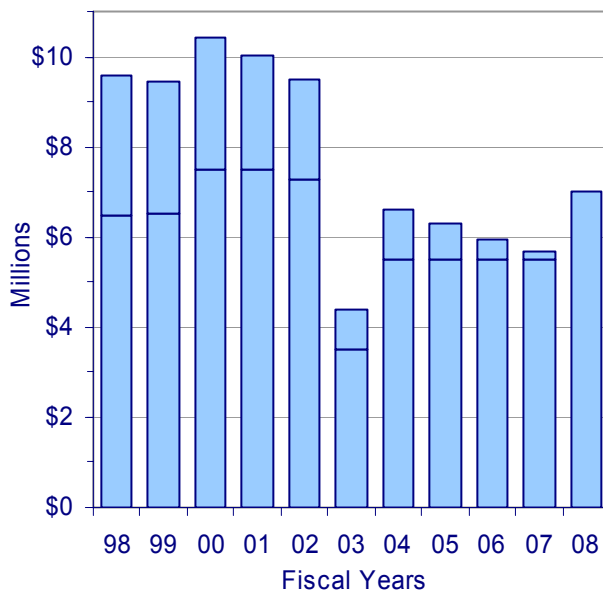
This program is administered by each of the 100 SWCDs. To receive funding landowners work with local district office staff to design and implement practices that reduce soil erosion. Typically the landowner must match the state's funding and sign a long-term maintenance agreement.

State appropriations to IFIP declined over the second half of the study period (see Figure 5). After accounting for inflation, funding in FY07 was the lowest of the period, excepting FY03, which as noted earlier was the year the state raided the EFF, and racing and gaming receipts fell due to legal actions.

Funding for the program has decreased, yet demand for the program is consistently greater than the money available. DSC reported that in August 2006, during that year there was \$7.1 million worth of practices for which landowners wanted to receive cost share but funding was not available.<sup>4</sup>

As of February 2007, 2,498 landowners had received \$2.2 million in cost share dollars for practices that impacted 13,486 acres. The Division estimates these practices will reduce soil loss by 15,000 tons/year. Additionally DSC calculates the \$2.2 million spent by the state generated an additional \$12.8 million in landowner investments to improve soil and water quality.<sup>5</sup>

**Figure 5. IFIP Appropriations in Recent Decline**



The horizontal line in each year's column marks the value of the appropriation in that year's dollars. All values from FY98 to FY06 are actual appropriations, FY07 is the estimated appropriation and FY08 is the final action.

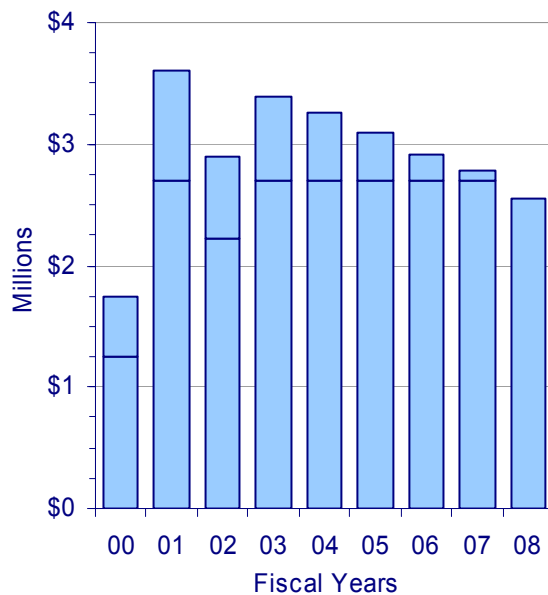
Source: Iowa Legislative Services Agency, Fiscal Services Division. All dollar values are adjusted for inflation using the Bureau of Economic Analysis' Index for State and Local Government Consumption Expenditures and presented as FY08 dollars.

### Watershed Protection Fund (WSPF)

The state started the Watershed Protection Fund (WSPF) in 2000. This program targets funds for soil conservation, flood control, and wildlife and natural resource protection to specific watersheds. The funds help start watershed initiatives that involve local citizens in addressing their watershed's particular challenges. Funding is also used to measure the water quality improvements over the two to three years that initiatives are funded. The majority of the money is used to provide 50 to 75 percent cost share to landowners who change their practices to meet the improvement goals in the watershed.

In unadjusted dollars, state funding for the watershed protection fund has remained level during most of the period (see Figure 6). But, due to inflation the value of this funding has decreased over time. As with IFIP, requests for funding are greater than what is available. SWCDs must apply to get funding for a watershed project in their district. In FY06 the Division received applications for \$12 million worth of projects and was only able to fund half of them.

**Figure 6. Watershed Protection Fund Appropriations Falling**



The horizontal line in each year's column marks the value of the appropriation in that year's dollars. All values from FY00 to FY06 are actual appropriations, FY07 is the estimated appropriation and FY08 is the final action.

Source: Iowa Legislative Services Agency, Fiscal Services Division. All dollar values are adjusted for inflation using the Bureau of Economic Analysis' Index for State and Local Government Consumption Expenditures and presented as FY08 dollars.

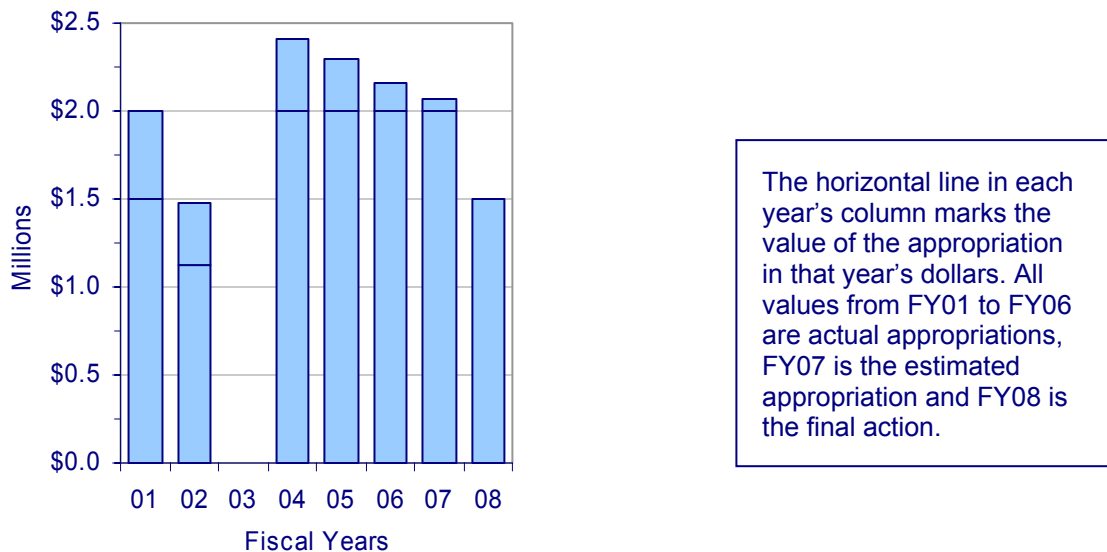
*District Initiatives Program*

The state established the District Initiatives Program (also called the Conservation Reserve or Conservation Buffer Program) in 2000. This program provides funding for SWCDs to increase participation in state and federal conservation programs.

Program dollars leverage additional money from individual landowners and federal dollars for conservation in the state. DSC estimates that in FY06 state spending for District Initiatives generated about \$445,000 in spending by landowners and more than \$20 million of federal spending in the state.<sup>6</sup>

State funding for District Initiatives was less in the first three years of its existence than it has been in the last four (see Figure 7). In particular, no funding was appropriated in FY03 because of budget constraints during that year. Over the last four years funding has remained constant, but inflation has decreased its value.

**Figure 7. Falling Appropriations to the District Initiatives Program**



Source: Iowa Legislative Services Agency, Fiscal Services Division. All dollar values are adjusted for inflation using the Bureau of Economic Analysis' Index for State and Local Government Consumption Expenditures and presented as FY08 dollars.

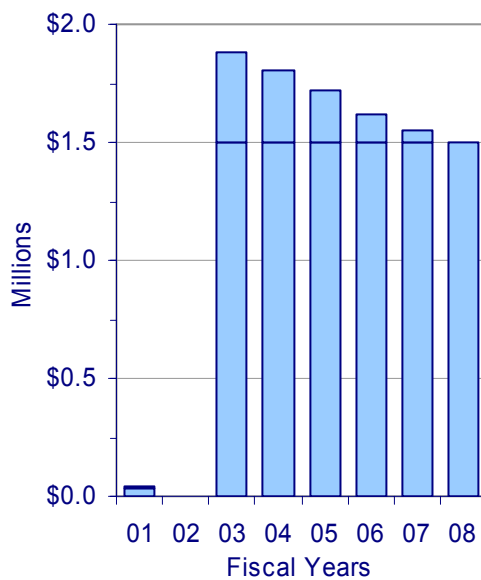
### *Iowa Conservation Reserve Enhancement Program (CREP)*

Started in 2000, the Conservation Reserve Enhancement Program (CREP) targets removal of nitrogen from Iowa's surface water through the construction of strategically located wetlands that intercept agricultural tile line runoff. This program was started with the goal of protecting drinking water and reducing Iowa's contribution to hypoxia in the Gulf of Mexico. Research by Iowa State University has shown these targeted wetlands can remove 40 to 90 percent of the nitrate.<sup>7</sup>

Over 500 sites in North Central Iowa were identified as potential locations for wetlands. Landowners who agree to install a wetland receive reimbursement for the cost of the wetland, incentives for the ongoing maintenance of the wetland, and annual land payments for 15 or 30 year easements. The federal government matches state funding for these practices four to one.

State support for CREP was virtually non-existent until FY03 (see Figure 8). Since that time, inflation has decreased the value of the state appropriation.

**Figure 8. CREP Appropriations Decline**



The horizontal line in each year's column marks the value of the appropriation in that year's dollars. All values from FY01 to FY06 are actual appropriations, FY07 is the estimated appropriation and FY08 is the final action.

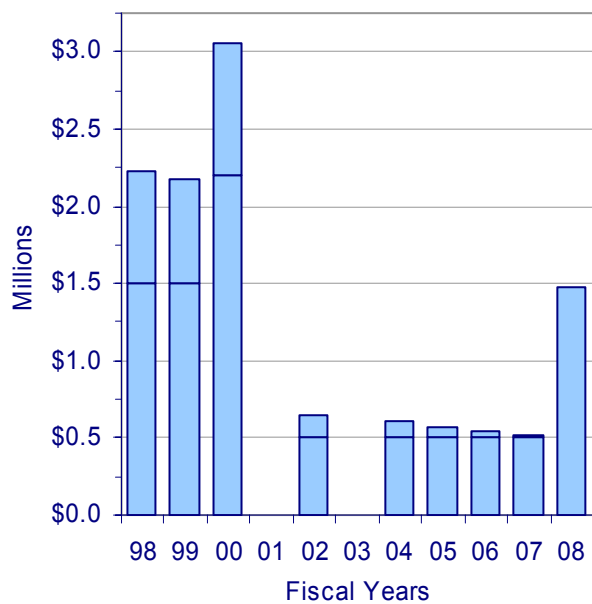
Source: Iowa Legislative Services Agency, Fiscal Services Division. All dollar values are adjusted for inflation using the Bureau of Economic Analysis' Index for State and Local Government Consumption Expenditures and presented as FY08 dollars.

*Agricultural Drainage Well Closure Assistance Fund*

There are 296 registered agricultural drainage wells in Iowa. These drainage wells were constructed in the early 1900s to discharge the contents of agricultural tile line to underground aquifers. This direct shot of cropland runoff can contaminate aquifers. The Agricultural Drainage Well Closure Fund was established in 1997 to close drainage wells that could contaminate aquifers that are sources of drinking water. The fund provides 75 percent cost share to landowners to close their drainage well and construct an alternative drainage method.

Thus far the program has helped close 102 agricultural drainage wells and an additional 22 closures are underway. However, 112 wells remain in use.<sup>8</sup> State support for this fund was much greater in the beginning of the study period than it has been for the last seven years (see Figure 9). In fact, FY07 funding was the lowest of the decade, except for the two years when no funding was allocated to the program. However in the most recent legislative session, nearly \$1.5 million was allocated to this fund.

**Figure 9. Well Closure Fund Appropriations Down from 2000 to 2007**



The horizontal line in each year's column marks the value of the appropriation in that year's dollars. All values from FY98 to FY06 are actual appropriations, FY07 is the estimated appropriation and FY08 is the final action.

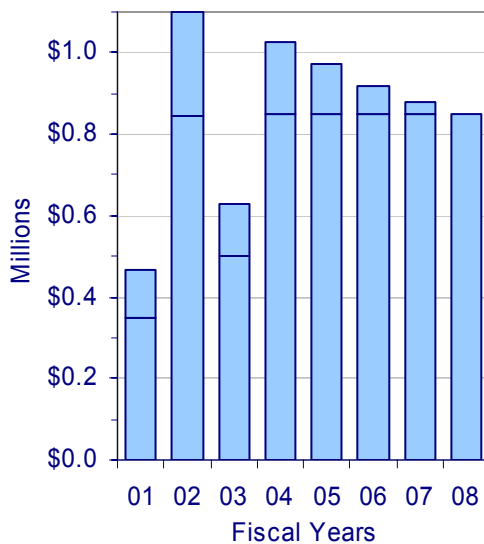
Source: Iowa Legislative Services Agency, Fiscal Services Division. All dollar values are adjusted for inflation using the Bureau of Economic Analysis' Index for State and Local Government Consumption Expenditures and presented as FY08 dollars.

### Integrated Farm and Livestock Management (IFLM)

Initiated in 2000, Integrated Farm and Livestock Management (IFLM) is a statewide best management practice demonstration program. Landowners who participate in the program receive financial support for changing their practices to better manage nutrients and pesticides and improve air, soil and water quality. The purpose of this program is to put new technologies into practice so landowners and other community members can see first hand the environmental and economic benefits.

State appropriations to IFLM remained steady after the program’s initial year with the exception of FY03 when support was cut nearly in half (see Figure 10). However, each year almost half of the appropriation, \$400,000, is earmarked for the Iowa Soybean Association’s Agriculture and Environment Performance Program. This leaves only \$450,000 (unadjusted) for DSC to distribute to landowners.

**Figure 10. Falling Appropriations to IFLM Fund**



The horizontal line in each year’s column marks the value of the appropriation in that year’s dollars. All values from FY01 to FY06 are actual appropriations, FY07 is the estimated appropriation and FY08 is the final action.

Source: Iowa Legislative Services Agency, Fiscal Services Division. All dollar values are adjusted for inflation using the Bureau of Economic Analysis’ Index for State and Local Government Consumption Expenditures and presented as FY08 dollars.

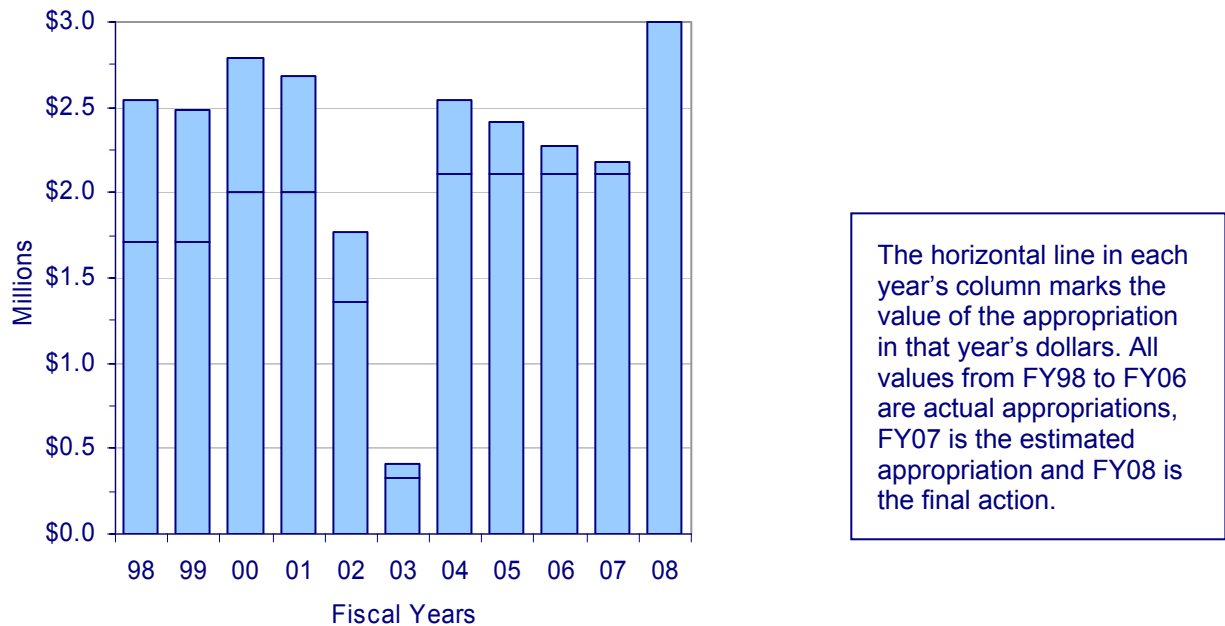
*Soil and Water Enhancement*

In addition to the six major programs for which DSC receives appropriations directly from the state, it also receives funding for soil and water enhancement through a designated portion of the REAP fund that is transferred by the DNR to DSC. Since 1990, 20 percent of REAP appropriations have been earmarked for soil and water enhancement. The Division provides some of this money directly to SWCDs to fund practices such as establishing trees and permanent vegetative cover, managing livestock waste, and controlling erosion. The rest of the funding is used, often in combination with other state and federal funding, for watershed projects that SWCDs must apply for.

Prior to FY00 the state provided REAP funding from the General Fund. Since that time it has been appropriated from gambling funds. Because of this shift, an even greater portion of funding that DSC receives is dependent on racing and gaming receipts. As a reminder: almost two-thirds of the state's direct appropriations also come from gambling revenue.

After accounting for inflation, appropriations for Soil and Water Enhancement decreased slightly over the period (see Figure 11). There were big cuts in FY02 and FY03, followed by a recovery, but the FY07 level was the lowest in the period after the years of state budget troubles. Appropriations for FY08 were the highest of the period.

**Figure 11. Soil and Water Enhancement Appropriations Fall from 2004 to 2007**



Source: Iowa Legislative Services Agency, Fiscal Services Division. All dollar values are adjusted for inflation using the Bureau of Economic Analysis' Index for State and Local Government Consumption Expenditures and presented as FY08 dollars.

## Budget Analysis

Three facts are apparent from looking at DSC and its program budgets:

- DSC and its programs suffered big budget cuts in FY03. As already mentioned this was due to tax cuts enacted in the late 1990s that reduced state revenue and prevented the state from sustaining spending levels during the nationwide economic downturn that began in 2001. Also, because so much of DSC's funding comes from gambling revenue and there was such a large drop in gambling receipts that year, many DSC programs suffered.

Although other state departments and programs also had their budget cuts during this period, cutting from programs that help protect the state's soil and water is shortsighted. Healthy topsoil and clean water are not luxuries for Iowa. They are essential for continued crop production, as well as for other aspects of the state's economy such as attracting businesses, employees and tourists.

- Although funding is not an indicator of performance, it is a necessary ingredient for success. Over the period, the state appropriated only a very small portion of its budget to the DSC. In fact only 0.2 percent of all state appropriations were allocated to DSC. State appropriations for DSC and its programs have generally decreased after accounting for inflation. Even though funding for many of DSC's programs has been consistent for the last three or four years, the ability of these dollars to protect our soil and water has decreased.

The effects of inadequate funding for soil and water conservation are fully realized when placed in the context of the demand and need for such services in Iowa. For many of DSC's programs, requests from landowners exceed what DSC is able to fund. Inadequate funding means the state loses opportunities to protect our environment. It also loses the additional money it could have leveraged. Because many of DSC's programs require the participating landowner to pay some of the cost, the landowner's match is also lost when DSC does not have the money to fund projects. And because many of these dollars are also matched by the federal government, sometimes more than dollar for dollar, the state loses that investment as well.

The loss of matching dollars is troubling when there is such a huge need for more soil and water quality protection. Earlier this year, a legislatively appointed sustainable funding advisory committee estimated that Iowa should spend \$150 million more annually to adequately protect and enhance the state's natural resources. One of the major spending needs identified was soil and water quality improvements.

- The third very obvious trend in DSC's budget over the period is its increased reliance on state racing and gaming receipts. Over the last six years, two-thirds of state support for the DSC has come from gambling money. Although the state has rapidly increased the number of casinos allowed in recent years, this trend may not continue since public sentiment toward gambling could change. Further, these dollars have been unstable. During the state's fiscal crisis in FY03, a significant portion of the racing and gaming dollars were transferred out of EFF to pay for other state expenses, and due to legal issues, gambling revenue drastically declined. Because of this heavy reliance on a single source of money that has proven unstable, the state has been "gambling" with its soil and water quality.



## Recommendations

The three major trends over the last decade show the state has not committed enough to protecting Iowa's soil and water:

- Big funding cuts in FY03;
- Low and declining levels of support, especially in comparison to the demand and need; and
- The heavy reliance on one source of revenue.

To improve this situation the state could do several things:

- Increase funding for soil and water conservation and improvement.
- Provide funding to DSC through diverse and stable sources.
- Place higher priority on soil and water protection. Given the poor condition of our water quality, and our economy's continued reliance on soil and water resources, Iowa should not put funding for protecting these resources last in the state budget line. In fact, because of the current boom in corn-based ethanol production, the state will be demanding even more of its soil and water resources, which makes their protection and continued productivity even more vital.
- Increase efforts to quantify the results of DSC programs and focus future spending in places where there is a particular need and on programs that have proven results. Research has shown that targeting water quality spending can achieve greater benefits.
- Provide all citizens, not just agricultural landowners, with the opportunity to get involved in water and soil protection in their watersheds. Every Iowan contributes either positively or negatively to the condition of the soil and water and has the opportunity to better protect resources. The state should make sure some of its funding goes for education, outreach and increasing involvement among Iowans to protect these resources. As stated in our report released earlier this year, *Managing Iowa Stormwater for Quality and Quantity*, the Iowa Policy Project recommended that DSC hire additional urban conservationists.
- Strengthen the connection between state agencies and between the state, local and federal government offices. This will help ensure the state is leveraging the maximum amount of money it can for soil and water protection.

## Conclusion

The mission of DSC is to keep Iowa's soil and nutrients on the land and out of the water. Given the vital role of soil and water in our state, DSC and its programs are essential to Iowa's future. The state should recognize these facts and make a long-term, steady commitment to Iowa's future through adequate funding of soil and water conservation.

## References

<sup>1</sup> Natural Resources Council of Maine. Available April 6, 2007 at <http://www.maineenvironment.org/documents/publiclandownership.pdf>

<sup>2</sup> Iowa Division of Soil Conservation. *Soil Conservation Mission Statement*. Available online April 6, 2007 at <http://www.agriculture.state.ia.us/scdmission2.htm>

<sup>3</sup> Dollar amounts are adjusted for inflation using the Bureau of Economic Analysis's Index for State and Local Government Consumption Expenditure available online at <http://www.bea.gov/bea/dn/nipaweb/SelectTable.asp?Selected=N>

<sup>4</sup> Iowa Division of Soil Conservation. 2007. Infrastructure Appropriations Askings: Handout to the Agriculture and Natural Resources Appropriations Subcommittee Meeting on February 6. Available at [http://www.legis.state.ia.us/lsadocs/SC\\_MaterialsDist/2007/SDDFK006.PDF](http://www.legis.state.ia.us/lsadocs/SC_MaterialsDist/2007/SDDFK006.PDF)

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.