

Governor's tax plan: Breaking trust with the Trust Fund

Voters would get much less of what they wanted — and extras they did not seek

By Peter Fisher and David Osterberg

Iowa voters in 2010 approved a constitutional amendment to create a trust fund to guarantee more funding for outdoor recreation and water quality. In that same election they put Kim Reynolds into statewide office, as lieutenant governor with returning Governor Terry Branstad.

Ten years later, a governor has finally put forward a plan to put money into the trust fund — Branstad never did, and Reynolds waited until her third legislative session to do so. But she is not offering simply what voters approved. The actual priorities Iowa voters overwhelmingly supported in 2010 would only get about two-fifths of what they should receive from the sales-tax increase voters authorized if her proposal passes. The figure below shows each of the areas of funding voters approved and what these programs will actually receive in new money under the governor's plan.¹

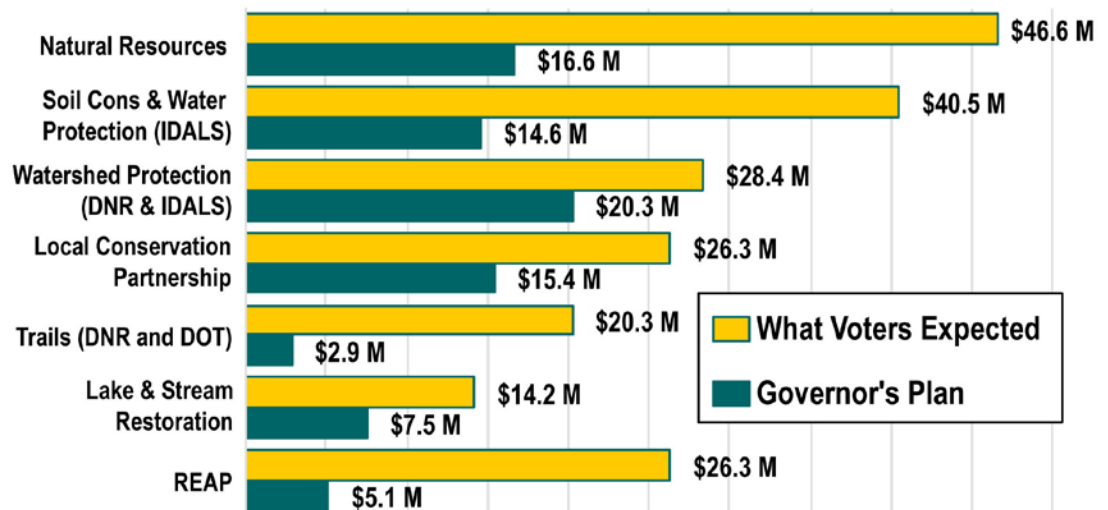
There are three reasons for the shortfalls: The total pie would shrink, program allocations would change, and a majority of the funds are not new money — a stipulation of the law that told voters what to expect.

Voters knew the ground rules for

the trust fund because they had a law to consult. And that law — which with approval of the amendment became section [461.31.2\(c\)](#) of the Iowa Code — specified how the funding would be apportioned among various purposes. It prescribed taking the first three-eighths cent of the next increase in the state sales tax. It also specified that this would be **new** money. As the law states:

*“Trust fund moneys **shall supplement and not replace moneys** appropriated by the general assembly to support the constitutional purposes provided in section 461.3.” (emphasis added)*

Figure 1. Governor's plan diverts many millions from current sales-tax formula priorities
Sales-tax apportionment under 2010 law vs. Governor Reynolds' 2020 proposal



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'Voters, I shrunk the pie'

The state sales tax, as typically understood inside and outside the Capitol, means the sales and use tax, the latter applying to purchases from elsewhere brought into the state. They are tied together; when the sales tax rate has changed, the use tax rate has changed as well. The Governor has proposed raising both rates by a penny, but her first breach of trust is to interpret the will of the voters in approving the three-eighths of a cent as applying only to the sales tax portion. She also excludes the new sales taxes on digital goods and services. The result is \$31 million less going into the voter-created Natural Resources and Outdoor Recreation Trust Fund (known widely as IWILL, for the Iowa Water and Land Legacy group that promoted it in 2010).²

Re-slicing the pie

The next violation of trust comes with the Governor's after-the-fact revisions to the formula voters had reason to expect would be followed when the funding ultimately was approved.

The Governor claims "the challenges we face today and will face tomorrow are different than what we understood them to be 10 years ago, so it's time to amend the formula."

In fact, she has presented no case that these challenges themselves are inherently different — they indeed might be quite more substantial in 2020 than they were in 2010 because of a decade of inaction on the part of both Governor Reynolds and the Legislature.

The 2010 law lays out the formula for use of the trust fund:

- Natural resources establishment, restoration and enhancement, 23 percent.
- Soil conservation and water protection, 20 percent.
- Watershed protection, 14 percent.
- Iowa Resources Enhancement and Protection fund (REAP), 13 percent.
- Local conservation initiatives, 13 percent.
- Trails design, maintenance and expansion, 10 percent.
- Lake restoration and water quality improvement, 7 percent.

The proposed new formula gets rid of much of the outdoor recreation funding that voters would have expected, and cuts trails, REAP and much of the funding to the Department of Natural Resources. This re-slicing of the pie better reflects special interests in industrial agriculture that have successfully blocked meaningful regulation of practices that have created Iowa's water pollution problems than it does the intent of people who sought the constitutional amendment vote in the first place.

Substituting old pie for new pie

Despite the statute clearly specifying that the revenue going into the fund should be new and additional funding, over half of the funds allocated under the Governor's plan are simply transfers from existing programs. The REAP program, for example, funds projects like county and city parks, soil conservation, and Iowa's historical structures; it already has an annual budget. She takes \$12 million of that current budget and relabels it as IWILL funding, then adds \$5.1 million in new funding from the sales tax increase. The result is \$17 million for REAP as part of IWILL, but most of that was already in the budget.

Data from the Legislative Services Agency shows the "new funds" violation of trust in the Trust Fund by Governor Kim Reynolds. Her proposal generates just \$82 million in new funding for the

purposes voters wanted expanded by creating the Trust Fund, instead of the \$200 million or more voters should expect.

Table 1. Governor’s proposal changes the rules voters understood in approving Trust Fund

| | What the Voters Expected | | Governor’s Proposal | | | | New Money | |
|--------------------------------------|--------------------------|-----------------------|---------------------|-----------------------|----------------------|----------------------|----------------------|---------------------------------|
| | Original Allocation | New Revenue | Revised Allocation | Total Funding | Less Transfers | New Money | Percent of New Money | Gov plan as Percent of Original |
| Natural Resources | 23% | \$ 46,575,000 | 18% | \$ 30,834,000 | \$ 14,193,058 | \$ 16,640,942 | 20% | 36% |
| Soil Cons & Water Protection (IDALS) | 20% | \$ 40,500,000 | 34% | \$ 58,242,000 | \$ 43,660,680 | \$ 14,581,320 | 18% | 36% |
| Watershed Protection (DNR & IDALS) | 14% | \$ 28,350,000 | 15% | \$ 25,695,000 | \$ 5,425,000 | \$ 20,270,000 | 25% | 71% |
| Local Conservation Partnership | 13% | \$ 26,325,000 | 9% | \$ 15,417,000 | \$ - | \$ 15,417,000 | 19% | 59% |
| Trails (DNR and DOT) | 10% | \$ 20,250,000 | 4% | \$ 6,852,000 | \$ 4,000,000 | \$ 2,852,000 | 3% | 14% |
| Lake & Stream Restoration | 7% | \$ 14,175,000 | 10% | \$ 17,130,000 | \$ 9,600,000 | \$ 7,530,000 | 9% | 53% |
| REAP | 13% | \$ 26,325,000 | 10% | \$ 17,130,000 | \$ 12,000,000 | \$ 5,130,000 | 6% | 19% |
| Total | 100% | \$ 202,500,000 | 100% | \$ 171,300,000 | \$ 88,878,738 | \$ 82,421,262 | 100% | 41% |

Assumes a conservative estimate of sales tax receipts at \$540 million, which is less than the REC estimate for FY21. Total funding for the Governor’s proposal comes from the Governor’s office, and is for a full year of sales tax revenue.

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Already existing administration for the Iowa Department of Natural Resources and Agriculture and Land Stewardship cannot be considered money that “shall supplement and not replace” outdoor recreation and water quality.

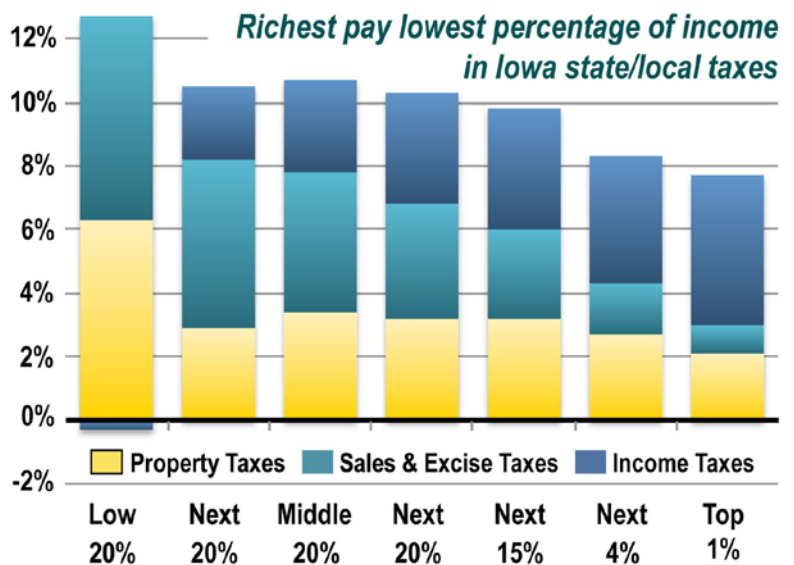
Funding for trails stands out as a betrayal of the constitutional amendment voters approved and the legislation passed to inform voters of the amendment’s intentions. The original three-eighths of sales and the original formula would have put about \$20 million into trails, greatly increasing the present funding for a purpose most urban Iowans have as a recreation priority. With the changes there is only another \$3 million and much of it is destined to water trails and not bicycle and walking trails.

Shifting taxes from the rich to lower income Iowans

Finally, the Governor is agreeing to deliver on the voters’ consent to a tax increase only on the condition that she can cut other taxes.³ She is proposing unwarranted and significant income-tax cuts that disproportionately benefit those at the top. Lower- and middle-income taxpayers already pay a greater share of their income in sales tax than those who have greater income. (Figure 2) The net result of this plan is a reduction in revenue going to the general fund, which will necessitate cuts in other services, from education to corrections to safety-net supports.

The Governor’s proposal does not reflect the position of the voters in 2010. To twist their intent 10 years later is a violation of their trust. In addition, already inequitable funding for Iowa state and local government will become more unfair if the Governor has her way.⁴

Figure 2. Sales tax impact turns Iowa tax system upside down
State and local taxes as share of income, with 2018 income tax changes*



* Changes set through 2021 but not subject to revenue triggers.



Iowa Fiscal Partnership Source: Institute on Taxation and Economic Policy

What are those who voted for the constitutional amendment getting?

In a cruel irony, voters who supported the trust fund and agreed to a sales tax to fund it will find that farm operations that cause the pollution problems will be the big winners. Their operations will not pay the increased sales tax. From fertilizer and soil amendments to combines and tractors, farm operations are exempt from the sales taxes.

The Governor's proposal breaks the trust established by voters' approval of the constitutional amendment — approval that came, by the way, with greater support than the Branstad-Reynolds ticket got that year.

The Farm Bureau Federation delegates who passed a resolution at their 2010 convention opposing the referendum⁵ are no doubt happy with the Governor's changes. Some agricultural groups have pushed back against proposals that would make polluters foot the bill for problems they have created. Yes, that means the agriculture industry, which is responsible for the lion's share of nutrient pollution that contaminates Iowa waters, is not required by this governor or the Legislature either to act more responsibly or to clean up its mess.

Not all farm groups have taken this extreme position. Five hundred elected county soil and water district commissioners and others attending the Conservation Districts of Iowa meeting last fall voted for mandatory 30-foot buffers along Iowa streams. The resolution, passed with a supermajority, supports legislation similar to a Minnesota law that requires buffer strips or comparable conservation practices.⁶ This buffer idea was shot down by the state Soil Conservation and Water Committee picked by this governor and previous ones, but soil and water district commissioners' actions show some farmers are taking responsibility.

Water quality is a severe problem in Iowa and the state needs more recreation opportunities. The voters in 2010 recognized this, and a response is long overdue — but not just any response. The word "trust" is in the name of act that modified the Iowa Constitution. Any law that flows from it should reflect the voters' will.

¹ The data in Table 1 are based on the information available as of February 13 and may change as additional details are released by the Governor's office. Sources are: Legislative Services Agency, *Analysis of the Governor's Budget, FY2021*, February 16, 2020, pages 15, 86-91, and 194-197; and Legislative Service Agency, Fiscal Note for SF 512, Water Quality, January 31, 2018. The table counts as transfers rather than new money all of the revenue that would have gone into the water quality infrastructure fund and the water quality financial assistance fund from the water service excise tax in fiscal year 2021 if that tax were not repealed by the Governor's bill.

² The table assumes that an additional penny on the sales and use tax would generate \$540 million, a figure used by many commentators. This is conservative. The December 2019 estimate from the Revenue Estimating Conference was that the sales and use tax would generate \$555 million in FY2021.

³ Governor Reynolds' news release on the "Condition of the State" address. January 14, 2020. "I have no interest in raising taxes, so any increase in revenue from a sales tax must be more than offset by additional tax cuts. That starts with continuing to reduce our uncompetitive income-tax rates." <https://governor.iowa.gov/press-release/gov-reynolds-delivers-condition-of-the-state>

⁴ Iowa Fiscal Partnership, "Tax Inequity: Iowa's continuing story," October 17, 2018. <http://www.iowafiscal.org/tax-inequity-iowas-continuing-story/>

⁵ Ballotpedia. Iowa Natural Resources and Outdoor Recreation Trust Fund, Amendment 1 (2010). [https://ballotpedia.org/Iowa_Natural_Resources_and_Outdoor_Recreation_Trust_Fund_Amendment_1_\(2010\)](https://ballotpedia.org/Iowa_Natural_Resources_and_Outdoor_Recreation_Trust_Fund_Amendment_1_(2010))

⁶ Erin Jordan. "Some Iowa farmers push for law prohibiting crops near rivers, streams; Conservation district vote at odds with state's voluntary measures." *The Gazette*, Cedar Rapids, November 22, 2019. <https://www.thegazette.com/subject/news/government/some-farmers-call-for-iowa-law-buffering-crops-from-streams-20191122>

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