

CRS Report for Congress

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The FY2006 Budget Request for the U.S. Department of Agriculture (USDA)

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Summary

The Administration's FY2006 budget request for the U.S. Department of Agriculture (USDA) includes estimated outlays of \$94.6 billion. Discretionary budget authority would fall 12% from FY2005 levels to \$19.4 billion (\$21 billion outlays), and mandatory outlays would remain steady at \$73 billion. The request includes proposals to reduce mandatory spending for farm commodity programs, food stamps, rural development, and conservation. Some foreign food assistance funds are redirected for purchases in markets abroad. Many congressionally earmarked research projects are eliminated, and competitive peer-review funded research would replace some formula funding. This report will not be updated.¹

Farm Commodity Support

USDA administers farm price and income support programs, as authorized by the 2002 farm bill (P.L. 107-171), for commodities such as grains, cotton, oilseeds, dairy, peanuts, and sugar. These support programs (as well as certain conservation and trade programs) do not require an annual appropriation, but instead are funded through the borrowing authority of USDA's Commodity Credit Corporation (CCC). The CCC has a \$30 billion line of credit with the U.S. Treasury, and receives an annual appropriation to reimburse it for previous years' losses so that it does not exhaust its borrowing authority.

For farm commodity programs in FY2006, the Administration estimates that spending will be \$16.4 billion, down from \$17.9 billion estimated for FY2005, but up sharply from \$8.0 billion in FY2004 due to lower market prices. The estimate for FY2006 does not include the Administration's legislative proposals, described below, or any spending for disaster assistance. For the Farm Service Agency (FSA), the USDA agency

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that administers the farm commodity programs, the Administration requests an appropriation of \$1.37 billion for salaries and expenses, up about 5%.

The Administration proposes a broad package of deficit reduction measures including legislative changes to reduce farm program spending by \$587 million in FY2006 (a 3.6% cut) and \$5.7 billion over 10 years (a 3.8% cut). Further action depends on whether the FY2006 budget resolution will contain reconciliation instructions for the Agriculture Committees, and how the committees carry out the instructions. The House Committee on Agriculture contends that the 2002 farm bill should not be reopened. The Administration's plan and its estimated savings include:

Revising the Marketing Loan Program. Instead of 100% of actual production being eligible for the marketing loan program, 85% of the historical program yield multiplied by reported acres would qualify. (CRS Report RS21779 describes the subsidy programs.) The reduction would come from the percentage change in the formula, and because program yields are typically less than expected actual yields. Administration officials say that about 60-65% of production would remain eligible. The Administration's estimated reduction: \$432 million in FY2006, \$1.1 billion over 10 years.

5% Across-the-Board Reduction. Reduce all payments to producers by 5% (direct, counter-cyclical, marketing loan, and dairy). Calculate payments under current law and subtract 5%. Estimated reduction: \$383 million in FY2006, \$3.6 billion over 10 years.

Tighter Payment Limits. Reduce the payment limit per person from \$360,000 to \$250,000; count commodity certificates and forfeiture toward the limits; eliminate the three-entity rule; and apply the payment limits to dairy. Estimated reduction: \$200 million in FY2006, \$1.2 billion over 10 years. (See CRS Report RS21493 on payment limits.)

Dairy. Extend the Milk Income Loss Contract (MILC) program for two years beyond its September 30, 2005, expiration so that it expires near the end of the 2002 farm bill. USDA estimates the two-year cost of the extension at \$1.2 billion. To offset some of this cost, the Administration proposes a legislative change to the dairy price support program, giving USDA more flexibility in adjusting purchase prices of surplus dairy products (reduction of \$130 million in FY2006, \$610 million over 10 years). Estimated net additional cost for dairy: \$590 million over 10 years. (See CRS Issue Brief IB97011.)

Sugar. Apply a 1.2% marketing assessment on domestic sugar processed by raw cane mills and sugar beet refiners, effectively lowering loan rates by more than 0.2¢/lb. Estimated reduction of \$42 million in FY2006, \$435 million over 10 years.

Crop Insurance

The Administration's budget request contains legislative proposals affecting the crop insurance program that it says would save \$140 million annually, beginning in FY2007. These proposals include (1) a requirement that farmers purchase crop insurance as a prerequisite for receiving farm commodity payments; (2) a two to five percentage point reduction in the portion of the premium that is paid by the government, with larger reductions at lower levels of coverage; (3) a requirement that producers pay 25% of the premium (up to \$5,000) for catastrophic (CAT) coverage, instead of the current requirement that a producer pay a \$100 administrative fee and no premium; and (4) a two

percentage point reduction in the reimbursement rate to private crop insurance companies for administrative and operating expenses. USDA contends that these proposals would encourage farmers to buy higher levels of coverage, and preclude the need for ad-hoc disaster payments, which have been made on a regular basis over the past 20 years.

Conservation

Proposed conservation spending for FY2006 includes numerous reductions from FY2005 for discretionary programs, and changes to FY2005 levels or authorized FY2006 levels for most mandatory programs. Discretionary spending would decline \$185 million to \$814 million in FY2006. Mandatory funding would rise \$33 million to \$3.93 billion.

For discretionary programs, \$768 million is requested for Conservation Operations (the largest discretionary program), which is a reduction of \$69 million from FY2005. The request calls for no funding for Watershed and Flood Prevention Operations (\$75.6 million in FY2005), reduces the Watershed Rehabilitation Program by \$12.4 million (to \$15.1 million), reduces the Watershed Surveys and Planning Program by \$2 million (to \$5 million), and reduces the Resource Conservation and Development Program (RC&D) by \$26 million (to \$25.6 million). The latter reflects a proposal to phase out support to participating areas after 20 years (ending funding to 189 of the 375 participating areas).

Mandatory programs administered by the Natural Resource Conservation Service (NRCS) would decline by a total of \$46 million to \$1.9 billion in FY2006. The Conservation Reserve Program (CRP) in FSA would increase by \$79 million to \$2.02 billion. The largest proposed reductions include the Grasslands Reserve Program (from \$128 million to \$0, after allocating the entire \$254 million authorized in the 2002 farm bill), the Farm and Ranch Lands Protection Program (by \$26 million to \$84 million), and the Agricultural Management Assistance Program (by \$14 million to \$0). The Environmental Quality Incentives Program, authorized at \$1.2 billion, received \$1.02 billion in FY2005 and is proposed for \$1 billion in FY2006. Increases are proposed for the CRP, the Conservation Security Program (CSP, up \$72 million to \$274 million), and the Wetlands Reserve (up \$46 million to \$321 million and 200,000 acres). For the CSP, the Administration's request is \$182 million below the authorized level.

Agricultural Trade and Food Aid

USDA's international activities are funded by discretionary appropriations (e.g., foreign food assistance under P.L. 480) and using the borrowing authority of the CCC (e.g., export credit guarantees, market development programs, and export subsidies). Combined, the total program value is estimated at \$6.3 billion for FY2006, of which \$1.217 billion would require an appropriation. The FY2006 program level is \$682 million less than FY2005, with most of the difference accounted for by a \$600 million reduction in foreign food assistance. The Foreign Agricultural Service (FAS) requests an appropriation of \$152 million to administer its international programs.

For P.L. 480 foreign food assistance, the Administration requests a \$965 million appropriation (\$1.1 billion program value with carry-over and reimbursements). Included in the requested appropriation are \$80 million for Title I (long-term, low-interest loans) and \$885 million for Title II (humanitarian donations and non-emergency development

projects). The Title II request is \$300 million less than the \$1.185 billion requested in recent budgets, but is offset by an equivalent increase for the U.S. Agency for International Development (USAID) International Disaster and Famine Assistance account to purchase food for emergency relief in markets closer to their final destinations. No request is indicated for the Bill Emerson Humanitarian Trust, which currently holds 1.4 million metric tons of wheat and \$87 million in cash. The budget assumes \$137 million of CCC funds, plus additional appropriations through P.L. 480 Title I, for the Food for Progress (FFP) program which provides food aid to emerging democracies. For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget requests a \$100 million appropriation, 15% more than in FY2005.

CCC Export Credit Guarantee Programs guarantee payment of commercial financing of U.S. agricultural exports. The President's budget estimates a program level for such guarantees of \$4.4 billion. Most guarantees are for short-term commercial credits, with less for long-term financing. USDA's export promotion programs include the Market Access Program (\$125 million from CCC, \$75 million less than the authorized amount), which primarily promotes sales of high value products. The export promotion program that mainly promotes bulk commodities, the Foreign Market Development Program, would receive \$34.5 million, the same as in FY2005. For export subsidy programs, the budget allocates \$28 million to the Export Enhancement Program (\$0 in FY2005) and \$52 million to the Dairy Export Incentive Program (\$46 million more than in FY2005). The Administration requests \$90 million for Trade Adjustment Assistance to Farmers, the maximum allowed in the 2002 Trade Act.

Rural Development

The Administration is requesting a total FY2006 appropriation of \$2.47 billion for USDA's discretionary rural development programs, up \$60 million from FY2005. Of this amount, \$521.7 million (\$194.4 million less than in FY2005) is for the three accounts comprising the 12 programs of the Rural Community Advancement Program (RCAP): Utilities (\$449.7 million), Community Facilities (\$27.8 million), and Business-Cooperative Development (\$44.2 million). The request for the Utilities account, which funds water and waste water facilities, is approximately \$103 million less than appropriated in FY2005. Requested earmarks are lower: \$9.0 million to Native tribes for water and waste water improvements (\$25.0 million appropriated in FY2005); \$11.8 million for the *colonias* (\$25.0 million appropriated in FY2005); \$11.8 million for Alaskan rural and native communities (\$26.0 million appropriated in FY2005). No funding is requested for the Rural Community Development Initiative, the Delta Regional Authority, or the Northern Great Plains Regional Authority.

No funding is requested in FY2006 for several USDA community programs which the Administration proposes consolidating into a new economic development program administered by the U.S. Department of Commerce. These programs include Rural Business Enterprise Grants, Rural Business Opportunity Grants, the Empowerment Zones/Enterprise Communities, and the Rural Economic Area Partnership.

The Administration proposes permanently cancelling the mandatory funding of several programs authorized by the 2002 farm bill, with cuts of about \$400 million in FY2006. These include the Rural Firefighters and Emergency Personnel Program, the Rural Business Investment Program, the Rural Strategic Investment Program, Enhanced

Rural Access to Broadband Program, the Value-Added Products Grant Program, and the Renewable Energy Systems and Energy Efficiency Program. For the latter two programs, however, the Administration requests discretionary funding of \$15.5 million and \$10.0 million, respectively, for FY2006.

Agricultural Research

The Administration's budget request for FY2006 would provide a total of \$2.3 billion for USDA's research, extension, and economics mission area, representing a 13.5% reduction from the FY2005 appropriation. As in previous years, proposed termination of a large number of earmarked projects accounts for much of the decrease.

The request calls for \$1.06 billion in total for USDA's in-house science agency, the Agricultural Research Service (ARS received \$1.3 billion in FY2005). Of that amount, \$996.1 million would support ARS's research programs (down from \$1.1 billion in FY2005), and \$64.8 million would support the modernization and construction of laboratories. The Administration is proposing to terminate a record number of 300 earmarked ARS research projects (amounting to \$121 million), and redirect \$39 million toward increased research related to homeland security.

The Administration proposes \$1.02 billion in total for FY2006 for the Cooperative State Research, Education, and Extension Service (CSREES), the agency through which USDA sends federal funds to land grant Colleges of Agriculture (\$1.16 billion in FY2005). The Administration proposes a 50% cut in formula funds (under the Hatch Act) for agricultural research at the 1862 colleges (\$89.4 million), stating that "this is the first phase of a plan to shift funding for this program to competitively awarded grants." The budget contains a new line item, "Regional, State, and Local Grants Program," containing \$75 million for new competitively awarded support, and calls for a 39% increase for the National Research Initiative, which offers competitively awarded grants.

Formula funds for Extension activities at the 1862 schools (under the Smith-Lever Act) would be appropriated at the FY2005 level before rescission (\$276 million). Slight increases for research and Extension are called for at the historically black 1890 colleges of agriculture (\$38.3 million and \$34.4 million, respectively). CSREES Integrated Activities (combined research and Extension) would fall by 36% to \$35 million.

The Administration is requesting a \$6.6 million increase for USDA's Economic Research Service (\$80.7 million). It proposes a \$16.7 million increase for the National Agricultural Statistics Service (\$145 million).

Food Safety

USDA's Food Safety and Inspection Service (FSIS) conducts mandatory inspection of meat, poultry, and processed egg products to insure their safety and proper labeling. The FY2006 budget proposes a \$973 million program level for FSIS, of which \$123 million is funded by existing user fees, and \$850 million by congressional appropriation. The \$850 million is \$33 million above the FY2005 appropriation. Within the overall increase is \$19 million to expand FSIS activities related to USDA food defense and

biosurveillance. Part of the \$850 million appropriation would be reduced through \$139 million in proposed user fees. Congress has not agreed to similar proposals in the past.

Marketing and Regulatory Programs

For the Animal and Plant Health Inspection Service (APHIS), the USDA agency that protects U.S. agriculture from domestic and foreign pests and diseases, the FY2006 budget request proposes an appropriation of \$871 million for APHIS, \$58 million above the FY2005 estimate. Another \$137 million in existing user fees also funds various APHIS operations. Much of the \$58 million increase would be for activities related to food defense. Some APHIS pest and disease programs, such as for boll weevil, brucellosis, and Johne's disease, are slated for decreases in FY2006. The Administration is proposing new user fees for APHIS (\$11 million for animal welfare activities), for the Agricultural Marketing Service (\$3 million to develop commodity grade standards), and for the Grain Inspection, Packers, and Stockyards Administration (\$25 million).

BSE. Funding for USDA's share of federal efforts to protect U.S. cattle from BSE (bovine spongiform encephalopathy, or "mad cow disease") would decline from an estimated \$123 million in FY2005 to \$66 million in FY2006. However, \$64 million of the FY2005 total was "emergency" funding transferred from the CCC to stimulate start-up of a national animal ID program and enhanced BSE testing. The FY2006 appropriation would be used to test 40,000 animals for BSE (\$21 million), to work on the animal ID program (\$33 million), and to pay for BSE-related research (\$12 million).

Domestic Food Assistance

Funding for domestic food assistance represents the majority of the USDA's budget. Most is mandatory funding, with the major exception being the discretionary program Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

With a few exceptions, the budget proposes "full funding" for domestic food assistance programs, based on its economic projections for the increased need for aid. FY2006 appropriations (new budget authority) covering domestic food assistance would total \$59 billion, an increase of \$6.5 billion over FY2005. However, the FY2006 budget anticipates that actual spending (obligations) would increase to a lesser degree, about \$4.4 billion, to \$57 billion in FY2006. Food stamp costs are expected to go up by about \$3.5 billion, and the budget provides for child nutrition and WIC spending to rise by just over \$500 million and \$300 million, respectively.

The FY2006 budget includes initiatives that would change the terms under which domestic food aid programs operate. Food stamp spending would (1) be constrained by ending a practice under which some households with relatively high income/assets can qualify because they receive other public aid and (2) be increased slightly by continuing a rule benefitting families getting payments for members of the Armed Forces deployed in overseas combat zones. The uses of WIC dollars would be affected by (1) a cap on the proportion of state WIC grants that can be spent on nutrition services and administration, (2) an income limit on those who can get WIC services automatically because of their participation in the Medicaid program, and (3) continuation of a rule barring approval of any new retailers whose major source of revenue is derived from the WIC program.