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Agricultural Provisions in the FY1998 Emergency Supplemental Appropriations Act (P.L. 105-174)

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Summary

A \$6.1 billion FY1998 supplemental appropriations bill (P.L. 105-174), signed into law on May 1, 1998, contains \$175.6 million in additional spending for agricultural programs within the U.S. Department of Agriculture (USDA). Of this amount, \$159.8 million is provided to help agricultural producers recover from various natural disasters. Another \$15.8 million is for non-emergency supplemental spending within USDA, primarily for farm loans and the Department's civil rights activities. Virtually all of the agricultural spending was offset by reductions in other programs.

Background

On May 1, 1998, the President signed into law an FY1998 supplemental appropriations bill (P.L. 105-174, H.R. 3579), which provides a total of \$6.1 billion in additional spending for FY1998. Overall, P.L. 105-174 includes \$2.6 billion in assistance for regions of the U.S. affected by natural disasters, \$2.86 billion in supplemental defense spending, \$550 million in new mandatory spending for veterans compensation, and \$142 million in miscellaneous non-emergency discretionary spending. Almost all of the disaster spending was offset by a \$2.3 billion reduction in HUD Section 8 housing grants and a \$241 million cut in airport grants-in-aid. Total cuts of \$142 million were made in numerous federal agencies to fully compensate for the new non-emergency spending. None of the supplemental defense spending was offset. (For a more detailed overview of P.L. 105-174, see CRS Report Number 98-123, *Supplemental Appropriations and Rescissions for FY1998*.)

Included within P.L. 105-174 is \$175.6 million in supplemental spending for agricultural programs within the U.S. Department of Agriculture (USDA).¹ Most of this

¹Appropriations for all USDA programs except for the Forest Service are provided through the Agriculture Subcommittee of the House and Senate Appropriations Committees. The totals in this (continued...)

new spending (\$159.8 million) provides disaster relief to farmers affected by El Nino-driven storms and other weather-related disasters. Severe agricultural disasters that occurred this fiscal year included an ice storm in New England, flooding on the West Coast, and tornadoes in the Southeast. The balance of \$15.8 million in non-emergency supplemental appropriations provides funding to other USDA programs, including farm loans and the Department's civil rights activities. FY1998 spending reductions were made in several USDA agencies to fully compensate for the \$15.8 million in non-emergency spending.

Emergency Provisions

The *Watershed and Flood Prevention Operations Program*, administered by USDA's Natural Resources Conservation Service, receives \$80 million, or nearly one-half of the \$159.8 million in emergency funding provided by P.L. 105-174 to agricultural programs. The amount provided to the watershed program is twice the \$40 million requested by the Administration, mainly because the full extent of disaster damages was not known when the Administration request was submitted earlier this year. Also, subsequent disasters occurred requiring additional funding. These funds are expected to be used to repair damage to waterways and watersheds resulting from floods and other natural disasters, and supplements the \$101 million provided in regular FY1998 appropriations. The supplemental funds will remain available until expended.

The *Emergency Conservation Program (ECP)*, administered by the Farm Service Agency, provides cost-sharing assistance to producers affected by floods, and receives \$34 million in P.L. 105-174, compared with the earlier Administration request for \$20 million. Funds in this program are used to restore disaster-damaged farmland by reshaping the land and for removing debris. The maximum cost-share payment under the program is \$200,000 per person per disaster. No funds were previously made available in the regular FY1998 agricultural appropriations act. Of the \$34 million provided in P.L. 105-174, \$4 million is exclusively reserved for cost-sharing assistance to Northeast maple producers to replace taps and tubing that were damaged by a severe ice storm last winter. All FY1998 supplemental ECP funds will be available until expended.

The FY1998 supplemental appropriations act provides \$4 million to USDA's Commodity Credit Corporation (CCC) to fund a *livestock indemnity program*. This will pay disaster-affected livestock growers on a somewhat similar basis to what crop producers receive under catastrophic coverage within the federal crop insurance program. Under the livestock indemnity program, an eligible producer can receive a payment equal to 30 percent of the market price on all livestock losses in excess of normal mortality. For a producer to be eligible, the disaster must have occurred between November 27, 1997 and May 1, 1998, and the producer's county had to have been declared a disaster area by either the President or the Secretary of Agriculture. P.L. 105-174 specifically includes ratites (ostriches, emus, rheas, etc.) as eligible livestock. The program is administered by the Farm Service Agency. FSA officials anticipate that the \$4 million appropriation

¹(...continued)

report do *not* reflect the \$60.5 million provided by P.L. 105-174 for Forest Service emergency spending or the \$1.5 million in rescissions to Forest Service programs, which are funded by the interior subcommittee.

might not be sufficient to make full payment to all eligible producers under the payment formula. In that event, program payments would be adjusted downward on a proportionate basis among all eligible recipients.

An appropriation of \$6.8 million is provided to the CCC for a new *dairy production disaster assistance program*, which will pay dairy farmers \$4 per hundredweight of milk for any milk that was produced but rendered unmarketable due to a disaster occurring between November 27, 1997 and May 1, 1998. Payments can also be made for any diminished milk production caused by the disaster, including diminished future production caused by mastitis, an udder infection that requires milk from infected cows to be withheld from the market during treatment with antibiotics. P.L. 105-174 requires USDA to compare a producer's milk production during the disaster period (six months from the date of the disaster) to production in the same period a year earlier, and pay \$4 per cwt. for any shortfall in production on a per head basis. The \$4 per cwt payment represents approximately one-fourth to one-third of the market price of farm milk. Like the livestock indemnity program, the dairy disaster payment program will be administered by the Farm Service Agency, which will proportionately reduce the disaster payments should the \$6.8 million appropriation not be adequate.

The *Tree Assistance Program* (TAP) receives \$14 million in emergency funds primarily to help small, orchardists replant trees and vineyards that were damaged or destroyed by natural disasters. TAP is a cost-sharing program that pays orchardists 65 percent of the cost of replanting or rehabilitating disaster-stricken trees on losses in excess of 35 percent. P.L. 105-174 specifically excludes growers of trees used for pulp and timber from receiving TAP funds.

P.L. 105-174 also provides an appropriation of \$21 million to support an estimated \$87.4 million in *Farm Service Agency (FSA) emergency disaster (EM) loans*.² This will supplement the existing authority for \$63.5 million in FY1998 EM loans, which has been virtually exhausted. These low-interest loans are designed to help disaster-stricken, family-sized farmers, who are unable to obtain credit from a commercial lender, to recover from production and physical losses caused by a natural disaster. A county must be declared a disaster area by either the President or the Secretary of Agriculture in order for farmers in that county to be eligible for an EM loan. Eligible farmers must experience a 30 percent crop loss, and can receive a loan to cover up to 80 percent of actual losses (not to exceed \$500,000). The term of the loan is from 1 to 7 seven years to be repaid by the borrower at a federally subsidized interest rate currently set at 3.75 percent.

Non-Emergency Provisions

Of the \$15.829 million in non-emergency USDA spending provided by P.L. 105-174, just over \$11.5 million is to bolster what was already available within the various

²Under current budget law, federal agencies that administer loan programs must estimate the cost of making or guaranteeing these loans based on any interest rate subsidy given to borrowers and the expected default rate on the loans. The loan subsidy is the amount that is actually appropriated, which supports a total loan level that is based on the riskiness of the loan and the interest rate subsidy, i.e., the higher the rate of nonrepayment and the interest rate subsidy, the lower the authorized loan level will be.

direct and guaranteed *farm loan programs within USDA's Farm Service Agency*.³ The \$11.5 million subsidy can support an additional \$167 million in total direct and guaranteed farm loans. Within the farm ownership loan program, which provides credit to family-sized farmers to purchase farm real estate, the nearly \$3.4 million provided can support an additional \$18.3 million in direct loans and \$25 million in guaranteed loans. The annual agricultural appropriation act provided \$45.5 million and \$400 million, respectively, for FY1998. For the farm operating loan program, which provides short- and intermediate-term loans for the purchases of farm inputs and for other expenses, the act provides an \$8.0 million loan subsidy to support \$70 million in direct loans and \$35 million in guaranteed subsidized loans to supplement the \$490 million and \$230 million already available. An additional \$222,000 are made available by P.L. 105-174 to support an additional \$18.8 million in FSA boll weevil eradication loans. All of these credit programs either had exhausted or were about to exhaust their regular FY1998 appropriation.

P.L. 105-174 also provides a total appropriation of \$2.235 million to support USDA's *civil rights activities*, compared with the Administration request for \$5.035 million. USDA has been under close scrutiny in recent years for its civil rights practices, for both its personnel actions and in the administration of its lending and other programs. As a result, USDA established a civil rights action team which recently identified ways to improve the Department's civil rights record. Of the \$2.235 million provided by the act, \$2.0 million is for USDA Departmental Administration, compared with a request for \$4.8 million. Within this account USDA had requested \$2.9 million for conflict resolution, outreach programs, and to create a civil rights advisory committee and \$1.9 million to compensate for reductions made in non-civil rights activities during the year to fund civil rights activities. As requested by the Administration, P.L. 105-174 appropriates \$235,000 to USDA's Office of the General Counsel to expedite its processing and adjudication of civil rights complaints.

Other non-emergency supplemental appropriations for USDA include \$1.5 million to the *Grain Inspection and Packers and Stockyard Administration* for the agency's grain inspection operations; and \$543,000 to the *Office of the Secretary* to compensate wheat producers for economic losses associated with Karnal bunt, a fungus that can reduce crop yields and affect the flavor of wheat.

A general provision in the act allows permanent FY1998 employees of *Farm Service Agency* county committees who are non-federal employees to be considered the same as federal county committee employees when being considered for vacancies within USDA following a reduction in force. FSA is in the midst of a downsizing as county offices are being consolidated as part of an ongoing USDA reorganization. Prior to this provision, federal county committee employees were given priority over the non-federal employees for rehiring. The act also allows competitively-awarded grant funds for USDA's *Cooperative State Research, Education and Extension Service* to be used to pay for peer panel and review costs associated with that program.

³Direct FSA loans are made and serviced by FSA. Guaranteed FSA loans are made by commercial lenders, but carry a federal guarantee of the timely repayment of principal and interest on up to 95 percent of the loan amount.

The *conference report language* accompanying the supplemental appropriations act contains several provisions that could affect USDA programs. One such provision directs the Secretary of Agriculture to reduce or waive collateral requirements on FY1998 *FSA emergency disaster loans* for applicants who have experienced disasters over the last several years and/or have a majority of crops grown on leased land. Report language also directs USDA to report to Congress by July 1, 1998, on whether current law unduly affects the distribution of funds under the *noninsured assistance program (NAP)*, which makes direct disaster payments to farmers who are ineligible for crop insurance. Under current law, the area in which the producer farms must experience a 30 percent crop loss before any farmer can become eligible for a NAP payment. Separately, the Senate version of the supplemental bill would have eliminated a provision in current law that prohibits a farmer from receiving a new FSA farm loan if the farmer has received any debt forgiveness. The Senate language was struck in conference but conference report language states the expectation that the Administration and Congress should address this issue.

Offsets and Rescissions

All of the \$15.829 million in non-emergency agricultural spending in P.L. 105-174 is offset by a comparable reduction in USDA spending spread over a broad spectrum of USDA programs and agencies. To compensate for nearly three-fourths of the supplemental funding for the various farm loan programs, \$8.273 million in loan subsidy (approximately \$700 million in loan authority) was rescinded from the FSA guaranteed unsubsidized farm operating loan program. At the time of enactment of P.L. 105-174, this guaranteed loan program had unobligated loan authority in excess of \$1 billion and in recent years has used only a portion of its authority each year.

A \$4 million offset was made to the *Conservation Farm Option Program*, which is a mandatory program that does not require an annual appropriation and is authorized at \$15 million for FY1998. P.L. 105-174 limits CFO spending to \$11 million, thus providing the \$4 million offset. The CFO provides 10-year contracts to farmers who receive a market transition program payment and also participate in the Conservation Reserve Program. Participating farmers must implement a conservation farm plan that addresses the management of natural resources, and in return can receive one consolidated USDA program payment instead of separate payments from specified farm and conservation programs.

Just over \$3.5 million in total rescissions were made by P.L. 105-174 to the salaries and expenses of numerous USDA agencies, as requested by the Administration, to compensate for the supplemental request for civil rights activities. Although P.L. 105-174 did not fully fund the Administration's civil rights request, it did concur in full with the requested rescissions. Agencies experiencing cuts include Farm Service Agency (\$1.080 million, from expenses only), Rural Housing Service (\$846,000), Food Safety and Inspection Service (\$502,000), Natural Resources Conservation Service's Conservation Operations (\$378,000), Animal Plant Health and Inspection Service (\$350,000), Agricultural Research Service (\$223,000), Food and Nutrition Service Food Program Administration (\$114,000), Grain Inspection and Packers and Stockyard Administration (\$38,000), and Agricultural Marketing Service (\$25,000). Requested rescissions were based on a combination of an agency's share of the total USDA budget, and the extent of civil rights complaints pending against the agency.

Agricultural Provisions in the Supplemental Appropriations Act of 1998, P.L. 105-174

<i>EMERGENCY PROVISIONS</i>	
Emergency Conservation Program:	\$34,000,000
Tree Assistance Program	\$14,000,000
Farm Service Agency Emergency Disaster Loans	
Loan Subsidy (Appropriation)	\$21,000,000
Loan Authorization	(\$87,400,000)
Livestock Indemnity Program	\$4,000,000
Dairy Production Disaster Assistance Program	\$6,800,000
Watershed and Flood Prevention Operations	\$80,000,000
TOTAL EMERGENCY SPENDING	\$159,800,000
<i>NON-EMERGENCY PROVISIONS</i>	
Office of the Secretary — Karnal Bunt Payments	\$543,000
Grain Inspection, Packers and Stockyards Admin.	\$1,500,000
Civil Rights Activities	
Departmental Administration	\$2,000,000
Office of the General Counsel	\$235,000
Total Farm Service Agency Loans	
Loan Subsidy	\$11,551,000
Loan Authorization	(\$167,134,000)
TOTAL NON-EMERGENCY SPENDING	\$15,829,000
GRAND TOTAL SUPPLEMENTAL — USDA	\$175,629,000
RESCISSIONS & OFFSETS	
Salaries and Expenses (See Text for List of Agencies)	\$3,556,000
FSA Loan Subsidy (Guaranteed Operating Loans)	\$8,273,000
Conservation Farm Option Program	\$4,000,000
TOTAL RESCISSIONS AND OFFSETS	\$15,829,000