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Agriculture and FY2006 Budget Reconciliation

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Summary

During the week of December 18, 2005, both the House and Senate approved the conference agreement on the Deficit Reduction Act of 2005 (H.Rept. 109-362, S. 1932), which includes net reductions of $2.7 billion over five years for USDA mandatory programs. Included in the agreement is a $1.7 billion reduction in farm commodity support programs, a $934 million reduction in conservation spending, a $620 million reduction in a mandatory research program, and $419 million cut in rural development programs, as scored by CBO over a five-year period (FY2006-2010). The measure also includes a two-year extension of a dairy income support program, at an estimated cost of $998 million. No reductions to food stamp spending were included in the conference agreement.

What Is Budget Reconciliation?

The annual congressional budget resolution provides a blueprint for all federal revenues and spending over a multi-year period. Although it does not require the President's approval, the budget resolution does establish limits for all discretionary and mandatory spending for the coming fiscal year. Once approved, the discretionary spending total is allocated to the appropriations committees, where it is subdivided among their various subcommittees. The resolution also might require reductions in mandatory spending, particularly in years when the federal deficit is expected to be large. When this occurs, the resolution issues reconciliation instructions to various authorizing committees requiring them to report changes to legislation to reduce spending on mandatory programs under the committees' jurisdiction. The reported language from each committee is then sent to its respective budget committee by a date specified in the resolution, where it is packaged with language from other committees into an omnibus reconciliation bill, which is taken to each chamber's floor for consideration. Each chamber's approved reconciliation bill is then sent to a conference committee, and a final conference measure must be approved by both chambers and signed by the President before it becomes law. (For more on budget reconciliation procedure, see CRS Report 98-814, *Budget Reconciliation Legislation: Development and Consideration*, by Bill Heniff, Jr., and CRS

Report RL30458, *The Budget Reconciliation Process: Timing of Legislative Action*, by Robert Keith.)

USDA Mandatory Spending Defined

Approximately three-fourths of total spending within USDA is classified as mandatory, which by definition occurs outside the control of the annual appropriations process. Currently accounting for the vast majority of USDA mandatory spending are the farm commodity price and income support programs, the food stamp program and most child nutrition programs, the federal crop insurance program, and various agricultural conservation and trade programs. Legislative authority for these programs is under the jurisdiction of the House and Senate Agriculture Committees.[1] Hence, any reconciliation instructions that are delivered to the agriculture committees could potentially impact spending for any or all of these programs.

All of the farm commodity support programs and mandatory conservation and trade programs are funded through the borrowing authority of USDA's Commodity Credit Corporation (CCC), not by an appropriation to the programs.[2] The CCC has a $30 billion line of credit with the U.S. Treasury that it taps to provide the annual required funding of these programs, as well as for other purposes. Because the CCC typically spends more than it takes in, its losses must be replenished annually through a congressional appropriation so that its $30 billion borrowing authority is not depleted. Administration and congressional budget forecasters estimate each year the projected cost of the commodity support programs. However, because farm crop prices are highly variable and difficult to estimate, these programs ultimately receive "such sums as necessary" under their farm bill authorization, regardless of budget estimates.

The mandatory conservation programs for the most part have a fixed authorization level each year (stated either in dollars or enrolled acreage) as mandated by the 2002 farm bill, with funding from the CCC, not from an appropriation. Like the commodity support programs, crop insurance also receives such sums as necessary regardless of budget estimates. Its funding comes through an indefinite appropriation to the Federal Crop Insurance Fund, a fund separate from the CCC. The mandatory USDA food and nutrition programs (food stamps and child nutrition programs) receive an annual appropriation, but funding levels ultimately are determined by the eligibility rules established in current food and nutrition laws.

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[1] The one exception is the child nutrition programs, which are under the jurisdiction of the Committee on Education and the Workforce in the House, and the Agriculture Committee in the Senate.

[2] The major mandatory farm commodity price and income support programs include those for wheat, feed grains, oilseeds, cotton, rice, peanuts, sugar, and dairy. The largest mandatory conservation programs include the Conservation Reserve Program, the Environmental Quality Incentives Program, the Conservation Security Program, and the Wetlands Reserve Program. For more background, see CRS Report RS20848, *Farm Commodity Programs: A Short Primer*, by Geoffrey S. Becker, and CRS Report RL32940, *Agriculture Conservation Programs: A Scorecard*, by Jeffrey Zinn and Tadlock Cowan.

CBO's Baseline Budget for USDA

Each year, the Congressional Budget Office issues a baseline budget for all federal spending under current law over a 10-year period. Projected spending in the baseline budget represents CBO's estimate at a particular point in time of what federal spending and revenues will likely be under current law if no policy changes were made over the projected period. The CBO baseline serves as a benchmark or starting point for future budget analyses. For example, whenever any new legislation is introduced that affects federal mandatory spending, its impact is measured by CBO as a difference from the baseline.

Table 1 below represents CBO's most recent baseline (March 2005) estimate for the major mandatory USDA programs. It represents CBO's estimates under current law (e.g., the 2002 farm bill for the commodity support and conservation programs) given current CBO projections for economic and market conditions for the next five years. Budget reconciliation instructions that are given to the agriculture committees are measured against the CBO baseline. This means that any legislation that the committees are required to report will be scored by CBO against the baseline to determine whether the committee is in compliance with the reconciliation instructions.

Table 1. CBO's March 2005 Baseline Budget Estimates for Selected Mandatory USDA Programs

($ million)

	FY2006	FY2007	FY2008	FY2009	FY2010	5-Year total FY2006-FY2010
Farm Commodity Support	18,099	15,765	13,826	14,059	13,733	75,482
Export Programs	230	264	266	300	325	1,385
Conservation	4,343	4,620	4,591	5,344	5,167	24,065
Crop Insurance	3,702	3,839	3,918	3,986	4,066	19,511
Food Stamps	33,445	33,035	33,287	33,911	34,673	168,351
Child Nutrition	12,577	13,140	13,734	14,336	15,036	68,823

Source: Congressional Budget Office.

FY2006 Budget Resolution Reconciliation Instructions

The House and the Senate approved the conference report (H.Rept. 109-62) on the FY2006 budget resolution (H.Con.Res. 95) on April 28 and April 29, 2005, respectively. The approved resolution contains reconciliation instructions that require the House and Senate Agriculture Committees to report legislation reducing spending on mandatory USDA programs by $173 million over a one-year period (FY2006) and by $3.0 billion over a five-year period (FY2006-FY2010). The resolution did not mandate how the agriculture committees were to achieve the required spending reductions; instead, those decisions were left to the committees.

Agriculture in the Reconciliation Conference Agreement

During the week of December 18, 2005, both the House and Senate approved the conference agreement on the Deficit Reduction Act of 2005 (H.Rept. 109-362, S. 1932), which includes net reductions of $2.7 billion over five years for USDA mandatory programs.[3] The conference agreement contains $3.7 billion in *gross* reductions to USDA programs. However, conferees also adopted a two-year extension of a dairy income support program (at a two-year cost of nearly $1 billion), which brought the *net* USDA reductions to $2.7 billion. Included in the agreement is a $1.7 billion reduction in farm commodity support programs (achieved primarily through a change in the timing of payments), a $934 million reduction in conservation spending, a $620 million reduction in a mandatory research program, and $419 million cut in rural development programs, as scored by CBO over a five-year period (FY2006-2010). No reductions to food stamp spending were included in the conference measure.

The process of determining the specifics of the USDA spending reductions began earlier this year when the House and Senate Agriculture Committees submitted to their respective Budget Committees their recommendations for cuts, as required by the FY2006 budget resolution. The net USDA cut of $2.7 billion in the conference agreement is below both the House- passed ($3.5 billion) and Senate-passed ($3.0 billion) levels. Although the FY2006 budget resolution gave both of the agriculture committees instructions to cut spending under their jurisdiction by $3 billion, House leadership subsequently instructed all of its authorizing committees to make additional cuts in order to offset some of the cost of 2005 hurricane assistance. The following text and Table 2 provide a comparison of the USDA provisions in the conference agreement to what was recommended in the House- and Senate-passed bills.

Farm Commodity Programs. The conference agreement achieves most of its reductions to farm commodity spending by changing the timing of farm commodity direct payments without reducing the overall level of payments to farmers. Current program law allows recipients of direct payments to receive up to 50% of their payments in advance of the end of the crop year. The conference agreement reduces the advance payment rate to 40% in the 2006 crop year and 22% in 2007. The agreement also includes the elimination of the upland cotton step-2 program effective August 1, 2006, in response to Brazil's successful challenge of the program in the World Trade Organization (WTO).

Offsetting just over one-half of the $1.7 billion in farm commodity program savings is a provision that reauthorizes the expired Milk Income Loss Contract (MILC) for two years (until September 30, 2007). Extension is supported by small to moderate-sized dairy farms, which are the primary beneficiaries of this program that makes payments to dairy farmers when market prices fall below a target price. Some farm commodity groups were opposed to MILC program extension, as long as its estimated $998 million cost had

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[3] Because the Senate adopted an amendment to the conference report (unrelated to agriculture), further congressional action is required before the measure can be sent to the President.)

to be offset with comparable reductions in other USDA programs. (For more information on MILC, see CRS Issue Brief IB97011, *Dairy Policy Issues*, by Ralph M. Chite.)

Not included in the conference agreement is an across-the board cut in farm commodity payments, which was recommended at different levels in the House- and Senate-passed bills (see table 2). A Senate provision to extend the authority for the farm commodity programs for four years (crop year 2011), as a means of preserving baseline spending beyond 2010 at the higher pre-reconciliation level of spending, was also deleted by conferees. Some policymakers were concerned that extension of the commodity programs now could signal that the U.S. is not committed to reducing domestic farm subsidies in the Doha round of WTO negotiations. Also deleted in conference was an assessment on sugar loans.

Conservation Programs. Among the programs affected by an estimated $934 million reduction to mandatory USDA conservation spending are: the Conservation Security Program (CSP), the Watershed Rehabilitation Program, and the Environmental Quality Incentives Program (EQIP). Spending for the CSP is limited to $1.954 billion over five years (2006-2010) and $5.625 billion over 10 years, for savings of $649 million over the five-year horizon of the reconciliation bill. The agreement also prohibits the carryover of any unused mandatory funding for the Watershed Rehabilitation Program that is available as of October 1, 2006, but does not include a House provision to reduce FY2007 or future year funding. EQIP funding is reduced from $1.3 billion per year to $1.27 billion in each of FY2007 through FY2009. Conferees also extended authority for the CSP through FY2011 and EQIP through 2010. A Senate provision to reduce Conservation Reserve Program and a House provision to eliminate FY2007-2010 funding for the Agricultural Management Assistance Program were both deleted by conferees. (For background on these programs, see CRS Report RL32940, *Agriculture Conservation Programs: A Scorecard*, by Jeffrey Zinn and Tadlock Cowan.)

Energy and Rural Development Programs. The conference agreement recognizes savings of $469 million by either reducing or eliminating funding for five mandatory rural development programs and an energy program. All six of these programs were authorized by the 2002 farm bill (P.L. 107-171), and have had some or all of their annual mandatory funding prohibited by annual agriculture appropriations acts over the last several years. (See Table 2 below, and CRS Report RL31837, *An Overview of USDA Rural Development Program*, by Tadlock Cowan, for background.)

Research Program. Funding for the Initiative for Future Food and Agriculture Systems, a mandatory competitive grant research program, is cancelled for FY2007 through FY2009 in the conference agreement, as proposed by the House. Any unused FY2006 programs may not be carried over into FY2007 as well. The current authorized level of $200 million would resume beginning in FY2010.

Table 2. Comparison of the Agricultural Provisions in of the House- and Senate-Passed FY2006 Omnibus Reconciliation Bills with the Conference Agreement

Congressional Budget Office (CBO) Estimate of five-year Savings (-) or Costs (+), million $

	House	Senate	Conference
Farm Commodity Support Programs			
Reduce farm commodity program payments (Senate: cut all payments by 2.5%, 2006-2010 crops; House: cut direct payments by 1% for 2006-2009 crops). Deleted by conferees.	-$212	- $1,296	no provision
Penalty of 1.2% of loan rate for sugar loan forfeitures (Senate only). Deleted by conferees	no provision	- $65	no provision
Eliminate the upland cotton Step-2 program on Aug. 1, 2006 (House, Senate & Conference)	-$282	- $282	-$282
Reduce advanced direct payments (House: from 50% to 40% in crop years 2006 and 2007; Senate: 50% to 40% in 2006, 29% in 2007-2011, Conference: 40% in 2006, 22% in 2007)	-$513	- $1,088	-$1,452
Gross Farm Commodity Program Reductions	***-$1,007***	***-$2,731***	***-$1,734***
Two-year extension of the MILC Program to Sept. 30, 2007 (Senate and Conference)		***+ $998***	***+$998***
Net Farm Commodity Program Reductions	***-$1,007***	***-$1,733***	***-$736***
Conservation Programs			
Reduce authorized enrolled acreage in Conservation Reserve Program (Senate only)	no provision	- $129	no provision
Limit spending for Environmental Qualities Incentive Program (Senate and Conference)	no provision	- $104	-$75
Limit authorized spending for Conservation Security Program (House, Senate & Conference)	-$504	- $821	-$649
Eliminate Agricultural Management Assistance funding for FY2007-FY2010 (House only)	-$31	no provision	no provision
Reduce Watershed Rehabilitation Program (House and Conference)	-$225	no provision	-$210
Total: Conservation Program Reductions	***-$760***	***-$1,054***	***-$934***
Energy and Rural Development (RD) Programs			
Eliminate (House) or Reduce (Conf.) funds for Renewable Energy & Energy Efficiency Prog.	-$23	no provision	-$20
Eliminate (House), Reduce (Conf) Value-Added Agric. Product Market Development Grants	-$160	no provision	-$120
Eliminate Rural Business Strategic Investment Grants (House and Conference)	-$100	no provision	-$100
Eliminate Rural Business Investment Program (House and Conference)	-$89	no provision	-$89
Eliminate Rural Firefighters and Emergency Personnel Grants (House and Conference)	-$50	no provision	-$50
Eliminate (House), Reduce (Conf) Enhanced Access to Broadband Telecomm in Rural Areas	-$47	no provision	-$40
Total: Energy and Rural Development Program Reductions	***-$469***	***$0***	***-$419***
Research: Reduce funding for Initiative for Future Ag & Food Systems (House, Senate and Conference)	***-$620***	***- $227***	***-$620***
Food Stamps			
Limit categorical eligibility to recipients of TANF cash assistance, with exceptions (House only). Deleted by conferees.	-$442	no provision	no provision
Increase waiting period for immigrants from five years to seven years, with exceptions (House only). Deleted by conferees	-$255	no provision	no provision
Total: Food Stamp Program Reductions	***-$697***	***$0***	***$0***
Gross Reductions (-) in Mandatory Outlays	**-$3,553**	**-$4,012**	**-$3,707**
(+) Increases in bills: **-Food Stamp hurricane relief (House only). Deleted by conferees.** **-MILC Program reauthorization (Senate and Conference)**	 **+$50** 	 **+$998**	 **$0** **+$998**
= Net Reduction in Mandatory Spending Outlays	**-$3,503**	**- $3,014**	**-$2,709**