

# CRS Report for Congress

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## The FY2007 Budget Request for the U.S. Department of Agriculture (USDA)

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### Summary

The Administration's FY2007 budget request for the U.S. Department of Agriculture (USDA) includes \$96.4 billion in budget authority. Proposed discretionary budget authority would fall 10% from FY2006 levels to \$19.7 billion (\$21.5 billion outlays). Mandatory outlays would remain nearly steady at \$71 billion, and be affected by program changes in farm commodity subsidies and food stamps. Some foreign food assistance funds could be used to make purchases in foreign markets. Many congressionally earmarked research projects would be eliminated, and competitive peer-review funded research would replace some formula funding. This report will not be updated, but will be followed by a CRS report on FY2007 agriculture appropriations.<sup>1</sup>

### 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 mandatory programs (as well as certain conservation and trade programs) do not require an annual appropriation, but are funded through USDA's Commodity Credit Corporation (CCC) which has a \$30 billion line of credit with the U.S. Treasury and receives an annual appropriation to cover previous years' losses.

For farm commodity programs, the Administration estimates that FY2007 spending will be \$17.5 billion, down from \$18.8 billion estimated for FY2006 and \$19.6 billion actual in FY2005. The FY2007 estimate does not include the Administration's legislative proposals, described below, or any *ad-hoc* disaster assistance. To administer the farm commodity programs, the Administration requests an appropriation of \$1.4 billion for Farm Service Agency (FSA) salaries and expenses, up about 6%.

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The Administration proposes a broad package of deficit reduction measures including legislative changes to reduce farm program spending by \$1.1 billion in FY2007 (a 6.2% cut) and \$7.7 billion over 10 years. Further action depends on whether the FY2007 budget resolution will contain reconciliation instructions for the Agriculture Committees, and how they carry out the instructions. (The Administration proposed similar commodity program cuts a year ago, and Congress rejected those proposals during budget reconciliation. For more on the Deficit Reduction Act of 2005 (P.L. 109-171), see CRS Report RS22086, *Agriculture and FY2006 Budget Reconciliation*.) The Administration's FY2007 plan and its estimated savings include:

**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: \$761 million in FY2007, \$4.9 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 FY2007, \$1.2 billion over 10 years. (See CRS Report RS21493 on payment limits.)

**Dairy.** In addition to the 5% reduction, assess dairy farmers \$0.03 per hundred pounds of milk marketed. Estimated reduction: \$55 million in FY2007, \$578 million over 10 years. Second, give USDA more flexibility under the dairy price support program to adjust purchase prices of surplus dairy products to minimize outlays. Estimated reduction: \$32 million in FY2007, \$618 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 \$34 million in FY2007, \$364 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 FY2008. These proposals were included in the Administration's request last year but were not considered by Congress. They 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 disaster payments, which have been made regularly over the past 20 years.

## Conservation

Conservation proposals for FY2007 include reductions from FY2006 for discretionary programs, and changes from FY2006 levels or authorized FY2007 levels for

most mandatory programs, similar to last year's proposal. Discretionary spending would decline \$208 million to \$789 million in FY2007. Mandatory funding would rise \$257 million to \$4.09 billion. (These figures do not include more than \$900 million provided in supplemental appropriations in FY2006 for three emergency conservation programs in response to hurricanes; no additional funding is requested for these programs in FY2007.)

For discretionary programs, \$634 million is requested for Conservation Operations (the largest discretionary program), which is a reduction of \$61 million from FY2006. Much of the conservation operations reduction would come from not funding the Grazing Lands Conservation Initiative, which received \$27.2 million in FY2006. The request calls for no funding for Watershed and Flood Prevention Operations (\$74.3 million in FY2006) and the Watersheds Surveys and Planning (\$6.0 million in FY2006). The request reduces the Watershed Rehabilitation Program by \$15.9 million (to \$15.3 million), and reduces the Resource Conservation and Development Program by \$24.9 million (to \$25.9 million). The latter reduction is based on a proposal to reduce the NRCS staff assigned to this program from 375 to about 150 and adjust their responsibilities and duties.

Mandatory programs administered by the Natural Resource Conservation Service (NRCS) would increase by \$149 million to \$2.0 billion in FY2007. The Conservation Reserve Program (CRP) in FSA would increase by \$108 million to \$2.09 billion. The largest proposed reductions include the Grasslands Reserve Program (from \$54 million to \$0, after allocating the entire \$254 million authorized in the 2002 farm bill), the Farm and Ranch Lands Protection Program (cut by \$24 million to \$50 million), the Agricultural Management Assistance Program (cut by \$5 million to \$0), and the Environmental Quality Incentives Program (cut by \$19 million to \$1.06 billion). Increases are proposed for the CRP, the Conservation Security Program (up \$83 million to \$342 million), the Wetlands Reserve Program (up \$152 million to \$403 million and 250,000 acres), and the Wildlife Habitat Incentives Program (up \$12 million to \$55 million).

## **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 an estimated \$5.3 billion for FY2007, of which \$1.378 billion would require an appropriation. The FY2007 program level is \$92 million less than FY2006, with most of the difference accounted for by anticipated reductions in foreign food assistance. The Administration requests an appropriation of \$157.5 million for the Foreign Agricultural Service (FAS) to administer its international programs.

For P.L. 480 foreign food assistance, the Administration requests a \$1.221 billion appropriation (\$1.325 billion program value with carry-over and reimbursements), almost all of which (\$1.218 million) would go to Title II commodity donations. The President's budget requests no funds for P.L.480 Title I loans, nor any for the Bill Emerson Humanitarian Trust, which currently holds 900,000 metric tons of wheat and \$107 million in cash. The budget assumes \$161 million of CCC funds for the Food for Progress (FFP) program which provides food aid to emerging democracies. No funds would be available to FFP from Title I if the Administration's request for zero funding is accepted. For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget requests a \$99 million appropriation, \$1 million less than appropriated in FY2006.

Proposed appropriations language would allow the Administrator of USAID to use up to 25% of P.L. 480 Title II funds for local or regional purchases of commodities in food crises. Congress rejected a similar request in the FY2006 budget proposal.

CCC Export Credit Guarantee Programs secure commercial financing of U.S. agricultural exports. An estimated FY2007 program level of \$3.2 billion reflects a reduction and decision to eliminate long-term guarantees following an adverse ruling by the World Trade Organization in the U.S.-Brazil cotton dispute. USDA's export programs include the Market Access Program (\$100 million from CCC, \$100 million less than authorized), which primarily promotes sales of high value products. The export program that mainly promotes bulk commodities, the Foreign Market Development Program, would receive \$34.5 million, the farm bill authorized amount. For export subsidy programs, the budget allocates \$28 million to the Export Enhancement Program (\$28 million in FY2006) and \$35 million to the Dairy Export Incentive Program (\$2 million in FY2006). The Administration requests \$90 million for Trade Adjustment Assistance to Farmers, the maximum allowed in the 2002 Trade Act.

## Rural Development

The Administration requests \$2.201 billion for USDA's discretionary rural development programs for FY2007, including \$671.0 million in salaries and expenses. The FY2007 request is \$421.0 million less than enacted for FY2006, \$259.0 million of which is accounted for by reductions in Rural Housing Service programs. The FY2007 request would support a total program level of \$14.4 billion in loans, grants, and related assistance among the three agencies. The Rural Housing Service (RHS) requests budget authority of \$875 million to support \$6.271 billion in housing loans and grants. The Rural Business-Cooperative Service (RBS) requests budget authority of \$102 million to support \$1.139 billion in loans and grants. And the Rural Utilities Service (RUS) requests budget authority of \$553 million to support \$6.325 billion in loans and grants.

The Administration requests less in directed spending from the Rural Community Advancement Program (RCAP). The request includes \$0 for water and waste water improvements for Native tribes (\$25.0 million in FY2006), \$0 for the *colonias* (\$25.0 million in FY2006), and \$0 for Alaskan rural and native communities (\$25.0 million in FY2006). No funding is requested for Rural Community Development Grants, Economic Impact Initiative Grants, the Delta Regional Authority, or High Energy Cost Grants.

The Administration renewed its FY2006 proposal to move some USDA programs into a new economic development program in the Department of Commerce. It requests no funding for Rural Business Enterprise Grants, Rural Business Opportunity Grants, the Empowerment Zones/Enterprise Communities, and the Rural Economic Area Partnership.

For the mandatory programs authorized by the 2002 farm bill, the Administration proposes cancelling \$10 million of the broadband program, \$40 million of the available funds for the value-added grants, and \$3 million of the available funds for renewable energy. However, for value-added grants and renewable energy, the Administration requests discretionary funding of \$19 million and \$8 million, respectively.

## **Agricultural Research**

The Administration's budget request for FY2007 would provide a total of \$2.27 billion for USDA's research, extension, and economics mission area, representing a 14.6% reduction from the FY2006 appropriation. As in previous years, proposed termination of a large number of earmarked projects accounts for much of the decrease.

The request calls for \$1.01 billion for USDA's in-house science agency, the Agricultural Research Service (ARS has \$1.27 billion in FY2006). Of that amount, \$1.0 billion would support ARS's research programs (down from \$1.14 billion in FY2006). The Administration is proposing to terminate more than 100 earmarked ARS research projects (amounting to \$146 million), and redirect \$100 million from other research program areas to higher priorities, including food safety under the Food and Agriculture Defense Initiative, and livestock disease protection, among others.

The Administration proposes \$1.02 billion for FY2007 for the Cooperative State Research, Education, and Extension Service (CSREES), the agency that sends federal funds to land grant Colleges of Agriculture (\$1.2 billion in FY2006). The request would increase the proportion of research funds awarded competitively, in relation to the portion distributed by formulas in statute. To accomplish this, the Administration proposes to increase the percentage of formula funds for multi-state research projects from 25% authorized in the farm bill to about 55%; 20% would support multi-state or regional research, and 35% would be redirected to competitively awarded national projects. The Administration also is proposing \$247.5 million for the National Research Initiative (NRI) competitive grants program, approximately 26% higher than FY2006 (\$183 million).

The budget contains \$430.7 million for the continuing education and outreach activities of the Extension System in the states (\$456 million in FY2006); \$37.9 million for research at the historically black land grant (1890) institutions (\$37.6 million in FY2006), and \$34 million for Extension at the 1890s (\$33.9 million). The Administration proposes moving competitively awarded, joint research and Extension projects under the Integrated Activities segment of the CSREES budget into the agency's Research and Education budget, to be administered under the NRI. Transferred projects would be supported with \$42.3 million (\$22 million in appropriations plus funds from proposed terminations). The FY2006 appropriation for Integrated Activities is \$55.8 million.

The Administration is requesting \$82.5 million for USDA's Economic Research Service (\$76 million in FY2006). For the National Agricultural Statistics Service, the budget request proposes \$152.6 million (\$140.7 million in FY2006).

## **Meat and Poultry Inspection**

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 FY2007 budget proposes a \$987 million program level for FSIS, of which \$124 million is funded by existing user fees, and \$863 million by appropriation. The \$863 million is \$32 million above the FY2006 appropriation. Within the overall increase is \$16 million to expand FSIS activities related to USDA food defense and biosurveillance.

Part of the appropriation would be reduced through \$105 million in proposed user fees which Congress has rejected in past Administration budgets.

## **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 FY2007 budget request proposes an appropriation of \$959 million for APHIS, a reported increase of \$75 million above the FY2006 appropriation. Of the increases in APHIS, the Administration highlights \$57 million to continue a new program for highly pathogenic avian influenza (particularly the H5N1 strain that has spread overseas but not reached North America, see CRS Report RS21747, *Avian Influenza: Agricultural Issues*), and to continue other activities related to food defense. Another \$139 million in existing user fees also funds various APHIS operations. The Administration again proposes new user fees for APHIS (\$8 million), as well as for USDA's Agricultural Marketing Service (\$14 million) and Grain Inspection, Packers, and Stockyards Administration (\$20 million).

## **Domestic Food Assistance**

Mandatory spending for domestic food assistance represents the majority of the USDA budget. Two significant programs receive discretionary funding: the Special Supplemental Nutrition Program for Women, Infants, and Children (the WIC program), and the Commodity Supplemental Food Program (the CSFP).

With the exception of the WIC program and the CSFP, the budget proposes close to "full funding" for domestic food assistance, based on the Administration's projections of likely participation and food costs. FY2007 appropriations (new budget authority) covering USDA-funded domestic food aid would total \$57 billion, a decrease of \$2 billion from FY2006. On the other hand, estimated spending (which includes other available funds) would increase slightly, by \$600 million to \$53.8 billion. Food stamp and WIC costs are estimated to stay roughly constant, and child nutrition spending is expected to increase about \$700 million. The FY2007 estimates depend on (1) improved economic conditions (e.g., smaller food stamp caseloads), (2) the end of costs associated with the Gulf Coast hurricanes, and (3) enactment of changes to program benefits.

The FY2007 budget includes initiatives that would significantly change the terms under which domestic food aid programs operate, cutting future spending. Funding for the CSFP would be terminated (about \$100 million). Food stamp spending would be constrained by a proposal to disqualify households with relatively high income/assets even though they receive other public aid. Costs would increase slightly by continuing a rule benefitting families of the armed forces in combat zones, instituting a rule that disregards retirements savings when judging eligibility, and adding some benefits for those losing their CSFP eligibility. The WIC program would be affected by a 25% cap on the proportion of state grants that can be spent on nutrition services and administration (leading to a 20% state match requirement after FY2007), an income limit on those who can get WIC services automatically because of their participation in Medicaid, and a rule barring new retailers whose major source of revenue is sales of WIC food items.

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