



CRS Report for Congress

Environmental Quality Incentives Program (EQIP): Status and Issues

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Summary

The Environmental Quality Incentives Program (EQIP) provides farmers with financial and technical assistance to plan and implement soil and water conservation practices. EQIP was enacted in 1996 and amended by Section 2301 of the Farm Security and Rural Investment Act of 2002 (P.L. 107-171). It is a mandatory spending program (i.e., not subject to annual appropriations and funded through the Commodity Credit Corporation (CCC))¹ and is administered by the Natural Resources Conservation Service (NRCS). EQIP is the largest conservation financial assistance program. Funding is currently authorized to grow to \$1.3 billion in FY2010. Major issues that Congress might address in the next farm bill include (1) adequate funding; (2) program accomplishments, and (3) carving out EQIP funds to address specific topics or needs in specified locations. This report will be updated as circumstances warrant.

Background

EQIP is the principal source of financial assistance (cost-sharing payments and incentive payments) for agricultural producers who wish to implement soil and water conservation practices. It also provides participants with technical assistance. Participation is voluntary. EQIP was created by the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127, April 4, 1996) as an amendment that was placed in Sections 1240-1240I of the 1985 Food Security Act. EQIP replaced four conservation programs repealed in the same law. These were the Great Plains Conservation Program,

¹ The CCC is administered by a Board of Directors from agencies of the Department of Agriculture. It has no staff, and all work done on its behalf is performed by staff of agencies within USDA. For EQIP, NRCS provides the staff.

the Agricultural Conservation Program (ACP), the Water Quality Incentives Program, and the Colorado River Basin Salinity Control Program.

EQIP Program Today

EQIP was amended by the Farm Security and Rural Investment Act of 2002 (Section 2301 of P.L. 107-171, May 13, 2002), commonly referred to as the 2002 farm bill. The U.S. Department of Agriculture's Natural Resources Conservation Service (NRCS) administers EQIP under a final rule.² EQIP's legislative mandate is "to optimize environmental benefits." NRCS implemented EQIP by establishing national priorities to reflect the most pressing natural resource needs and emphasize offsite benefits to the environment. The current national priorities are (1) reduction of nonpoint source pollutants in impaired watersheds (consistent with total maximum daily loads,³ or TMDLs); (2) conservation of ground and surface water resources; (3) reduction of emissions that contribute to air quality impairment violations of National Ambient Air Quality Standards; (4) reduction of soil erosion and sedimentation from unacceptable levels on agricultural land; and (5) promotion of at-risk species habitat conservation.

NRCS considers these priorities in allocating funds to states and establishing cost-share and incentive payment levels. It makes the allocation to states using 31 factors about the characteristics of agriculture and land use and resource considerations. Factors are assigned weights; ones with the largest weights currently include acres of cropland eroding above the tolerance level (6.1%) and acres of fair or poor rangeland (6.1%).⁴

How EQIP Works

Producers with eligible land⁵ can submit an EQIP plan that describes the conservation and environmental purposes that will be achieved using one or more USDA-approved conservation practices. USDA-approved conservation practices may involve structures, vegetation, or land management. Structural practices include the establishment, construction, or installation of measures designed for specific sites, such as animal waste management facilities, livestock water developments, and capping abandoned wells. Vegetative practices involve introduction or modification of plantings, such as filter strips or trees. Land management practices require site-specific management techniques and methods, such as nutrient management, irrigation water management, or grazing management.

² "Environmental Quality Incentives Program Final Rule," *Federal Register*, vol. 68, no. 104, May 30, 2003, pp. 32337-32355.

³ For more information on TMDLs, see CRS Report 97-831, *Clean Water Act and Total Maximum Daily Loads of Pollutants*, by Claudia Copeland.

⁴ The Government Accountability Office criticized this system in a September 2006 report (GAO-06-969), concluding that NRCS could not document why it includes each factor, how weights for each factor are assigned and adjusted, and how each factor contributes to the program's mandate.

⁵ Eligible land includes cropland, rangeland, pasture, private non-industrial forest land, and other lands as determined by USDA.

Producers can receive technical assistance to develop an EQIP plan and, after approval, to implement it. Decisions about which plans to fund are made at the state level, with local input. The local conservation district will review the plan and then decide whether or not to select the plan for EQIP funding. If approved, USDA will provide cost-share payments or incentive payments to help the producer offset the cost of each practice. Participants are eligible to receive cost-share payments for both constructing structures and implementing land management practices. In addition, they may be eligible to receive incentive payments for implementing certain higher-priority practices, such as developing comprehensive nutrient management plans.

Contracts have a term of one to ten years and are capped at \$450,000. Total payments a person or entity can receive over any six-year period are also limited to \$450,000. Individuals or entities with an average annual adjusted gross income (AGI) of \$2.5 million for the three years prior to the contract period are ineligible unless they received 75% of their AGI from farming, ranching, or forestry. USDA will pay up to 75% of the projected cost of each practice; however, limited resource producers and beginning farmers and ranchers⁶ can receive up to 90% of the cost. Initial payments are made the year in which the contract is signed, but most payments are made after the practices are completed. Of the total annual spending, 60% is allocated to livestock practices.

EQIP Funding

The 2002 farm bill (Section 2701) provided mandatory funds from the CCC to the basic EQIP program through FY2007. This law authorized EQIP at \$400 million in FY2002, increasing rapidly in subsequent years, as shown in **Table 1**. As a mandatory program, it receives the authorized amount unless Congress reduces funding through appropriations legislation. **Table 1** also shows that Congress has reduced actual funding by almost 10% below the authorized total between FY2002 and FY2006.⁷ EQIP funding levels were amended in Section 1203 of the Deficit Reduction Act of 2005 (P.L. 109-171) to limit funding to \$1.27 billion in FY2007, while extending the authorization through FY2010 and providing \$1.27 billion in FY2008 and FY2009, and \$1.3 billion in FY2010.

Table 1. EQIP Funding and Reductions
(\$ in millions)

Fiscal Year	2002	2003	2004	2005	2006	Total
Authorized Funding Level	\$400	\$700	\$1,000	\$1,200	\$1,200	\$4,500
Actual Funding	\$400	\$695	\$975	\$1,017	\$1,017	\$4,104
Funding Reduction	\$0	\$5	\$25	\$183	\$183	\$396

⁶ A limited resource producer or rancher has direct or indirect gross farm sales of less than \$100,000 in each of the previous two years (adjusted for inflation) and a total household income at or below the national poverty level, or less than 50% of county median household income in the previous two years. A beginning farmer or rancher has farmed for less than 10 years.

⁷ The percentage reduction was very similar before the 2002 farm bill, as the 1996 farm bill authorized funding at a total of \$1.0 billion between FY1997 and FY2002, but appropriators limited it to a total of \$897 million, reducing it by slightly more than 10% of the authorized total.

A main justification for the large funding increase in the 2002 farm bill was to respond to a large backlog of producer demand that had been documented during the farm bill debate. As shown in **Table 2**, a gap remains between the supply of funds and the demand for them, although it has become a much smaller portion of applications.

Table 2. EQIP Applications, Contracts, and Funds Obligated
(\$ in millions)

Fiscal Year	Total Applications	Contracts (% of applications)	Backlog Applications	Funds Obligated (financial assistance)
2000	53,961	16,249 (30.1%)	37,712	\$139,606,435
2001	47,461	17,648 (37.3%)	29,777	\$160,122,937
2002	90,312	19,817 (21.9%)	70,495	\$322,193,266
2003	204,313	30,251 (14.8%)	174,062	\$483,483,746
2004	181,807	46,413 (25.5%)	135,394	\$718,150,476
2005	82,114	49,406 (60.2%)	32,708	\$794,260,575
2006	73,823	41,190 (55.8%)	32,633	\$787,967,550

Source: USDA, NRCS.

New Programs under EQIP

Three sub-programs enacted in the 2002 farm bill are implemented through EQIP.⁸ One of these, the Competitive Conservation Innovation Grants (CIG), is intended to leverage federal investment, stimulate innovative approaches to conservation, and accelerate technology transfer in environmental protection and agricultural production. CIG is authorized from FY2003 through FY2006 at an unspecified annual funding level. Grants must not exceed 50% of the project cost, with non-federal matching funds provided by the grantee. NRCS currently allocates up to \$15 million for a national component, and up to \$5 million each for state and Chesapeake Bay watershed components. In addition, 22 states conduct a state CIG component, which awarded nearly \$3 million in FY2006. CIG awarded a total of \$14.3 million in FY2004, \$22.0 million in FY2005, and \$24.8 million in FY2006. Awards for FY2007 may be announced soon.

A second sub-program, the Ground and Surface Water Conservation (GSWC) program, provides cost-share and incentive payments to producers where the assistance will result in a net savings in ground or surface water resources in the producer's agricultural operation. Funding is authorized as a separate amount in addition to EQIP at \$25 million in FY2002, \$45 million in FY2003, and \$60 million annually from FY2004 through FY2007. Congress limited funding to \$51 million each year since FY2004.⁹ In the third sub-program, producers in the Klamath River Basin in California and Oregon receive money from a separate and additional \$50 million authorization, which was to be

⁸ In addition, the Administration has undertaken other initiatives, including pilot projects that provide market-based incentives for water quality and target small and limited resource farmers.

⁹ In FY2005, GSWC provided approximately \$63 million in funding to producers (includes \$51 million congressionally limited funding and \$12 million through another farm bill provision that requires a minimum total funding to each state in support of regional equity).

provided “as soon as practicable” to install conservation practices and manage irrigation waters.¹⁰

Selected Policy Issues

EQIP continues to enjoy widespread support in the farm community and in Congress, as it remains the major source of financial and technical assistance to help producers implement conservation practices that address specific resource and environmental problems. Major issues that might be addressed in the next farm bill include (1) funding levels and the continuing backlog of interest that is not being met; (2) assessing more precisely what is being accomplished through the EQIP program; and (3) using EQIP to address specific topics or needs in specified locations.

Adequate Funding and the Applications Backlog

Funding levels will be a contentious issue for all farm programs because of both overall budget constraints and the increased number of farm interests seeking additional assistance through the farm bill. In this setting, debate over future EQIP funding could be particularly contentious between those seeking higher funding to clear the backlog and those who favor other funding priorities. As show above, in **Table 2**, the gap between the supply of funds and the demand for them expanded rapidly in FY2002 and FY2003, when only 22% and 15%, respectively, of the applications were funded. In FY2004 and FY2005, the number of contracts continued to grow, and the backlog decreased to levels not experienced since FY2001. Also, since the number of applications reached a high of more than 200,000 in FY2003, it has been declining each year. As a result, NRCS awarded contracts for more than half of the applications in FY2005 and FY2006.

The backlog was a major justification for higher funding in 2002, and it could be a strong argument in the next farm bill debate. However, from FY2004 to FY2005, a very large number of backlog applications were not updated (for unknown reasons), and are therefore no longer considered. As a result, the total backlog declined by almost 103,000, even though only 50,000 applications were funded. Detailed information is not available on the characteristics of applications currently in the backlog. Answers to questions such as whether there are any agricultural regions where a much smaller portion of applications are being funded, whether some practices are more likely to remain in the backlog than others, whether some applications stay in the backlog for a much longer time period than others, and whether recent backlog declines are due, in part, to declining interest because of long delays could provide important insights for this debate.

One reason why higher funding has not resulted in the elimination of the backlog is that the average contract size has grown since the last farm bill in 2002. Prior to 2002, the average cost of an EQIP contract was \$7,750; since 2002, it has been \$16,250.¹¹ Reasons for this may include raising the funding cap in the 2002 farm bill, allowing large-

¹⁰ This program has been used to apply conservation practices on almost 110,000 acres and irrigation water management on more than 62,000 acres.

¹¹ Data compiled by Soil and Water Conservation Society and Environmental Defense for a March 2007 report, *Environmental Quality Incentives Program (EQIP Program Assessment)*.

scale livestock operations to fund waste management facilities, and installing more expensive conservation practices.

Measuring EQIP Accomplishments

NRCS can provide considerable information about EQIP contracts, including which conservation practices are being installed, and their design and maintenance standards. However, until recently, relatively little was known about what is actually being accomplished through EQIP contracts. To start to fill this void, NRCS has compiled information about which resource concerns EQIP addresses. These data show that between 2002 and 2006, the primary resource concerns addressed through EQIP spending included water quality (38% of the total spent in those years), soil management (29%), and water management (24%). The remaining three resource concerns (wildlife management, air quality, and wetland conservation) together received slightly less than 10% of the total. Little is known, however, about how enduring those conservation practices might be after the contract ends. Among the questions that NRCS is trying to address for all its conservation activities, including EQIP, are how to evaluate performance, how to measure environmental changes, how to evaluate cost-effectiveness, which methods to use to identify environmental effects, and which types of data should be collected to measure output. NRCS initiated a national review, called the Conservation Effects Assessment Project (CEAP), to develop better answers to all these questions, but only a few initial results are currently available.

Regarding EQIP specifically, NRCS has proposed to periodically review state-prepared reports to determine how the program is being delivered at the state and local level. NRCS will require states to prepare reports describing EQIP implementation and accomplishments tied to performance measures. Of particular interest may be livestock production practices, which receive 60% of total funding each year. Policy makers may seek more information about the development and adoption of Comprehensive Nutrient Management Plans, especially by confined animal feeding operations, referred to as CAFOs. CAFOs are large livestock operations; the minimum number of animals varies with the type of animal. Some have expressed concern that the effects of CAFOs on the environment and public health have not been adequately assessed, and may seek to address those concerns in the next farm bill.

Targeting EQIP

A small portion of EQIP funding is now targeted, as a result of provisions enacted in 2002, to the three new sub-programs described above. One, the Klamath Basin, is targeted to a specific area, and the other two are targeted to specified topics, ground and surface water conservation, and innovative conservation technologies. A question that may be addressed in the farm bill debate is whether more sub-programs should be created, and if so, what topics these programs will address and how much money will be committed to them. Interests may promote many different topics or geographic areas for such programs, but if funds for these sub-programs are “carved out” of the general EQIP program, that may attract opposition, especially if EQIP funding appears to be constrained in the current budget environment.