

## **Summary of the USDA 2007 Farm Bill Proposal and Comparison to Farm and Food Policy Project (FFPP) Priorities**

**Synopsis:** This report provides a brief summary and analysis of USDA's 2007 Farm Bill proposal in light of the policy recommendations outlined in the Farm and Food Policy Project's report, "Seeking Balance in U.S. Farm and Food Policy."<sup>1</sup>

### **Background:**

The USDA's 2007 Farm Bill proposal, released on January 31, will serve as a reference point in the farm bill debate, though it technically has no formal role or binding impact on how the House and Senate Agriculture Committees draft their bills. However, the USDA farm bill is a way for the Administration and the USDA agencies to collectively weigh-in on priority issues and to signal where the Administration may be willing to expend some political capital in the upcoming farm bill debate.

### **Overview:**

The USDA farm bill proposal outlines a reform agenda, which is significant since a number of powerful agricultural interests have been recommending only minor changes to many of the farm programs established in the 2002 farm bill, or even a simple extension of the existing bill. The Administration's reasons for supporting change become clearer after examining the whole proposal, which has a few recurring themes: 1) ensuring farm program compliance with the WTO, 2) increasing resources for specialty crop producers to address their increasing political clout, 3) encouraging cellulosic ethanol production, 4) stressing healthier food choices; 5) investing in and streamlining conservation programs; and 6) enhancing programs for beginning and socially disadvantaged producers.

The Secretary, in the press conference introducing the proposal, claimed that while many tools in the current farm bill have worked well, not all producers and products are covered. He said the next farm bill should focus more on filling in the gaps in farm and food policies especially with revenue and crop insurance, specialty crop research and export market assistance, beginning and socially disadvantaged farmers, and food assistance programs that support an increase in fruit and vegetable consumption. The Secretary indicated that the overall proposal is \$5 billion more than the current farm bill over a ten year period, with some savings from decreased commodity payments as corn-based ethanol demand changes the agricultural marketplace.

### **Expected Costs of the USDA Farm Bill Proposal:**

The final cost of the USDA Farm Bill proposal is debatable. The USDA indicated their proposal would cost \$5 billion less than the extension of the 2002 Farm Bill *budget authority*, but that the proposal would be \$5 billion above the historic expenditures of the 2002 Farm Bill. The Congressional Budget Office, the internal budget evaluation agency to Congress, indicated that the USDA's Farm Bill proposal would increase spending by \$9 billion above the 2002 Farm Bill. All program expenditures in this document are the USDA Farm Bill proposal estimates.

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<sup>1</sup> The opinions expressed in this report reflect the views of the authors only and not necessarily those of the broader set of organizations involved in the FFPP

The Congressional Budget Office (CBO) estimate is different, likely because they did not have access to the exact legislative language proposed by USDA. However, their accounting methods differ. For example, CBO counted the Section 32 program as an expense, whereas the Administration does not because that program has a revenue stream from the customs receipt of imported food goods – a funding source outside of the yearly appropriations process. Removing Section 32 as an expense from the CBO projection would reduce the estimated cost of the Administration Farm Bill by \$2.75 billion to about \$6 billion over the 2002 Farm Bill and close to the USDA estimate of \$5 billion.

The ten year budget estimates are slightly deceptive, because the farm bill will be renegotiated in five years in 2012 making funding levels from 2013-2018 moot. Sometimes the Administration's funding levels after 2012 decrease (or increase) according to how the Administration sought to "balance the books" from 2008-2018. Where the CBO budget estimate helps most is with providing an annual estimate of available program funds versus the USDA single ten year estimate. Where program funding level estimates differ between CBO and USDA, it suggests that there are non-obvious and potentially concerning cost estimates on the USDA's part. Programs to pay close attention to with the cost accounting details are: the Conservation Security Program (CSP), organic initiatives, estimates of costs associated with changes to Food Stamps, savings from the commodity programs, and savings from crop insurance changes.

### **Comparison with Priorities in "Seeking Balance":**

Some of these proposals are in line with the goals described in the Farm and Food Policy Project's "Seeking Balance in U.S. Farm and Food Policy" report. Below is a short overview. A more detailed analysis of the USDA 2007 Farm Bill proposal follows this short highlight of priorities included in the "Seeking Balance" report.

USDA recommendations supportive of "Seeking Balance" goals include:

- Beginning and socially disadvantaged farmer and rancher credit and conservation title recommendations
- Removal of the planting flexibility restriction
- Increased conservation program baseline
- Some renewable energy provisions
- Obesity initiative
- "Sod-buster" conservation compliance
- Watershed-based targeting for water quality improvements

"Seeking Balance" priorities not included in USDA recommendations:

- Support for open and secure competitive markets and contract reform
- Increased access to food, especially in low income neighborhoods lacking affordable retail outlets
- Fresh and locally produced food purchases
- Organic and other sustainable transition support

**This is a discussion draft. Please send comments or corrections to Alan Hunt [ahunt@nemw.org](mailto:ahunt@nemw.org)**

- Cooperative conservation initiatives
- Rural entrepreneurship, micro-enterprise development, and individual and farmer saving incentives
- Increased USDA transparency and accountability to socially disadvantaged farmers and support for outreach to socially disadvantaged farmers

In the more detailed summary and analysis that follows, we compare USDA farm bill proposals relevant to the recommendations in the Farm and Food Policy Project's "Seeking Balance" report, which is organized in five sections that address farm viability; hunger, health, and nutrition; rural development; conservation; and diversity and equity. An Appendix section follows with an overview of other important Administration proposals.

## **I. Prosperous Farm and Ranches: Renewing American Agriculture**

The Administration recommendations shift the main form of commodity assistance from marketing loans and counter cyclical payments to direct payments, while increasing research support and commodity purchases of specialty crop growers. The new countercyclical program payment program with whole farm-based revenue triggers instead of commodity-specific price triggers and the decreased marketing loan rates would create savings that would offset the increased payment limits for direct payments. Beginning and Socially Disadvantaged farmers are offered increased support in the commodity and credit programs. The proposal also included removing the planting flexibility restriction.

The "Seeking Balance" report calls for core farm bill programs to be fair, cost-effective, support conservation compliance, and address the needs of beginning and socially disadvantaged farmers. Specifically, the 2007 Farm Bill Should:

- 1) Create fair and cost-effective farm programs that serve the needs of all farmers and ranchers, support diversified farming systems, reward conservation, ensure conservation compliance in commodity programs, and minimize adverse impacts on producers in developing nations.
- 2) Implement meaningful payment limitation reform and stronger conservation compliance requirements for commodity and crop insurance programs.
- 3) Create a comprehensive initiative to assist new and beginning farmers and ranchers, including transitioning farmers and farm workers and ensure that farm policies are implemented fairly and increase outreach and assistance to minority and socially disadvantaged farmers and ranchers.

The following is a summary of a selected set of key farm program recommendations issued in the USDA Farm Bill proposal, and a short comparison of these recommendations with the Farm and Food Policy Project priorities.

### **1. Fair and Cost-effective Farm Programs**

- Planting Flexibility Allowed - Fruits, vegetables, and wild rice would be allowed to be planted on commodity program lands, to meet WTO trade compliance.

- Organic Certification Cost Share - The Administration proposes to re-authorize the Organic Certification Cost Share Program and provide increased reimbursements from \$500 to \$750, or if less costly, reimbursement for 75% of certification costs. The cost share program is capped at \$5 million annually in discretionary funds. The Congressional Budget Office numbers for this program differ, with expenditures front-loaded into 2008-2013, and program expiration prior to 2017.
- Organic Research and Market Data – USDA would provide an additional \$10 million in competitively awarded research funds until expended, and \$1 million annually to continue to report on organic prices and market data. The Congressional Budget Office numbers for this program differ, with expenditures front-loaded into 2008-2013, and program expiration prior to 2017.
- No Mention of Transition Assistance for Organic or Other Sustainable Practices
- No Mention of Competition Enforcement
- No Mention of Country of Origin Labeling

## **2. Meaningful Payment Limitation Reform and Conservation Compliance**

- Payment Limits Proposed but Higher than Prior USDA Recommendations - The Administration proposes to eliminate the “3 entity rule” and limit all annual payments to individuals at \$360,000. Previous recommendations in Congress and by the Administration suggested a \$250,000 payment limit. Additionally, the Administration does not propose to repeal the “generic certificate” rule which allows large payments to some farmers. The USDA also proposes to eliminate participation in commodity programs to producers among top 2.3% of Americans, those with annual gross incomes over \$200,000 annually as filed on tax returns. Incidentally, producers over this income cap would be exempt from conservation compliance and swamp buster requirements, since these farmers would no longer be eligible for program participation. Combined, these proposals would save \$1.5 billion over ten years.
- However, Some Payment Limits Increased for Direct Payments - Direct payment limits would increase from \$80,000 to \$110,000. This shift to direct payments, from counter cyclical programs, is seen as a way to maintain commodity support programs in a manner that is compliant with WTO obligations. This proposal would cost \$5.5 billion over ten years.
- Proposed Conservation Enhancement Payments for Producers Forgoing Counter-Cyclicals In an interesting proposal, the Administration proposes that a producer forgoing marketing loan and counter-cyclical payments will be eligible for a conservation bonus payment of 10% if the producer accepts conservation compliance measures and implements practices equivalent to those to in the first tier of CSP. While it is uncertain how many farmers will participate because this option results in relatively small payments per farm, it is an interesting notion that could set a precedent for commodity to conservation program transition. This would add \$50 million over ten years.
- “Sod Saver” Finally Supported by the USDA - Quoted directly from the proposal, this provision, originally proposed in for the 1985 farm Bill, is that: “Under the proposed sod saver provision, grassland (rangeland and native grasslands, not previously in crop production) converted into crop production would be permanently ineligible for farm price and income support and other USDA program benefits.”

### **3. Beginning and Socially Disadvantaged Farmers and Ranchers**

- **Increased Support in Commodity Programs for Beginning Producers** - Enhance direct payments to beginning farmers by 20% for duration of five years per farmer, costing \$250 million over ten years.
- **Conservation Set-asides for Beginning & Socially Disadvantaged Producers** - The Administration proposed a set-aside of 10% for all conservation funds for beginning and socially disadvantaged farmers and ranchers, at no net cost. However, forthcoming reports from the Soil and Water Conservation Society indicate that beginning farmers may already represent 8% of the participants in EQIP, receiving approximately 9.4% of its funds. For a program like CSP, participating beginning farmers is estimated at 1%. Limited resource farmers – a subset of socially disadvantaged farmers – are estimated as 3% of EQIP participants and 3% of EQIP’s funding stream. With a fifth to a third of farmers classified as “beginning” by USDA definition, these proposed funding set asides may have variable impacts, depending upon the conservation program.
- **Increased Credit Access for Beginning & Socially Disadvantaged Producers** – For beginning and socially disadvantaged farmers and ranchers, the Administration proposes to cut downpayment loan interest rates by half to two percent, defer first year payments, and decrease the minimum farmer contribution for land purchases from 10% to 5%. Socially disadvantaged farmers would also be eligible for the Beginning Farmer and Rancher Down payment Loan Program. They also suggest that the USDA target for operating and real estate loans for beginning and socially disadvantaged farmers be increased to 70% for real estate loans and 100% for operating loans, with loan maximums increased from \$200,000 to \$500,000. The proposal does not match the maximum loan rates to adjust with inflation, nor do the loan limits adjust with regional land costs. While increasing the real estate loan limits reflect the reality of increasing land costs, increases in loan maximums tends to increase the size of the loans made and decreases the incentive to make smaller loans. This proposal has no net cost.
- **No Mention of a Beginning Farmer and Rancher Development Program**
- **No Mention of a Farmer Individual Development Account Pilot Program**

## **II. Healthy People: Reducing Hunger and Improving Nutrition**

The Administration’s proposal for the nutrition program leave the entitlement programs nearly as is, with some administrative changes to increase benefits to seniors and the working poor covered with offsets from decreasing benefits to the poor who are seeking employment and from fees from states with high rates of program accountability incidences.

The proposal also includes support for diet-related health goals through fruit and vegetable purchases with through a non-appropriated funding source already with purchases in excess of the recommendations, and funds for demonstration projects on targeting obesity through the Food stamp Program. No mention is made of food access in low-income neighborhoods or community based food systems.

The Seeking Balance report identifies core farm bill priorities for nutrition programs that would strengthen existing programs, increase and expand nutrition education, increase food access for all Americans. New innovations in increasing the availability of fresh fruits and vegetables, community-based food systems, and increase access of locally produced foods in school and communities are key recommendations in the report.

- 1) Strengthen critical federal food assistance programs, especially the Food Stamp Program, expand and improve nutrition education to support community-based solutions to obesity and food insecurity, and increase access to healthier foods for all Americans, including through government food assistance programs.
- 2) Encourage greater consumption of fruits and vegetables by: enabling federal nutrition program beneficiaries to purchase food at local farmers markets and other retail food outlets, support for increased fruit and vegetable purchases in schools, and expanded nutrition education in schools.
- 3) Create new and expanded food systems programs to support community-food security especially in institutional and emergency food assistance purchases, help communities develop retail food markets, support urban agriculture projects, and assist in the development of marketing networks to address the needs of underserved neighborhoods.

The following is a summary of a selected set of key nutrition program recommendations issued in the USDA Farm Bill proposal, and a short comparison of these recommendations with the Farm and Food Policy Project priorities.

### **1) Strengthening Food Assistance Programs, Nutrition Education, and Food Access**

- Minor Tweaks to the Senior Farmers Market Nutrition Program – This program is continued at 2002 Farm Bill funding levels, \$150 million over ten years, but with the requirement that states not include program benefits as a source of income for other program means tests and prohibit state and local taxes on foods purchased through this program.

### **2) Encouraging Greater Consumption of Fruits and Vegetables**

- Increased Minimums for Fruits and Vegetable Commodity Purchases in Federal Nutrition Programs - The USDA Farm Bill ensures that a minimum of \$2.75 billion over ten years of Section 32 Funds are used for traditional fruit and vegetable purchases. This is a mandatory minimum increase from \$200 million to \$275 million in annual purchases of fruits and vegetables which are already available to the nutrition programs. *These are not typically fresh purchases.* In 2005 the USDA made \$375 million of such purchases, which were distributed through school meal, elderly, and Indian tribal organization programs. Annual purchases in 2004 were over \$400 million. Funds for these purchases are received from import tariffs on food items and are not appropriated. This proposal may not result in any significant changes from current USDA practices, though USDA indicated it “might” purchase “some” fresh, pre-packaged items like ready-to-eat fruits and pre-cut vegetables in the school lunch program.

- Funding for Increased New School Fruit and Vegetable Purchases, Possibly Fresh – The Administration proposes new mandatory funding totaling \$500 million over ten years to support fruit and vegetable purchases in schools. The Secretary is allowed to elect to direct some of these funds for *fresh* product purchases through the DOD Fresh program, which already is required to make \$50 million in purchases annually. This represents less than a half of a percent of total annual school meal program purchases. The Secretary could decide to divert all of these funds into fresh fruit and vegetable purchases in DOD Fresh and effectively double the program. However, if directed towards commodity fruit and vegetable purchases, the proposal's impact would be overshadowed by Section 32's commodity purchases.
- Demonstration Grants to Address Obesity through Food Stamps - This five year \$20 million per year initiative would advance “independent evaluations to identify effective approaches, such as incentives at point-of-sale for purchases of fruits and vegetables by food stamp participants, grants to connect food stamp shoppers with farmers markets, and integrated communication and education programs to promote healthy diets and physical activity.” While this proposal acknowledges a connection between diet-related disease and food distribution, the implementation of recommendation developed from these demonstration projects likely will be forwarded at least until to the next farm bill.

### **3) New and Expanded Food Systems Programs to Support Community Food Security**

- No Mention of the Community Food Projects, Retail Food Access, or Related Issues
- No Mention of Institutional Procurement or Changes in Procurement Policy

## **III. Vital Communities: Building Rural Businesses and Promoting Entrepreneurship**

Aside from increasing support for rural hospitals and infrastructure and consolidating programs, the Administration proposal addresses community development primarily through renewable energy programs. The Administration proposes four Rural Development loan and grant programs: an energy grants program, a business loan program which includes energy, a business grants program, and a community loan and grant program.

In this proposal, the existing loan guarantee and grant programs in the Renewable Energy Systems and Energy Efficiency programs would be split into two different agencies to focus primary on loan guarantees for cellulosic ethanol plants and grants for smaller scale systems. The existing business loan guarantee programs would be administered by the same program as this new energy loan guarantee program. Existing rural development grant programs, including those to agricultural producers and non-agricultural businesses would be combined. Programs that focus on rural infrastructure development would be consolidated regardless of program area or whether they are grant or loan programs.

Priorities identified in the Seeking Balance report focus on community based, entrepreneurial business development and local ownership for renewable energy projects. Specifically, these recommendations are to:

- 1) Advance rural community and economic development through local leadership, entrepreneurship, micro-enterprise business development, wealth creation and family savings incentives, and youth involvement.
- 2) Promote local and farmer ownership and investment opportunities in farm-based renewable energy production.
- 3) Strengthen key USDA rural development programs for housing, community facilities, and water and telecommunications infrastructure.

The following is a summary and analysis of a selection of the Administration's rural development and energy title recommendations, with a comparison to priorities identified in the Seeking Balance report.

### **1. Advance Rural Community and Economic Development**

- No Mention of New Investments in Entrepreneurship
- No Mention of Individual Development Accounts or related wealth and asset building initiatives
- No Mention of Support for Micro-enterprise, Community Entrepreneurial Development, or Rural Entrepreneurial Education and Enterprise Facilitation Programs
- No Mention of Business-based Approaches to Prevent Rural Population Loss

### **2. Promote Local and Farmer Ownership and Investment Opportunities in Farm-based Renewable Energy Production**

- Renewable Energy Systems and Energy Efficiency Guaranteed Loans - The proposal includes the reauthorization and expansion of the Renewable Energy Systems and Efficiency Improvement Loan program with \$2.17 billion of loan guarantees – a 35% increase in guarantees over the 2006 level. This is an increase of new funding of \$210 million over ten years. The proposal also seeks to increase the maximum per project guarantees to \$100 million per cellulosic ethanol plant, an increase from the current \$10 million maximum. The existing authority for this program would be combined with the Business and Industry Loan and Loan Guarantee Program.
- Renewable Energy Systems and Energy Efficiency Grants - In repurposing this existing program (also known as Section 9006) to support the Biomass Research and Development Act, which includes a partnership with the Department of Energy, the Administration would dramatically increase ten year funding to \$500 million. Mandatory funding for this program would increase to \$150 million over ten years or \$15 million annually. About half of the 2006 program's \$23 million in annual discretionary appropriations is directed towards direct grants. According to the proposal, this program

would continue to: “support smaller alternative energy and energy efficiency projects that directly help farmers, ranchers, and rural small businesses.”

- No Mention of Local-ownership as a Criteria for USDA Funded Renewable Energy Programs

### **3) Strengthen Key USDA Rural Development Programs**

- Hospitals and Infrastructure - In the Administration’s proposal is \$85 million of additional funding over ten years to support loans for rural hospital redevelopment, and \$500 million over ten years to reduce the infrastructure backlog by approximately 30%, which includes water and sewer projects.

## **IV. Sustainable Lands: Cultivating Stewardship**

The proposed USDA farm bill maintains the conservation baseline for the Conservation Reserve Program, increases funding for the Environmental Quality Incentives program, adds some funds for the Conservation Security Program but retains the watershed implementation, and increases the funding available for the Wetlands Reserve Program. Also proposed is a set aside of ten percent in each conservation program for Beginning and Limited Resource Farmers and Ranchers, however it is unclear whether this applies to the Conservation Reserve Program, which is not administered by the Farm Services Agency.

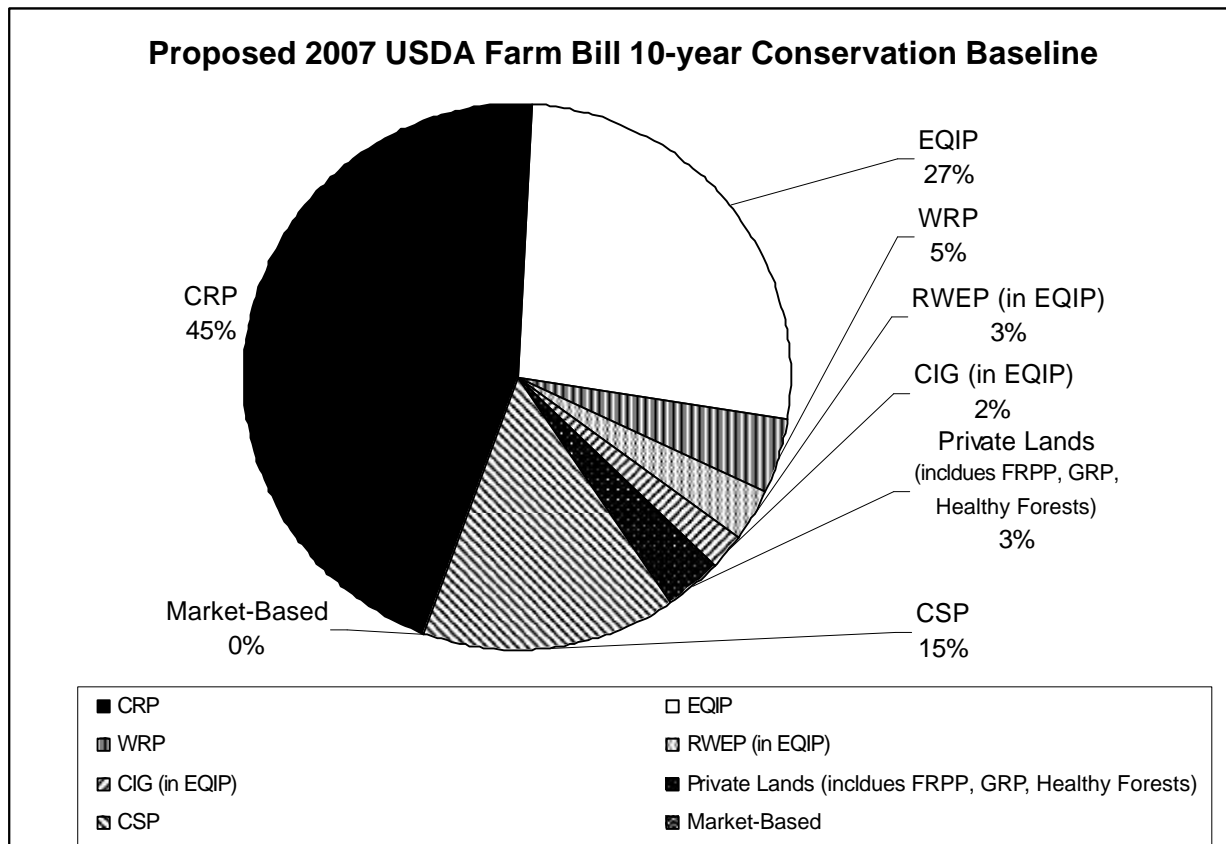
Some existing programs are folded into the new EQIP program, which also has increased funding dedicated to Conservation Innovation Grants and a new Regional Watershed Enhancement initiative. Other programs, such as the Agricultural Management Assistance program, Wildlife Habitat Incentives Program, and Ground and Surface Water Conservation are deemed redundant in the USDA’s proposal and are enveloped entirely into the new EQIP.

Private land conservation programs, such as Grassland Reserve, Healthy Forest Reserve, and Farm and Ranchland Protection, are merged into one Private Lands Protection Program with nearly double the 2002 baseline funding of these programs.

Some of these highly-detailed proposals coincide with the priorities listed in Seeking Balance, and the direction of increased conservation funding is an unmistakable nod to the conservation community. However, it is a mixed bag with some proposals being completely left out, such as Cooperative Conservation. A short list of the priorities listed in Seeking Balance are, that the net farm bill should:

- 1) Increase support for working lands programs, including increasing the annual availability for the Conservation Security Program, rewarding organic systems and ecologically-based integrated pest management, and encouraging locally-led conservation initiatives.
- 2) Maintain and reform land retirement programs.
- 3) Build the technical assistance infrastructure needed to assist farmers and ranchers, including support for beginning and socially disadvantaged farmers and funds to monitor program effectiveness.

As the USDA Proposal is quite detailed in the Conservation section, the following summarizes only key points, and provides a short analysis.



### **1) Increase Support for Working Lands Programs**

- **Some Increase Conservation Funding, Some Programs Consolidated** - Overall conservation funding would increase by \$7.8 billion over ten years. EQIP would see a 30% increase of \$4.25 billion over ten years. Partially, this increase is offset by the elimination of the generally Northeast-specific Agricultural Management Assistance program, the Ground and Surface Water program, the Wildlife Habitat Incentives Program, and the Klamath River Basin carve-out. The proposal noted that non-agricultural producers would be able to participate in the new EQIP.
- **Minimal Increases for the Conservation Security Program, Major Changes** - The proposal would increase the number of acres eligible to 10% of the land in agricultural production, increase funding by \$500 million over ten years, and “allow the program to be offered annually on a broader geographic basis rather than only in a limited number of watersheds.” The Congressional budget office indicates that the proposed changes result in a \$5 million increase from 2008-2012, and a total program decrease of \$2.4 billion from 2008-2018. Additionally, the proposal consolidates the first and second tiers into one “progressive” tier”, institutes a number-based ranking system for applications,

removes the whole-farm enrollment requirement allowing only portions of a farm to be in the program, and eliminates cost-share, base, and maintenance payments. The proposal specifically mentions that CSP should support on-farm demonstrations and field trials. Despite this, there is an interesting provision that would allow farmers who opt-out of the new counter-cyclical commodity program eligibility for tier 1 of CSP and a ten percent bonus payment on existing direct payments.

- Increased Funding for Private Lands & Farmland Protection, Major Consolidations – The Farm and Ranchland Protection Program, as well as other private lands programs, see a net funding increase; however they are consolidated into one program in the Administration's proposal. Similar to the proposed consolidation of rural development programs with different purposes and different constituencies, the Administration proposes to consolidate the Farmland and Ranchland Protection, Grassland Reserve, and Healthy Forest Reserve programs into a single conservation easement program. Aspects of each of program would be selectively incorporated into the new authority. This new program would have nearly double the existing funding for the Farmland and Ranchland Protection Program for a total of new funding and existing funding of \$1.87 billion over ten years.
- No Mention of a Cooperative Conservation Initiative, however cooperative approaches are to be pursued through the new RWEPP on either water quality or quantity, or both.

## **2) Maintain and Reform Land Retirement Programs**

- Wetlands Reserve Program Cap Increased – The Administration proposes to increase the acreage cap to 3.5 million acres, maintain the 250,000 acre annual enrollment goal, and increase funding to \$2.25 billion over ten years.

## **3) Build Technical Assistance Infrastructure**

- Set-asides for Beginning and Socially Disadvantaged Farmers and Ranchers - The Administration proposed a set-aside of 10% for all conservation funds for beginning and socially disadvantaged farmers and ranchers, at no net cost. A more complete analysis is on page 5 in Section 3 of Renewing American Agriculture.
- Trading in Ecosystem Benefits - This provision in the proposal would help to support the research, pricing mechanism, and certification services necessary to establish ecosystem markets, such as those for carbon, water quality, and wildlife habitat. This would be a mandatory \$50 million over ten years to be available until expended.
- No Mention of Increased Resources for Technical Assistance, except for a small provision in the Forestry Title for statewide forestry projects
- No Specific Mention of Conservation Program Assessment

## **V. Diversity and Equity: Advancing Opportunities for All**

The significance of the Administration's farm bill proposal is that it specifically calls out socially disadvantaged farmers in the Secretary's comments, the report's cover letter, a quote from Lorette Picciano (Rural Coalition) at a North Carolina farm bill listening session, and over forty places through the entire proposal. While the recommendations do not propose changes to USDA's institutional structure, set-asides are provided for socially disadvantaged farmers to receive improved access to credit financed through the USDA and dedicated funds in conservation programs.

Problems faced by socially disadvantaged farmers noted by the USDA include: lack of access to land due to increasingly high land values, unmet needs in the conservation programs, less exposure to conservation programs, a need for special incentives to allow greater participation in existing programs, and the need for prioritized access to credit. The Administration also noted that many socially disadvantaged farms are smaller in size, are more likely to have specialty crops, and are more likely to have livestock than average.

Beyond the credit and conservation set-asides, which do not increase overall baseline spending, there are no additional recommendations for socially advantaged farmers.

A short summary of the priorities identified in the seeking Balance report, for a more diverse and equitable farm and food system are to:

- 1) Increase transparency and accountability in all USDA agencies and provide them with full authority to gather and report data on socially disadvantaged farmers and ranchers, with effective and adequate means of redress for those denied access to USDA programs due to discrimination.
- 2) Expand opportunities for socially disadvantaged farmers and ranchers and communities of color to shape the future of the food system.
- 3) Recognize farm workers, both through a USDA Office of Farm Workers and through allowing farm worker experience as a qualification to enter USDA agriculture and credit programs.

### **1. Increase Transparency and Accountability in All USDA Agencies**

- No Specific Mention to Increase USDA Transparency and Accountability – The proposal cites the importance of the Office of Civil Rights at the USDA, and that “extensive outreach and targeted assistance are appropriate to ensure these producers are aware of and participate in these programs.”
- No Specific Mention of the Outreach and Assistance for Socially Disadvantaged Farmers and Rancher Program (2501)

## **2. Expand Opportunities for Socially Disadvantaged Farmers and Ranchers and Communities of Color**

- **Conservation Set-asides for Socially Disadvantaged Producers** - The Administration proposed a set-aside of 10% for all conservation funds for socially disadvantaged and beginning farmers and ranchers, at no net cost. However, forthcoming reports from the Soil and Water Conservation Society indicate that beginning farmers may already represent 8% of the participants in EQIP, receiving approximately 9.4% of its funds. For a program like CSP, participating beginning farmers is estimated at 1%. Limited resource farmers – a subset of socially disadvantaged farmers – are estimated as 3% of EQIP participants and 3% of EQIP’s funding stream. With a fifth to a third of farmers classified as “beginning” by USDA definition, these proposed funding set asides may have variable impacts, depending upon the conservation program. (Same summary as on page 5)
- **Increased Credit Access for Socially Disadvantaged Producers** – For socially disadvantaged farmers and ranchers, the Administration proposes to cut downpayment loan interest rates by half to two percent, defer first year payments, and decrease the minimum farmer contribution for land purchases from 10% to 5%. Socially disadvantaged farmers would also be eligible for the Beginning Farmer and Rancher Down payment Loan Program. They also suggest that the USDA target for operating and real estate loans for beginning and socially disadvantaged farmers be increased to 70% for real estate loans and 100% for operating loans, with loan maximums increased from \$200,000 to \$500,000. The proposal does not match the maximum loan rates to adjust with inflation, nor do the loan limits adjust with regional land costs. While increasing the real estate loan limits reflect the reality of increasing land costs, increases in loan maximums tends to increase the size of the loans made and decreases the incentive to make smaller loans. This proposal has no net cost. (Same summary as on page 6)
- **Food Distribution Program on Indian Reservations** – The Administration proposes to increase funding by \$27 million over 10 years for administrative costs. The proposal also recommends “a more consistent level of service across FDPIR programs,” with the implication that same Indian Tribal Organizations receive too much or too little funding based upon their population-based needs. Additionally, beneficiaries in this program who intentionally abuse the program would be ineligible for Food Stamps.
- **No Other Mention of Food System Needs in Communities of Color**

## **3. Recognize Farm Workers**

- **No Mention of Farm Workers**

## **APPENDIX: Summary of Other Related USDA Farm Bill Recommendations**

The Administration proposals in this section are not priority issues identified in the Farm and Food Policy Project's "Seeking Balance" report. The following summaries are a short-list of programs in the commodity, conservation, nutrition, rural development, and energy titles which will have impacts on programmatic changes that affect the entire USDA budget envelope, as well as directional changes in farm support programs.

### **Commodity**

- **Decreased Payment Rates on Marketing Loans** – Seen as trade distorting by WTO obligations, marketing loans historically have offered payment rates above market prices, which creates an incentive to over-produce. The Administration proposes to decrease payment rates by the smallest of 85% of a five year average price, minus low and high years or the 2002 House determined loan rates. This proposal would save \$4.5 billion over 10 years.
- **Introduction of Revenue-based Counter Cyclical Programs – Loan Deficiency Payments (LDP's)** which currently operate on Congressionally determined price triggers, were suggested to move to a whole-farm-revenue based trigger for 85% of a farm's commodity base acres. This recommendation is seen as a move towards WTO-trade compliance, and would use a five year average, minus one high and one low year, for the marketing loan rates, not to exceed the House determined rate in the 2002 Farm Bill. This proposal would save \$3.7 billion over 10 years.
- **Increased Reliance on Direct Payments** - Direct payments would increase for major commodities, and will continue to be based upon historical production on 85% of the existing base acres in the commodity programs. Direct payment limits would increase from \$80,000 to \$110,000. This shift to direct payments, from counter cyclical programs, is seen as a way to maintain commodity support programs in a manner that is compliant with WTO obligations. This proposal would cost \$5.5 billion over ten years.
- **Require Crop Insurance for Program Crop Participation** - Current participation in crop insurance programs is voluntary and covers approximately 27.5% of the expected crop value. The Administration proposes mandatory participation to cover approximately a minimum of half of the crop's expected value. The Administration indicates this should decrease reliance on disaster assistance payments, and seeks to find savings in this program by decreasing the crop insurance subsidies to private insurers. This proposal, combined with a decreased actuarial "expected loss ratio" for the crop insurance program, would save \$2.8 billion over 10 years.
- **Non-Agricultural Land Sales Lose Base Acres** - The Administration proposed that new purchases of agricultural properties from money received from the sale of another property with a 1301 tax deferral would be ineligible for commodity payments – a factor attributed to land price increases from real estate speculation. This would also mean that farms with base acres that sold land into non-agricultural uses would see a proportional net decline in their base-acreage even if the land sold was not part of the base acreage. This would save \$30 million over ten years.

- Dairy Program Continue with Changes - In the proposal, the current Milk Income Loss Contract (MILC) program would continue, but with payments declining from 34% of the difference between the Boston Class I price and \$16.94 per cwt to 20% by fiscal year 2013. Payments would be based upon 85% percent of historical volume on a three year average from 2004-2006. The current Milk Price Support Program would continue as is. This is a \$793 million increase over ten years. The Congressional Budget Office estimate for this program for the same period is \$1.72 billion.
- Expanded Specialty Crop Research - The Administration proposes an additional \$1 billion of ten years mandatory funding for specialty crop research on plant genetics and breeding, invasive species control, increased water application efficiency, research on harvesting mechanization, and overall sector profitability.

### Conservation

- Conservation Reserve Program - The focus on CRP in the USDA proposal is on prioritization for retiring environmentally sensitive lands and allowing a portion of lands with productivity classes I-IV to produce perennial crops suitable for cellulosic ethanol, requiring harvest after meeting bird nesting needs. (Class I soils are the most productive, III is average, and IV is below average). While this proposal would allow a portion of the three quarters of CRP land into perennial biomass production, approximately 1.5% of CRP land is not prone to erosion, dampness, climate limitations and rooting zone problems (1997 National Resource Inventory figures). To be WTO compliant, the Administration would seek to design these “biomass reserve payments”, which support the production of a commercial product, as green box compliant conservation payments. There is no change from the current funding amounts.
- Promote Conservation Innovation and Target Watershed Needs - The USDA proposes a new Regional Water Enhancement Program (RWEP) within EQIP which would allow the Natural Resources Conservation Service to coordinate program implementation on a watershed level, and focus on one or two watershed objectives. Additionally, the Conservation Innovation Grant would be expanded from \$20 million annually, to \$100 million annually, for a combined total of \$2.75 billion in ten year funding for these programs. The proposal specifically mentions the Klamath Basin, Chesapeake Bay, and San Joaquin Valley watersheds along with both of these programs. Many of these watersheds have municipal water service providers which have issues with CAFO and non-point source pollution. It has been noted that the USDA proposal does not discontinue either the practice of 60% of EQIP funds being directed to livestock operations or the \$450,000 per farm EQIP payment limitation.
- Repeal the Regional Equity Provision – The proposal included a repeal of the regional equity, removing \$12 million in annual base funding for conservation programs in each state.

### Nutrition

- Food Stamps – Avoiding major changes that would result in more low-income Americans participating in this program, the Administration makes minor eligibility requirement to include some elderly and working poor. The Administration proposes

to “streamline and modernize” the food stamp program and improve access for the elderly by excluding retirement accounts from eligibility determination and for the working poor by implanting a pilot employment and training program for working families. However, the Administration proposes to limit the “categorical eligibility” that allows as many as 329,000 individuals access to Food Stamps through eligibility in other programs, such as the Temporary Assistance for Needy Families program, which may have a higher income threshold than the Food Stamp program itself. Increases in obligations will generally be offset by methods which include states paying back unused benefits and penalties on states with high negative error rates—instances where benefits are inappropriately terminated. As proposed, this is a \$166 million over ten year net savings.

### **Rural Development**

- **Consolidate Business and Value-Added Producer Programs** – While the goals of the Business, Cooperative, and Value-added programs are to continue, the Administration proposes to consolidate these programs into one authority. At no net cost increase, business development programs, including the Value-Added Producer Grant program would be folded into one business development initiative, with a value-added focus on specialty crops and wood products. While the USDA cites programmatic flexibility, mixing these agricultural producer and non-agriculture business programs may allow program mission drift.

### **Energy**

- **Research for Renewable Energy and Bio-based Products** – An additional \$500 million over ten years in mandatory funding for agricultural bio-energy and bio-products research is included in the proposal.
- **Forest Wood to Energy** - The proposal includes a new \$150 million ten year initiative for the Forest Service to support public-private partnerships for the research and development of small-scale wood-based energy systems, wood-to-ethanol conversion, and other smaller-scale projects. Language in the USDA problem statement justifying this program refers to the need to find valuable uses for “low value” wood on public lands left over from thinning operations, insect damage, and forest fires, especially in areas prone to wild land fires.