



November 6, 2007

Honorable Tom Harkin
Chairman
Committee on Agriculture,
Nutrition, and Forestry
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

CBO has reviewed the Food and Energy Security Act of 2007 (Senate amendment number 3500, in the nature of a substitute for H.R. 2419, the Farm, Nutrition, and Bioenergy Act of 2007), as introduced on November 5, 2007. The estimated budgetary impact of the legislation is summarized in the enclosed table.

The amendment would modify and extend the major farm income support, food and nutrition, land conservation, trade promotion, rural development, research, forestry, energy, specialty crops, and crop insurance programs administered by the U.S. Department of Agriculture (USDA). In addition, it would make various changes to tax law pertaining to agricultural activity, energy production, and conservation actions. It also would establish or modify payments made to producers under certain farm programs. Among those provisions, the amendment would establish a trust fund for agriculture disaster relief, provide a tax credit in lieu of certain conservation payment programs, and provide a tax credit for the recovery and restoration of endangered species. The amendment also would modify the effective date for provisions enacted in 2004 regarding certain leasing transactions and clarify the economic substance doctrine relating to certain tax deductions.

Impact on the Federal Budget

The Congressional Budget Office and the Joint Committee on Taxation estimate that enacting the Food and Energy Security Act of 2007 would increase revenues by \$2.8 billion in 2008, by \$5.2 billion over the 2008-2012

period, and by \$5.5 billion over the 2008-2017 period. CBO estimates that the legislation would increase direct spending \$1.7 billion in 2008, by \$5.1 billion over the 2008-2012 period, and by \$5.4 billion over the 2008-2017 period. Some of the estimated changes in direct spending and revenues would be off-budget, but those off-budget changes would have no net budgetary impact over the 2008-2017 period. When combined with estimated spending under CBO's baseline projections for USDA programs, enacting the amendment would bring total spending for those programs to \$286 billion over the 2008-2012 period and \$603 billion over the 2008-2017 period, assuming they are extended throughout the period pursuant to the rules governing baseline projections.

Pursuant to section 203 of S. Con. Res. 21, the Concurrent Resolution on the Budget for Fiscal year 2008, CBO estimates that changes in direct spending and revenues from enacting the amendment would not cause an increase in the on-budget deficit greater than \$5 billion in any of the 10-year periods between 2018 and 2057.

The legislation would authorize discretionary appropriations over the 2008-2012 period for existing and new USDA programs involving research and education, nutrition, trade promotion, rural development, credit assistance, forestry, and conservation initiatives. However, CBO has not completed an estimate of the discretionary costs of implementing those provisions.

Intergovernmental and Private-Sector Impact

CBO has determined that the nontax provisions of the amendment contain three intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). It would increase the stringency of conditions of assistance under the Food Stamp program, preempt state laws governing production contracts for livestock or poultry, and preempt state laws that require the disclosure of information to the public. CBO estimates that the total cost of complying with those mandates would not exceed the threshold established in UMRA (\$66 million in 2007, adjusted annually for inflation).

CBO has also identified several private-sector mandates, as defined in UMRA, in the nontax provisions of the amendment. Those mandates would expand the country-of-origin labeling program, prohibit packers from owning livestock,

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require certain processors, poultry dealers, and financial institutions to comply with reporting or inspection requirements, place requirements on poultry and livestock agreements, extend the temporary duty on ethanol, and limit refunds of those duties in some cases. Although CBO estimates that the costs of most of those mandates would be small, we have limited information about the incremental costs of compliance for the expansion of the country-of-origin labeling program and the prohibition on owning livestock. Consequently, we cannot determine whether the aggregate cost of the private-sector mandates in the amendment would exceed the annual threshold established in UMRA (\$131 million in 2007, adjusted annually for inflation).

Previous CBO Estimates

This legislation is largely a combination of S. 2242, the Heartland, Habitat, Harvest, and Horticulture Act of 2007, and S. 2302, the Food and Energy Security Act of 2007. On October 29, 2007, CBO transmitted a cost estimate for S. 2242 as ordered reported by the Senate Committee on Finance on October 4, 2007, and on November 1, 2007, CBO transmitted a cost estimate for S. 2302 as ordered reported by the Senate Committee on Agriculture, Nutrition, and Forestry on October 25, 2007. In addition, this legislation includes a new provision in title XII that would transfer a total of \$370 million from general revenues of the federal government to the Social Security Trust Fund.

If you wish further details on this cost estimate we would be pleased to provide them. The CBO staff contact is Jim Langley.

Sincerely,



Peter R. Orszag
Director

Enclosure

cc: Honorable Saxby Chambliss
Ranking Republican Member

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Honorable Kent Conrad
Chairman
Committee on the Budget

Honorable Judd Gregg
Ranking Member

Honorable Max Baucus
Chairman
Committee on Finance

Honorable Charles E. Grassley
Ranking Member

ESTIMATED CHANGES IN DIRECT SPENDING AND REVENUES FOR THE FOOD AND ENERGY ACT OF 2007

	By Fiscal Year, in Millions of Dollars											2008-	2008-
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2012	2017	
CHANGES IN DIRECT SPENDING AND REVENUES													
On-Budget Effects													
Direct Spending													
Estimated Budget Authority	3,624	2,271	1,931	-1,042	2,221	993	883	807	-849	-2,351	9,003	8,486	
Estimated Outlays	1,690	2,263	2,229	-520	-167	1,611	997	847	-828	-2,359	5,491	5,757	
Revenues ¹	2,784	109	-703	-567	3,932	-3,535	1,189	1,267	923	465	5,550	5,855	
Net Effect on Deficit or Surplus ²	-1,094	2,154	2,932	47	-4,099	5,146	-192	-420	-1,751	-2,824	-61	-102	
Off-Budget Effects													
Direct Spending													
Estimated Budget Authority	0	-1	-1	-3	-3	-4	-4	-5	-6	-6	-8	-33	
Estimated Outlays	0	-1	-1	-3	-3	-4	-4	-5	-6	-6	-8	-33	
Receipt of Payment to Social Security Trust Fund													
Estimated Budget Authority	0	-86	-90	-88	-88	-5	-5	-4	-2	-2	-352	-370	
Estimated Outlays	0	-86	-90	-88	-88	-5	-5	-4	-2	-2	-352	-370	
Revenues ¹	4	-91	-91	-91	-91	-9	-9	-9	-8	-8	-357	-399	
Net Effect on Deficit or Surplus ²	-4	4	0	0	0	0	0	0	0	0	0	0	
Unified Budget Effects													
Direct Spending													
Estimated Budget Authority	3,624	2,184	1,840	-1,133	2,130	984	874	798	-857	-2,359	8,643	8,083	
Estimated Outlays	1,690	2,176	2,138	-611	-258	1,602	988	838	-836	-2,367	5,132	5,354	
Revenues ¹	2,788	18	-794	-658	3,841	-3,544	1,180	1,258	915	457	5,193	5,456	
Net Effect on Deficit or Surplus ²	-1,098	2,158	2,932	47	-4,099	5,146	-192	-420	-1,751	-2,824	-61	-102	

Memorandum:													
Estimated Spending Under Baseline Assumptions													
Estimated Budget Authority	55,311	56,069	56,298	57,121	58,545	59,992	61,644	62,054	65,148	68,145	283,344	600,327	
Estimated Outlays	54,542	55,380	55,447	56,614	58,338	59,861	61,530	61,994	65,065	68,010	280,321	596,781	
Estimated Total Spending Under the Bill													
Estimated Budget Authority	58,935	58,340	58,229	56,079	60,766	60,985	62,527	62,861	64,299	65,794	292,349	608,815	
Estimated Outlays	56,232	57,643	57,676	56,094	58,171	61,472	62,527	62,841	64,237	65,651	285,816	602,544	

Sources: Congressional Budget Office and Joint Committee on Taxation.

Notes: Numbers may not sum to totals because of rounding. Changes are relative to CBO's March 2007 baseline projections.

1. Revenues (except nutrition title civil penalties) estimated by the Joint Committee on Taxation.
 2. Negative numbers represent decreases to the deficit or increases to the surplus; positive numbers represent increases to the deficit or decreases to the surplus.
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