



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 31, 2005

### **Agricultural Reconciliation Act of 2005**

*As approved by the House Committee on Agriculture on October 28, 2005*

#### **SUMMARY**

The Agricultural Reconciliation Act of 2005 would amend laws governing commodity, conservation, energy, rural development, research, and nutrition programs over the 2006-2010 period. CBO estimates that enacting this legislation would reduce direct spending by \$567 million in fiscal year 2006, by about \$3.1 billion over the 2006-2010 period, and by about \$4.3 billion over the 2006-2015 period, relative to CBO's March 2005 baseline projections (see Table 1). Enacting the legislation would not affect federal revenues.

The estimated savings from this legislation would be affected by provisions in the conference agreement on the agriculture appropriation bill for fiscal year 2006 (H.R. 2744). Upon enactment of that conference agreement (which passed the House on October 28), the savings from this legislation would increase by \$528 million—to \$3.7 billion over the 2006-2010 period and \$4.8 billion over the 2006-2015 period (see Memorandum at the bottom of Table 1). These additional savings are associated with the Initiative for Future Agriculture and Food Systems and several rural development programs, which are discussed in more detail later in this estimate.

This reconciliation legislation would reduce direct payments made by the Commodity Credit Corporation's (CCC's) price and income support program. It also contains a provision that would end that reduction if legislation were enacted to extend direct payments beyond crop year 2009. Because that limitation would take effect only upon enactment of other legislation, it is not reflected in CBO's cost estimate, which assumes that the reduction in direct payments continues indefinitely. The House Budget Committee has directed CBO to consider this limitation to be effective, thus terminating the reduction after crop year 2009. That assumption reduces estimated savings from the legislation, starting in fiscal year 2010. Under that assumption, and assuming enactment of the conference agreement on the agriculture appropriation bill, enacting this reconciliation legislation would reduce direct spending by \$567 million in fiscal year 2006, by \$3.65 billion over the 2006-2010 period, and by \$4.6 billion over the 2006-2015 period (see Table 2).

The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Some of its provisions would reduce federal funding for assistance to state and local governments.

## **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

CBO's estimate of the budgetary impact of this legislation is shown in Table 1. Table 2 reflects the scorekeeping direction from the House Budget Committee. It differs from Table 1 with regard to projected savings from the commodity program in 2010 and subsequent years, and assumes that the conference agreement on H.R. 2744 is enacted. The costs of this legislation fall within budget functions 300 (natural resources), 350 (agriculture), 450 (community and regional development), and 600 (nutrition).

## **BASIS OF ESTIMATE**

This estimate assumes that the bill will be enacted in December 2005.

### **Commodity Program**

Subtitle A would reduce the Department of Agriculture's direct payments to agricultural producers by 1 percent for the 2006 and 2007 crops, reduce advance direct payments by 10 percent in 2006 and 2007, and eliminate the upland cotton Step 2 payments.

CBO's estimate of the budgetary impact of these amendments to the agricultural commodity program is detailed in Table 3.

**TABLE 1. SUMMARY OF CBO'S ESTIMATE OF THE BUDGETARY IMPACT OF THE AGRICULTURAL RECONCILIATION ACT OF 2005**

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
<b>CHANGES IN DIRECT SPENDING</b>												
<b>Commodity Program</b>												
Estimated Budget Authority	-553	-164	-108	-105	-103	-105	-102	-104	-104	-104	-1,033	-1,552
Estimated Outlays	-553	-164	-108	-105	-103	-105	-102	-104	-104	-104	-1,033	-1,552
<b>Conservation Programs</b>												
Estimated Budget Authority	-85	-135	-105	-138	-191	-135	-80	-49	-56	-56	-654	-1,030
Estimated Outlays	0	-162	-126	-150	-197	-143	-84	-52	-58	-57	-635	-1,029
<b>Energy Program</b>												
Estimated Budget Authority	0	-23	0	0	0	0	0	0	0	0	-23	-23
Estimated Outlays	0	-9	-9	-5	0	0	0	0	0	0	-23	-23
<b>Rural Development Programs</b>												
Estimated Budget Authority	-185	-60	0	0	0	0	0	0	0	0	-245	-245
Estimated Outlays	0	-58	-84	-52	-10	-6	-5	0	0	0	-204	-215
<b>Research, Extension, and Education Grants</b>												
Estimated Budget Authority	0	-200	-200	-200	0	0	0	0	0	0	-600	-600
Estimated Outlays	0	-30	-100	-160	-170	-100	-40	0	0	0	-460	-600
<b>Food Stamp Program</b>												
Estimated Budget Authority	-14	-186	-191	-199	-202	-103	0	0	0	0	-794	-896
Estimated Outlays	-14	-186	-191	-199	-202	-103	0	0	0	0	-794	-896
<b>Total Changes</b>												
Estimated Budget Authority	-837	-768	-604	-642	-497	-343	-182	-153	-160	-160	-3,350	-4,346
Estimated Outlays	-567	-609	-618	-671	-682	-457	-231	-156	-162	-161	-3,149	-4,314
<b>Memorandum:</b>												
<b>Total Changes Assuming Enactment of H.R. 2744</b>												
Estimated Budget Authority	-1,206	-928	-604	-642	-497	-343	-182	-153	-160	-160	-3,877	-4,875
Estimated Outlays	-567	-776	-798	-797	-736	-464	-226	-156	-162	-161	-3,677	-4,843

NOTES: Table 2 displays the estimated cost of the legislation consistent with the scorekeeping direction from the House Budget Committee.

Details may not sum to total because of rounding.

**TABLE 2. SUMMARY OF THE BUDGETARY IMPACT OF THE AGRICULTURAL RECONCILIATION ACT OF 2005 REFLECTING SCOREKEEPING DIRECTION FROM THE HOUSE BUDGET COMMITTEE AND ENACTMENT OF THE CONFERENCE AGREEMENT ON AGRICULTURE APPROPRIATIONS**

	By Fiscal Year, in Millions of Dollars										2006-	2006-
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2010	2015
<b>CHANGES IN DIRECT SPENDING</b>												
Commodity Program <sup>a</sup>												
Estimated Budget Authority	-553	-164	-108	-105	-76	-52	-49	-51	-51	-51	-1,006	-1,260
Estimated Outlays	-553	-164	-108	-105	-76	-52	-49	-51	-51	-51	-1,006	-1,260
Conservation Programs												
Estimated Budget Authority	-210	-135	-105	-138	-191	-135	-80	-49	-56	-56	-779	-1,155
Estimated Outlays	0	-237	-151	-166	-206	-143	-84	-52	-58	-57	-760	-1,154
Energy Program												
Estimated Budget Authority	0	-23	0	0	0	0	0	0	0	0	-23	-23
Estimated Outlays	0	-9	-9	-5	0	0	0	0	0	0	-23	-23
Rural Development Programs												
Estimated Budget Authority	-429	-60	0	0	0	0	0	0	0	0	-489	-489
Estimated Outlays	0	-126	-183	-114	-23	-13	0	0	0	0	-446	-459
Research, Extension, and Education Grants												
Estimated Budget Authority	0	-360	-200	-200	0	0	0	0	0	0	-760	-760
Estimated Outlays	0	-54	-156	-208	-202	-100	-40	0	0	0	-620	-760
Food Stamp Programs												
Estimated Budget Authority	-14	-186	-191	-199	-204	-103	0	0	0	0	-794	-896
Estimated Outlays	-14	-186	-191	-199	-204	-103	0	0	0	0	-794	-896
Total Changes												
Estimated Budget Authority	-1,206	-928	-604	-642	-470	-290	-129	-100	-107	-107	-3,852	-4,585
Estimated Outlays	-567	-776	-798	-797	-710	-411	-173	-103	-109	-108	-3,650	-4,554

a. The House Budget Committee has directed CBO to estimate the costs of the legislation assuming that subsequent legislation will extend the authority to make direct payments beyond crop year 2009.

Details may not sum to totals because of rounding.

**TABLE 3. IMPACT OF THE AGRICULTURAL RECONCILIATION ACT OF 2005 ON SPENDING FOR THE COMMODITY PROGRAM**

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>CHANGES IN DIRECT SPENDING</b>										
Reduction of Direct Payments <sup>a</sup>										
Estimated Budget Authority	-26	-53	-53	-53	-53	-53	-53	-53	-53	-53
Estimated Outlays	-26	-53	-53	-53	-53	-53	-53	-53	-53	-53
Limit on Advance Direct Payments										
Estimated Budget Authority	-513	0	0	0	0	0	0	0	0	0
Estimated Outlays	-513	0	0	0	0	0	0	0	0	0
Cotton Competitiveness Provisions										
Estimated Budget Authority	-14	-111	-55	-52	-50	-52	-49	-51	-51	-51
Estimated Outlays	-14	-111	-55	-52	-50	-52	-49	-51	-51	-51
Total Changes										
Estimated Budget Authority	-553	-164	-108	-105	-103	-105	-102	-104	-104	-104
Estimated Outlays	-553	-164	-108	-105	-103	-105	-102	-104	-104	-104
.....										
Memorandum:										
Commodity Program Outlays										
Under CBO's March 2005 Baseline	19,289	16,669	14,687	14,962	14,662	14,339	13,962	13,862	13,840	12,865

a. Using the assumptions specified by the House Budget Committee, savings for the 1 percent reduction in direct payments would be \$26 million in 2006, \$211 million over the 2006-2010 period, and zero after 2010.

**Section 1101—Reduction of Direct Payments.** Section 1101 would require a 1 percent reduction in direct payments for the 2006 and 2007 crops of feed grains, oilseeds, wheat, cotton, rice, and peanuts. The legislation also specifies that no reduction occur for the 2010 and subsequent crop years, if future legislation were to authorize direct payments for those crop years. Current law authorizes the CCC price and income support program, including direct payments to applicable crops, through 2007. The Balanced Budget and Emergency Deficit Control Act of 1985 specifies that such expiring programs should be assumed to continue to operate as they exist upon scheduled expiration. Therefore, the CBO baseline assumes that the price and income support program continues indefinitely beyond its expiration date of 2007. Hence, our estimate assumes the 1 percent reduction would apply to the 2010 and subsequent crops.

Relative to CBO's baseline projections, enacting this section would reduce direct spending for the CCC price and income support program by \$26 million in 2006, \$238 million over the 2006-2010 period, and \$503 million over the 2006-2015 period, CBO estimates. The House Budget Committee has directed CBO to assume that the 1 percent reduction in direct payments would end with the 2009 crop, reflecting a provision in the legislation that would be contingent on enactment of legislation to extend direct payments beyond that year. (CBO's cost estimates do not ordinarily incorporate contingencies that depend on enactment of future legislation.). Under the House Budget Committee's assumptions, this section would reduce direct spending by \$26 million in 2006, \$211 million over the 2006-2010 period, and \$211 million over the 2006-2015 period.

**Section 1102 – Advance Direct Payments.** The 2002 farm act (Public Law 107-171) authorizes the Secretary of Agriculture to offer eligible producers up to a 50 percent advance payment on their annual direct payment for feed grains, oilseeds, wheat, cotton, rice, and peanuts. Producers may request advance payments beginning on December 1 of the calendar year before the crop is harvested until the final payment is made in October of the calendar year in which the crop is harvested. Section 1102 would limit those annual advance payments to no more than 40 percent of the direct payments for the 2006 and 2007 crop years.

This section would not affect the total value of direct payments that producers are eligible to receive for each crop year, only the timing of the payment. By shifting payments from each year to the following year, this provision would have the effect of reducing outlays in 2006 and shifting some outlays beyond 2015. CBO estimates that limiting advance direct payments would reduce spending by \$513 million in 2006, with no change in total payments in each subsequent fiscal year through 2015.

**Section 1103 – Cotton Competitiveness Provisions.** Section 1103 would eliminate cotton user marketing certificates, more commonly known as the Step 2 payments, effective beginning on August 1, 2006. First authorized in 1990, Step 2 is a provision of the marketing assistance loan program unique to upland cotton. It provides for cash or in-kind payments to eligible domestic users and exporters of U.S.-grown upland cotton whenever U.S. cotton prices are higher than world market cotton prices.

CBO estimates that eliminating Step 2, effective August 1, 2006, would reduce CCC spending for the cotton program by \$14 million in 2006, \$282 million over the 2006-2010 period, and \$536 million over the 2006-2015 period. Those savings are less than CBO's baseline estimates for Step 2 payments over the 2006-2015 period (\$1.2 billion) because Step 2 payments also affect the demand for and price of upland cotton.

CBO estimates that eliminating Step 2 would reduce U.S. cotton exports by about 2.5 percent and domestic mill use by a smaller amount (because mill use is a smaller component of total use). We estimate that such a decrease in demand would reduce domestic cotton prices by \$0.0075 to \$0.0200 per pound, which is 50 percent to 60 percent of the estimated forgone Step 2 payment rate. The payment rate for countercyclical payments is determined, in part, by average U.S. cotton prices; the lower the prices, the higher the countercyclical payments. CBO estimates that lower U.S. prices due to elimination of Step 2 would lead to an increase in countercyclical payments of \$484 million over the 2006-2015 period. Eliminating Step 2 would also slightly increase world cotton prices. The world price is used to determine repayment rates for upland cotton marketing loans and loan deficiency payments. We estimate that higher world prices would reduce the cost of cotton marketing loans by \$17 million over the 2006-2015 period.

## **Conservation**

Subtitle B would amend the Watershed Rehabilitation Program, the Conservation Security Program (CSP), and the Agricultural Management Assistance Program (AMAP). Authority for CSP would be extended through 2011 but total spending authority would be reduced. Under the assumptions underlying CBO's March 2005 baseline projections, we estimate that extending CSP through 2011 would result in outlays of \$1.6 billion over the 2008-2015 period. Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, such extensions are assumed in the baseline projections and have no cost relative to those projections. CBO's estimates of the budgetary effects of the amendments to conservation programs are detailed in Table 4.

**Section 1201 – Watershed Rehabilitation Program.** The Watershed Rehabilitation Program provides assistance to communities to rehabilitate aging local dams. The Natural Resources Conservation Service (NRCS) provides technical and financial assistance for the planning, design, and implementation of rehabilitation projects that may include upgrading or removing the dams. Section 1201 would limit the availability of CCC funds for 2007 to \$50 million, and would rescind all balances from prior years unobligated as of September 30, 2006. CBO estimates that these provisions would reduce spending for watershed rehabilitation by \$100 million over the 2006-2010 period.

**TABLE 4. IMPACT OF THE AGRICULTURAL RECONCILIATION ACT OF 2005 ON SPENDING FOR CONSERVATION PROGRAMS**

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>CHANGES IN DIRECT SPENDING</b>										
<b>Watershed Rehabilitation Program</b>										
Estimated Budget Authority <sup>a</sup>	-85	-15	0	0	0	0	0	0	0	0
Estimated Outlays	0	-60	-20	-13	-7	0	0	0	0	0
<b>Conservation Security Program</b>										
Estimated Budget Authority	0	-100	-95	-128	-181	-135	-80	-49	-56	-56
Estimated Outlays	0	-100	-95	-128	-181	-135	-80	-49	-56	-56
<b>Agricultural Management Assistance Program</b>										
Estimated Budget Authority	0	-20	-10	-10	-10	0	0	0	0	0
Estimated Outlays	0	-2	-11	-9	-9	-8	-4	-3	-2	-1
<b>Total Changes</b>										
Estimated Budget Authority	-85	-135	-105	-138	-191	-135	-80	-49	-56	-56
Estimated Outlays	0	-162	-126	-150	-197	-143	-84	-52	-58	-57
<b>Memorandum:</b>										
<b>Outlays for Conservation Programs Under CBO's March 2005 Baseline</b>										
	3,652	4,006	4,224	4,894	4,829	4,771	4,817	4,779	4,748	4,781

a. If enacted, the conference agreement on H.R. 2744 would prevent the Department of Agriculture from obligating funds—in fiscal year 2006—previously provided for the Watershed Rehabilitation Program. As a result, more funds would be available for obligation at the end of 2006—and thus subject to the rescission in this reconciliation legislation. Therefore, upon enactment of H.R. 2744, the reconciliation provision would save \$125 million more over the 2006-2010 and 2006-2015 periods than shown above.

**Section 1202 – Conservation Security Program.** The CSP, first authorized in the 2002 farm act, provides financial and technical assistance to promote conservation and improvement of soil, water, air, plant and animal life, and land currently used for agricultural production. Producers enroll in 5- to -15-year contracts in exchange for cost-share assistance and annual payments. Under current law, total spending on CSP contracts is limited to \$6.037 billion over the 2005-2014 period. Fiscal year 2015 is not covered by that limit; CBO's baseline includes \$835 million in outlays for 2015.

Section 1202 would restrict CSP spending to \$2.213 billion over the 2006-2010 period and \$5.729 billion over the 2006-2015 period. CBO estimates that imposing those spending caps would reduce spending on the CSP program by \$504 million over the 2006-2010 period and \$880 million over the 2006-2015 period.

**Section 1203 – Agricultural Management Assistance Program (AMAP).** This program, authorized by the Agriculture Risk Protection Act of 2000, provides \$20 million in 2007 and \$10 million each subsequent year for financial assistance to producers in 15 states where participation in the federal crop insurance program has historically been low. Section 1203 would prohibit obligations for AMAP over the 2007-2010 period. CBO estimates that this provision would reduce conservation spending by \$31 million over the 2006-2010 period and by \$49 million over the 2006-2015 period.

## Energy

The renewable energy systems and energy efficiency improvements program provides a combination of loans and grants to farmers to purchase renewable energy systems or to make energy-efficiency improvements. Section 1301 would eliminate funding for the program in 2007. CBO estimates that action would reduce direct spending by \$23 million over the 2006-2010 period (see Table 5).

**TABLE 5. IMPACT OF THE AGRICULTURAL RECONCILIATION ACT OF 2005 ON SPENDING FOR ENERGY PROGRAMS**

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>CHANGES IN DIRECT SPENDING</b>										
Renewable Energy Systems and Energy-Efficiency Improvements Program										
Estimated Budget Authority	0	-23	0	0	0	0	0	0	0	0
Estimated Outlays	0	-9	-9	-5	0	0	0	0	0	0

## Rural Development

The legislation would eliminate fiscal year 2007 funding and rescind unobligated balances for the Rural Community Grants (firefighter assistance) program, the broadband loans component of the Distance Learning, Telemedicine, and the Broadband program, and the Value-Added Marketing program. In addition, the bill would rescind the unobligated balances of both the Rural Strategic Investment and the Rural Business Investment programs. (The rescissions would take effect on September 30, 2006, and would apply to balances available on that date.) In sum, CBO estimates the provisions would reduce direct spending by \$204 million over the 2006-2010 period and by \$215 million over the 2006-2015 period (see Table 6).

**TABLE 6. IMPACT OF THE AGRICULTURAL RECONCILIATION ACT OF 2005 ON SPENDING FOR RURAL DEVELOPMENT PROGRAMS**

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>CHANGES IN DIRECT SPENDING</b>										
Rural Firefighters and Emergency Personnel Grants										
Estimated Budget Authority	0	-10	0	0	0	0	0	0	0	0
Estimated Outlays	0	-1	-4	-5	0	0	0	0	0	0
Enhanced Access to Broadband										
Estimated Budget Authority	-60	-10	0	0	0	0	0	0	0	0
Estimated Outlays	0	-1	-7	-11	-10	-6	-5	0	0	0
Value-Added Marketing Program										
Estimated Budget Authority	-30	-40	0	0	0	0	0	0	0	0
Estimated Outlays	0	-28	-35	-7	0	0	0	0	0	0
Rural Business Investment Program										
Estimated Budget Authority	-45	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	-23	-18	-4	0	0	0	0	0	0
Rural Business Strategic Investment Grants										
Estimated Budget Authority	-50	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	-5	-20	-25	0	0	0	0	0	0
Total Changes <sup>a</sup>										
Estimated Budget Authority	-185	-60	0	0	0	0	0	0	0	0
Estimated Outlays	0	-58	-84	-52	-10	-6	-5	0	0	0

a. If enacted, the conference agreement on H.R. 2744 would prevent the Department of Agriculture from obligating funds—in fiscal year 2006—previously provided for these rural development programs. As a result, more funds would be available for obligation at the end of 2006—and thus subject to the rescission in this reconciliation legislation. Therefore, upon enactment of H.R. 2744, the reconciliation provision would save \$242 million more over the 2006-2010 period and \$244 million more over the 2006-2015 period than shown above.

## Research

The Initiative for Future Agriculture and Food Systems is a competitive grant program designed to support research, extension and education activities for U.S. agriculture. The Agricultural Research, Extension, and Education Reform Act of 1998 created the initiative and provided mandatory funding for it. The program was reauthorized in the Farm Security and Rural Investment Act of 2002 with mandatory funding of \$160 million in 2006 and \$200 million in subsequent years. The bill would eliminate funding available to the program over the 2007-2009 period. Funding would remain at \$200 million in 2010 and subsequent years. CBO estimates that this provision would reduce mandatory spending by \$460 million over the 2006-2010 period and \$600 million over the 2006-2015 period (see Table 7).

**TABLE 7. IMPACT OF THE AGRICULTURAL RECONCILIATION ACT OF 2005 ON SPENDING FOR THE INITIATIVE FOR FUTURE AGRICULTURE AND FOOD SYSTEMS**

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>CHANGES IN DIRECT SPENDING</b>										
Initiative for Future Agriculture and Food Systems										
Estimated Budget Authority <sup>a</sup>	0	-200	-200	-200	0	0	0	0	0	0
Estimated Outlays	0	-30	-100	-160	-170	-100	-40	0	0	0

- a. If enacted, the conference agreement on H.R. 2744 would prevent the Department of Agriculture from obligating funds—in fiscal year 2006—previously provided for the Initiative for Future Agriculture and Food Systems. As a result, more funds would be available for obligation at the end of 2006—and thus subject to the rescission in this reconciliation legislation. Therefore, upon enactment of H.R. 2744, the reconciliation provision would save \$160 million more over the 2006-2010 and 2006-2015 periods than shown above.

## Nutrition

Subtitle F would extend and modify the Food Stamp program. The 2002 farm act authorized the Food Stamp program through 2007. This legislation would extend that authority through 2011. Under the assumptions underlying CBO's March 2005 baseline projections, we estimate that extending the program through 2011 would result in additional outlays of \$137 billion over the 2008-2011 period. Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, this extension is assumed in the baseline projection and has no cost relative to that projection. Other provisions in the subtitle would reduce spending for

the Food Stamp program and would increase spending for the Emergency Food Assistance program (see Table 8).

**TABLE 8. IMPACT OF THE AGRICULTURAL RECONCILIATION ACT OF 2005 ON SPENDING FOR NUTRITION PROGRAMS**

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>CHANGES IN DIRECT SPENDING</b>										
Eligible Households										
Estimated Budget Authority	-40	-127	-132	-136	-139	-71	0	0	0	0
Estimated Outlays	-40	-127	-132	-136	-139	-71	0	0	0	0
Residency Requirement										
Estimated Budget Authority	-25	-60	-60	-65	-65	-33	0	0	0	0
Estimated Outlays	-25	-60	-60	-65	-65	-33	0	0	0	0
Food Stamp Interaction Effects										
Estimated Budget Authority	1	1	1	1	1	1	0	0	0	0
Estimated Outlays	1	1	1	1	1	1	0	0	0	0
Emergency Food Assistance Program										
Estimated Budget Authority	12	0	0	0	0	0	0	0	0	0
Estimated Outlays	12	0	0	0	0	0	0	0	0	0
Disaster Food Stamp Program										
Estimated Budget Authority	38	0	0	0	0	0	0	0	0	0
Estimated Outlays	38	0	0	0	0	0	0	0	0	0
Total										
Estimated Budget Authority	-14	-186	-191	-199	-202	-103	0	0	0	0
Estimated Outlays	-14	-186	-191	-199	-202	-103	0	0	0	0

Memorandum:

Spending for Food Stamp Program

Under CBO's March 2005 Baseline 33,445 33,054 33,275 33,882 34,638 35,542 36,474 37,301 38,273 39,277

**Food Stamp Eligibility.** Subtitle F would change eligibility for the Food Stamp program in two ways: by restricting categorical eligibility; and by extending the residency requirement for legal permanent residents.

*Section 1601 – Eligible Households.* Under current law, households that receive or are eligible to receive any type of benefit from the TANF program are among those considered categorically eligible for food stamps. This includes non-cash benefits such as job placement services. Categorically eligible households are not subject to the same income and asset tests as other participants. This provision would restrict categorical eligibility to only those households receiving cash assistance. Based on information from the Food Stamp Quality Control (QC) Data, CBO estimates that about 225,000 people who are categorically eligible based on non-cash benefits would not be able to meet the income and asset tests for the program. On average, those individuals would lose about \$45 a month in food stamp benefits in 2007.

In addition, school-age children in these households would no longer be automatically eligible for free school meals. (All children in Food Stamp households are categorically eligible for free school lunches and breakfasts.) Based on income information from the QC data, we expect that most of these children would nevertheless be eligible for reduced-price meals based on their family income; about 40,000 children would lose their eligibility. On average, benefits for these students would decline by about \$185 a year.

This provision would be in effect upon enactment in 2006 and expire on September 30, 2010. CBO assumes that, in 2011, newly eligible individuals would gradually join the program over the course of the year.

*Section 1603 – Residency Requirement.* The 2002 farm act made legal permanent residents who have resided in the United States for at least five years eligible for food stamps. (Legal permanent residents under the age of 18 or who are disabled are eligible without a waiting period.) This provision would extend the residency requirement to seven years during the 2006-2010 period. CBO estimates that about 70,000 people would no longer be eligible for benefits, based on fiscal year 1996 QC data adjusted for changes in Food Stamp rules and recent immigration statistics. Food Stamp outlays would be lowered by \$275 million over the 2006-2010 period and by \$308 million over the 2006-2015 period. In 2011, when the waiting period would drop back to five years, CBO expects that newly eligible participants would come back onto the program over the course of the year.

*Interaction effects.* Taken alone, CBO estimates that restricting categorical eligibility would reduce Food Stamp outlays by \$546 million and child nutrition outlays by \$28 million over the 2006-2010 period. These estimated savings would decline slightly after taking into account the proposal to extend the waiting period for legal permanent residents. (CBO estimates that a small share of categorically eligible participants are legal permanent residents who would lose benefits under the new waiting-period requirements.) As a result, the gross savings cited above would be reduced by an estimated \$1 million per year over the 2006-2010 period.

**Section 1602 – Availability of Commodities for the Emergency Food Assistance Program.** Section 1602 would reauthorize \$140 million for the purchase of commodities for the Emergency Food Assistance Program through 2011. This provision does not have an estimated budget impact because the extension is already assumed in the baseline. But the legislation would provide an additional \$12 million in fiscal year 2006 for commodities to be distributed to states that were under a major disaster declaration as a result of Hurricanes Katrina and Rita, and to states adjacent to those states. CBO estimates that this provision would increase outlays by \$12 million in 2006.

**Section 1604 – Disaster Food Stamp Program.** States pay 50 percent of the administrative costs associated with the Food Stamp program. Under the legislation, states would be reimbursed for the full cost of certain administrative expenses for disaster food stamp benefits issued after Hurricanes Katrina and Rita. Data from the Food and Nutrition Service show that 1.1 million households were certified for disaster benefits, including supplements for current food stamp recipients, after the hurricanes. CBO estimates that the increase in the federal share of administrative costs would be \$38 million in fiscal year 2006.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

The legislation contains no intergovernmental or private-sector mandates as defined in UMRA. Some of its provisions would reduce federal funding for assistance to state and local governments.

### **ESTIMATE PREPARED BY:**

Federal Costs: Jim Langley, David Hull, and Greg Hitz (Commodity Program and Research); Gregory Waring (Rural Development); and Kathleen FitzGerald (Nutrition)

Impact on State, Local, and Tribal Governments: Marjorie Miller and Leo Lex

Impact on the Private Sector: Craig Cammarata

### **ESTIMATE APPROVED BY:**

Robert A. Sunshine  
Assistant Director for Budget Analysis