CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 20, 2005

Agricultural Reconciliation Act of 2005

As approved by the Senate Committee on Agriculture, Nutrition, and Forestry on October 19, 2005

SUMMARY

The Agricultural Reconciliation Act of 2005 would amend laws governing commodity, conservation, and research programs over the 2006-2011 period. CBO estimates that enacting this bill would reduce direct spending by $196 million in fiscal year 2006, $3.014 billion over the 2006-2010 period, and $4.364 billion over the 2006-2015 period, relative to CBO's March 2005 baseline projections. Enacting the bill would not affect federal revenues.

The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of this bill is shown in the following table. The costs of this legislation fall within budget functions 300 (natural resources) and 350 (agriculture).

TABLE 1. SUMMARY OF THE BUDGETARY IMPACT OF THE AGRICULTURAL RECONCILIATION ACT OF 2005

	By Fiscal Year, In Millions of Dollars					
	2006	2007	2008	2009	2010	2006-2010
CHANGES IN DIRECT SPENDING[a]						
Commodity Programs						
Estimated Budget Authority	-181	-507	-322	-366	-357	-1,733
Estimated Outlays	-181	-507	-322	-366	-357	-1,733
Conservation Programs						
Estimated Budget Authority	-15	-80	-254	-344	-392	-1,085
Estimated Outlays	-7	-67	-248	-341	-391	-1,054
Research, Extension, and Education Grants						
Estimated Budget Authority	-56	-70	-70	-70	-70	-336
Estimated Outlays	-8	-30	-52	-67	-70	-227
Total Estimated Changes						
Estimated Budget Authority	-252	-657	-646	-780	-819	-3,154
Estimated Outlays	-196	-604	-622	-774	-818	-3,014

a. Some provisions in this bill have overlapping effects with provisions in the agriculture appropriations bill that is currently pending in the Congress. The savings from enacting this bill could be smaller if the appropriations provisions were enacted first.

BASIS OF ESTIMATE

This estimate assumes that the bill will be enacted before the end of calendar year 2005.

Commodity Programs

Subtitle A would extend and modify Commodity Credit Corporation (CCC) price and income support programs to reduce payments to agricultural producers by 2.5 percent, impose a 1.2 percent penalty on sugar nonrecourse loan forfeitures, eliminate the upland cotton Step 2 payments, extend Milk Income Loss Contract payments through 2007, and reduce advance direct payments by 10 percent in 2006 and 21 percent in 2007.

CBO's estimate of the budgetary impacts of these amendments to agricultural commodity programs is detailed in Table 2.

TABLE 2. IMPACT OF THE AGRICULTURAL RECONCILIATION ACT OF 2005 ON SPENDING FOR COMMODITY PROGRAMS

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Reduction of Commodity Program Payments										
Estimated Budget Authority	-82	-330	-297	-297	-290	-211	-35	0	0	0
Estimated Outlays	-82	-330	-297	-297	-290	-211	-35	0	0	0
Forfeiture Penalty for Nonrecourse Sugar Loans										
Estimated Budget Authority	0	-14	-17	-17	-17	-17	0	0	0	0
Estimated Outlays	0	-14	-17	-17	-17	-17	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
National Dairy Market Loss Payments										
Estimated Budget Authority	433	518	47	0	0	0	0	0	0	0
Estimated Outlays	433	518	47	0	0	0	0	0	0	0
Advance Direct Payments										
Estimated Budget Authority	-518	-570	0	0	0	0	0	0	0	0
Estimated Outlays	-518	-570	0	0	0	0	0	0	0	0
Total										
Estimated Budget Authority	-181	-507	-322	-366	-357	-280	-84	-51	-51	-51
Estimated Outlays	-181	-507	-322	-366	-357	-280	-84	-51	-51	-51
Memorandum: Commodity Program Spending 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

Section 1101 – Reduction of Commodity Program Payments. Section 1101 would extend the authority for most commodity program provisions in Title I of the Farm Security and Rural Investment Act of 2002 (the 2002 farm act) through the 2011 crop year. The 2002 farm act currently authorizes direct and countercyclical payments, marketing assistance loans, and loan deficiency payments for feed grains, oilseeds, wheat, cotton, rice, and other commodities through 2007. Current law also authorizes price and income support for peanuts and sugar, milk price supports, and miscellaneous administrative requirements, through 2007. Under the assumptions underlying CBO's March 2005 baseline projections, we estimate that extending those provisions through 2011 would result in outlays of

$55 billion over the 2008-2013 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.

Section 1101 also would require a 2.5 percent reduction in all direct and countercyclical payments and marketing assistance loan benefits (including gains from the use of generic certificates or from forfeiture of crop collateral to settle price support loans) for the 2006 through 2010 crops of applicable commodities. In 2011, the legislation would restore these program payments to the level specified in the 2002 farm act for 2007. This section also would require a 2.5 percent reduction in National Dairy Market Loss Payments. (Section 1104 would authorize those payments for 2006 and 2007.) Enacting this section would reduce direct spending for CCC price and income support programs by $82 million in 2006, $1.296 billion over the 2006-2010 period, and $1.542 billion over the 2006-2015 period, CBO estimates.

Section 1102 – Forfeiture Penalty for Nonrecourse Sugar Loans. Section 1102 would impose a forfeiture penalty of 1.2 percent for producers that opt to forfeit their marketing loans on cane or beet sugar for any of the 2006-2010 crops.

The Secretary of Agriculture is required to provide nonrecourse marketing loans to processors of domestically grown sugarcane at 18 cents per pound of raw cane sugar and to processors of domestically grown sugar beets at 22.9 cents per pound of refined beet sugar. The loans provide financing for the purchase, processing, and marketing of domestically grown sugar for a period not to exceed nine months. They also support prices in periods when they may otherwise dip below the loan rate. Because of the nonrecourse nature of the loans, processors who obtain loans may forfeit the sugar pledged as collateral in lieu of redeeming the loan by the end of the loan term.

Under section 1102, any sugar processor who fails to redeem a marketing loan would incur a penalty of 1.2 percent of the loan. This would reduce outlays in two ways. First, penalties would be collected from sugar processors who forfeited their marketing loans. Second, the penalty would serve as a deterrent, ultimately resulting in fewer loans forfeited. CBO estimates that this section would reduce spending by $65 million over the 2006-2010 period and $82 million over the 2006-2015 period. Because of the timing of sugar loans and potential forfeitures, there would be no savings in fiscal year 2006.

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.

Section 1104 – National Dairy Market Loss Payments. The 2002 farm act authorized National Dairy Market Loss payments, more commonly known as Milk Income Loss Contract (MILC) payments, through September 30, 2005. Section 1104 would amend the expired program and authorize it through September 30, 2007. CBO estimates that those amendments to MILC would cost $433 million in 2006 and $998 million over the 2006-2010 period.

Under the MILC program, eligible dairy producers would receive a payment based on 34 percent of the difference between a specified target price of $16.94 per hundredweight and the announced Boston Class I (milk used for fluid use) price, multiplied by their monthly milk production, subject to a cap of 2.4 million pounds per calendar year.

Section 1105 – Advance Direct Payments. The 2002 farm act 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 up until the final payment is made in October of the calendar year in which the crop is harvested. Section 1105 would limit annual direct advance payments to no more than 40 percent of annual direct payments for the 2006 crop year and no more than 29 percent for the 2007-2011 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 2007, and shifting some outlays beyond 2015. CBO estimates that limiting advance direct payments would reduce spending by $518 million in 2006 and $570 million in 2007, with no change in total payments in each subsequent fiscal year through 2015.

Conservation

Subtitle B would amend the Conservation Reserve Program (CRP), the Conservation Security Program (CSP), and the Environmental Quality Incentives Program (EQIP). Authority for those programs would be extended through 2011 under the bill. Under the assumptions underlying CBO's March 2005 baseline projections, we estimate that extending those provisions through 2011 would result in outlays of $19 billion over the 2008-2015 period. Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, such extensions are asumed 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 3.

Section 1201 – Conservation Reserve Program. Under the CRP, agricultural producers may choose to enter into 10-to-15-year contracts to remove land from agricultural production in exchange for cost-share assistance and annual rental payments from the U.S. Department of Agriculture (USDA). Under the program, producers are required to plant long-term, resource-conserving cover crops to improve the quality of water, control soil erosion, and enhance wildlife habitat. This section would amend the CRP program by imposing tighter restrictions on the number of acres that may be enrolled. Under current law, the Secretary of Agriculture is authorized to enroll up to 39.2 million acres in the CRP. Section 1201 would reduce the annual enrollment limit to 36.4 million acres during the 2002-2010 period and to 38.3 million acres in 2011. The bill would allow the total number acres in the CRP to temporarily exceed those limits, if necessary, until sufficient current CRP contracts expire.

CBO's baseline assumes that total enrollment in the CRP will grow steadily and reach 39.2 million acres by 2010. CBO estimates that restricting acreage enrollment would reduce spending under the CRP program by $640 million over the 2006-2010 period. Some of those acres that CBO expects would otherwise be enrolled in the CRP, however, would remain in

TABLE 3. 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
Conservation Reserve Program										
Estimated Budget Authority	0	4	-52	-44	-37	-41	-2	-1	-1	-2
Estimated Outlays	0	4	-52	-44	-37	-41	-2	-1	-1	-2
Conservation Security Program										
Estimated Budget Authority	0	-54	-172	-270	-325	-271	-143	-49	-66	-117
Estimated Outlays	0	-54	-172	-270	-325	-271	-143	-49	-66	-117
Environmental Quality Incentives Program										
Estimated Budget Authority [a]	-15	-30	-30	-30	-30	0	0	0	0	0
Estimated Outlays	-7	-17	-24	-27	-29	-16	-9	-4	-2	0
Total										
Estimated Budget Authority	-15	-80	-254	-344	-392	-312	-145	-50	-67	-119
Estimated Outlays	-7	-67	-248	-341	-391	-328	-154	-54	-69	-119
Memorandum: Spending for Conservation Programs Under CBO's March 2005 Baseline	3,652	4,006	4,224	4,894	4,829	4,771	4,817	4,779	4,748	4,781

a. Although CRP, CSP, and EQIP each enter into multiyear obligations, CRP and CSP budget authority reflects only payments required in that year (so budget authority equals outlays). However, EQIP budget authority reflects the full amount of the multiyear obligations, and outlays reflect only the payments required in a given year. This variation between the programs exists by agreement between the budget committees and the Office of Management and Budget when the programs were established.

agricultural production under the bill. Hence, some of the savings from not enrolling additional acres in the CRP would be offset by higher costs in the commodity programs, especially for marketing loan benefits, of an estimated $511 million over the 2006-2010 period. Therefore, CBO estimates that this provision would have net savings of $129 million over the 2006-2010 period and $176 million over the 2006-2015 period.

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 $1.954 billion over the 2006-2010 period and $5.200 billion over the 2006-2015 period. CBO estimates that imposing those spending caps would reduce spending on the CSP program by $821 million over the 2006-2010 period and $1.467 billion over the 2006-2015 period.

Section 1203 – Environmental Quality Incentives Program. EQIP is a conservation program for farmers and ranchers that offers financial and technical help to install or implement structural and management practices on agricultural land. The 2002 farm act limited obligations for EQIP contracts to $1.2 billion in 2006 and $1.3 billion in 2007. The CBO baseline assumes obligations would continue at $1.3 billion per year over the 2008-2015 period. Section 1203 would restrict EQIP obligations to $1.185 billion in 2006, $1.270 billion in each of fiscal years 2007 through 2010, and $1.3 billion in 2011.

CBO estimates that this provision would reduce conservation spending by $7 million in 2006, $104 million over the 2006-2010 period, and $135 million over the 2006-2015 period.

Research, Extension, and Education Grants

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 each subsequent year. Section 1301 of this bill would reduce the mandatory funding for the program to $104 million in 2006 and to $130 million annually over the 2007-2010 period. Funding would return to $200 million in 2011. CBO estimates that the proposal would reduce spending by $8 million in 2006, by $227 million over the 2006-2010 period, and by $336 million over the 2006-2015 period (see Table 4).

TABLE 4. 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
Initiative for Future Agriculture and Food Systems										
Estimated Budget Authority	-56	-70	-70	-70	-70	0	0	0	0	0
Estimated Outlays	-8	-30	-52	-67	-70	-60	-35	-14	0	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The legislation contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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