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Conservation Reserve Program: Status and Current Issues

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Summary

The Conservation Reserve Program (CRP), enacted in 1985, provides payments to farmers to take highly erodible or environmentally sensitive cropland out of production for ten years or more to conserve soil and water resources. It is the federal government's largest private land retirement program. The program is administered by the Farm Service Agency of the U.S. Department of Agriculture (USDA), with technical assistance provided by USDA's Natural Resources Conservation Service. Congress most recently reauthorized and amended the CRP through FY2007 in the 2002 Farm Bill, the Farm Security and Rural Investment Act (P.L. 107-171, 16 U.S.C. 3831 et seq.).

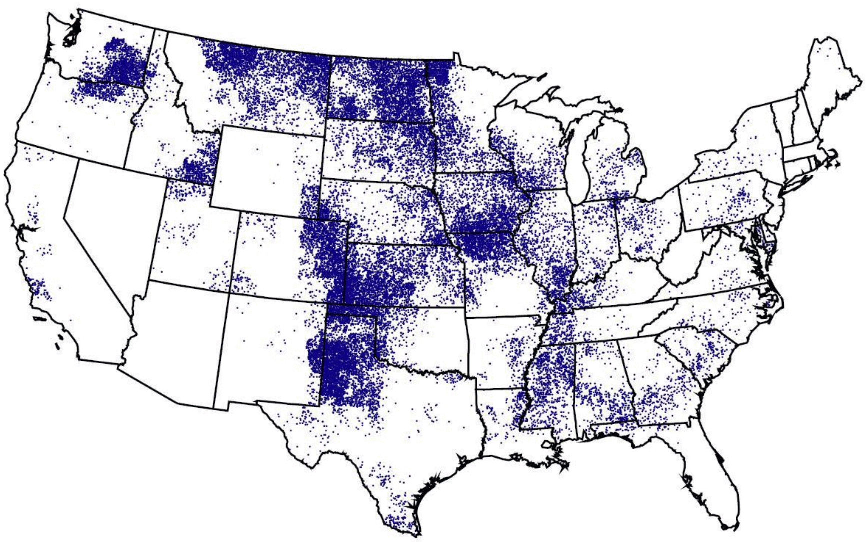
The 2002 law increased the CRP enrollment cap from 36.4 million acres to 39.2 million acres, added wildlife resources as a program purpose, and allowed participants to extend some contracts up to 15 years. In August 2004, USDA announced the second general signup since the farm bill was enacted. This signup, which runs from August 30 - September 24, 2004, allows landowners to submit bids to enroll acreage in CRP. USDA also announced two new CRP initiatives: one aimed at enrolling 250,000 acres of bobwhite quail habitat and a second to enroll 250,000 acres of wetlands located outside of floodplains. Landowners may apply to enroll in these initiatives any time from October 1, 2004 - December 31, 2007, or until the enrollment caps are reached. Finally, USDA requested public comment on long-term CRP policy issues (69 FR 48447). Comments are due December 8, 2004. This report will be updated periodically.

What Is the Conservation Reserve Program (CRP)?

The Conservation Reserve Program (CRP) is the largest federal land retirement program for private land. It was first enacted by Congress in 1985 to help control soil erosion, stabilize land prices and control excessive agricultural production. Since then, program purposes have been expanded to include environmental goals such as increased wildlife habitat. The program is administered by USDA's Farm Services Agency (FSA), with technical assistance from USDA's Natural Resources Conservation Service (NRCS) and funding from USDA's Commodity Credit Corporation (CCC). The 2002 farm bill authorized CRP to enroll 39.2 million acres at any one time through 2007. Information on the program is available from FSA at [http://www.fsa.usda.gov/dafp/cepd/default.htm].

Under CRP, participants retire land from production for 10-15 years and maintain the land under an approved conservation plan (although managed haying and grazing is permitted under certain conditions, in exchange for reduced payments). Participants receive annual rental payments as well as federal payments for up to 50% of the cost of carrying out approved conservation practices (such as planting a cover crop on the land to reduce erosion). According to FSA, the CRP had about 34.8 million acres enrolled as of July 2004.[1] Up to 25% of a county's cropland may be enrolled in CRP. Over 80 counties have reached this limit. CRP Acreage as of July 2004

Figure 1. CRP Acreage as of July 2004 (1 Dot = 1,000) Acres



Source: Farm Service Agency

After a CRP contract expires, federal payments cease. If the land in question is "highly erodible" (about 75% of the land enrolled in the CRP meets this definition) and participants decide to return the land to production, they must manage this land under an approved conservation system if they wish to be eligible for some federal farm programs (including commodity payments).

How Participants Enroll in CRP

There are four main ways of enrolling land in the CRP: general signup, continuous signup, Conservation Reserve Enhancement Program signup, and Farmable Wetlands Program signup.

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[1] States with the most enrolled acres are located in Texas (4 million acres), Montana (3.4 million acres), North Dakota (3.4 million acres), Kansas (2.9 million acres), and Colorado (2.3 million acres).

General Signup. General signups are specified enrollment periods during which landowners compete nationally to enroll land in the CRP program. Over 90% of acres (32 million of 34.8 million) are enrolled through general signups. Applicants must meet certain eligibility criteria, evaluate their land according to FSA's Environmental Benefits Index, and submit bids to FSA for enrollment. FSA accepts applications that show the highest environmental benefits. These sign-ups are always competitive: in 2003, FSA accepted slightly more than half of the acres offered. The current general sign-up runs from August 30 - September 24, 2004.

Environmental Benefits Index (EBI). As the purposes of the CRP have been expanded from soil erosion to include broader environmental goals, FSA has adjusted the categories and points awarded under the EBI. For example, FSA announced in June 2003 that, for the first time, it will award points to projects which have the potential to sequester carbon (reducing greenhouse gas emissions).

For the 2004 general signup, the index assigned points for each of the following factors:

- Cost-effectiveness of the contract
- Wildlife habitat benefits from planted cover crops (up to 100 points);
- Water quality benefits from reduced erosion (up to 100 points);
- On-farm benefits from reduced erosion (up to 100 points) ;
- Benefits that will likely endure beyond the contract period (up to 50 points);
- Air quality benefits from reduced wind erosion (up to 45 points).

Each factor is divided into more specific categories. For example, the 45 points for air quality benefits include up to 25 points for reducing wind erosion, up to five points for more erodible soils, up to five points for acreage located in an air quality zone that contributes to nonattainment standards, and up to ten points carbon sequestration benefits. Cost is treated differently because some of the weight it carries is determined after the bidding process is concluded. Offers that included a willingness to accept less than the maximum rental rate for acreage (thereby reducing the cost to the government), as well as offers to re-enroll land, may have received additional points. FSA ranks all applications nationally, and then sets an EBI score cut-off above which applications will be accepted.

Continuous Signup. Environmentally desirable land devoted to conservation practices with high environmental benefits may be enrolled in CRP at any time for 10-15 years under continuous sign-up. Offers are automatically accepted (provided the land and producer meet certain eligibility requirements) and are not subject to competitive bidding. Contracts usually include additional incentive payments. The 2002 farm bill reserved 4 million acres (of the 39.2 million enrollment limit authorized) for land to be enrolled under continuous signup or CREP signup (see below). Within the continuous signup program there are some options tailored to certain conservation needs, such as restoring floodplain wetlands and native hardwood trees in wetlands. On August 4, 2004, the President announced two more initiatives: a 250,000-acre initiative to restore bobwhite quail habitat in the Midwest and the Southeast, and a 250,000-acre initiative to restore wetlands located outside floodplains (including Great Plains playa lakes). These two initiatives begin October 1, 2004 and continue through December 31, 2007.

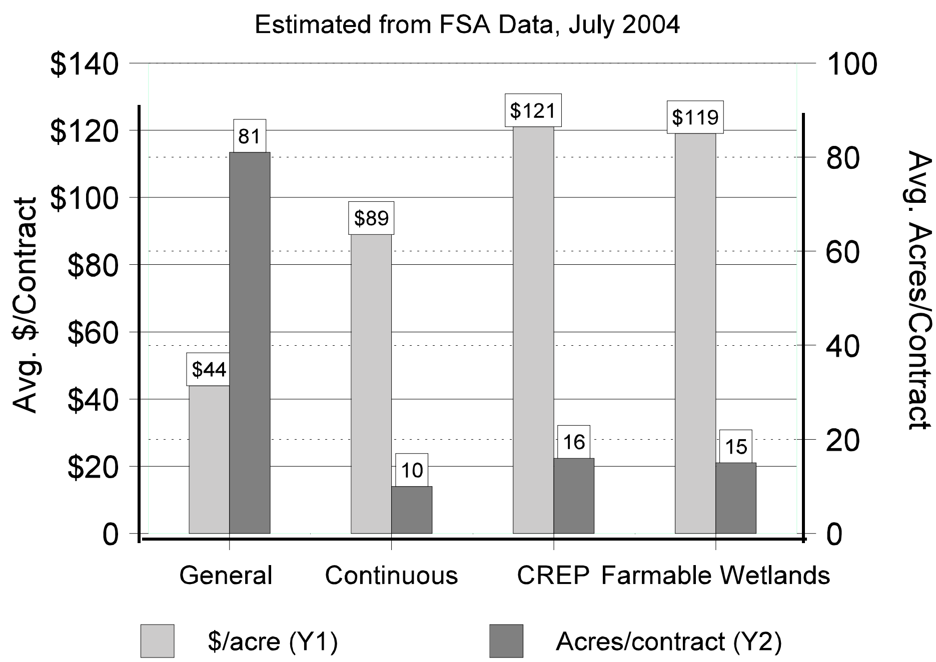
Conservation Reserve Enhancement Program (CREP). This is a joint Federal-State continuous signup program now available in parts of 25 states. CREP targets geographic areas with agriculture-related environmental problems, such as Maryland's Chesapeake Bay. Some states (including New York and Ohio) have multiple CREPs, each targeting a different area of the state. States must pay at least 20% of overall CREP costs. Generally, CREP pays higher rents to attract participation. Landowners may bid to enroll in CREP at any time.[2]

Farmable Wetlands Program. As authorized under the 2002 Farm Bill, this allows farmable wetlands - those that have been partially drained, or are naturally dry enough to allow crop production in some years, but otherwise meet the definition of a wetland — to be enrolled in CRP on a continuous basis. Up to 100,000 acres may be enrolled from any state (this may be increased to 150,000 acres after three years). The farm bill reserved 1 million acres for farmable wetlands enrollment.

Federal Payments and Cost

Acreage enrolled in CREP, continuous enrollment, or the farmable wetlands programs is generally eligible for higher payments than acres enrolled under general signups because of their higher environmental benefits, location and prevailing rental rates, and additional financial incentives for participation. However, such contracts are much smaller on average.

Figure 2. Average Contract Payment and Acreage, by Signup Type



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[2] States with land enrolled in CREP include Arkansas, California, Delaware, Florida, Illinois, Iowa, Kentucky, Maryland, Michigan, Minnesota, Missouri, Montana, Nebraska, New Jersey, New York, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Vermont, Virginia, Washington, West Virginia and Wisconsin.

The Congressional Budget Office estimates CRP will cost $1.8 billion in FY2004 and $1.9 billion in FY2005.[3] NRCS estimated that, prior to 2003, monetized CRP benefits (such as increased wildlife habitat and small game hunting) totaled about $1.4 billion per year. This figure does not include non-monetized benefits such as improved groundwater quality and wetland restoration. Critics allege that CRP is an expensive program, and that its benefits are temporary since participants are under no obligation to continue conservation practices after contracts end. Proponents counter that the estimated benefits document CRP's worth, and that not all of CRP's benefits have been or can be monetized. Moreover, they feel that it provides an incentive (especially for small farmers) to carry out land and water conservation practices they otherwise might not be able to afford, and that these practices have public benefits.

CRP Environmental Results. FSA estimates that, compared with 1982 erosion rates, CRP has reduced erosion by over 440 million tons per year on the 34 million acres enrolled in the program.[4] Other conservation benefits NRCS has documented on these lands include the sequestration of over 16 million metric tons of carbon annually; over 3.2 million acres of wildlife habitat established; and a reduction in the application of nitrogen (by 681,000 tons) and phosphorus (by 104,000 tons). Also, participants have planted about 2.7 million acres to trees, making it the largest Federal tree-planting program in history.[5]

The Effect of CRP on Local Economies. Some have raised concerns that retiring land in rural, largely agricultural economies means fewer farmers and fewer farm supply businesses in those areas. Section 2101(b) of the 2002 farm bill directed ERS to study the impact of CRP enrollment on rural economies and population levels. USDA's Economic Research Service (ERS) issued this report in February 2004. The report found that population trends were largely unaffected by high CRP enrollment. It also found that high CRP enrollment was associated with some job loss in rural areas between 1986 and 1992 - the years CRP was first underway - but that this was not true during the 1990s. However, the report said that national trends may mask regional adjustments, and that "local economic adjustments might be sizeable."[6] Participants at a June 2004 national CRP conference were split on the issue: some stated that CRP enrollment negatively affected their local economies, while others pointed to external reasons for rural economic downturns including farm consolidation and global competition. The debate surrounding whether CRP negatively impacts rural economies is likely to continue.

Current Issues

Expiration of Acres and Long-Term Direction of CRP. The most immediate concern for CRP is the scheduled expiration of more than 28 million acres between 2007 and 2010. Sixteen million of these will expire in 2007 alone, coinciding with the scheduled statutory reauthorization of the farm bill. FSA issued a notice on

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[3] Fiscal Year 2004 Budget of the U.S. Government, *Appendix*, page 100. These figures do not include technical assistance costs.

[4] Congressional Budget Office, March 2004 Baseline.

[5] CRP Benefit-Cost Assessment, February 2003, and FY2002 CRP annual statistics.

[6] US Department of Agriculture, Economic Research Service Report to Congress, "Conservation Reserve Program: Economic and Social Impacts on Rural Counties," pp. x-xiii, February 2004.

August 10, 2004, stating that it would extend contracts and offer early re-enrollment for these 28 million acres. But it also requested public comment, due December 8, 2004, on long-term policy questions, including: should USDA stagger CRP contract expirations to lessen the administrative cost of re-enrollments, and if so, how? Should it offer re-enrollments without competition? How can CRP ensure an equitable balance between goals (soil erosion, water quality, and wildlife benefits)? Should the EBI be modified? FSA also sought comment on appropriate performance measures for CRP, and whether CRP should focus on particular conservation practices (e.g., buffers) or geographic areas (including the areas contributing to the hypoxic zone in the Gulf of Mexico).[7] Congress will likely monitor these policy issues, particularly with the upcoming farm bill reauthorization.

Technical Assistance (TA). The cost of CRP technical assistance, or TA (funds used by USDA to help enroll producers and develop conservation plans) exceeds available CRP funds. Due to an unsolved dispute between Congress and the Administration on TA funding, USDA has been using funds from other so-called "donor" programs - the Environmental Quality Incentives Program (EQIP), the Grasslands Reserve Program (GRP), the Wildlife Habitat Incentives Program (WHIP) and the Farm and Ranch Land Protection Program (FRPP) - to pay for CRP TA. To protect the "donor" programs, the House passed an amendment (authored by Representative Lucas, R-OK) to the FY2005 agriculture appropriations bill that would prohibit "donor" program funds from funding CRP technical assistance.[8] If this is enacted, it is unclear how CRP signups would be funded, as the FY2004 agriculture appropriations bill prohibits USDA from using discretionary program funds for this purpose.

Taxes on CRP Payments. Farmers would like to treat CRP payments as "rental income" so it would not be subject to self-employment taxes, but the IRS ruled that under certain conditions CRP payments are income and are subject to such taxes. On March 3, 2000, the Sixth Circuit endorsed the IRS' view in *Wuebker v. Commissioner*,[9] reversing an earlier tax court ruling.[10] This issue was not addressed in the 2002 Farm Bill. On June 24, 2003, Senator Brownback introduced the Conservation Reserve Program Tax Fairness Act of 2003 (S. 1316) which would clarify that CRP payments are not subject to self-employment taxes. It was referred to the Senate Finance Committee, and no further action has been taken as of the date of this report. On March 30, 2004, Representative Moran introduced a companion bill, H.R. 4073, which was referred to the House Committee on Ways and Means. No further action has been taken on this bill as of the date of this report.

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[7] USDA, "Conservation Reserve Program - Long-Term Policy," 69 FR 48447.

[8] H.R. 4766, Title VIII, §801.

[9] 205 F.3d 897 (6th Cir. 2000). See also CRS Report RS20564, *Conservation Reserve Payments and Self-Employment Taxes*, by Marie Morris.

[10] 110 T.C. 31 (1998), *reversed* 205 F.3d 897 (6th Cir. 2000).