Order Code RS22040
February 3, 2005

CRS Report for Congress
Received through the CRS Web

Environmental Quality Incentives Program (EQIP): Status and Issues

Carol Canada
Technical Information Specialist
Resources, Science, and Industry Division

Jeffrey Zinn
Specialist in Natural Resources Policy
Resources, Science, and Industry Division

Summary

The Environmental Quality Incentives Program (EQIP) provides farmers with financial and technical assistance to plan and implement soil and water conservation practices. EQIP was enacted in 1996 and most recently amended by the Farm Security and Rural Investment Act of 2002 (Section 2301 of P.L. 107-171). It is a mandatory spending program (i.e., not subject to annual appropriations), administered by the Natural Resources Conservation Service (NRCS). EQIP is guaranteed a total of $6.1 billion from FY2002 through FY2007 from the Commodity Credit Corporation (CCC), making it the largest conservation cost-sharing program.[1] Issues about EQIP that the 109th Congress may explore, especially in appropriations discussions or as it starts to consider the next farm bill, include clearing the pending backlog of applications and measuring the program's accomplishments. This report will be updated as circumstances warrant.

Background

The Environmental Quality Incentives Program (EQIP) is the principal source of cost-sharing assistance for agricultural producers who wish to implement soil and water conservation practices. Participation is voluntary. In addition to cost-sharing assistance, EQIP also provides participants with technical assistance and incentive payments. EQIP was created by the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127, April 4, 1996) to replace four conservation cost-share programs repealed in the same

[1] The CCC is administered by a Board of Directors from agencies of the Department of Agriculture. It has no staff, and all work done on its behalf is performed by staff of agencies within USDA. For EQIP, NRCS provides the staff.

law. These were the Great Plains Conservation Program, the Agricultural Conservation Program (ACP), the Water Quality Incentives Program, and the Colorado River Basin Salinity Control Program.

EQIP Program Today

EQIP is currently administered by the U.S. Department of Agriculture's Natural Resources Conservation Service (NRCS) under a final rule, published in the May 30, 2003, *Federal Register*.[2] This rule implements amendments to the program enacted in the Farm Security and Rural Investment Act of 2002 (Section 2301 of P.L. 107-171, May 13, 2002), commonly referred to as the 2002 farm bill. EQIP's legislative mandate is to optimize environmental benefits. NRCS implemented this by establishing national priorities to reflect the nation's most pressing natural resource needs and emphasizing off-site benefits to the environment. NRCS considers these national priorities in allocating funds to states and establishing cost-share and incentive payment levels. The national priorities are:

- Reduction of nonpoint source pollutants in impaired watersheds, (consistent with Total Maximum Daily Loads,[3] or TMDLs), reduction of groundwater contamination, and conservation of ground and surface water resources;
- Reduction of emissions that contribute to air quality impairment violations of National Ambient Air Quality Standards;
- Reduction of soil erosion and sedimentation from unacceptable levels on agricultural land; and
- Promotion of at-risk species habitat conservation.

NRCS also has identified state and local priority natural resource concerns that support the national priorities. These state and local priorities are used as guidelines by states when selecting which producers will receive EQIP assistance, since applications continue to exceed available funds.

How EQIP Works

Producers with eligible land can apply by submitting an EQIP plan that describes the conservation and environmental purposes that the producer will achieve by using one or more USDA-approved conservation practices. Eligible land includes cropland, rangeland, pasture, private non-industrial forest land, and other farm or ranch lands as determined by USDA. Of the total authorized spending each year, 60% is allocated to livestock (both confined and grazing) practices.

USDA-approved conservation practices are categorized as either structural or land management practices. Structural practices involve the establishment, construction, or

---

[2] "Environmental Quality Incentives Program Final Rule," *Federal Register*, vol. 68, no. 104, May 30, 2003, pp. 32337-32355.

[3] For more information on TMDLs, see CRS Report 97-831, *Clean Water Act and Total Maximum Daily Loads of Pollutants*, by Claudia Copeland.

installation of a site-specific measures, such as animal waste management facilities, livestock water developments, and capping abandoned wells. Land management practices require site-specific management techniques and methods, such as nutrient management, irrigation water management, and grazing management. The goal of all practices is to conserve, protect from degradation, or improve soil, water, or related natural resources in the most cost-effective manner.

NRCS partners with units of federal, state, and local governments, and interest groups, to coordinate information and resources that address both local and national priorities. In addition, the producer can receive technical assistance from NRCS, state, local, or federal conservation offices, or approved third party providers to develop an EQIP plan and, after approval, to implement it. The local conservation district will review the plan and then decide whether or not to select the plan for EQIP funding. If approved, USDA will provide cost-share payments or incentive payments to help the producer offset the cost of the practice. Participants are eligible to receive cost-share payments for both constructing structures and implementing land management practices. In addition, they may be eligible to receive incentive payments from implementing certain higher-priority practices, such as developing comprehensive nutrient management plans.

Contracts are in effect from one to ten years. They are capped at $450,000 each, and total payments per person or entity over the life of the 2002 farm bill (through FY2007), regardless of the number of farms or contracts, is also $450,000. Individuals or entities with an average adjusted gross income (AGI) of $2.5 million for the three years prior to the contract period are ineligible, unless they received 75% of their AGI from farming, ranching, or forestry. USDA will pay up to 75% of the projected cost of each practice; however, limited resource producers and beginning farmers and ranchers[4] can be paid up to 90% of the projected cost. Initial payments are made the year in which the contract is signed.

EQIP Funding

The 2002 farm bill funded EQIP at a total of $6.1 billion in mandatory funds from the CCC through FY2007 (Section 2701). Of the $6.1 billion, $5.8 billion is to be used to fund the cost-share portion of EQIP. The program, which had previously been authorized at $200 million annually, was to receive $400 million in FY2002, $700 million in FY2003, $1 billion in FY2004, and $1.2 billion in FY2005. The program would have automatically received these amounts if Congress had not acted to reduce funding through annual appropriations legislation. However, Congress has limited funded to less than the authorized level each year. Funding was authorized at a total of $3.1 billion between FY2002 and FY2005, but Congress limited it each year, providing a total of $2.296

---

[4] A limited resource producer or rancher is a person with direct or indirect gross farm sales of not more than $100,000 in each of the previous two years (to be increased starting in FY2004 to adjust for inflation using the Prices Paid by Farmers Index as compiled by the National Agriculture Statistics Service) and a total household income at or below the national poverty level for a family of four, or less than 50% of county median household income (to be determined annually using Commerce Department data), in each of the previous two years. A beginning farmer or rancher is an individual or entity who has not operated a farm or ranch for more than 10 years duration.

billion. This is a reduction that is less than 4% below the authorized total.[5] For the remaining two years of this farm bill, $1.2 billion is provided in FY2006 and $1.3 billion is provided in FY2007. Congress increased funding in response to the large backlog of producer demand that was documented during the 2002 farm bill debate.

As shown in **Table 1**, the same three states have received the most EQIP funds each year. The leading state is Texas, which has received between 7.5% and 9% of the total. The higher portion has been allocated in each of the past two years. The next highest states have been California followed by Colorado each year. Below these three largest states, the amounts are very similar for several states. In FY2004, for example, the next four states were Nebraska ($29.6 million), Minnesota ($29.4 million), Montana ($28.4 million), and Kansas ($28.1 million).

Table 1. EQIP Allocations for the Three Largest Recipients, FY1998-FY2004
($ million)

State	1998	1999	2000	2001	2002	2003	2004
National, Total	**$198.2**	**$174.0**	**$176.6**	**$199.9**	**$387.0**	**$626.7**	**$908.3**
Texas	$16.3	$13.4	$13.3	$15.2	$28.7	$57.7	$78.6
California	$7.8	$8.1	$7.8	$9.2	$19.1	$48.6	$57.0
Colorado	$6.4	$7.5	$7.0	$7.1	$14.4	$25.6	$36.9

Source: USDA, NRCS.

New Programs under EQIP

Two sub-programs, both enacted in the 2002 farm bill, are implemented through EQIP. Competitive Conservation Innovation Grants (CIG) are intended to leverage federal investment, stimulate innovative approaches, and accelerate technology transfer in environmental protection and agricultural production. They are authorized in FY2003 through FY2006, from funding provided for EQIP. NRCS determines funding levels each year. The grants must not exceed 50% of the project cost, with matching funds provided by state and local governments and private organizations. The program operated under an interim final rule in FY2004 and is under a final rule in FY2005. CIG was funded at $15 million for FY2004, and made awards totaling $14.3 million to 41 applicants. Applications are being solicited for FY2005.

The Ground and Surface Water Conservation (GSWC) program provides cost-share and incentive payments to producers where the assistance will result in a net savings in ground or surface water resources in the producer’s agricultural operation. Funding is authorized as a separate amount in addition to EQIP at $25 million in FY2002, $45 million in FY2003, and $60 million for each year from FY2004 to FY2007. Congress limited funding to $51 million in both FY2004 and FY2005. In addition, producers in the Klamath Basin in California and Oregon continue to receive money from a separate and additional $50 million authorization between FY2002 and FY2007 for ground and surface water conservation activities.

---

[5] By contrast, the 1996 farm bill authorized funding at a total of $1.0 billion between FY1997 and FY2002, but it was limited to a total of $897 million, almost 90% of the authorized total.

Selected Policy Issues

EQIP enjoys widespread support in the farm community and among this community's supporters in Congress as it continues to be the major source of cost-sharing funds to help producers implement conservation practices that address specific resource and environmental problems. Major issues that might be discussed in the 109th Congress, and in anticipation of the next farm bill, include the backlog of interest that is not being met at current funding levels, and assessing more precisely what is being accomplished through the EQIP program. In addition, future funding may become an issue if reconciliation occurs with the FY2006 budget, leading to possible reductions in funding for mandatory programs in future years.

Applications Backlog

The volume of applications for EQIP funding has presented a perennial challenge to NRCS. While funding has grown, the number of applications has grown as well, and the gap between the supply of funds and the demand for them expanded rapidly in 2002 and again in 2003 (data for 2004 will be released with the FY2006 budget request in February 2005). As shown in **Table 2**, the number of EQIP applications received remained fairly constant from FY1998 through FY2001, as did the number of contracts signed and the backlog of pending applications. In FY2002 and FY2003, the number of applications, contracts, and backlog all grew rapidly. Between FY1998 and FY2001, NRCS awarded contracts to approximately one-third of the applicants, but that declined to 22% in FY2002 and to only 15% in FY2003. The result is that even with much more funding than in earlier years, the backlog is much larger than it has been, and if the backlog was a major justification for higher funding in the 2002 farm bill debate, it may be an even stronger argument in the next farm bill debate.

While the backlog is large, more detailed information is not currently available on the characteristics of the applications in that pool. Of particular interest may be whether there are any agricultural regions where a much smaller portion of applications are being funded, whether some practices are more likely to remain in the backlog than others, and whether some applications stay in the backlog for a much longer time period than others.

Table 2. Total Applications, Contracts, and Backlog Applications for EQIP

Fiscal Year	Total Applications	Contracts (% of applications)	Backlog Applications
1998	54,816	19,758 (36.0%)	35,058
1999	51,877	18,847(36.3%)	33,030
2000	53,961	16,249(30.1%)	37,712
2001	47,461	17,684(37.3%)	29,777
2002	90,312	19,817(21.9%)	70,495
2003	204,313	30,251(14.8%)	174,062

Source: NRCS, USDA.

Measuring EQIP Accomplishments

NRCS can provide considerable information about length of EQIP contracts, which conservation practices are being installed, and their design and maintenance standards. However, relatively little is known about what is actually being accomplished through EQIP contracts, or how enduring those accomplishments are after the contract ends. Among the questions that NRCS is trying to address for all its conservation activities, including EQIP, are how to evaluate performance, how to measure environmental changes, how to evaluate cost effectiveness, which methods to use to identify environmental effects, and which types of data should be collected to measure output. NRCS has recently initiated a national review of its conservation accomplishments called the Conservation Effects Assessment Project (CEAP) to develop better answers to all these questions. While it has committed several million dollars annually to this effort, few results will be available before the next farm bill debate begins.

Regarding EQIP specifically, NRCS has proposed to periodically review state-prepared reports to determine how the program is being delivered at the state and local level. NRCS will require states to prepare reports describing EQIP implementation and accomplishments tied to performance measures. This information will be available to the public from the NRCS website. Of particular interest may be livestock production practices, which receive 60% of total funding each year. Policy makers may seek more information about the development and adoption of Comprehensive Nutrient Management Plans, especially by Confined Animal Feeding Operations, referred to as CAFOs. CAFOs are large livestock operations; the minimum number of animals varies with the type of animal. Some have expressed concern that the effects of CAFOs on the environment and public health have not been adequately assessed, and may seek to address those concerns in the next farm bill.