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Agriculture and FY2006 Budget Reconciliation

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Summary

On March 17, 2005, the House and Senate completed action on differing versions of an FY2006 budget resolution (H.Con.Res. 95, S.Con.Res. 18). Both measures contain reconciliation instructions that would require authorizing committees to report legislation to reduce spending on mandatory programs within each committee's jurisdiction. In the House-passed version, the Agriculture Committee would be required to cut mandatory U.S. Department of Agriculture (USDA) programs by $797 million in FY2006 and $5.3 billion over five years (FY2006-FY2010), compared with Senate-passed instructions to its Agriculture Committee of $171 million in FY2006 and $2.8 billion over the five years. The Administration has proposed changes to several mandatory USDA programs, which it says would save $5.7 billion over five years (and which CBO subsequently scored at $9.4 billion in reductions). No cuts are required of the committees until a pending conference agreement on the resolution is reached. If an agreement is reached, the Agriculture Committees must determine how to divide the cuts among the various programs under their jurisdiction. This report will be updated.

What Is Budget Reconciliation?

The annual congressional budget resolution provides a blueprint for all federal revenues and spending over a multi-year period. Although it does not require the President's approval, the budget resolution does establish limits for all discretionary and mandatory spending for the coming fiscal year. Once approved, the discretionary spending total is allocated to the appropriations committees, where it is subdivided among their various subcommittees. The resolution also might require reductions in mandatory spending, particularly in years when the federal deficit is expected to be large. When this occurs, the resolution issues reconciliation instructions to various authorizing committees requiring them to report changes to legislation to reduce spending on mandatory programs under the committees' jurisdiction. The reported language from each committee is then sent to its respective budget committee by a date specified in the resolution, where it is packaged with language from other committees into an omnibus reconciliation bill, which is taken to each chamber's floor for consideration. Each chamber's approved reconciliation bill is then sent to a conference committee, and a final conference measure must be approved by both chambers and signed by the President before it becomes law. (For more on budget reconciliation procedure, see CRS Report 98-814, *Budget Reconciliation Legislation: Development and Consideration*, and CRS Report RL30458, *The Budget Reconciliation Process: Timing of Legislative Action.*)

USDA Mandatory Spending Defined

Approximately three-fourths of total spending within USDA is classified as mandatory, which by definition occurs outside the control of the annual appropriations process. Currently accounting for the vast majority of USDA mandatory spending are the farm commodity price and income support programs, the food stamp program and most child nutrition programs, the federal crop insurance program, and various agricultural conservation and trade programs. Legislative authority for these programs is under the jurisdiction of the House and Senate Agriculture Committees.[1] Hence, any reconciliation instructions that are delivered to the agriculture committees could potentially impact spending for any or all of these programs.

All of the farm commodity support programs and mandatory conservation and trade programs are funded through the borrowing authority of USDA's Commodity Credit Corporation (CCC), not by an appropriation to the programs.[2] The CCC has a $30 billion line of credit with the U.S. Treasury that it taps to provide the annual required funding of these programs, as well as for other purposes. Because the CCC typically spends more than it earns, its losses must be replenished annually through a congressional appropriation so that its $30 billion borrowing authority is not depleted. Administration and congressional budget forecasters estimate each year the projected cost of the commodity support programs. However, because farm crop prices are highly variable and difficult to estimate, these programs ultimately receive "such sums as necessary" under their farm bill authorization, regardless of budget estimates.

The mandatory conservation programs for the most part have a fixed authorization level each year (stated either in dollars or enrolled acreage) as mandated by the 2002 farm bill, with funding from the CCC, not from an appropriation. Like the commodity support programs, crop insurance also receives such sums as necessary regardless of budget estimates. Its funding comes through an indefinite appropriation to the Federal Crop Insurance Fund, a fund separate from the CCC. The mandatory USDA food and nutrition programs (food stamps and child nutrition programs) receive an annual appropriation, but funding levels ultimately are determined by the eligibility rules established in current food and nutrition laws.

[1] The one exception is the child nutrition programs, which are under the jurisdiction of the Committee on Education and the Workforce in the House, and the Agriculture Committee in the Senate.

[2] The major mandatory farm commodity price and income support programs include those for wheat, feed grains, oilseeds, cotton, rice, peanuts, sugar, and dairy. The largest mandatory conservation programs include the Conservation Reserve Program, the Environmental Quality Incentives Program, the Conservation Security Program, and the Wetlands Reserve Program.

CBO's Baseline Budget for USDA

Each year, the Congressional Budget Office issues a baseline budget for all federal spending under current law over a 10-year period. Projected spending in the baseline budget represents CBO's estimate at a particular point in time of what federal spending and revenues will likely be under current law if no policy changes were made over the projected period. The CBO baseline serves as a benchmark or starting point for future budget analyses. For example, whenever any new legislation is introduced that affects federal mandatory spending, its impact is measured by CBO as a diffrence from the baseline.

Table 1 below represents CBO's most recent baseline (March 2005) estimate for the major mandatory USDA programs. It represents CBO's estimates under current law (e.g., the 2002 farm bill for the commodity support and conservation programs) given current CBO projections for economic and market conditions for the next five years. Any budget reconciliation instructions that are given to the agriculture committees are measured against the CBO baseline. This means that any legislation that the committees are required to report will be scored by CBO against the baseline to determine whether the committee is in compliance with the reconciliation instructions.

Table 1. CBO's March 2005 Baseline Budget Estimates for Selected Mandatory USDA Programs

($ million)

	FY2006	FY2007	FY2008	FY2009	FY2010	5-Yr. Total FY2006-FY2010
Farm Commodity Support	18,099	15,765	13,826	14,059	13,733	75,482
Export Programs	230	264	266	300	325	1,385
Conservation	4,343	4,620	4,591	5,344	5,167	24,065
Crop Insurance	3,702	3,839	3,918	3,986	4,066	19,511
Food Stamps	33,445	33,035	33,287	33,911	34,673	168,351
Child Nutrition	12,577	13,140	13,734	14,336	15,036	68,823

Source: Congressional Budget Office.

FY2006 Congressional Reconciliation Action

On March 17, 2005, both the House and the Senate completed floor action on their respective versions of the FY2006 budget resolution (H.Con.Res. 95, S.Con.Res. 18). Conference action is pending. Both of the approved resolutions contain reconciliation instructions that would require the House and Senate Agriculture Committees to report legislation reducing spending on mandatory USDA programs over a one-year and five-year period. The House-passed resolution requires the House Agriculture Committee to reduce spending on programs under its jurisdiction by $797 million in FY2006, and $5.278 billion over five years (FY2006-FY2010). The Senate-passed resolution requires the Senate Agriculture Committee to reduce mandatory USDA spending by a lesser amount: $171 million in FY2006 and $2.814 billion over the same five-year period. An amendment offered by farm state Democratic Senators to delete the agriculture reconciliation instructions from the Senate resolution was defeated on the floor by a 46-54 vote. Both the House and Senate levels are below the level of cuts requested for mandatory USDA spending — $1.258 billion in FY2006 and $5.708 billion over five years, as estimated by the Administration. (See "Administration Proposals," below, for more information.)

No reconciliation action will be required of the committees unless and until a budget resolution with reconciliation instructions is reported by the conference committee and passed by both chambers. Neither version of the budget resolution mandates how the agriculture committees are to achieve the required spending reductions; instead, those decisions are left to the committees. However, the Senate-reported resolution contains a non-binding sense of the Senate amendment that any agricultural savings should be achieved primarily through reductions in farm commodity program payment limits. (For more on payment limits, see CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*.

Table 2. House and Senate FY2006 Budget Resolution Reconciliation Instructions to Agriculture Committees

($ million)

	FY2006 (1-yr.) Reduction	FY2006-FY2010 (5- yr.) Reduction
House Budget Resolution (H.Con.Res. 95)	797	5,278
Senate Budget Resolution (S.Con.Res. 18)	171	2,814

Administration Proposals for FY2006 Agriculture Reconciliation

On February 7, 2005, the Administration released its budget request for FY2006, which contained numerous government-wide proposals for reducing mandatory agricultural spending over a multi-year period. With respect to USDA mandatory spending, these proposals would affect spending on the farm commodity price and income support programs, and crop insurance and food stamps, and would require legislation to make these changes.

Among the Administration's proposals affecting USDA programs are (1) a 5% across-the-board cut in all payments received by farmers under the commodity support programs; (2) a tightening of payment limits for these programs from the current level of $360,000 per person to $250,000, which would also apply to certain benefits not included under the current payment limit; (3) a requirement that certain commodity payments be based on historical crop production rather than current production; (4) an assessment that would be paid by sugar processors on all marketed sugar; (5) greater flexibility for USDA to adjust government purchase prices for surplus dairy products, in order to minimize government costs of the dairy price support program; (6) a reduction in subsidies to the federal crop insurance program; and (7) the termination of a practice under which some households with relatively high income/assets can qualify for food assistance because they receive other public assistance.

According to Administration estimates, these proposals in total (if enacted) would reduce baseline spending for mandatory USDA programs by $1.26 billion in FY2006, $5.7 billion over five years (FY2006-FY2010). The Administration also recommends a two-year legislative extension of the Milk Income Loss Contract (MILC) program, which would cost an estimated $1.2 billion and would reduce the total five-year savings from $5.7 billion to $4.5 billion, according to Administration estimates. The Congressional Budget Office independently estimated the Administration's request for USDA mandatory program reductions at $9.4 billion over five years, before taking into account the proposed extension of the MILC program, which according to CBO estimates would reduce the net savings to $8.1 billion over five years. The CBO estimate does not include an estimate of the payment limit proposal.

For more on the Administration's FY2006 budget request, see CRS Report RS22071, *The FY2006 Budget Request for the U.S. Department of Agriculture (USDA)*.

Issues for Congress

The House and Senate have passed separate FY2006 budget resolutions that are different not only in terms of the level of cuts to be made to agricultural programs, but also in the total proposed reductions to all mandatory programs. In total, the House-passed resolution would require its authorizing committees to reduce all mandatory spending by $69 billion over five years, while the Senate-passed version would reduce spending $17 billion over the same period. Because of the large discrepancy between the two measures, many policymakers believe that reaching a conference agreement will be a difficult task and might even result in no budget agreement at all, thus precluding the requirement for any reconciliation action.

For agricultural interests, at the center of the debate is the question of how much (if any) USDA programs should be required to contribute to deficit reduction, and if a budget agreement is reached, to what programs and in what form these cuts should be made. Farm groups have been stating that farm commodity support programs have already contributed their share to deficit reduction since the enactment of the 2002 farm bill. They contend that actual spending for farm commodity support the last three years has been some $15 billion below the CBO estimate for farm support program spending at the time of enactment, and that this should be captured as savings and credited as their contribution to reducing the deficit. However, budget rules do not recognize this as savings, in the same way they do not hold the programs accountable when actual spending is above budget estimates. Supporters of the programs further argue that the 2002 farm bill should not be reopened, and that program authority should be left intact until 2007, when the current farm bill expires.

If reconciliation is required of the agriculture committees, the committees still need to determine how the cuts would be distributed among the various programs under their jurisdiction. Agriculture committee leaders in both chambers have stated that if reconciliation is required, all relevant program areas will be considered. The Administration proposal to achieve savings through the reduction in farm program payment limits has generated significant debate, with the strongest opposition emanating from cotton and rice growers in the South, who receive the largest average payments under the programs, but have the largest production costs. The committees also will be faced with the question of whether to reauthorize the Milk Income Loss Contract (MILC) program, which provides direct payments to dairy farmers when farm milk prices are low. The MILC program, which expires September 30, 2005, is supported primarily by small dairy producers. However, a proposed two-year reauthorization would cost an estimated $1.3 billion, which would have to be offset by other spending reductions. Extending the MILC program at a time when other commodity payment programs are reduced has become a source of controversy. (For more on these issues, see CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*; and CRS Issue Brief IB97011, *Dairy Policy Issues*.)