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Agriculture and FY2006 Budget Reconciliation

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Summary

The FY2006 budget resolution (H.Con.Res. 95, H.Rept. 109-62) contains reconciliation instructions that require authorizing committees to report legislation to reduce spending on mandatory programs within each committee's jurisdiction. The resolution instructed the House and Senate Agriculture Committees to report legislation reducing spending on USDA mandatory programs by $173 million in FY2006 and $3.0 billion over five years (FY2006-FY2010). The House and Senate Agriculture Committees have completed action on their recommendations ($3.65 billion in the House and $3.0 billion in the Senate). The two measures would reduce spending on farm commodity and conservation programs in varying ways. The House measure also eliminates funding for various rural development programs and reduces food stamp spending. The Senate extends authority for a dairy income support program, which would require an offset of its projected cost. Reconciliation floor action is expected in November. 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*, by Bill Heniff, Jr., and CRS Report RL30458, *The Budget Reconciliation Process: Timing of Legislative Action*, by Robert Keith.)

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 takes in, 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.

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[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 difference 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. 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-Year 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 Budget Resolution Reconciliation Instructions

The House and the Senate approved the conference report (H.Rept. 109-62) on the FY2006 budget resolution (H.Con.Res. 95) on April 28 and April 29, 2005, respectively. The approved resolution contains reconciliation instructions that require the House and Senate Agriculture Committees to report legislation reducing spending on mandatory USDA programs by $173 million over a one-year period (FY2006) and by $3.0 billion over a five-year period (FY2006-FY2010). The resolution does not mandate how the agriculture committees are to achieve the required spending reductions; instead, those decisions are left to the committees. It did require that each committee submit its recommendations to its respective budget committee no later than September 16, 2005, to be included in the reconciliation measure that each chamber subsequently considers. However, with congressional attention focused on Hurricane Katrina relief and recovery in September, committee reconciliation action was postponed until October.

Administration Proposals

On February 7, 2005, the Bush 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, and $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. 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),* by Jim Monke.

House and Senate Agriculture Committee Reconciliation Action

The House and Senate Agriculture Committees have approved separate versions of budget reconciliation legislation to reduce mandatory USDA spending over five years. The Senate committee version, approved October 19, 2005, contains a CBO-estimated net reduction of $3 billion over five years; the House committee version, approved October 28, provides estimated cuts of $3.65 billion over the same timeframe. The FY2006 budget resolution gave both agriculture committees instructions to cut spending under their jurisdiction by $3 billion. However, House leadership subsequently instructed all of the authorizing committees to cut additional spending in order to offset some of the cost of hurricane assistance. The recommendations made by the agriculture committees are reported to their respective budget committees, where they are consolidated with other committee recommendations into an omnibus reconciliation bill (S. 1932 in the Senate, pending in the House). Floor action is expected in November.

Both committee versions make net reductions in farm commodity support programs ($1.0 billion in the House and $1.7 billion in the Senate), which differ in how these targets would be reached. Both make across-the-board reductions in commodity payments — the Senate measure reduces all farm program payments by 2.5%, the House reduces only direct payments by 1%. In both measures, the upland cotton step-2 program would be eliminated effective August 1, 2006, in response to Brazil's successful challenge of the program in the World Trade Organization (WTO). Both measures also contain provisions that change the timing of commodity support payments without reducing the overall payment. Only the Senate measure contains a two-year extension of the Milk Income Loss Contract (MILC) program, which expired September 30, 2005. The Senate measure also provides a four-year extension of the commodity support programs (to 2011) in order to preserve baseline spending beyond 2010 at the higher pre-reconciliation level of spending. The House measure extends authority for food stamps and the Conservation Security Program through 2011.

Both measures reduce authorized spending for various mandatory conservation programs ($760 million in the House and $1.054 billion in the Senate), with the Conservation Security Program receiving the largest reduction. Both also reduce spending on a mandatory research program in varying degrees. The House committee measure eliminates all funding for several mandatory rural development programs and also reduces food stamp spending by $844 million over five years. Additional funds of $50 million are provided to the food stamp program in response to the hurricanes (including $12 million for food bank commodity purchases and an estimated $38 million increase in administrative costs.)

(See **Table 2** on the next page for a detailed comparison of the two committee measures.)

Issues for Congress

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. An amendment to reduce payment limits might be offered to the reconciliation bill on the Senate floor. Policymakers 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 expired September 30, 2005, is supported primarily by small dairy producers. However, a proposed two-year reauthorization would have to be offset by other spending reductions. Extending the MILC program at a time when other commodity payment programs are reduced has been a source of controversy. (For more on these issues, see CRS Report RS21493, *Payment Limits for Farm Commodity Programs: Issues and Proposals*, by Jim Monke; and CRS Issue Brief IB97011, *Dairy Policy Issues*, by Ralph Chite.)

Table 2. Comparison of House and Senate Agriculture Committee Reconciliation Provisions

Congressional Budget Office (CBO) Estimate of 5-year Savings (-) or Costs (+), million $

	House	Senate
Farm Commodity Support Programs		
Reduce farm commodity program payments (Senate: cut all payments by 2.5%, 2006-2010 crops; House: cut direct payments by 1%. 2006-2009 crops)	-$212	- $1,296
Penalty of 1.2% of loan rate for nonrecourse sugar loan forfeitures (Senate)		- $65
Eliminate the upland cotton Step-2 program on Aug. 1, 2006 (House & Senate)	-$282	- $282
Reduce advanced direct payments (House: from 50% to 40% in crop years 2006 and 2007; Senate: 50% to 40% in 2006, to 29% in 2007-2011)	-$513	- $1,088
Gross Farm Commodity Program Reductions	***-$1,007***	***-$2,731***
Two-year extension of the MILC Program to Sept. 30, 2007 (Senate)		***+ $998***
Net Farm Commodity Program Reductions	***-$1,007***	***-$1,733***
Conservation Programs		
Reduce authorized enrolled acreage in Conservation Reserve Program (Senate)		- $129
Limit spending for Environmental Qualities Incentive Program (Senate)		- $104
Limit authorized spending for Conservation Security Program (House & Senate)	-$504	- $821
Eliminate Agricultural Management Assistance funding in FY2007 (House)	-$31	
Reduce Watershed Rehabilitation Program and prohibit carryover of funds (House)	-$225	
Total: Conservation Program Reductions	***-$760***	***-$1,054***
Energy and Rural Development (RD) Programs		
Eliminate funds for Renewable Energy & Energy Efficiency Program (House)	-$23	
Eliminates all FY2007 funding, prohibits carryover of funds, and rescinds unobligated funds as of 9/30/06 for the following RD programs:		
Value-Added Agricultural Product Market Development Grants (House)	-$160	
Rural Business Strategic Investment Grants (House)	-$100	
Rural Business Investment Program (House)	-$89	
Rural Firefighters and Emergency Personnel Grants (House)	-$50	
Enhanced Access to Broadband Telecommunication in Rural Areas (House)	-$47	
Total: Energy and Rural Development Program Reductions	***-$469***	***$0***
Research: Reduce funding for Initiative for Future Ag & Food Systems (House and Senate)	***-$620***	***- $227***
Food Stamps		
Limit categorical eligibility to recipients of TANF cash assistance, FY06-10 (House)	-$569	
Increase waiting period for immigrants from 5 years to 7 years (House)	-$275	
Total: Food Stamp Program Reductions	***-$844***	***$0***
Gross Reductions (-) in Mandatory Outlays	**-$3,700**	**-$4,012**
(+) Increases in bills: **-Food Stamp hurricane relief (House)** **-MILC Program reauthorization (Senate)**	**+$50**	**+$998**
= Net Reduction in Mandatory Spending Outlays	**-$3,650**	**- $3,014**