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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 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. EQIP is guaranteed a total of $10.0 billion from FY2002 through FY2010 from the Commodity Credit Corporation (CCC), making it the largest conservation financial assistance program.[1] Issues about EQIP that Congress may explore as it starts to consider the next farm bill include (1) reducing the pending backlog of applications, (2) measuring the program's accomplishments, and (3) using EQIP to address specific topics or needs in specified locations. This report will be updated as circumstances warrant.

Background

EQIP is the principal source of financial assistance (cost-sharing payments and incentive payments) for agricultural producers who wish to implement soil and water conservation practices. It also provides participants with technical assistance. Participation is voluntary. EQIP was created by the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127, April 4, 1996) and replaced four conservation programs repealed in the same law. These were the Great Plains Conservation Program,

[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.

the Agricultural Conservation Program (ACP), the Water Quality Incentives Program, and the Colorado River Basin Salinity Control Program.

EQIP Program Today

EQIP is 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 most pressing natural resource needs and emphasize 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 current 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 reduction of pollution from point sources;
- 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.

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 lands as determined by USDA. Of the total authorized annual spending, 60% is allocated to livestock (both confined and grazing) practices.

USDA-approved conservation practices may involve structures, vegetation, or land management. Structural practices include the establishment, construction, or installation of measures designed for specific sites, such as animal waste management facilities, livestock water developments, and capping abandoned wells. Vegetative practices involve

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[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.

introduction or modification of plantings, such as filter strips or trees. Land management practices require site-specific management techniques and methods, such as nutrient management, irrigation water management, or grazing management.

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, producers 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 to a person or entity over any six-year period is also limited to $450,000. Individuals or entities with an average annual 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 receive up to 90% of the cost. Initial payments are made the year in which the contract is signed.

EQIP Funding

The 2002 farm bill (Section 2701) funded EQIP at a total of $6.1 billion in mandatory funds from the CCC through FY2007. Of the $6.1 billion, $5.8 billion is to be used to fund the cost-share portion of EQIP with the remainder for the new programs discussed in the next section. The program, which had been authorized at $200 million annually before FY2002, was to receive $400 million in FY2002, increasing up to $1.3 billion in FY2007. A main justification for this increase was to respond to the large backlog of producer demand that had been documented during the 2002 farm bill debate. As a mandatory program, it would have automatically received the authorized amounts if Congress had not acted to reduce funding every year through annual appropriations legislation. Funding was authorized at a total of almost $4.4 billion between FY2003 and FY2006, but Congress limited it each year, providing a total of $3.952 billion. This reduction is almost 10% below the authorized total.[5]

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[4] A limited resource producer or rancher has direct or indirect gross farm sales of not more than $100,000 in each of the previous two years (adjusted for inflation) 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 (determined using Commerce Department data), in the previous two years. A beginning farmer or rancher is an individual or entity who has farmed for less than 10 years.

[5] The percentage reduction was very similar before the 2002 farm bill, as the 1996 farm bill authorized funding at a total of $1.0 billion between FY1997 and FY2002, but appropriators limited it to a total of $897 million, reducing it by slightly more than 10% of the authorized total.

EQIP funding levels were amended by Section 1203 of the Deficit Reduction Act of 2005 (P.L. 109-171), which limited funding to $1.27 billion in FY2007. This legislation also extended the authorization through FY2010, providing $1.27 billion in FY2008 and FY2009, and $1.3 billion in FY2010.

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 approximately 9% of the total in each of the past four years. The next highest states have been California followed by Colorado each year. In FY2006, the next four states receiving the largest amounts were Minnesota ($32.0 million), Nebraska ($31.8 million), Montana ($31.7 million), and Kansas ($30.8 million).

Table 1. EQIP Allocations for the Three Largest Recipients, FY1998-FY2006

($ million)

State	1998	1999	2000	2001	2002	2003	2004	2005	2006
National Total	**198.2**	**174.0**	**176.6**	**199.9**	**387.0**	**626.7**	**908.3**	**991.9**	**1,013.3**
Texas	16.3	13.4	13.3	15.2	28.7	57.7	78.6	90.0	91.3
California	7.8	8.1	7.8	9.2	19.1	48.6	57.0	62.1	62.9
Colorado	6.4	7.5	7.0	7.1	14.4	25.6	36.9	39.2	41.2

Source: USDA, NRCS.

New Programs under EQIP

Three sub-programs, enacted in the 2002 farm bill, are implemented through EQIP. One of these, the Competitive Conservation Innovation Grants (CIG), is intended to leverage federal investment, stimulate innovative approaches to conservation, and accelerate technology transfer in environmental protection and agricultural production. CIG is authorized from FY2003 through FY2006 at an unspecified annual funding level. Grants must not exceed 50% of the project cost, with non-federal matching funds provided by the grantee. NRCS established national, state, and Chesapeake Bay watershed components, and allocated up to $10 million, up to $5 million, and up to $5 million, respectively, in FY2006. For funding in earlier years, CIG was not implemented in FY2003, then awarded $14.3 million in FY2004 and $22.0 million in FY2005.

A second sub-program, 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 annually from FY2004 through FY2007. Congress limited funding to $51 million in FY2004, FY2005, and FY2006.[6] In the third sub-program, producers in the Klamath Basin in California and Oregon continue to receive money from a separate and additional $50 million

[6] In FY2005, GSWC provided approximately $63 million in funding to producers (includes $51million congressionally limited funding and $12 million through another farm bill provision that requires a minimum total funding to each state in support of regional equity).

authorization, to be provided "as soon as practicable" to install conservation practices and manage irrigation waters.[7]

Selected Policy Issues

EQIP enjoys widespread support in the farm community and in Congress as it continues to be the major source of financial assistance to help producers implement conservation practices that address specific resource and environmental problems. Major issues that might be discussed in anticipation of the next farm bill include the backlog of interest that is not being met at current funding levels, assessing more precisely what is being accomplished through the EQIP program, and using EQIP to address specific topics or needs in specified locations.

Applications Backlog

The number of applications for EQIP funding each year has been large enough that NRCS has not been able to clear the backlog, even with much higher funding levels. As show in **Table 2**, the gap between the supply of funds and the demand for them expanded rapidly in FY2002 and FY2003 after remaining fairly constant earlier. In FY2004 and FY2005, the number of contracts continued to grow, and the backlog decreased to levels not experienced since FY2001. Between FY1998 and FY2001, NRCS awarded contracts to approximately one-third of the applicants each year, but that declined to 22% in FY2002 and to only 15% in FY2003, then increased to 25% in FY2004. NRCS awarded contracts to more than half of the applicants in FY2005. The backlog is still large even with the additional funding, and if the backlog was a major justification for higher funding in the 2002 farm bill debate, it could be a strong argument in the next farm bill debate. However, from FY2004 to FY2005, a very large number of backlog applications were not updated (for unknown reasons), and are therefore no longer considered. As a result, the total backlog declined by almost 103,000, even though only 50,000 applications were funded.

Table 2. EQIP Applications and Contracts

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
2004	181,807	46,413 (25.5%)	135,394
2005	82,114	49,406 (60.2%)	32,708

Source: NRCS, USDA.

[7] In addition, the Administration has undertaken other initiatives, including pilot projects that provide market-based incentives for water quality and target small and limited resource farmers.

While the backlog is large, detailed information is not currently available on the characteristics of those applications. 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.

Measuring EQIP Accomplishments

NRCS can provide considerable information about EQIP contracts, including 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.

Targeting EQIP

A small portion of EQIP funding is now targeted, as a result of provisions enacted in 2002, to the three sub-programs described above. One, the Klamath Basin, is targeted to a specific area, and the other two are targeted to specified topics, ground and surface water conservation, and innovative conservation technologies. A question that may be addressed in the farm bill debate is whether more sub-programs should be created, and if so, what topics will these programs address and how much money will be committed to them. Interests may promote many different topics for such programs, but if funds for these sub-programs are taken out of the general EQIP program, that may attract opposition, especially if EQIP funding remains at currently authorized levels, as is widely anticipated as a preferred outcome in the current budget environment.