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 10 years or more. It is the federal government's largest private land retirement program. The program is administered by the Farm Service Agency (FSA) of the U.S. Department of Agriculture (USDA), with technical assistance provided by USDA's Natural Resources Conservation Service. The CRP also has several subprograms, the best-known of which is the Conservation Reserve Enhancement Program (CREP).

The 2008 farm bill (P.L. 110-246) reauthorized CRP through FY2012 but reduced the maximum acreage level to 32 million acres, down from the previous cap of 39.2 million acres. Criteria for haying and grazing on CRP land were amended, and incentives were authorized to assist socially disadvantaged and beginning farmers in leasing or purchasing land under a CRP contract. A draft supplemental environmental impact statement (SEIS) on the 2008 farm bill changes to CRP was completed in February 2010. On May 14, 2010, an interim rule was published in the *Federal Register* to implement the Transition Incentives Program. The final SEIS was available for public comment for a 30-day period beginning June 18, 2010, and ending July 19, 2010. Following the end of the comment period, and a review of the comments by FSA, a record of decision (ROD) for the CRP SEIS will be issued.

The national enrollment as of July 2010 stood at 31.3 million acres, a decrease of approximately 3.4 million acres from October 2008 and a decrease of approximately 2.4 million acres from September 2009. Approximately 4.3 million acres of farmland was added through a general sign-up (number 39) in summer 2010, nearly 57% of which was acreage under contracts set to expire September 30, 2010. This was the first general sign-up since 2006. Approximately 85% of total CRP acreage is currently enrolled under general sign-ups. There was also a continuous enrollment sign-up during late spring and summer 2009 (number 37) that added 488,000 acres to CRP totals. Continuous sign-up 38 began in October 2009 and will continue to October 2011.

For FY2010, rental outlays are projected to total $1.9 billion, approximately $250 million less than for FY2009. This projected total includes funding for rental payments, cost-share payments, and incentive payments. The average per-acre rental payment for general sign-ups is currently $44.57, and the average rental rate for CREP totals over $129 per acre. The average rental payment for all CRP programs is approximately $53 per acre.

Between 2007 and 2010, 27.8 million acres under CRP contracts expired. Contracts for approximately 24 million (86%) of these acres have been renewed or extended. On September 30, 2009, contracts on approximately 3.9 million acres were set to expire. USDA announced a sign-up for contract extensions that ran from May 18 to June 30, 2009. Of the expiring 3.9 million acres, however, only about 1.5 million were offered extension contracts. About 55% of the eligible expiring acreage was in four states: Colorado, Kansas, Montana, and Texas. As of December 2009, participants holding contracts on 1.1 million acres originally set to expire September 30, 2009, had accepted extension offers (73%). Contracts on an additional 4.5 million acres are set to expire September 30, 2010. Approximately 75% of the FY2010 expiring acreage has been reenrolled or had its contracts extended.

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CRP General Background

The Conservation Reserve Program (CRP) is the federal government's largest 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. 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 FSA makes annual rental payments based on the agriculture rental value of the land, and provides cost-share assistance for up to 50% of the participant's costs in establishing various approved conservation practices. There are also one-time sign-up bonuses and incentives for socially disadvantaged farmers and ranchers, new and beginning famers and ranchers, and limited-resource farmers and ranchers. Participants enroll in CRP contracts for 10 to 15 years.

Participants bid to retire land from production for 10-15 years. Contracts are awarded by FSA based on their assessment of the land's environmental value using an Environmental Benefits Index (EBI). If the land is accepted, the landowner may enroll the land, receive annual rental payments for it, and maintain the land under an approved conservation plan. 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 a NRCS-approved conservation system to be eligible for some federal farm programs (including commodity payments).

Enrolling in CRP

There are two types of sign-ups for enrolling land in the CRP: general and continuous. As of July 2010, there were 743,449 CRP contracts nationally on 416,121 farms (nearly 19% of all farms) under all CRP programs. These data compare to 788,118 CRP contracts on 443,615 farms in September 2007. Contracts under continuous sign-ups now exceed the number of contracts under general sign-ups (401,117 versus 342,332).[1]

Land eligible for CRP enrollment must be either (1) cropland that is planted or considered planted to an agricultural commodity in four of the previous six crop years from 1996 to 2001, or (2) certain marginal pastureland that is enrolled in the Water Bank Program or suitable for use as a riparian buffer or for similar water quality purposes. The 2008 farm bill modified the land eligibility requirements so that alfalfa and other multi-year grasses and legumes are to be considered agricultural commodities when grown in a rotation practice approved by FSA. The farm bill also clarified that when alfalfa is grown in an approved rotation practice, it is to be considered an agricultural commodity and can be used to fulfill the requirement that land be cropped in four of six previous years in order to be eligible.

[1] The five states with the largest number of acres under CRP contract are Colorado, Kansas, Montana, North Dakota, and Texas. These five states account for about 44% of the total national acreage enrolled.

General Sign-Up

General sign-ups are specified enrollment periods during which landowners compete nationally to enroll their land in the CRP. A new general sign-up (number 39) was held in late spring and summer 2010. This was the first general sign-up since 2006. For this most recent general sign-up, FSA accepted 4.3 million acres. Over half the acreage enrolled was set to expire on September 30, 2010. Approximately 85% of CRP acreage (26.7 million of 31.3 million acres) is currently enrolled through general sign-up. 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 demonstrate the highest environmental benefits.

These general sign-ups are always competitive. For the most recent sign-up, nearly 4.8 million acres were offered for sign-up, of which 4.3 million were accepted. For the previous general sign-up (number 33), which ran from March 27 to April 28, 2006, USDA selected 1 million acres of the 1.4 million acres offered. This enrolled acreage included about 673,000 acres of land located within conservation priority areas, about 629,000 acres with an erodibility index of eight or greater (highly erodible), and about 265,000 acres to be restored to rare and declining habitats.

Environmental Benefits Index (EBI)

As the CRP has been expanded 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 could award points to projects that have the potential to sequester carbon (reducing greenhouse gas emissions). Other factors include wildlife habitat benefits from planted cover crops, water quality benefits from reduced erosion, and whether benefits will endure beyond the contract period. Offers that included a willingness to accept less than the maximum rental rate for acreage, as well as offers to reenroll land, may have received additional points. FSA ranks all applications nationally, and then sets an EBI score cutoff above which applications will be accepted. For the most recent general sign-up, FSA set a cutoff score of 200 on the EBI.

Continuous Sign-Up (Includes Bobwhite Quail and Non-Floodplain Wetlands)

Environmentally desirable land devoted to specific conservation practices with high environmental benefits may be enrolled in the CRP at any time for 10-15 years under continuous sign-up.[2] 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. Within the continuous sign-up program there are some options tailored to certain conservation needs, such as restoring floodplain wetlands and native hardwood trees in wetlands. In August 2004, the Administration announced two more initiatives: a 250,000-acre initiative to restore bobwhite quail habitats in the Midwest and the Southeast, and a 250,000-acre initiative to restore wetlands located outside floodplains (including Great Plains playa lakes). The 2008 continuous sign-up (number 36) added 282,000 acres, the continuous sign-up for FY2009 (number 37) added 277,556 acres as of July 2009, and the FY2010 sign-up (number 38)

[2] Specific conservation practices include filter strips, riparian buffers, grass waterways, shelterbelts, field windbreaks, living snow fences, salt-tolerant vegetation, shallow water areas for wildlife, wetland restoration, and wellhead protection areas.

has added 296,615 acres as of July 2010. These sign-ups bring the total acreage under continuous sign-up contracts to over 4.6 million acres as of July 2010, about 15% of the total 31.3 million acres CRP acres.[3]

Conservation Reserve Enhancement Program (CREP)

CREP is a joint federal-state continuous sign-up program. Currently there are 43 agreements in 32 states. CREP targets geographic areas with agriculture-related environmental problems, such as Maryland's Chesapeake Bay and Florida's Everglades. Some states (e.g., New York and Ohio) have multiple CREPs, each targeting a different area of the state. USDA provides 80% of the funding, and a non-federal entity (typically the state) contributes the remainder. States may automatically enroll up to 100,000 acres. Unlike the general sign-up, CREP both encourages landscape-scale conservation efforts and offers the flexibility to address locally identified needs. As of July 2010, nearly 1.2 million acres were enrolled in CREP, over 100,000 acres more than in September 2007.[4]

Farmable Wetlands Program (FWP)

As authorized under the 2002 farm bill, farmable wetlands—those wetlands 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—may be enrolled in the 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 one million acres for farmable wetlands enrollment. As of July 2010, 230,948 acres were enrolled in the programs.

The 2008 farm bill expanded land eligibility for FWP from land that was cropped during at least 3 of the immediately preceding 10 crop years, as well as contiguous buffer acreage to protect the wetlands, to include:

- land on which constructed wetland is to be developed that will receive flow from a row-crop agriculture drainage system and is designed to provide nitrogen removal in addition to other wetland functions;
- land devoted to commercial pond-raised aquaculture in any year during calendar years 2002-2007;
- intermittently flooded land, provided the land had a cropping history in three years between 1990 and 2002 and was subject to natural overflow of prairie wetland; and
- buffer acreage that enhances wildlife benefits. On a single tract of land, enrollment is now set at a maximum of 40 contiguous wetland acres. "Flooded farmland" has a 20-acre limit. No commercial use of the land is permitted.

[3] This figure excludes 83,690 acres under sign-up 38 that start in FY2011.

[4] This figure excludes approximately 44,000 acres under sign-up 38 that start in FY2011.

Other CRP Programs

Several other CRP initiatives support additional specific conservation practices. These include acreage in upland bird habitat buffers, bottomland hardwood trees, non-flood plain and playa wetlands, longleaf pine plantings, the Prairie Pothole duck nesting habitat, and state acres for wildlife enhancement. In February 2010, Secretary Vilsack announced the expansion of acreage allocated to three of these programs: state acres for wildlife enhancement was increased by 150,000 acres; upland bird habitat buffers were increased by 100,000 acres; and duck nesting habitat was increased by 50,000 acres. **Table 1** provides acreage data for these programs as of July 2010 and cumulative acreage totals for each program.

Table 1. CRP Initiatives and Acreage Enrollment

(July 2010)

CRP Initiative and Acreage Goal	Acreage Year-to-Date	Cumulative Acreage[a]
Farmable wetland program (up to 1 million acres)	25,014	296,615
Upland bird habitat buffers (350,000 acres)	11,496	228,377
Bottomland hardwood trees (500,000 acres)	6,894	59,152
Non-flood plain and playa wetlands (250,000 acres)	20,368	98,411
Flood-plain wetlands (500,000 acres)	23,200	175,037
Long-leaf pine plantings (250,000 acres)	8,165	86,342
Prairie Pothole duck nesting habitat (150,000 acres)	15,883	111,785
State acres for wildlife enhancement (650,000 acres)	100,965	357,367

Source: Farm Service Agency.

a. Includes acreage under sign-up 38 contracts that begin in FY2011.

Current Issues

CRP Provisions in the 2008 Farm Bill

The 2008 farm bill (P.L. 110-246) reauthorized the CRP with a maximum acreage cap of 32 million acres, down from a cap of 39.2 million acres established in the 2002 farm bill (P.L. 107-171). The farm bill further directed the Secretary of Agriculture to give priority (where environmental benefits are equal) in contract bids to producers who reside in the county where the CRP acreage is located. FY2009 enrollment ended at 33.7 million acres. Following expiration of 2.8 million acres, FY2010 began with 30.93 million acres under contract. Current total enrollment is 31.3 million acres, approximately 723,000 acres below the cap.

The 2008 farm bill also amended the pilot program for wetland and buffer acres in CRP. Each state can enroll up to 100,000 acres, up to a national maximum of 1 million acres. This maximum may be raised to 200,000 in each state following a review of the program. Eligible lands for the program include (1) wetlands that have been cropped in three of the immediately preceding 10 crop years; (2) land on which a constructed wetland is to be developed to manage fertilizer runoff; and (3) land that has been devoted to commercial pond-raised aquaculture.

The farm bill permits 50% cost-share payments on land used for hardwood trees, windbreaks, shelterbelts, and wildlife corridors for contracts entered into after November 1990. Contracts extend from a minimum of two years up to four years. Funding of $100 million also was authorized to cover cost-sharing for the thinning of trees to improve the management of natural resources on the land.

The 2008 farm bill also modified the criteria for evaluating CRP contract applications. Evaluation criteria include the extent to which a CRP contract application would improve soil resources, water quality, or wildlife habitat. The bill also allowed the Secretary to establish different criteria in various states or regions that lead to improvements in soil quality or wildlife habitat. Preference in new CRP contracts will be given to land owners and operators who are residents of the county or a contiguous county in which the land is located.

Other CRP provisions in the 2008 farm bill included a redefinition of the Chesapeake Bay region as a priority area without limiting the region to the states of Pennsylvania, Maryland, and Virginia. While the new program applies to all watersheds draining into the Chesapeake Bay, the Susquehanna, Shenandoah, Potomac, and Patuxent Rivers get funding priority.

The 2008 farm bill also established incentives to increase the participation of beginning and socially disadvantaged farmers and ranchers.[5] The CRP Transition Option is designed to facilitate the transition of land to beginning and socially disadvantaged farmers and ranchers for the purpose of returning the land to production using sustainable grazing or crop production methods. To encourage this program, CRP contract holders can receive two extra years of rental payments for leasing or selling their land to a beginning or socially disadvantaged farmer. The National Organic Certification Cost Share Program can be used in conjunction with the CRP Transition Option to defray the costs, up to $750 per year, of organic certification for producers and handlers of organic produce. It authorizes CRP contract modifications to assist these producers in leasing or purchasing land under a CRP contract from a retired or retiring farm owner or operator. The provision authorizes $25 million for assistance in making these land transfers.

The CRP Transition Option works as follows:

- One year prior to the termination of a CRP contract, a CRP owner or operator who is participating in the CRP Transition Option can join with a beginning or socially disadvantaged farmer or rancher who can begin to make conservation and land improvements and/or begin the organic certification process on the land covered by the CRP contract.
- On or near the date that the CRP contract is terminated, the retired or retiring owner or operator will either sell some or all of the land that was covered by CRP to the participating beginning or socially disadvantaged farmer or rancher, or enter into a long-term lease with the farmer/rancher, or lease with an option to purchase.
- The participating beginning or socially disadvantaged farmer or rancher must develop and implement a conservation plan on the land that was covered by CRP.

[5] Section 2111 of the Food, Conservation, and Energy Act of 2008 amends Section 1235(c)(1)(B) of the Food Security Act of 1980, codified at 16 U.S.C. § 3835(c)(1)(B), to create the Conservation Reserve Program Transition Incentives for Beginning and Socially Disadvantaged Farmers and Ranchers.

- On the date that the participating beginning or socially disadvantaged farmer or rancher takes possession of the land through ownership or lease, the farmer/rancher will have the option to enroll in the Conservation Stewardship Program or the Environmental Quality Incentives Program. The farmer/rancher will also have the option of re-enrolling portions of the land into the CRP through the continuous sign-up CRP.
- FSA will continue making payments to the retired or retiring owner or operator for two additional years after the date that the CRP contract terminates.

Farm Bill Implementation Issues

FSA divided CRP-related changes into two regulations: Part 1, those requiring an environmental impact statement (EIS), and Part 2, those requiring only an environmental assessment (EA). Both the EIS and EA discuss potential environmental impacts and alternative courses of action, although the EA is a more limited analysis. The EIS process can take 18-24 months, or longer in some cases, while an EA can often be completed within a year or less.

In June 2009, FSA issued a rule implementing all changes that fell under Part 2, the EA-associated changes.[6] These include an assessment of the three new practices under the Farmable Wetlands Program: (1) eligibility for commercial pond-raised aquaculture; (2) flooded prairie farmland; and (3) constructed wetlands. Other EA-associated changes are authorization of $50 million cost-share assistance for tree trimming, refining income limits for program eligibility, and the imposition of the 32 million-acre cap. Each of these changes were included in the Part 2 rule promulgated in June 2009.

The Part 2 CRP regulation will implement provisions that require an EIS. These provisions include:

- updating crop history eligibility to include four of the last six years between 2002 and 2007;
- exempting certain CREP and continuous CRP acres from the county enrollment cap of 25% of cropland;
- implementing the new transition incentives for beginning and socially disadvantaged farmers and ranchers programs; and
- routine grazing policy on CRP land.

The CRP Transition Option program could be delayed by the EIS process. FSA published the draft supplemental environmental impact statement (SEIS) in February 2010.[7] The final SEIS was available for public comment for a 30-day period beginning June 18, 2010, and ending July 19, 2010.[8] Following the end of the comment period, and a review of the comments by FSA, a record of decision (ROD) for the CRP SEIS will be issued.

[6] The rule may be accessed at http://frwebgate3.access.gpo.gov/cgi-bin/TEXTgate.cgi?WAISdocID=4468519271+40+1+0&WAISaction=retrieve.

[7] The draft SEIS can be accessed at http://www.agri-pulse.com/uploaded/201002CRPEIS.pdf.

[8] The final SEIS can be accessed at http://www.fsa.usda.gov/Internet/FSA_File/crpfinalseismaster61010.pdf.

USDA's justification for the environmental study is that while the land is leaving the conservation program, the beginning farmers would be allowed to start working the land a year before the contract is up. Landowners normally are barred from farming or grazing the land until the contract expires. The Sustainable Agriculture Coalition and the Center for Rural Affairs each ran letter campaigns in 2009 urging FSA to implement the program without conducting an EIS. Other groups wrote to Secretary Vilsack requesting that implementation of the CRP Transition Option not be delayed by an environmental assessment. Wildlife conservation groups (e.g., the National Wildlife Federation) supported the decision to prepare the EIS. In comments on the draft SEIS, the National Grain and Feed Association has requested the FSA to lower the acreage enrolled in CRP to 24 million acres and to target conservation spending on working farmland (e.g., Environmental Quality Incentives Program, Conservation Stewardship Program).

On May 14, 2010, an interim rule was published in the *Federal Register* to implement the Transition Incentives Program.[9] The rule essentially amends the CRP contract regulations to provide that retired or retiring farm owners and operators have permission to amend their contract if it is due to expire within one year to facilitate the transition of the land enrolled in the expiring CRP contract to a beginning or socially disadvantaged farmer or rancher. Acquiring farmers may return some or all of the land into production provided they use sustainable grazing or crop production methods. The 2008 farm bill authorizes $25 million for incentive payments to retired or retiring owners and operators who sell land or lease it long-term to beginning and socially disadvantaged farmers and ranchers.

Managed Haying and Grazing

Managed haying and grazing are permitted activities under certain conditions. A disaster declaration, for example, may permit contract holders to harvest hay or to graze their cattle for certain periods. Where such activity is permitted, contract payments may be reduced. The 2008 farm bill modifies the managed haying and grazing regulation (Section 2108) to permit routine grazing to control invasive species under specific conditions and also permits the installation of wind turbines under certain conditions. Where routine harvesting is permitted, state technical committees are required to coordinate to ensure appropriate environmental management. When such activities are permitted, rental payments will be reduced by an amount commensurate with the economic value of the authorized activity. The farm bill also prescribed grazing for control of invasive species as a permissible activity. The managed grazing and haying and installation of wind turbines are assessed in the SEIS.

Haying and Grazing for Critical Feed Use (CFU)

In May 2008, USDA announced that 24 million acres of CRP land could be used in 2008 for a critical feed use (CFU) program of managed haying and grazing following primary bird nesting season. This contract modification is restricted to the least environmentally sensitive land and will limit the scope and frequency of any managed haying and grazing. The National Wildlife Federation (NWF) and six state NWF chapters sought an injunction against USDA for failure to conduct an appropriate environmental review of the proposed CFU program. The U.S. District Court for the Western District of Washington issued a temporary restraining order (TRO). The

[9] *Federal Register*, vol. 75, no. 93, May 14, 2010, at http://frwebgate4.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=38153123842+0+2+0&WAISaction=retrieve.

court then issued a permanent injunction suspending the CFU provision except for those who had been approved by or had applied to FSA prior to the TRO, or who had invested at least $4,500 toward haying or grazing equipment and preparation prior to the TRO. Where the application was approved prior to the TRO, haying and grazing had to be completed by November 10, 2008. The CFU exemption was not authorized for FY2009, and there are no current plans to authorize a CFU program for FY2010.

Expiring CRP Contracts and Reenrollment and Extension Policy

Approximately 28 million acres under CRP contract will expire between 2007 and 2010. Contracts covering 5.9 million acres were set to expire in FY2008, and 3.9 million more acres were set to expire at the end of FY2009. An additional 4.5 million acres will also expire September 30, 2010. Approximately 85% of the acreage expiring between 2007 and 2010 has been reenrolled or has had contracts extended as of July 2010, including 44,201 acres approved for enrollment in FY2011. Of the 15.7 million contract acres that expired September 30, 2007, 13.6 million (86.6%) were approved for extensions or new enrollment contracts. Approximately 4.8 million of the 5.9 million acres that expired in 2008 also have extensions or new contracts (81.6%). For contracts expiring September 30, 2010, about 75% of the 4.5 million acres has been reenrolled or had contracts extended.

Contracts were extended or renewed based on the Environmental Benefit Index (EBI) score and the land's location within national priority areas.[10] FSA ranked individual contracts into one of five tiers based on the environmental benefits of the original EBI score. Eligible participants ranking in the first tier (81%-100% of the EBI) could reenroll their land in new 10-year contracts. Farmers and ranchers in this top tier with wetlands enrolled were eligible for 15-year contracts. Only acreage under general sign-up contracts is eligible. Eligible participants ranking in the second tier (61%-80% of the EBI) could extend their contracts for five years. Third-tier participants (21%-40% of the EBI) could receive three-year extensions. Eligible participants in the bottom tier could extend their expiring contracts by two years.

USDA announced a sign-up for voluntary extensions between May 18 and June 30, 2009. Of the expiring 3.9 million acres for FY2009, approximately 100,000 acres were under continuous sign-up and were reenrolled if the producer wished to do so. However, only about 1.5 million acres enrolled under the general sign-up were offered contract extensions. Of these, 1.1 million acres were reenrolled as of December 2009 (73%). Acreage eligible for contract extensions had to score in the top 30% of the EBI or have an Erodibility Index (EI) of 15 or higher. Participants who were eligible for contract extensions were notified by letter from their county Farm Service Agency office. The reduction in contract extensions was necessary to ensure that the total acreage under contract would conform to the new 32 million-acre limit by the end of FY2009. Contract extensions ranged from two to five years at the same per-acre payment rate. Colorado, Kansas, Montana, and Texas had the largest number of eligible acres with a 30% EBI or a ranking of 15 on the EI. These four states accounted for 55% of the total national acres eligible for extension in FY2009.

[10] National Priority Areas named in CRP authorizing legislation are the Chesapeake Bay, Long Island Sound, and the Great Lakes Region. USDA established two other national priority areas: Prairie Pothole Region in the Northern Great Plains, and Longleaf Pine Region in the southeast.

Program Costs and Benefits

Acres enrolled in CREP, continuous enrollments, or the farmable wetlands program are generally eligible for higher payments than acres enrolled under general sign-ups because of their higher environmental benefits, location and prevailing rental rates, and additional financial incentives for participation. However, such contracts involve much smaller acreage on average. CREP payments average over $129 per acre and $116 for the FWP, versus an average per-acre payment of approximately $44 for the general sign-up acreage.

FSA estimates approximately $1.7 billion in projected outlays for CRP payments under all programs in FY2010. This is about $250 million less than for FY2009. This projected total includes funding for rental payments, cost-share payments, and incentive payments. The Congressional Budget Office had estimated that CRP contract obligations would cost approximately $2.4 billion annually through 2017. This was before the reduction in acreage to 32 million acres. NRCS estimated that, prior to 2003, monetized CRP benefits (such as increased wildlife habitat and small game hunting) averaged about $1.4 billion per year. This figure does not include non-monetized benefits such as improved groundwater quality and wetland restoration.

Rental Rates for CRP Acreage

The average rental rate for all CRP land was $53.24 per acre as of July 2010. Rental rates range from an average of $44 for general sign-up acreage to over $129 for CREP acreage. CRP rental rates are based on the three-year average of local dry-land cash rental rates. An up-front signing incentive payment (SIP) of $100 to $150 per acre (depending on contract length) is available for eligible participants who enroll certain practices. The one-time SIP is made after a contract is approved and all payment eligibility criteria have been met. A practice incentive payment (PIP) equal to 40% of the eligible installation costs is also available for eligible participants who enroll certain practices on their acreage.

Rental rates for CRP contracts became an important issue to some producers when commodity prices rose in 2008. The producers claimed that CRP rental rates were significantly lower than the producers could get by renting their land out for production. Many producers pressured USDA for penalty-free contract terminations. If rental rates are too low, there is some chance that producers will decline to enroll their land, or, if enrolled, will decline to renew their contracts at expiration. Putting CRP acreage back into production could have significant environmental effects. Although land put back into production would have to be managed under an environmental plan to be eligible for various agricultural assistance programs, there could still be an environmental cost in terms of increased sediment losses and nitrogen and phosphorus run-off if fragile land were put back into production.[11] The decline in commodity prices from their 2008 highs reduced the pressures on producers to terminate their contracts. The 2008 farm bill (Section 2110) directs USDA to conduct an annual survey of per-acre estimates of the average market dry land and irrigated land cash rental rates and to post these rates on a publicly accessible USDA website.

[11] For an examination of the potential environmental costs in Iowa as projected corn prices rose, see Silvia Secchi and Bruce Babcock, "Impact of High Corn Prices on CRP Acreage," *Iowa Ag Review*, Center for Agriculture and Rural Development, Iowa State University, Spring , 2007, at http://www.card.iastate.edu/iowa_ag_review/spring_07/article2.aspx.

Contract Termination and Penalty Fees

High grain prices in the first half of 2008 appeared to make contract terminations attractive to some producers. Under current law, however, a producer wishing to terminate a contract early faces a penalty fee of 25% on rental payments paid, plus repayment, with interest, of all the funds already paid to the producer. This includes any cost-share payments. CRP acreage is also seen in some quarters as a potential resource for renewable fuel feedstocks.

Tax Status of CRP Payments

CRP rental payments are regarded by the Internal Revenue Service (IRS) as income from the business of farming. As such, they are subject to self-employment Social Security taxes. Producers, however, would like to treat CRP payments as rental income not subject to the self-employment tax of 15.3%. The IRS position was supported by the Sixth Circuit Court in March 2000 in *Wuebker v. Commissioner*, 205 F.3d897. In December 2006, the IRS issued Notice 2006-108 reinforcing its position that CRP payments are subject to self-employment taxes. Section 15301 of the 2008 farm bill exempts CRP payments from self-employment taxes for disabled and retired contract holders after December 31, 2007.[12]

Effects of CRP on Local Economies

Retiring land in rural, largely agricultural economies could result in fewer farmers and fewer farming-related jobs in these areas. A USDA report found that, although high CRP enrollment was associated with some job loss in rural areas between 1986 and 1992—the years the CRP was first underway—this was generally not the case during the 1990s. However, the report noted that national trends could mask regional adjustments, and that "local economic adjustments might be sizeable."[13] Losing existing CRP acreage or halting new enrollments may also have effects on local economies where hunting and fishing are important economic activities.

By statute, CRP enrollment is capped at 25% of a county's cropland. According to FSA, approximately 130 counties have at least 22.5% enrolled, although this can include counties with very small total acreage of cropland. Of these 130 counties, 80 have at least 25% enrolled. The farm bill exempts CREP and continuous sign-up acreage from the 25% county cap.

Some groups believe that retiring land from productive agricultural use is detrimental. In comments on the SEIS noted above, the president of the National Grain and Feed Association argued that CRP has substantial negative economic impacts on agricultural production and rural communities:

> If U.S. agriculture is to achieve economic growth, which in turn contributes to job creation and revitalization of rural communities, it is imperative that the CRP be right-sized and reformed. The idling of productive land resources cuts off the economic multiplier inherent in crop, livestock and poultry production, thereby costing jobs and suffocating economic vitality in rural

[12]For more detail on CRP's tax-related issues, see CRS Report RS22910, *The 2008 Farm Bill: Analysis of Tax-Related Conservation Reserve Program Proposals*, by Carol A. Pettit

[13] U.S. Department of Agriculture, Economic Research Service Report to Congress. *The Conservation Reserve Program: Economic Implications for Rural America*. September 2004.

communities. Further, it risks compromising the United States' ability to provide abundant, affordable and cost-competitive food, animal feed, exports and biofuels.[14]

CRP Environmental Effects

FSA estimates that, compared with 1982 erosion rates, the CRP has reduced erosion by more than 454 million tons per year on the 34.6 million acres enrolled in the program. Through April 2006, CRP had also restored 2 million acres of wetlands and 2.5 million acres of buffers. Other conservation benefits NRCS has documented on these lands include the sequestration of more than 48 million metric tons of carbon annually; more than 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 of trees, making it the largest federal tree-planting program in history.

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