Order Code RS22621
March 13, 2007

CRS Report for Congress

The FY2008 Budget Request for the U.S. Department of Agriculture

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Summary

The Administration's FY2008 budget request for the U.S. Department of Agriculture (USDA) includes $92.2 billion in budget authority. Proposed discretionary budget authority would increase 1.6% from FY2007 levels to $20.3 billion.[1] Mandatory budget authority would remain nearly steady at $71 billion; formula-driven increases in crop insurance and domestic food assistance would offset decreases in commodity program payments. The Administration's 2007 farm bill proposal is largely separate from its budget request, although a $500 million per year placeholder for new spending is included in the FY2008 budget amounts. In its FY2008 request, the Administration proposes to use foreign assistance funds to purchase food in foreign markets. For agricultural research, competitive funding would replace some formula funding. Several conservation and rural development programs would be reduced or cut. Food safety and animal health protection programs would increase. This report will not be updated, but will be followed by a CRS report tracking the FY2008 agriculture appropriations bill.[2]

Farm Support

Commodity Support. USDA administers farm price and income support programs for commodities such as grains, cotton, oilseeds, dairy, peanuts, and sugar. The current authorizing law, the 2002 farm bill (P.L. 107-171), expires at the end of the 2007 crop year, and a new farm bill is expected in the 110th Congress. These mandatory programs (as well as certain conservation and trade programs) are funded through USDA's Commodity Credit Corporation (CCC), which has a $30 billion line of credit with the U.S. Treasury and receives an annual appropriation to replenish the line of credit.

[1] Comparisons to FY2007 levels reflect the best available analysis of the enacted year-long continuing resolution for FY2007 (P.L. 110-5), but may be subject to change.

[2] Also contributing to this report: CRS analysts Geoffrey S. Becker (food inspection, and marketing and regulatory programs), Ralph M. Chite (crop insurance), Tadlock Cowan (rural development), Charles E. Hanrahan (agricultural trade), Renée Johnson (conservation), Jean M. Rawson (agricultural research), and Joe Richardson (domestic food assistance).

As is customary for the mandatory farm commodity programs, the Administration requests "such sums as necessary," and estimates that FY2008 outlays will be $7.6 billion, down from $8.7 billion estimated for FY2007 and $16.9 billion actual in FY2006. The decreases are primarily the result of higher market prices, which reduce the need for counter-cyclical and marketing loan payments. Including certain conservation and trade programs also paid by CCC, total estimated FY2008 CCC outlays would be $11.7 billion.

The Administration's 2007 farm bill proposal is separate from its FY2008 budget request. The FY2008 budget request assumes the baseline continuation of the 2002 farm bill for budgetary purposes, but includes a $500 million placeholder in the CCC account for additional farm bill spending in FY2008. The Administration estimates its 2007 farm bill proposal would exceed baseline by $5 billion over 10 years (thus the $500 million placeholder). The requested increase over baseline, however, is not solely for CCC programs; the Administration estimates its plan would cut $4.5 billion from commodity programs, and add $7.8 billion to conservation programs, $0.5 billion for nutrition, $1.5 billion for research, and $1 billion for energy, among other changes.

To administer the farm commodity and loan programs, the Administration requests a discretionary appropriation of $1.5 billion for Farm Service Agency (FSA) salaries and expenses in FY2008, up about 20% over FY2007. Much of the increase, however, is for technology expenses previously funded through other USDA accounts; the number of staff years would increase by about 65, or about 0.5%.

Crop Insurance. As is customary, the Administration requests "such sums as necessary" for the mandatory Federal Crop Insurance Fund, which mainly covers federal crop insurance program losses, farmer premium subsidies, and private insurance company expense reimbursements. The Administration estimates that FY2008 budget authority for the fund will be $4.81 billion, up from an estimated $4.37 billion in FY2007. A separate FY2008 discretionary appropriation of $79 million is requested for salaries and expenses at USDA's Risk Management Agency, which administers the crop insurance program.

Agricultural Credit. The Administration's FY2008 budget requests $152 million of loan subsidy (up 1.7% from FY2007) to support $3.4 billion in loan authority (down 4.3%). The direct loan program would bear most of the decrease in loan authority (-12%), although it accounts for most of the increase in loan subsidy. Administrative expenses would increase by 3.3% to $319 million.

Conservation

The Administration proposes $825 million for discretionary conservation programs, down over $20 million from FY2007 and $160 million from FY2006. It also proposes changing mandatory programs, increasing outlays by $221 million to $4.0 billion.

For discretionary programs, $802 million is requested for Conservation Operations (the largest discretionary program), which is an increase of about $42 million from FY2007. The request does not fund the Grazing Lands Conservation Initiative, which received $27 million in FY2007. Among other discretionary programs, the request calls for no funding for Watershed and Flood Prevention Operations ($0 enacted in FY2007) or the Watersheds Surveys and Planning ($6 million in FY2007). The request reduces the Watershed Rehabilitation Program by about $25 million (to $6 million), and reduces the

Resource Conservation and Development Program by $36 million (to $15 million). The latter reduction is based on a proposal to reduce the Natural Resource Conservation Service (NRCS) staff assigned to this program from 454 to about 123 and adjust their responsibilities and duties.

Mandatory conservation programs are funded and administered by two agencies. Programs of the NRCS would increase by $195 million to $2.0 billion in FY2008. The Conservation Reserve Program (CRP) in FSA would increase by $26 million to $2.0 billion. The request reflects recommended changes in the Administration's broader farm bill proposal, which proposes to consolidate some existing conservation programs. The recommendations seek to consolidate several existing cost-share programs into a newly designed Environmental Quality Incentives Program (EQIP) that would include the current EQIP, the Ground and Surface Water Conservation (GSWC) program, the Wildlife Habitat Incentives Program (WHIP), Agricultural Management Assistance (AMA), the Forest Land Enhancement Program, and the Klamath Basin Program. The recommendations also seek to consolidate three existing easement programs into a new private lands protection program, including the Farm and Ranch Lands Protection Program (FRPP), the Grasslands Reserve Program (GRP), and the Healthy Forests Reserve Program. The request also calls for additional FY2008 funding of $157 million for conservation funding activities that were in the 2002 farm bill, which expire at the end of FY2007. The request calls for $17 million in reductions for EQIP to $1.0 billion in FY2008. Increases are proposed for CRP, the Conservation Security Program (up $57 million to $316 million), and the Wetlands Reserve Program (up $191 million to $455 million, and 250,000 acres).

Agricultural Research

The Administration's budget request for FY2008 would provide a total of $2.31 billion for USDA's research, extension, and economics mission area.

The request calls for $1.03 billion for USDA's intramural science agency, the Agricultural Research Service. Of that amount, $1.02 billion would support ARS's research activities, and $16 million would support the planning and design of a biocontainment laboratory and consolidated poultry research facility in Athens, Georgia. As in previous years, the Administration proposes termination of more than 100 research projects that it does not consider to be of high priority, and redirects some of the funds to support research on avian influenza, bioterrorism protection, and obesity prevention.

The Administration proposes $1.02 billion in FY2008 for the Cooperative State Research, Education, and Extension Service (CSREES), the agency that sends federal funds to land grant colleges of agriculture. Of the total, $562.5 million would support state-level research and teaching programs. The request would increase the proportion of research funds awarded competitively, primarily by providing $256.5 million for the National Research Initiative (NRI) competitive grants program, up from $190 million in FY2007. Reductions in formula funds for state-level research in agriculture, forestry, and veterinary science would partially offset the proposed NRI increase, with the exception of formula funds for the 1890 historically black land grant schools, which would receive a $1 million increase (about +3%). The Administration proposes a $3 million increase, to $40.5 million, in funding for academic programs at the state level. Budget categories under which Congress usually provides support for research projects at specific land grant institutions are targeted for a substantial decrease in funding, as in past budget requests.

The budget contains $431 million for the continuing education and outreach activities of the Extension System in the states (level with FY2007). Formula funds for extension are proposed to increase slightly, while funding for budget categories under which Congress traditionally provides support for extension projects at specific land grant institutions would decrease substantially.

The Administration is requesting $82.5 million for USDA's Economic Research Service, an increase from $75 million in FY2007. For the National Agricultural Statistics Service, the budget proposes $167.7 million, an increase from $146.5 million in FY2007.

Meat and Poultry Inspection

USDA's Food Safety and Inspection Service (FSIS) conducts mandatory inspection of meat, poultry, and processed egg products to insure their safety and proper labeling. The FY2008 budget proposes a $1.065 billion program level for FSIS, of which $135 million would be funded by existing user fees, and $930 million by appropriation. The $930 million is about $44 million above the enacted FY2007 level. Within the overall increase is $22 million to expand FSIS activities related to USDA food defense and biosurveillance. The Administration also proposes new user fees to offset another $96 million in annual appropriations, beginning in FY2009.

Marketing and Regulatory Programs

For the Animal and Plant Health Inspection Service (APHIS), the USDA agency that protects U.S. agriculture from domestic and foreign pests and diseases, the FY2008 budget request proposes an appropriation of $946 million, an increase of about $100 million above the FY2007 appropriation. The Administration notes that APHIS would receive $77 million of the $82 million slated for all USDA efforts on highly pathogenic avian influenza (particularly the H5N1 strain that has spread overseas). The FY2008 budget requests a nearly constant appropriation for the Agricultural Marketing Service (AMS), and a nearly $7 million increase (+18%) for the Grain Inspection, Packers, and Stockyards Administration (GIPSA). Each agency receives user fees in addition to appropriations, and the Administration again proposes new user fees for APHIS ($9 million), as well as for GIPSA ($22 million).

Agricultural Trade and Food Aid

USDA's international activities are funded by discretionary appropriations (e.g., foreign food assistance under P.L. 480) and by using the borrowing authority of the CCC (e.g., export credit guarantees, market development programs, and export subsidies). Combined, the total program value for FY2008 would be $4.6 billion, with $1.49 billion appropriated. The FY2008 program level is $392 million more than FY2007, with most of the difference accounted for by anticipated increases in the value of short-term export credit guarantees. The Administration requests an appropriation of $173 million for the Foreign Agricultural Service (FAS) to administer its international programs.

For P.L. 480 foreign food assistance, the Administration requests a $1.2 billion appropriation ($1.3 billion program value with carryover and reimbursements), all of it for Title II commodity donations. The President's budget requests no funds for P.L.480 Title I loans, nor any for the Bill Emerson Humanitarian Trust, which currently holds 900,000 metric tons of wheat and $107 million in cash. The budget assumes $163 million of CCC funds for the Food for Progress (FFP) program, which provides food aid to emerging democracies. The absence of Title I funds would effectively reduce spending on FFP. For the McGovern-Dole International Food for Education and Child Nutrition Program, the request is for a constant $100 million appropriation. Proposed appropriations language (and the Administration's farm bill proposal) would allow the Administrator of USAID to use up to 25% of P.L. 480 Title II funds for local or regional purchases of commodities in food crises. Congress rejected a similar request in FY2006 and FY2007.

CCC export credit guarantee programs secure commercial financing of U.S. agricultural exports. The estimated FY2008 program level of $2.4 billion, all for short-term guarantees, reflects the U.S. response to the World Trade Organization ruling in the U.S.-Brazil cotton dispute. Long-term guarantees are suspended, the fee structure is risk-based, and high-risk countries are eliminated. The Supplier Credit Guarantee Program would receive $200 million "pending review," but USDA's farm bill proposal would repeal the program due to defaults and evidence of fraud. The Market Access Program, which primarily promotes sales of high-value products, would receive $200 million of CCC funds (the authorized level). The Foreign Market Development Program, mainly promoting bulk commodities, would receive the farm bill-authorized $34.5 million.

Rural Development

Three agencies are responsible for rural development: the Rural Housing Service (RHS), the Rural Business-Cooperative Service (RBS), and the Rural Utilities Service (RUS). The mission area also administers the rural portion of the Empowerment Zones and Enterprise Communities Initiative, the Rural Economic Partnership Zones, and the National Rural Development Partnership.

For FY2008, the Administration is requesting a program level of $14.9 billion for direct and guaranteed loans, grants, and loan subsidies. This program level would be supported by a requested appropriation of $2.05 billion (including salaries and expenses). The FY2008 request is approximately $23 million more in budget authority and $985 million more in program level than estimated for FY2007. The request is about $550 million less in budget authority and $719 million less in program level than for FY2006.

The Administration is requesting that the three funding accounts in the Rural Community Advancement Program (RCAP) no longer be combined under RCAP. Instead, each account would be funded separately with separate appropriations language. For the Community Facilities account in RHS, the Administration requests budget authority of $24.5 million and would terminate a grant program. For water and waste water loan and grants, and the solid waste management programs in RUS, the Administration requests $503 million. For the Business Development account in RBS, the request is $43.2 million in budget authority.

The Administration requests no appropriation for direct loans for the Distance Learning and Telemedicine Program; grants would remain at the FY2007 level of $25 million. For broadband programs, the Administration requests $300 million in direct loans; no funding is requested for grants ($9 million enacted in FY2007). The Administration also requests terminating the "Community Connect" broadband program. Funding for the Value-Added Producer Grants Program would decrease from FY2007 levels to $15 million (25% percent decrease), and give priority to special crop projects. The Administration also proposes terminating direct loans for the rural multifamily rental housing program and the single family housing program.

Other programs proposed for termination include the Empowerment Zone and Enterprise Community (EZ/EC) Program, the Community Facility Grant Program, and the Economic Impact Grants Program. Some funding in the Rural Business Account and the Community Facilities Program from RCAP, however, is targeted to EZ/EC and Rural Economic Areas Program (REAP) sites. The Administration also proposes eliminating Rural Business Enterprise Grants and Rural Business Opportunity Grants.

Domestic Food Assistance

Domestic food assistance represents the majority of the USDA budget. Most of these programs are mandatory spending, including food stamps, the Emergency Food Assistance Program (TEFAP), nutrition assistance grants for Puerto Rico and outlying areas, the Food Distribution Program on Indian Reservations (FDPIR), and child nutrition programs (school lunches). In addition, two significant programs receive discretionary funding: the Special Supplemental Nutrition Program for Women, Infants, and Children (the WIC program) and the Commodity Supplemental Food Program (CSFP).

With the exception of the WIC program and the CSFP, the budget proposes "full funding" for domestic food assistance, based on projections of participation and inflation. It also provides contingency funds for the Food Stamp and WIC programs in case the Administration's estimates prove off the mark. FY2008 appropriations covering USDA-funded domestic food aid would total $59.4 billion (including $3 billion in contingency funding), an estimated increase of $2.5 billion from FY2007. Projected total spending (obligations) would increase by slightly less ($2.4 billion), to about $56.4 billion.

Costs funded from the food stamp account are expected to rise by some $1.7 billion, and child nutrition spending would grow by $700 million — to $36.9 billion and $13.9 billion, respectively. These increases are driven by expected new participants and benefit indexing. Separate from its FY2008 budget, the Administration's 2007 farm bill recommendations include changes affecting food stamps, the FDPIR, and child nutrition programs. Major food stamp proposals would loosen eligibility rules for those with retirement/education savings, increase benefits for those with dependent-care expenses, and limit eligibility for those receiving other public assistance; the FDPIR would receive added administrative funding. For child nutrition programs, the Administration has proposed new spending for fruit and vegetables.

FY2008 appropriations for the WIC program would grow by about $200 million over the estimated amount available for FY2007, to $5.4 billion. The estimated net spending increase would be relatively minimal (about $70 million) because of a proposal to limit payments for WIC nutrition services and administration, and to restrict WIC eligibility for Medicaid recipients. In the case of the CSFP, the Administration's FY2008 budget proposes (as it did, unsuccessfully, for FY2007) to terminate the program. The more than $100 million savings from this action would be offset with some increased costs for food stamp outreach and benefits to former CSFP recipients.