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President Obama's budget proposes several cuts in farm programs

Compiled by Staff

President Barack Obama unveiled a more detailed 2010 budget proposal on Thursday with nearly $17 billion in additional budget cuts, including many of the same proposals that were widely criticized by the agricultural community when first introduced earlier this year. Even the proposal to phase out direct payments to farmers with gross sales revenue of more than $500,000 annually was still included, even though it was widely viewed as "dead on arrival" from both parties. Office of Management and Budget Director Peter Orzag said during a press conference yesterday that this proposal was still included, "as a matter of principle."

Spending in some areas, such as renewable energy and nutrition, was increased in the budget plan. Overall, the President's Fiscal Year 2010 Budget provides $25.7 billion for the United States Department of Agriculture (USDA), compared to $24,108 million for 2009.

Here is a summary of the agriculture terminations, reductions and other savings as taken from the Office of Management and Budget (OMB) document.

Terminations	**Savings in mill $**
Conservation Reserve Program Set-Aside for Public Access, USDA	178
Cotton Storage Payments, Department of Agriculture	570
Economic Action Program, Department of Agriculture	5
High Energy Cost Grant, Department of Agriculture	18
Public Broadcasting Grants, Department of Agriculture	5
Resource Conservation and Development Program, USDA	51
Rural Empowerment Zones and Enterprise Communities Grants, USDA	8
Watershed and Flood Prevention Program, Department of Agriculture	24
Reductions	
Agricultural Research Service Buildings and Facilities, USDA	97
Crop Insurance Premiums/Underwriting Gains & Fees, USDA	5,184
Market Access Program, Department of Agriculture	358
Payments to High-Income Farmers, Department of Agriculture	126
Phase-Out Direct Payments to Farms with Sales Above $500,000, USDA	9,765
Other Savings	
Marketing and Regulatory Programs Work Reforms, Department of Ag	1.5/yr
Office Leases, Department of Agriculture	62 over 15yr
Rural Development Online Training, Department of Agriculture	1.3/yr
USDA IRS Data Sharing on Farmer Income, Department of Agriculture	16/yr
Utility Online Bill Payments, Department of Agriculture	.675

TERMINATION: CONSERVATION RESERVE PROGRAM SET-ASIDE FOR PUBLIC ACCESS

Department of Agriculture

The Administration's 2010 Budget includes savings from discontinuing Conservation Reserve Program (CRP) incentive payments to CRP landowners who enroll in State hunting access programs. These payments duplicate existing funding for these State programs.

Justification

Both the Conservation Reserve Program (CRP) incentive payments and the Voluntary Public Access and Habitat Incentive Program (VPA) support State-run "public access" programs. These State-run programs open private land to public access for sporting purposes. VPA was established by the 2008 Farm Bill and provides $50 million through 2012 for this purpose, while the CRP incentive pays landowners an additional $3 an acre (on top of an average $44 an acre rental payment) to enroll their CRP land in the State-run programs. In addition, the CRP incentive would have paid farmers whose CRP land is already in the State-run programs, which would not have assisted in achieving the goal of creating more access. The Budget continues funding for the Voluntary Public Access program but includes savings from administratively discontinuing enrollment for the CRP incentive payments.

TERMINATION: COTTON STORAGE PAYMENTS

Department of Agriculture

The Administration's 2010 Budget proposes to eliminate payments to cotton producers to compensate them for their cost of storing cotton that is put under loan with the Department of Agriculture. Cotton is the only commodity for which the Government unconditionally provides this assistance.

Justification

This proposal would eliminate cotton storage credits. The credits allow producers to store their cotton at the Government's cost until prices rise. Therefore, storage credits for cotton have a negative impact on the amount of cotton on the market. Because cotton storage is covered by the Government, producers may store their cotton for longer than necessary. There is no reason the Government should be paying for the storage of cotton, particularly since it does not provide this assistance for other commodities.

TERMINATION: ECONOMIC ACTION PROGRAM

Department of Agriculture

The Administration proposes to eliminate funding in 2010 for the Department of Agriculture Forest Service's Economic Action Program because the program is not targeted and is duplicative of other Department of Agriculture programs.

Justification

The Economic Action Program provides technical and financial assistance to communities and groups to enhance rural economies through the utilization of forest and related natural resources. This program is not targeted, and has provided funding for projects that have marginal relation to the mission of the Forest Service or to forestry in general. For example, the program has funded projects such as wastewater system designs, dredging studies, a water musical festival, and maritime technology program development. The program is also duplicative of other Department of Agriculture programs that can address priority needs in rural areas via several programs that can assist forest-based industries. These programs include rural business and industry loans, biomass utilization grants, and biorefining assistance.

TERMINATION: HIGH ENERGY COST GRANT

Department of Agriculture

The Administration proposes to eliminate the High Energy Cost Grants program because it is duplicative of and less effective than the Rural Utilities Service's electric loan program.

Justification

The Rural Utilities Service's (RUS) electric loan program and High Energy Cost grants program are duplicative, having similar goals of providing reasonably priced electric service to rural residents. Low interest electric loans are available to most rural areas with more favorable rates in areas where borrowers have low revenue per kilowatt sold and the average per capita income of residents is below the State average. In contrast, only Alaska, Hawaii, the territories, and a few isolated areas within the continental United States qualify for the grant program based on their high energy costs. The areas eligible for grants are also eligible for low cost electric loans through the RUS. In particular, funds available through the RUS Hardship electric loan program are used to support the provision of electric service in high-cost areas.

TERMINATION: PUBLIC BROADCASTING GRANTS

Department of Agriculture

The Administration proposes to support public broadcasting through appropriations to the Corporation for Public Broadcasting (CPB), and eliminate the duplicative Department of Agriculture (USDA) Public Broadcast Grants program. Public Broadcast Grants provide funding to public broadcast companies to convert to digital transmission, which is largely complete.

Justification

Since 2004, the USDA Public Broadcast Grants program has provided grants to support rural public television stations' conversion to digital broadcasting. Digital conversion efforts mandated by the Federal Communications Commission are now largely complete, and there is no further need for this program. Moreover, the USDA Public Broadcast Grants program is duplicative and significantly smaller than the digital conversion activities of CPB. Since CPB funds a variety of public broadcast needs, including digital conversion, future needs should be funded through CPB. The Budget includes $61 million for CPB in 2010, which is in addition to its $420 million enacted advance appropriation, for total proposed 2010 resources of $481 million. The Budget also includes an advance appropriation request for CPB in 2012 of $440 million to support public broadcasters. This funding can be used to complete any remaining conversion needs.

TERMINATION: RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM

Department of Agriculture

The Administration proposes to eliminate the Resource Conservation and Development (RC&D) Program. First begun in 1962, this program has outlived its need for Federal support.

Justification

The RC&D Program funds coordinators in 375 Resource Conservation and Development Districts in every State, the Caribbean, and the Pacific Basin. First begun in 1962, the program was intended to build community leadership skills through the establishment of RC&D councils that would access Federal, State, and local programs for the community's benefit. After 47 years, this goal has been accomplished. These councils have developed sufficiently strong State and local ties that the Administration believes it is no longer necessary to fund Federal council coordinators, as the councils are now able to secure funding for their continued operation without Federal assistance. A 2006 report to the Congress by the Department of Agriculture found that the councils have been effective at developing local leadership.[1] The program has been in operation for decades and these councils have a proven track record of success, showing that they have outlived the need for Federal funding.

TERMINATION: RURAL EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES GRANTS

Department of Agriculture

In the 2010 Budget, the Administration proposes to eliminate Rural Empowerment Zones and Enterprise Communities Grants (EZ/EC program). The program duplicates Rural Development's other programs which provide identical support to these communities. Authority to make the grants expires on December 31, 2009.

Justification

The Department of Agriculture supports rural economic development through community infrastructure, utility, and housing loan and grant programs. The small EZ/EC program duplicates those programs. Communities designated as Rural EZ/ECs are qualified for the regular rural development programs such as the Business and Industry Guaranteed Loan Program, the Self Help Housing and Development loans and the Rural Water and Waste Disposal Programs, and, which in many cases, have set asides in those programs. The Budget continues to provide funding to the EZ/EC communities through set asides from other Rural Development programs, totaling $27.6 million. These set asides have been included by the Congress in previous appropriation bills and are expected to be continued. In addition, the program expires December 31, 2009. If appropriation language in the 2010 Budget were to remain as it did in 2009, the program would continue to exist past the December expiration date.

TERMINATION: WATERSHED AND FLOOD PREVENTION PROGRAM

Department of Agriculture

The Administration proposes to terminate the Watershed and Flood Prevention Operations program. The Congress has earmarked virtually all of this program in recent years, meaning that the agency is unable to prioritize projects on any merit-based criteria, such as cost-effectiveness.

Justification

This program was first implemented under the authorities of the Watershed Protection and Flood Prevention Act of 1954 (P.L. 83-566) and the Flood Control Act of 1944 (P.L. 78-534). In recent years the Congress has earmarked virtually all of this program, meaning that the Natural Resources Conservation Service (NRCS) is unable to prioritize allocation of these funds or direct funding to projects that are cost-effective. In 2009, more than 95 percent of the program was earmarked, eliminating NRCS' ability to use project evaluations as a basis for prioritizing funding. In addition, a 2003 Office of Management and Budget analysis showed that this NRCS program has a lower economic return than other Federal flood prevention programs (such as those in the Army Corps of Engineers or the Federal Emergency Management Agency).

REDUCTION: AGRICULTURAL RESEARCH SERVICE BUILDINGS AND FACILITIES

Department of Agriculture

The Budget proposes no new funding in 2010, and to cancel balances for previously approved facility construction earmarks for the Department of Agriculture's Agricultural Research Service.

Justification

This proposal would provide no new funding for the construction of research facilities operated by the Department of Agriculture's Agricultural Research Service. In addition, it would cancel $50 million in unobligated balances for previously appropriated earmarked construction projects. The Congress routinely earmarks small amounts of funding to up to 20 or more projects located throughout the Nation. The result of scattering funding in this manner is that unobligated balances increase since few if any of the projects are able to reach the critical threshold of funding that would allow construction to begin. Funding construction over such a long time significantly increases the amount of money needed to fully complete these projects, as well as postponing their completion for many years.

REDUCTION: CROP INSURANCE PREMIUMS/UNDERWRITING GAINS & FEES

Department of Agriculture

This proposal would reduce the Federal subsidy to both farmers and the insurance companies in three ways: 1) reduce premium subsidies by five percentage points on all coverage levels; 2) increase the Government's share on underwriting gains to 20 percent from 5 percent; and 3) reduce the premium on Catastrophic Crop Insurance (CAT) by 25 percent and charge a sliding scale fee for CAT coverage from $300 up $5,000 depending on the crop value. These changes are justified because the 2008 Farm Bill created several new subsidized programs in this area, and farmers and the crop insurance companies have recognized the value of crop insurance, so such a heavy subsidy is no longer needed.

Justification

Crop insurance costs have ballooned in recent years from $2.4 billion in 2001 to a projected $7 billion in 2009. The 2010 proposal would rein in these costs by reducing the crop insurance subsidies to both the farmers and the crop insurance companies. This is reasonable given that the 2008 Farm Bill created new subsidized programs for risk management for farmers such as Supplemental Revenue Assistance (SURE) and Average Crop Revenue Election (ACRE). With these new programs, the current crop insurance program does not need to be so heavily subsidized to provide all farmers with a backstop for loss. While the cost of the crop insurance program has increased in part due to high commodity prices, the primary reason is that farmers have been opting for higher levels of coverage for both yield and revenue. This is a strong indicator that need for the deep premium subsidy currently offered to get farmers to participate no longer exists -- farmers understand and appreciate the value of the program and participation rates are unlikely to get significantly higher.2 Meanwhile, increasing the Government's share of underwriting gains reduces a corporate subsidy that has grown disproportionately as participation has increased since 2001.

REDUCTION: PAYMENTS TO HIGH-INCOME FARMERS

Department of Agriculture

The Administration proposes to reform payments to high income farmers by limiting farm commodity payments to $250,000 per person. This payment limit will direct payments to those farmers who most need them.

Justification

This proposal would limit farm commodity payments to $250,000 per person to direct payments to those farmers who most need them. This would be accomplished by maintaining the 2008 Farm Bill payment limits for Direct and Counter-Cyclical Payments ($40,000 and $65,000 respectively), but capping marketing assistance loan gains (price support payments) at $145,000 per person. The 2008 Farm Bill eliminated all caps on marketing loan gains, which were previously capped at $75,000 per person ($150,000 if you had multiple farms). According to the Department of Agriculture's 2007 Agricultural Resource Management Survey, roughly 16 percent of farms had sales of greater than $250,000, yet they collected about 57 percent of all commodity payments.

REDUCTION: PHASE-OUT DIRECT PAYMENTS TO FARMS WITH SALES ABOVE $500,000

Department of Agriculture

The Administration proposes to phase out direct payments over three years to farmers with sales revenue of more than $500,000 annually. Direct payments are made to even large producers regardless of crop prices, losses, or whether the land is still under production.

Justification

This proposal would phase out direct payments to farmers with sales revenue of more than $500,000 annually. Direct payments are made automatically to beneficiaries who qualify without regard to crop prices, farm income, or whether land is still under production. The payments were originally introduced in the 1996 Farm Bill as temporary payments, to be reduced over time, meant to transition farmers away from government support. The payments were never reduced, and they were extended in the 2002 and 2008 Farm Bills. The purpose of direct payments is to boost farm income. However, because these payments are tied to the land and are based on historical production, the majority of the payments go to large farmers. According to the recently released 2007 Census of Agriculture, about 9.1 percent of farms collecting Government payments have sales of $500,000 or more and they collect 36.6 percent of all Government payments (including conservation payments). Not all of these farms would lose their direct payments under the Administration's proposal. The proposal is targeted to the farmer, not the farm, and many of these farms have more than one person farming the land. The President wants to maintain a strong safety net for farm families and beginning farmers while ensuring fiscal responsibility. The Administration will work with the Congress to modify farm policies in such a way that achieves the President's goals.

REDUCTION: MARKET ACCESS PROGRAM BY 20%

The Administration proposes to reduce the Market Access Program (MAP) by 20 percent. The reasons for reducing the program are: (a) MAP overlaps with other Department of Agriculture trade promotion programs; (b) large for-profit entities indirectly benefit from MAP; (c) MAP's economic impact is unclear; and (d) oversight entities single out MAP as an example of corporate welfare.

Justification

MAP helps U.S. producers, exporters, private companies, and other trade organizations finance promotional activities for U.S. agricultural products overseas. MAP participants include nonprofit agricultural trade organizations, State regional trade associations, and private companies that qualify as small business concerns under the Small Business Act. Many of the nonprofit trade groups receiving MAP funds for generic product promotion activities are partly supported by large organizations. Large, privately-held cooperatives also benefit from the branded product program. For example, in 2008 one large cooperative received $4.2 million, and another large cooperative received $2.8 million.
This proposal would reduce MAP by 20 percent. The reasons for this reduction: the program overlaps with other Department of Agriculture trade promotion programs, including the Foreign Market Cooperator

Program;1 there are large for-profit entities that indirectly benefit from MAP's generic program; MAP's economic impact is unclear and it does not serve a clear need; and MAP has often been singled out as an example of corporate welfare

OTHER SAVING: MARKETING AND REGULATORY PROGRAMS WORK REFORMS

Department of Agriculture

The Marketing and Regulatory Programs (MRP) Mission Area at the Department of Agriculture is responsible for three major programs: the Animal and Plant Health Inspection Service (APHIS), whose goal is to protect the agricultural economy from animal and plant pests and diseases and to assure the humane treatment of animals covered under the Animal Welfare Act; the Agricultural Marketing Service (AMS), which works to assure fair trading practices and a competitive and efficient marketplace; and the Grain Inspection and Packers and Stockyards Administration (GIPSA), which facilities fair and competitive trading practices for livestock, cereals, oilseeds and grains. The MRP area has modified the brucellosis program to save $1.5 million.

Justification

Almost all of the savings are from a reallocation of funding within APHIS' brucellosis management program. Based on program evaluations and surveillance, the agency eliminated Federal funds supporting the testing of cattle for brucellosis when they change ownership in the market place in low-risk States, saving $1.5 million. This funding will be immediately available for redirection to other parts of the brucellosis program. These savings illustrate the value of providing agencies with the flexibility to implement innovate administrative and program approaches to improve programs and save resources.

OTHER SAVING: OFFICE LEASES

Department of Agriculture

In the 2010 Budget, the Administration proposes a $27 million increase in the Department of Agriculture's (USDA's) Buildings and Facilities program account in 2010 for the Department to consolidate seven leased facilities located throughout the D.C. metropolitan area into one location. The Department expects to avoid $62 million of lease costs over the 15-year life of the consolidated lease.

Justification

USDA has multiple agencies located in different locations throughout the D.C. metropolitan area. To increase efficiencies and decrease rental and utility costs, the Budget proposes a one-time increase of $27 million in 2010 to consolidate seven of those locations into one building. This action would decrease the Department's rental footprint from 400,000 square feet to 330,000 square feet, reducing USDA's General Services Administration rental costs.

OTHER SAVING: RURAL DEVELOPMENT ONLINE TRAINING

Department of Agriculture

In 2008, the Department of Agriculture's (USDA's) Rural Development (RD) office spent $62,700 to create Webinar, a Web-conferencing tool that allows employees to be trained online, though video links, rather than in person at national training sessions. RD could potentially achieve $1.3 million in annual efficiencies by using this system to train more employees, thereby saving per diem, travel, and material costs.

Justification

Most of RD's employees are located in State offices scattered throughout the Nation, including U.S. territories. To promote uniform program delivery, RD hosts various employee training sessions, costing RD hundreds of thousands of dollars a year. Webinar allows these training sessions to take place virtually; instructors and students still see and communicate with one another without the travel and hosting expenses. The total cost per student is estimated at $33 rather than $2,000, allowing RD to achieve efficiencies of $1.3 million a year, if no face-to-face trainings are held.

OTHER SAVING: USDA IRS DATA SHARING ON FARMER INCOME

Department of Agriculture

The Budget includes a Department of Agriculture (USDA) and Internal Revenue Service (IRS) agreement to increase compliance with farmer income eligibility tests by verifying that only eligible individuals are receiving farm commodity payments. Under the new agreement, those seeking assistance will have to sign a document giving the IRS permission to verify their eligibility. Just like any program with income eligibility tests, the Federal Government has a responsibility to verify that only eligible individuals are receiving benefits. The joint USDA-IRS effort is a step toward better and more targeted verification activities that will reduce erroneous payments.

Justification
This new policy would reduce erroneous payments to farmers. According to a recent report by the Government Accountability Office (GAO), between 2003 and 2006, USDA made nearly $50 million in payments to farmers who were not eligible to receive them. This report was based on the implementation of the $2.5 million average adjusted gross income (AGI) limitation provided by the 2002 Farm Bill that was in effect prior to the 2008 Farm Bill. The study found that 2,702 individuals had an AGI in excess of the income limitation yet received $49 million in payments for the years 2003 through 2006. GAO projected with the now lower AGI limitation of $500,000, a total of 23,506 individuals were likely to have incomes above this threshold and would be ineligible for payments totaling as much as $90 million.

OTHER SAVING: UTILITY ONLINE BILL PAYMENTS
Department of Agriculture
The Department of Agriculture's (USDA's) Chief Financial Officer is working with U.S. Bank to create a Web-based utility billing system. This will save the USDA's Working Capital Fund $670,500 a year.

Justification
The current USDA utility payment system is decentralized and prone to errors. Individual utility bills are sent monthly to several hundred field offices throughout the country. The field offices then send paper checks to the Controller Operations Division at the National Finance Center, which processes and consolidates the funds, sending one lump payment to the utility companies. To increase transparency and decrease error, the USDA Associate Chief Financial Officer for Financial Operations is working with U.S. Bank to create an electronic billing system. All bills and payments will be sent and submitted electronically, saving staff hours, postage costs, and minimizing human error. The system is expected to be fully implemented by October 1, 2010.

The full document can be found here:
http://www.whitehouse.gov/omb/budget/fy2010/assets/trs.pdf

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