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Conservation and the Agricultural Act of 2014

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Conservation has been part of federal farm policy since the first farm bills of the 1930s. The early focus on soil conservation represented a public investment to address the widespread implications of soil erosion during the "Dust Bowl" era, the maintenance of soil productivity, and the rationalization of federal farm income supports. Over time, conservation has grown in the farm bill to address multiple objectives and eco-system services and to respond to a wider array of stakeholders. In recent decades, conservation has become a large portfolio of programs and policies that preserve and protect natural resources.

Today, conservation programs include those that 1) retire land from agricultural production to conservation uses, 2) provide assistance to adopt conservation practices or structures on working lands, and 3) preserve land for agricultural or environmental uses. State, local, and public-private partnerships also help direct federal conservation toward local or regional issues and efforts. And, conservation compliance programs establish minimum levels of conservation efforts necessary to maintain eligibility for benefits from federal farm programs.

The Agricultural Act of 2014 (the Act), or commonly the 2014 Farm Bill (U.S. Congress, 2014), maintains these primary goals for federal conservation programs and policies, but substantially streamlines the existing portfolio of programs and moderately reduces overall funding levels. The Conservation Reserve Program (CRP) remains the largest single conservation program and the primary land retirement program, idling agricultural acres for conservation purposes. Working lands programs provide incentives and technical assistance for conservation efforts on land that remains in production and include the Environmental Quality Incentives Program (EQIP) and the Conservation Stewardship Program (CSP). Several existing programs that retire or preserve wetlands and agricultural land have been combined in a new omnibus category called the Agricultural Conservation Easement Program (ACEP), based on their use of long-term easements as a conservation tool. The Wetlands Reserve Program (WRP), the easement portion of the Grassland Reserve Program (GRP), and the Farmland Protection Program (FPP) have all been repealed, but their functions are now part of the new ACEP. In addition, several partnerships and targeted programs from the 2008 Farm Bill are also repealed and consolidated into the Regional Conservation Partnership Program (RCPP).

Budget Levels and Changing Priorities

The conservation title was not immune to the budget challenges affecting the overall farm bill debate. Just as the Act reduced total mandatory spending relative to baseline budget estimates, conservation programs also faced budget cuts. Estimates from the Congressional Budget Office (CBO) indicate that the new Act will reduce conservation program spending by $4 billion (6.5%) from the existing $61.6 billion, 10-year baseline budget (as estimated in May 2013) to a total of $57.6 billion in spending over the fiscal years 2014-2023 (CBO, 2014a). However, many of the cuts are slated for 2018-2023, beyond the 2014-2018 authorization period of the 2014 Farm Bill. Projected spending on conservation programs during the five-year life of the farm bill will drop just $208 million, from the baseline estimate of $28.4 billion to $28.2 billion (1%), lessening

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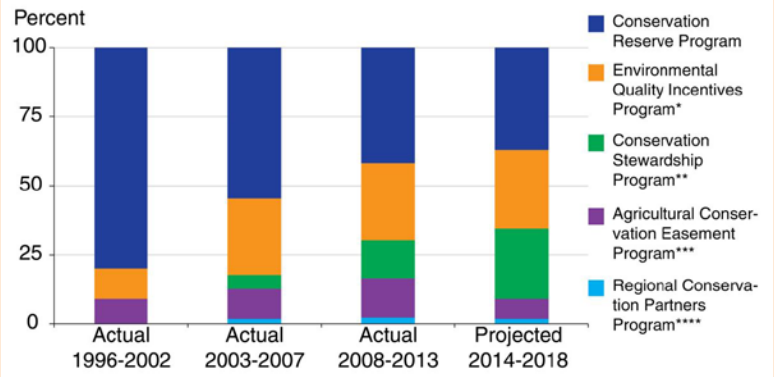
the immediate impact of the budget cuts.

While overall conservation spending is projected to decline from baseline levels under the new Act, the allocation of spending among conservation programs provides insights into the changing focus of conservation efforts. Analysis from the U.S. Department of Agriculture (USDA) Economic Research Service illustrates the changing conservation priorities since the 1996 Farm Bill (USDA Economic Research Service, 2014). Figure 1 shows the share of conservation spending by 2014 Farm Bill major program area (and their predecessors). Reduced spending for the conservation title primarily comes from reductions in CRP funding resulting from a lower enrollment acreage cap. While the CRP has been the largest single component of conservation spending since its creation in 1985, working lands programs (EQIP and CSP) are projected to comprise the majority of spending over the fiscal and program years 2014-2018. Working lands program funding is projected to continue its growth throughout 2014-2018, but at slower rates than the pre-Act baseline. And ACEP easement programs are expected to receive less funding under the 2014 Farm Bill than their predecessor programs received under the 2008 Farm Bill.

Reduced conservation program funding could reduce conservation efforts nationally, although the extension of conservation compliance requirements to crop insurance program participants should expand the requirements for maintaining at least minimal conservation practices on agricultural land across the country. The following analysis and discussion of these programs and policies provides detail and insight for producers, landowners, researchers, educators, and other conservation policy stakeholders. Program implications for both voluntary conservation programs and required compliance programs are presented. The analysis is based on interpretation of the legislation and expectations for implementation, but is subject to development and implementation of final USDA program rules as well as annual appropriations during 2015-2018.

Figure 1: Share of Conservation Spending by Major Program Areas
* Includes EQIP and the Wildlife Habitat Incentives Program for 1996-2013.
** Includes the Conservation Security Program for 2002-2007.
*** Includes the Wetland Reserve Program, Farmland Protection Program, and Grassland Reserve Program (easement portion) for 1996-2013.
**** Includes the Agricultural Water Enhancement Program, Chesapeake Bay Watershed Program, Cooperative Conservation Partnership Initiative, and Great Lakes Basin Program for 1996-2013.



Source: USDA Economic Research Service and ERS analysis of Office of Budget and Policy Analysis data on actual expenditures for 1996-2013; spending levels provided in the 2014 Farm Act and Congressional Budget Office estimates for 2014-2018.

Voluntary Conservation Programs

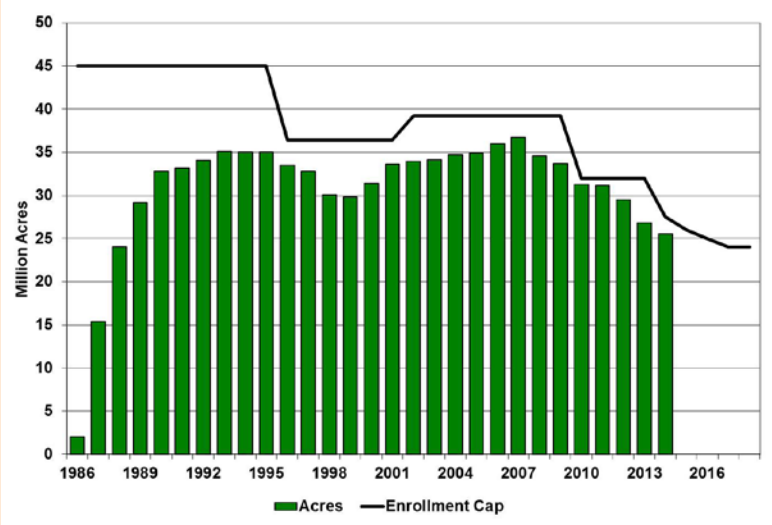
The voluntary programs provide financial and technical assistance to producers and landowners enrolled in various conservation programs. The streamlined portfolio of programs authorized in the 2014 Farm Bill includes the CRP along with working lands programs, easement programs, and partnership and targeted programs.

Conservation Reserve Program

The CRP was first authorized in the 1985 Farm Bill to set aside marginal, highly erodible cropland into a reserve for conservation purposes. Political support for the CRP during the Congressional debate over the 1985 Farm Bill came as much from efforts to reduce crop production in the wake of crop surpluses and low prices as it did from efforts to expand conservation programs. CRP quickly became the largest conservation program in terms of acres enrolled and program funding. The CRP is implemented by the USDA Farm Service Agency and provides contract holders a yearly rental payment in exchange for removing environmentally sensitive land from agricultural production and establishing a sustaining land cover. The enrolled land provides environmental benefits that address societal goals of improving water quality, preventing soil erosion, and reducing wildlife habitat losses. CRP contracts run for 10 to 15 years on land that can be enrolled through either a general sign-up or a continuous sign-up. The general sign-up is a competitive process announced periodically by the Secretary of Agriculture to accept offers for entry into the CRP and competitively determine

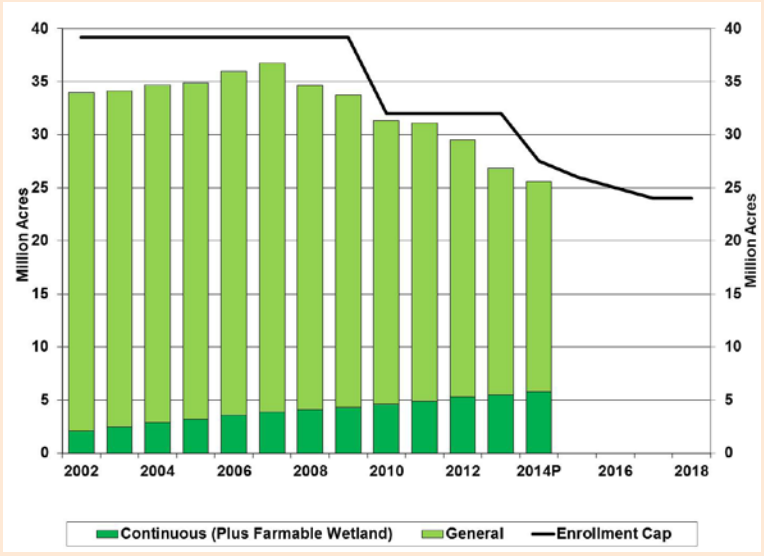
which offers are accepted and enrolled based on environmental benefit and cost factors. The continuous sign-up is focused on environmentally sensitive land and practices (not necessarily whole fields) and may accept offers for entry into the CRP on a non-competitive basis. While the continuous sign-up acres do not have to compete for acceptance into the CRP, the focus on environmentally sensitive land and practices is estimated to provide greater environmental benefits per acre (Claassen, 2014).

Figure 2: Conservation Reserve Program Acres and Enrollment Cap by Program Year



Source: USDA Farm Service Agency and U.S. Congress
Note: Enrollment data by program year. Acres for 2014 are preliminary as of the beginning of 2014.

Figure 3: Conservation Reserve Program Acres by Sign-Up and Enrollment Cap by Program Year



Source: USDA Farm Service Agency and U.S. Congress
Note: Enrollment data by program year. Acres for 2014 are preliminary as of the beginning of 2014.

Figure 2 shows the enrolled acres by program year as well as the enrollment cap as adjusted by successive farm bills. The CRP quickly grew to more than 30 million acres from 1986 to 1990 and eventually peaked at 36.8 million acres in 2007 before steadily declining to 25.6 million acres as of the beginning of 2014. Through its first 20 years, the enrollment cap was non-binding, serving more as a target for enrollment than a cap. But both the 2008 and the 2014 farm bills have included substantial reductions in the enrollment cap, first from 39.2 million acres to 32 million acres under the 2008 Farm Bill; and now from 32 million acres to 24 million acres by fiscal year 2017 under the 2014 Farm Bill. Changing land values, crop economics, conservation technologies, and alternative uses may have encouraged landowners to voluntarily leave the CRP at expiration as opposed to re-enrollment. As such, the lower caps may have locked in reduced enrollments and funding. In any case, it is clear that the CRP will continue to shrink over the next three years to meet the new 24-million-acre cap by fiscal year 2017.

Figure 3 illustrates the growing importance of the continuous sign-up provisions. While overall enrollment in the CRP has been shrinking in recent years, acres enrolled under continuous sign-up provisions have steadily grown to more than 5.7 million acres as of the beginning of 2014. At current rates, land enrolled under continuous sign-up provisions could grow to more than 6.7 million acres by 2017, limiting the availability of enrollment via general sign-up.

The 2014 Farm Bill includes other provisions related to the CRP. Three provisions affect land during its enrollment in the CRP. Haying and grazing of CRP land is allowed

without a payment reduction under qualifying emergency conditions. Managed haying and grazing as a normal practice is allowed as well, but will continue to incur a rental payment reduction. Rental components of the previous GRP have also been combined into the CRP. These provisions appear to increase the incentives for enrolling or keeping grasslands in the CRP.

Two other provisions affect the potential transition of land out of the CRP. Contract holders are given the opportunity for an "early out" from current CRP contracts during fiscal year 2015. Contract holders with expiring CRP land can earn additional CRP payments if they sell or rent that land to a beginning or socially disadvantaged farmer or rancher under the re-authorized Transition Incentive Program.

With the changes to the CRP enrollment cap as well as the "early out" provision for 2015, the biggest impact of the 2014 Farm Bill could be the transition of at least 2-3 million general sign-up acres out of the program. Five states—Kansas, Minnesota, Montana, Texas, and Washington—each have over 300,000 acres of CRP set to expire in the next three years. All of these states except Minnesota also have a substantially higher share of their CRP land enrolled under the general sign-up than the national average, suggesting that these states and other similarly situated states or regions could see the greatest impact in the transition of acres exiting the CRP.

The environmental impacts of a reduced CRP and the economic impact of CRP acres that may transition back to agricultural production are questions of particular importance. Wu and Weber (2012) summarized selected CRP benefits of reduced soil erosion, recreation, and increased land values at more than $1 billion per year based on 1997 enrollment levels of about 33 million acres. In an earlier analysis, Hansen (2007) reported CRP benefits of reduced soil erosion and improved wildlife habitat at more $1.3 billion per year. While a reduced CRP will reduce total environmental benefits, the reduction of general sign-up acres—as opposed to continuous sign-up acres—could lessen the impact, given the greater environmental benefits of the continuous sign-up acres (Claassen, 2014).

Land management decisions on acres that exit the CRP will also have environmental and economic implications. A 2007 survey of South Dakota CRP contract holders suggested land coming out of the CRP was likely to return to crop production (61% of acres) as opposed to grass hay or livestock production (30% of acres) or other uses (9% of acres) (Janssen et al., 2008). Other economic studies analyze the potential for CRP acres to return to production, including studies of acres going into particular crops (Petrolia and Ibendahl, 2008), crop production systems (Williams et al., 2009), and agricultural production regions (Hellerstein and Malcolm, 2011). The potential for several million acres to return to agricultural production would be expected to impact the outlook for crop production, supply, and price levels. However, producer intentions and economic analyses are also dependent on current and future expectations for price and production. Those changing expectations, as well as other management preferences, resource limitations, or even policy regimes, will result in unique decisions for each parcel and landowner. While crop production seems to be the predominant choice for expiring CRP acreage, grassland for livestock production outside of the CRP or even expanded grazing activities within the CRP may offer other choices for producers. Keeping land in conservation uses but outside the CRP could also be a choice for some landowners, particularly for private or commercial wildlife purposes.

Working Lands Programs

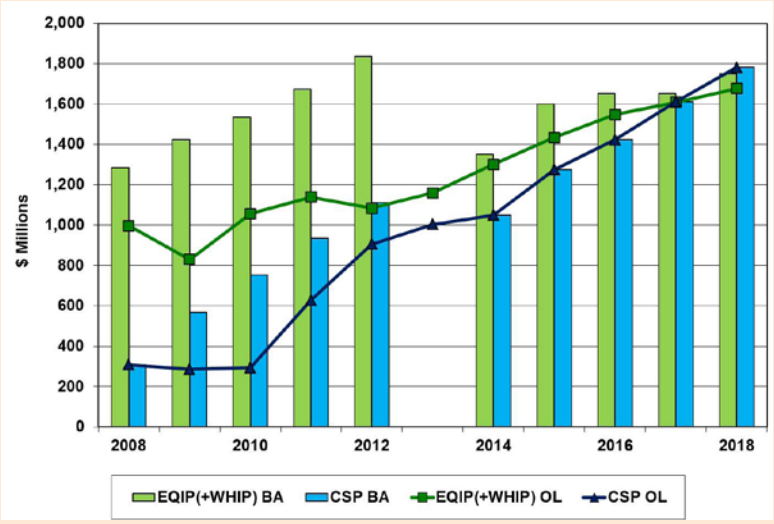
Working lands programs provide assistance to producers and landowners to adopt or maintain conservation practices or structures on lands that are in agricultural production. EQIP and CSP are the primary working lands programs in the 2014 Farm Bill and now incorporate some other functions such as the previous Wildlife Habitat Incentives Program. Agricultural Management Assistance is also included in the 2014 Farm Bill to provide financial and technical assistance to producers using conservation practices to manage risk and address natural resource issues.

EQIP was implemented in the 1996 Farm Bill to combine several smaller assistance programs. EQIP provides financial and technical assistance to producers who adopt new conservation practices or structures on their operations. CSP was first authorized in the 2002 Farm Bill as the Conservation Security Program and then revised and renamed as the Conservation Stewardship Program in the 2008 Farm Bill. CSP provides financial assistance for adopting or maintaining conservation practices as well as incentives for adopting additional conservation efforts.

Both programs have grown substantially in authorization and funding since their creations. As noted above, funding for these two working lands conservation programs is expected to exceed 50% of the total conservation funding over the life of the 2014 Farm Bill. An analysis of working lands program funding in Figure 4 illustrates the growth in funding over time.

The graph illustrates the initial budget authorization for EQIP (including WHIP) and CSP, first in the 2008 Farm Bill and then the 2014 Farm Bill. Under the initial language of the 2008 Farm Bill, EQIP was authorized to grow from $1.285 billion to $1.835 billion per year by 2012 in spending for implementation and

Figure 4: Working Lands Programs Budget Authorization (BA) and Outlays (OL) by Fiscal Year



Source: Congressional Budget Office (2014a, 2014b), U.S. Congress (2008), and U.S. Congress (2014)
Note: Budget authorization as initially set in the 2008 Farm Bill and the 2014 Farm Bill. Subsequent adjustments to budget authorization are not illustrated. Outlays for 2014-2018 are projected.

assistance. CSP was authorized to enroll 12.8 million acres per year at a legislated average cost of $18 per acre for implementation and assistance. Thus, as more acres were enrolled each year in five-year contracts (renewable to 10 years), total enrollment and spending was expected to grow from $309 million to $1.111 billion per year by 2012. However, for both EQIP and CSP, actual appropriations fell short of budget authority as changes to programs and limits on spending were included in subsequent legislation. By 2012, actual outlays for EQIP totaled $1.084 billion and for CSP totaled $905 million. This discrepancy between farm bill authorization and actual spending is a predictable outcome of the annual Congressional appropriations process as elected representatives consider funding priorities, challenges, and potential changes to mandatory spending levels (Monke and Johnson, 2010).

After the one-year extension of program authority (not illustrated) and spending in 2013, the 2014 Farm Bill establishes new budget authority for both programs. As the graph shows, the budget authority for both bills is reduced to lower levels in 2014 than what was initially authorized for 2012 in the previous 2008 Farm Bill. EQIP authority is reset to $1.35 billion in 2014 before climbing to $1.75 billion by 2018. CSP authority is reset to $1.049 billion before climbing to $1.781 billion by 2018 based on enrollment of up to 10 million new acres per year at an average cost of $18 per acre on top of continued servicing of existing contracts.

While the budget authority for both programs was reduced relative to baseline budget projections, actual outlays are still expected to climb. As shown in the graph, outlays are projected to grow year over year through 2018, up to $1.676 billion for EQIP and $1.781 billion for CSP. Thus, opportunities for producers and landowners continue to grow with the working lands programs, albeit at a slower rate.

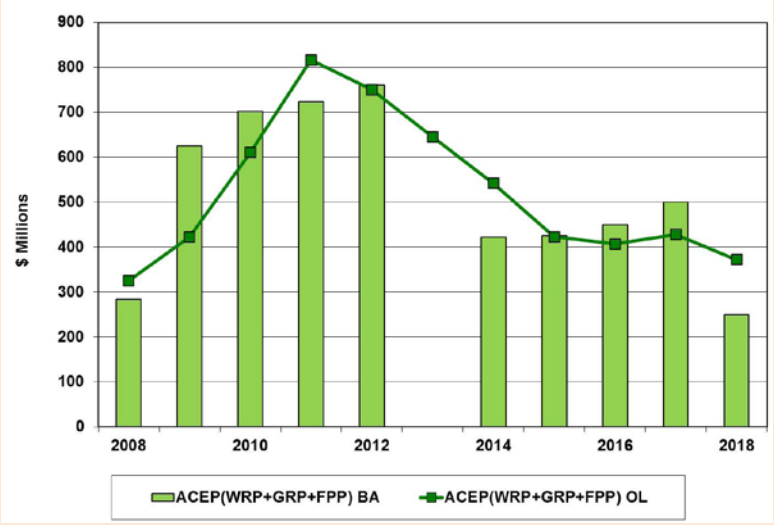
With continued increases in the working lands programs, the environmental benefits should continue to grow as well. The Conservation Effects Assessment Project—a multi-agency and multi-department collaboration to quantify the environmental benefits of conservation practices—provides substantial documentation of the numerous environmental benefits of these programs and others, and includes a comprehensive reference and bibliography of environmental benefits research and literature (USDA National Agricultural Library, 2014).

Easement Programs

The new and streamlined ACEP provides easements to preserve wetlands, grassland, and farmland. The program involves a partnership of federal funds, local agency or organization funds, and landowner contributions to establish permanent or long-term easements (or long-term contracts with native American tribes). The program helps restore, preserve, and enhance wetlands and helps preserve working agricultural lands in desired agricultural uses. A separate Healthy Forests Reserve Program uses easements and financial assistance to help protect forest resources, habitat, and ecosystems.

ACEP includes components of the previous WRP, GRP, and FPP. WRP was first authorized in the 1990 Farm Bill, and has been used to develop wetlands easement, contract, or restoration agreements on a total of 2.65 million acres through 2012. GRP was authorized in the 2002 Farm Bill and again in the 2008 Farm Bill to protect grassland from conversion into other agricultural or non-agricultural uses. Approximately 250,000 acres were placed in easements under the GRP from 2002 to 2012. The concept of conservation easements to preserve agricultural lands was introduced in the 1990 Farm Bill and expanded in the 1996 Farm Bill before culminating in

Figure 5: Easement Programs Budget Authorization (BA) and Outlays (OL) by Fiscal Years



Source: Congressional Budget Office (2014a, 2014b), U.S. Congress (2008), and U.S. Congress (2014)
Note: Budget authorization as initially set in the 2008 Farm Bill and the 2014 Farm Bill. Subsequent adjustments to budget authorization not illustrated. Outlays for 2014-2018 are projected.

the formal establishment of the FPP in the 2002 Farm Bill. A total of 1.1 million acres were placed in easements under the program through 2012. All enrollments under the earlier programs are continued under ACEP. (USDA Natural Resources Conservation Service, 2014).

The ACEP program actually received increased funding relative to the budget baseline for 2014-2018, but with the paradoxical result of reduced funding relative to previous funding levels of previous easement programs. This odd circumstance is attributable to budget considerations during development of the 2008 Farm Bill, which left WRP, GRP, and FPP funding authorized through fiscal year 2012, but no budget authorized for WRP and GRP for fiscal years 2014-2017. Thus, WRP and GRP contributed to "budget savings" under the 10-year budget window for the 2008 Farm Bill, but then had no budget baseline available for reauthorization when debate began on what became the 2014 Farm Bill. The 2014 Farm Bill invests new dollars in ACEP, increasing expected spending for fiscal years 2014-2018 more than $800 million over the existing baseline. But this level of expected spending is still substantially less than what was actually spent over fiscal years 2008-2012 under the 2008 Farm Bill. Figure 5 illustrates the original budget authorization for the easement programs first under the 2008 Farm Bill and then under the 2014 Farm Bill in comparison to the actual and projected outlays as estimated by the Congressional Budget Office (2014a and 2014b).

With reduced spending projected under the new easement program, opportunities for producers, landowners, and partnering agencies or organizations will be reduced as well. While easement programs will remain an important and attractive alternative in many regions of the country, the relative costs of purchasing easements on wetlands or agricultural lands limits the footprint such a program can have. To date, easement programs have enrolled less than 4 million acres nationwide as compared to the tens of millions of acres each in CRP, EQIP, or CSP. However, the conservation benefits of ACEP are permanent as compared to the temporary contracts of the other programs, where long-lasting benefits of the programs are targeted and expected, but subject to future decisions of landowners and producers.

Partnership Programs

The RCPP under the 2014 Farm Bill combines the elements of several pre-existing regional and partnership programs, including the Agricultural Water Enhancement Program, The Chesapeake Bay Watershed Program, the Cooperative Conservation Partnership Initiative, and the Great Lakes Basin Program. The RCPP encourages the development of local partnerships of producers and public or private groups to address natural resource issues on regional or watershed scales. Selected projects receive assistance to help install and maintain conservation efforts through existing programs such EQIP, CSP, and ACEP, among others. The RCPP is authorized for $100 million in funding for each of the fiscal years 2014 through 2018, essentially maintaining funding levels for the previously separate programs, although it is unlikely that funding will be directed solely to partnerships or regions that were funded under the 2008 Farm Bill.

Compliance Programs

Apart from the voluntary conservation programs, producers and landowners who participate in most programs administered by the USDA Farm Service Agency or the USDA Natural Resource Conservation Service are subject to conservation compliance provisions. The 2014 Farm Bill expands those compliance provisions to include eligibility for crop insurance

premium benefits and includes additional Sodsaver provisions—programs that help to conserve soil from erosion—affecting crop insurance premium benefits as well.

Conservation Compliance

Conservation compliance provisions were established by the 1985 Farm Bill and affect producers and landowners participating in most USDA Farm Service Agency or USDA Natural Resource Conservation Service programs. To be eligible for assistance in the various programs, producers and landowners must comply with conservation provisions and requirements on highly erodible land (Sodbuster) and on wetlands (Swampbuster). To be in compliance, producers must establish and maintain a conservation system on highly erodible land that keeps soil erosion rates under control. Producers must also conserve wetlands and not convert wetlands nor produce agricultural commodities on converted wetlands. Wetlands converted or farmed prior to the 1985 enactment of conservation compliance provisions fall under a "grandfather" clause and can be considered "farmed wetlands" or "prior-converted wetlands" without violating the conservation compliance requirements.

While the 1996 Farm Bill eliminated the conservation compliance provisions for crop insurance, the new farm bill re-links them. The 2014 Farm Bill includes conservation compliance as a requirement for producer eligibility for crop insurance premium subsidies. For a producer to receive the benefit of any portion of the crop insurance premium paid by the Federal Crop Insurance Corporation, the producer must maintain conservation compliance provisions on highly erodible land and wetlands. For wetlands, producers effectively have a new grandfather date (the February 7, 2014, enactment of the farm bill) for prior-converted wetlands for purposes of crop insurance benefits only. Any violations affect eligibility for premium assistance in subsequent years. Additional provisions provide a transition period for producers facing conservation compliance for the first time because of the new crop insurance linkage, as well as protection for tenants on operations where the landlord fails to comply.

Sodsaver Provisions

The 2014 Farm Bill contains new language in a Sodsaver provision to reduce crop insurance benefits on native sod converted to crop land. Existing legislation prohibited crop insurance benefits on native sod planted to an insurable crop in the Prairie Pothole National Priority Area. The new provisions in the 2014 Farm Bill allow crop insurance participation on the converted sod, but substantially reduce the benefits. For a crop insured on converted sod ground, the insurable yield is equal to 65% of the transitional yield available to the producer and the premium subsidy is reduced by 50 percentage points (from typical subsidy levels of more than 60%). The new Sodsaver provisions apply in the states of Minnesota, Iowa, North Dakota, South Dakota, Montana, and Nebraska—an expansion of the previously covered Prairie Pothole Region.

Summary

A review and analysis of conservation programs and provisions contained in the 2014 Farm Bill shows a continued public interest and investment in conservation practices on the nation's agricultural lands. Total funding for conservation is expected to decline somewhat from previous baseline projections, but actual spending is projected to continue growing and the allocation of funding among conservation programs shows changing conservation priorities.

The CRP is destined to shrink through at least 2017 as it comes under a new, lower enrollment cap. But high-priority continuous enrollment land and practices are expected to continue growing, indicating continued environmental benefits for the public from the CRP over the life of the 2014 Farm Bill.

Working lands programs are slightly reduced from baseline projections and budget authorization, but actually continue to grow in terms of total spending, meaning more opportunities for producers and landowners and more total investments in conservation practices on agricultural land and in operations. The easement programs receive partially restored funding authority relative to a disappearing baseline under the previous farm bills, but they will move forward with less total funding than in previous years as they address wetland, grassland, and farmland preservation goals. Partnership programs continue to address regional and local priorities under a streamlined program and relatively stable funding.

New conservation compliance and Sodsaver provisions are linked to crop insurance benefits. With crop insurance programs as a foundational part of the federal farm income safety net and traditional commodity program payments forecast to shrink dramatically, the political impetus was to attach conservation provisions to crop insurance eligibility. New compliance provisions add highly erodible land conservation and wetlands protection as requirements to be eligible for crop insurance premium subsidy benefits. New Sodsaver provisions severely limit crop insurance benefits on native sod ground broken out for crop production.

Altogether, the investments in voluntary programs and compliance provisions continue to demonstrate that the farm bill plays a primary role in addressing conservation efforts on agricultural land across the United States. Total spending on voluntary conservation efforts has grown over

time even as farm bill spending has been constrained. The level of conservation program funding and the role of voluntary conservation programs versus direct regulatory activities will likely be a major part of the debate over future farm bills and farm policy.

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