

2007 Farm Bill Reauthorization and Potential Benefits for NACWA Members

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EXECUTIVE SUMMARY

As the time nears for Congress to begin the lengthy process of reauthorizing Farm Bill legislation, the National Association of Clean Water Agencies (NACWA) should take an active role in ensuring the billions of dollars paid annually for agricultural conservation programs also benefit urban areas and urban waterways. The reauthorization process offers prime opportunities for communities to form partnerships with conservation organizations, farm groups, states, and environmental activist groups to work for a Farm Bill that addresses the needs of farmers and strengthens the incentives for environmental stewardship that ultimately benefit everyone, including the nation's publicly owned treatment works (POTWs). Additionally, language in the new Farm Bill addressing nutrient management should be considered because it would greatly benefit the nation's clean water community.

NACWA supports significantly strengthening conservation programs in U.S. farm policy to help agricultural producers minimize their impact on the nation's water quality while providing measurable downstream benefits to the Association's public agency members.

Clean water agencies pay a large portion of the bill to improve the quality of U.S. waters even though study after study shows significant impairment from nonpoint sources of pollution. According to the U.S. Environmental Protection Agency (EPA), nonpoint source pollution, mostly from agricultural runoff, is the leading source of impairment for rivers and streams. The 2000 National Water Quality Inventory submitted to Congress reported that 40 percent of rivers and streams, 45 percent of lakes, and 50 percent of estuaries that have been assessed do not meet water quality standards.¹ The report lists agricultural runoff, municipal point sources, and hydrologic modifications as the primary reason for the impairment.

The current Farm Bill, authorized in 2002 and set to expire in 2007, continues a trend begun in the 1980s of focusing resources on environmental conservation. The 2002 Farm Bill authorized new mandatory spending of \$73.5 billion estimated over 10 years with \$17.1 billion going toward conservation programs. (The budget process requires that the total cost of a bill be estimated as if it were extended over 10 years.) This translates to about \$51 billion over the six-year life of the law with \$9.2 billion going for conservation. According to the Congressional Research Service (CRS), conservation programs at the U.S. Department of Agriculture received about \$1 billion in funding in FY 1985 compared to about \$3 billion in FY 2003².

This contrasts with the roughly \$6.5 billion Congress has appropriated since 2002 for the clean water state revolving fund (SRF), the primary mechanism used by local government entities to build and maintain wastewater treatment plants. The SRF funding levels have spiraled downward in recent years — from \$1.35 billion in fiscal 2004 to \$887 million in FY 2006 and an anticipated \$687 million in FY 2007. EPA has publicly stated that it intends to end federal funding for the SRF altogether in 2011.

¹ U.S. Environmental Protection Agency. *National Water Quality Inventory: Report to Congress*. EPA-841-R-02-001; August 2002.

² CRS Report for Congress RL31195. *The 2002 Farm Bill: Status and Overview*. By Geoffrey S. Becker and Jasper Womach. May 3, 2002.

The pressures from population growth, aging infrastructure, and environmental regulation continue to strain municipal resources. NACWA member agencies take their role as environmental stewards seriously and work to ensure their facilities operate efficiently while maintaining affordable rates. However, they cannot do it alone.

This paper was prepared to gather input from NACWA members on current Farm Bill policy and to suggest options the Association might pursue on behalf of its members. NACWA and its municipal partners believe the next Farm Bill should provide a sound farm policy coupled with a strong commitment to water quality and conservation. The Association should advocate to:

- 1) maximize funding for conservation programs that target water quality improvements through coordinated efforts with like-minded interest groups;
- 2) identify specific mechanisms for tracking the success of conservation measures;
- 3) seek language promoting watershed-wide coordination and water quality credit trading between POTWs and other users to maximize the funds available and investments made to meet the goals of the Clean Water Act; and
- 4) incorporate language requiring better farmland nutrient management and affirming the right of producers to choose the fertilizer they consider most cost-effective and beneficial.

Without a serious plan to reduce all sources of nutrients, sediment, and other forms of water pollution, the water quality goals of the Clean Water Act will never be achieved.

WTO Negotiations and the Farm Bill – A Unique Opportunity for Water Quality Improvement

The groundwork for reauthorizing the massive 2002 agriculture bill is underway on Capitol Hill. Like previous Farm Bills, the *Food Security and Rural Investment Act of 2002* (P.L. 107-171) updated and revised policies on commodity price supports, food assistance, trade programs, marketing, and rural development policies and authorized funding for these programs over five years. Farm bills also weave together increasingly complex programs that touch on all areas of agriculture. Adjustments to one program will affect the others. This is why careful planning and communications among interest groups, including farmers and ranchers, conservationists, clean water agencies, and others are crucial. While NACWA does not have a position on farm subsidies in general, if trade talks result in cuts to price supports and other assistance, money may become available for conservation programs that could result in water quality improvements that will benefit the nation's waterways and provide incentives to partner with POTWs.

Negotiations on a new World Trade Organization (WTO) agreement, which could have dramatically shaped how the Farm Bill looks, broke down this summer leaving prospects for a new pact in limbo. Despite the suspension of the Doha Round of WTO talks – after Doha, Qatar, where the parties signed a ministerial declaration in 2001 to launch the negotiations – Congressional leaders have said they plan to continue with efforts to reauthorize the Farm Bill. Congress also has the option of extending the provisions in the current law for another year or more. Provisions in the previous two Farm Bills were shaped by the trade agreement that resulted from the 1995 Uruguay Round Agreement on Agriculture that set requirements for export subsidies and import tariffs, quotas for agricultural products, and domestic farm program design and spending.

According to the CRS, exports account for about 25 percent of the value of U.S. agricultural production with about a third of harvested acreage exported.³ Government subsidies provide a sizeable portion of farm income. In 2005, direct government payments amounted to about \$24 billion of the estimated \$78 billion, or roughly 30 percent, in net cash farm income.

The WTO had been carefully scrutinizing these subsidies with an eye toward leveling the playing field. The U.S. had maintained that reductions in subsidies should be rewarded with greater access to foreign markets. The result could have been an agreement that limits government spending for commodity price supports and other agricultural subsidies. Payments for conservation are categorized separately from these other types of subsidies and therefore are not likely to be subject to WTO restrictions. Nevertheless, Congress may still be considering cuts to subsidies that could be used to offset increases in conservation programs.

Fate of Farm Subsidies Debated, NACWA to Voice its Views

As in past Farm Bill negotiations, how these billions of dollars are spent will be hotly debated by Congress. Budget hawks will want to return the funds to the U.S. Treasury to offset the deficit and general spending for such big ticket items as the war in Iraq. Most seem to think, however, that the money will continue to be targeted to farmers but with a different focus.

This scenario presents an attractive opening for NACWA members on two fronts. It provides an opportunity to partner with the conservation community to push funding toward agricultural programs that benefit the environment, especially water quality. NACWA can also broker deals with farm groups to lobby the support of Members of Congress from urban areas for a Farm Bill whose conservation provisions ultimately benefit them. This two-pronged approach could help achieve much needed reductions in nonpoint source pollution.

Some conservation groups expect farm subsidies will be cut with or without a new WTO agreement, presenting an opportunity to persuade lawmakers to expand existing Farm Bill programs that benefit the environment, and more specifically, water quality. A few groups advocate the creation of a new conservation title that would include existing “green” programs and would help direct farm policy toward greater environmental sustainability. Such a title would retain and expand existing measures, in particular the Conservation Security Program (CSP) highlighted below, which has been viewed as a model for using financial incentives to boost conservation activities. According to the CRS, the upcoming legislation also may contain topics on funding, green payments, the scale of land retirement, and measuring accomplishments.⁴

Various national advocacy groups have been meeting to develop their positions and strategies. NACWA featured representatives from several of these groups on a panel at the May 2006 *National Clean Water Policy Forum* and will build partnerships with them to advocate for common goals in the Farm Bill negotiations.

³ CRS Report for Congress; RL 33037. *Previewing a 2007 Farm Bill*, By Jasper Womach Aug. 18, 2005.

⁴ CRS RL 33037

Overview of 2002 Farm Bill Conservation Provisions

According to the Natural Resources Conservation Service (NRCS), the 2002 Farm Bill represents “the single most significant commitment of resources toward conservation on private lands in the Nation’s history.” The conservation programs address soil erosion, wetlands, wildlife habitat, and farmland protection through a “portfolio of voluntary assistance, including cost-share, land rental, incentive payments, and technical assistance.”⁵

With baseline spending figured in, the 2002 Farm Bill provided an estimated \$105 billion over six years for programs ranging from commodity supports to conservation, according to an August 2005 CRS report.⁶ This included \$2 billion for the Conservation Security Program (CSP), first established in the 2002 law; \$11 billion for the Environmental Quality Incentives Program (EQIP), introduced in the 1998 bill; \$1.5 billion for the Conservation Reserve Program (CRP); and \$275 million for the small watershed rehabilitation program.

Three programs that could directly benefit water quality and should be of most interest to POTWs are highlighted below.

Environmental Quality Incentives Program (EQIP)

EQIP was first authorized under the 1996 Farm Bill and is administered by NRCS. The 2002 Farm Bill reauthorized \$6.6 billion in funding through FY 2007 for the EQIP program. These funds are intended to promote agricultural production and environmental quality as compatible goals, optimize environmental benefits, and help farmers and ranchers meet federal, state, and local environmental requirements.

NRCS identified a list of national programmatic priorities for EQIP. NACWA members could likewise target several of these goals for increased funding to the extent that they benefit water quality:

- reductions of nonpoint source pollution, such as nutrients, sediment, pesticides, or excess salinity in impaired watersheds consistent for TMDLs where available;
- reduction of groundwater contamination, including that from point sources such as concentrated animal feeding operations (CAFOs);
- conservation of groundwater and surface water resources;
- reduction of emissions, such as particulate matter, nitrogen oxides (NO_x), volatile organic compounds (VOCs), and ozone precursors and depleters that contribute to violations of the national ambient air quality standards under the Clean Air Act;
- reduction in soil erosion and sedimentation from agricultural lands; and
- promotion of at-risk species habitat conservation.

EQIP money can cover the cost of installing approved conservation practices. Some environmental activists have criticized the program for allowing the funds to cover the cost of building lagoons used to store wastewater from CAFOs. The final rule for the EQIP program was published in the May 30, 2003, *Federal Register* (68 Fed. Reg. 32,337) and capped funding for each EQIP contract at \$450,000 over the six-year authorization of the 2002 bill.

⁵ NRCS *Farm Bill 2002: Conservation Provisions Overview*. (<http://www.nrcs.usda.gov/programs/farmbill/2002/pdf/ConsProv.pdf>). . May 2002;

⁶ Geoffrey S. Becker, *The “Farm Bill” in Brief*, CRS Report for Congress; RS 22131, Aug. 29, 2005.

Conservation Security Program (CSP)

The CSP was championed in 2002 by Sen. Tom Harkin (D-Iowa), then the chairman of the Senate Agriculture Committee. The program is designed to provide financial and technical assistance to farmers who are interested in conservation and improvements to their soil, water, air quality, energy use, and plant and animal life. The NRCS administers the program and determines the applicants' eligibility based on a number of factors. In addition, the program is only being implemented on a watershed basis versus a national basis to emphasize the importance of water quality and soil quality protection, according to NRCS. Priority watersheds are determined based on the vulnerability of surface and groundwater quality, the potential for degradation of soil quality, and the condition of grazing land.

Some conservation groups have criticized this program, claiming it does not provide incentives for new conservation measures, but merely rewards those who already have sound plans in place to minimize their impact on the environment.

Wetlands Reserve Program (WRP)

The Wetlands Reserve Program (WRP) was first enacted in 1990 to help landowners protect and restore wetlands through a program that funds the purchase of long-term agreements and easements. As of 2004, 1.63 million acres had been enrolled in the program with easements created on 1.17 million acres. The 2002 Farm Bill authorized USDA to enroll up to 250,000 acres annually, but in FY 2005, Congress limited spending for only 154,500 acres at an estimated cost of \$274.5 million.

According to the NRCS, most of the enrolled acres are high-risk agricultural lands located in flood plains and restored to wetlands. Louisiana, Mississippi, Arkansas, California, and Florida have the highest number of enrolled acres. Like other popular conservation programs, the WRP is oversubscribed and has a long waiting list of those wanting to participate. The program may provide a funding option for NACWA members interested in employing wetlands as part of their treatment process. In addition, increasing wetlands acreage provides obvious water quality benefits that ultimately help downstream communities.

Conservation Reserve Program (CRP)

The Conservation Reserve Program (CRP) was launched by Congress in 1985 to curb soil erosion, stabilize land prices, and control excessive agricultural production by providing financial incentives to retire land, according to CRS.⁷ More private land is retired from production through this program than any other, and its mission has evolved to one of environmental stewardship. The \$1.5 billion authorized in 2002 was to help take 39.2 million acres out of production over six years. Producers receiving the funds, not unlike rental payments, agree to retire their lands for 10-15 years and maintain it under an approved conservation plan.

Once the contract expires, the payments cease. Lands considered "highly erodable" that are returned to production must be managed according to an approved conservation plan in order for the farmer to be eligible for other federal farm program subsidies.

⁷ CRS Report to Congress. RS 21613 *Conservation Reserve Program: Status and Current Issues* by Barbara Johnson.

About 35 million acres are currently enrolled in the CRP, with about 40 percent of the Farm Bill conservation budget for FY 2005 going toward this program.

Other programs in the 2002 Farm Bill include the Grassland Reserve Program, the Great Lakes Basin Program for Soil Erosion and Sediment Control, the Wildlife Habitat Incentives Program, and the Small Watershed Rehabilitation Program.

Measuring Results of Voluntary Conservation Programs

One challenge that has yet to be addressed in the discussion of agricultural conservation programs is how to measure their effectiveness. These questions also arise in discussions of pollution trading programs, particularly between point and nonpoint sources. Proponents of shifting Farm Bill money from traditional price supports and other payments toward conservation may need to prepare an adequate response, according to CRS. Protecting and expanding these conservation programs in times of budget cuts may depend on the degree to which they can be proven effective in achieving water quality goals.

USDA's Economic Research Service and NRCS are both undertaking major studies to provide better measures, but the results may not be available until after the next Farm Bill is enacted.⁸

Water Quality to Have Greater Role in Farm Policy

Brent Sohngen, an agricultural economist at the Ohio State University, said he expects conservation spending through future Farm Bills to increase, possibly to as much as \$5 billion annually or \$25 billion over five years. Conservation programs currently represent about 13 percent of total farm payments, and, nationally, conservation payments have grown about 7 percent annually.⁹

Sohngen's reasoning is two-fold. Namely, Farm Bill payments, administered through the NRCS, have "become a major player in water quality policy in the U.S." and as a result have increased the role of the federal government to be tantamount to that of state governments in terms of addressing water quality.¹⁰

Moreover, these conservation programs enjoy broad support in the agricultural and livestock communities and for the most part are oversubscribed, meaning more producers and ranchers would sign up if the resources were available.

Sohngen thinks states will join the fight to urge the federal government to expand conservation programs in the Farm Bill because they are too strapped for cash themselves to handle the substantial burden associated with meeting Total Maximum Daily Load (TMDL) requirements, just one of a multitude of programs under the Clean Water Act. In many cases, these requirements are not requirements at all, but merely a call for farmers to voluntarily reduce the amount of sediments, nutrients, and other contaminants washing

⁸ CRS RL 33037

⁹ Brent Sohngen. "Conservation and the Next Farm Bill." *Ohio Environment Report*. Vol. 2; Issue 5; November 2005.

¹⁰ *Ibid.*

off their fields into nearby rivers and streams. These voluntary actions can be subsidized by money in the conservation provisions of the Farm Bill.

Some environmental activists support incorporating a distinct water quality program within the conservation title similar to programs specifically designed to benefit wetlands, grasslands, wildlife, and other natural resources. They propose the creation of a \$500 million program that could target, for example, nutrient reduction. Currently, many NACWA member agencies are being asked to spend hundreds of billions of dollars to meet lower and lower nutrient levels that will net little water quality benefit because of the contribution from uncontrolled nonpoint sources. Such a program – perhaps to be called Water Quality Improvement Program or WQIP (*Wee-quip*) – could be designed not only to benefit surface waters, but also to foster groundwater recharge, aquifer protection, and other environmental gains.

Provision on Nutrient Management Options Should Be Considered

In keeping with the overarching objective of NACWA's involvement in the Farm Bill – maximizing cooperation between farmers and local communities – some members have proposed that the Association pursue inclusion of language supporting flexible options for nutrient management programs. This language would also emphasize the importance of allowing farmers to choose the type of fertilizer that best suits their crops and is economical. Many NACWA member agencies are themselves farmers as many cities own huge tracts of farmland, and providing flexible nutrient management options is essential. This also would go a long way to further the mutual goals of EPA and USDA in promoting cooperative conservation.

Regional watershed groups and partnerships also are contemplating ideas for the Farm Bill. The Chesapeake Bay Commission, for example, has drafted a report on conservation reform to bolster efforts in that region.¹¹ The recommendations are to:

- establish a nationwide program of “Regional Stewardship Funds” to increase flexibility in the use of federal dollars for water quality and stewardship initiatives;
- reauthorize and implement the CSP throughout the Chesapeake Bay watershed and other regions;
- target funds to maximize environmental benefits and ecological services;
- provide increased support for the viability of agriculture by providing farmers with assistance in market development, renewable energy applications, and risk management; and
- increase funding and technical assistance for conservation related programs.

As EPA and other agencies with responsibility for protecting the environment see their budgets being slashed, Sohngen thinks it conceivable that USDA and its state partners could have as much or more influence over water policy in the United States as the traditional environmental agencies.¹²

He advocates that the next Farm Bill provide block grants to states to administer the various conservation programs so that the funds can be better targeted to meet specific

¹¹ *2007 Federal Farm Bill—Concepts for Conservation Reform in the Chesapeake Bay Region* Prepared by the states of Delaware, Pennsylvania, Virginia, West Virginia, the District of Columbia, and the Chesapeake Bay Commission. November 2005.

¹² Sohngen, November 2005

needs based on local conditions. The new law should also elevate the importance of monitoring environmental results locally to provide a better idea of how the programs are working.

Conclusion

NACWA has a unique opportunity to add the voice of POTWs to the upcoming Farm Bill debate. Though the WTO talks are on hold, they have created an environment for enhanced conservation investment. Based on an assessment of options, NACWA believes it is in the best interest of its members to pursue the following goals in the Farm Bill reauthorization process:

- 1) maximize funding for conservation programs that target water quality improvements through coordinated efforts with like-minded interest groups;
- 2) identify specific mechanisms for tracking the success of conservation measures;
- 3) seek language promoting watershed-wide coordination and water quality credit trading between POTWs and other users to maximize the funds available and investments made to meet the goals of the Clean Water Act; and
- 4) incorporate language requiring better farmland nutrient management and affirming the right of producers to choose the fertilizer they consider most cost-effective and beneficial.

NACWA encourages its members to submit additional policy issues that the Association should consider relating to Farm Bill reauthorization.